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Chair

The Honourable Rob Merrifield

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•(1100)

[English]

The Chair (Hon. Rob Merrifield (Yellowhead, CPC)): We'll call the meeting to order. It's out of hand before it even starts.

We have some witnesses waiting for this day's study on the comprehensive economic and trade agreement with the European Union and Canada.

We appreciate the witnesses for coming forward. We have two of them. We have Ms. Vicky Sharpe, who's the president and chief executive officer of Sustainable Development Technology Canada, and by video conference from Toronto, Ontario, we have Theresa McClenaghan.

Are we coming through okay, Theresa?

Ms. Theresa McClenaghan (Executive Director and Counsel, Canadian Environmental Law Association): Yes, I can hear you fine. Thank you.

The Chair: We can hear you as well.

Theresa is executive director and counsel for the Canadian Environmental Law Association.

We'll start with Ms. Vicky Sharpe. The floor is yours and you have ten minutes.

Dr. Vicky Sharpe (President and Chief Executive Officer, Sustainable Development Technology Canada): Thank you very much, Mr. Chairman, and thank you for the opportunity to be here this morning to address you on what is a very important topic for the success of the companies that SDTC supports. I believe you have our presentation there.

The points that I want to start out with is that the clean-tech industry is one that is not perhaps well understood, but it's generated some 44,000 jobs, which are in fact in excess of the direct jobs in the extraction industries of mining and forestry, and comparable to those in oil and gas. So they are important players in the success of our natural resource industries and beyond that, in looking at how we use energy and create efficiencies for this country.

Ninety-two percent of these clean-tech companies are small and medium-sized enterprises. They do work that integrates into a broad number of sectors and they are actually driving the economy. Some 60% of Canada's workforce is accounted for by SMEs. Forty-five percent of Canada's GDP and 75% of the net job growth is dependent on the success of SMEs.

SDTC works with these companies to build their value proposition and their technologies, and to strengthen them to receive private sector investment, and also to get them to customers and channels to market. As you can see on the second slide of our presentation, these companies are spread across the country. They represent clusters and capability. They are very broad-ranging and they're very diverse.

We currently have about a \$1.9-billion portfolio of projects under management, of which the government has put in \$500 million and the rest is being put in predominantly, some 80-odd percent, by industry. These companies, numbering 220 in total in the portfolio, are generating jobs and revenues. The total job numbers cumulative to 2011 will be in the order of just over \$400 million, which the government has put \$100 million into.

So they are generating revenues, and that's for only one-fifth of our current portfolio. These companies have a compound annual growth in revenue of twice that of non-SDTC clean-tech companies and twice the global average. Incidentally, the leverage on public dollars is about times 14.

The proposition that we want to put to this committee, which you'll see on slide three, is that the clean-tech business is a very important one for Canada's economy. Eighty percent of Canadian clean-tech companies export, as compared to 90% of SMEs in general. Fifty-three percent of those revenues that are exports are outside of the U.S., or 55% is outside of the U.S.

The revenues on the export sales side for non-U.S., which is predominantly the EU, is 23%. So we've got some very important players, and they are already quite robust, but an enhanced liberalized trade agreement with Europe will significantly help these companies move forward and be more successful.

If I could turn your attention to the histogram on slide five, it shows that already we produce and have globally competitive Canadian companies in the SDTC portfolio. The representation in the black part of that column shows that historically about 10% of our SME exports are into Europe, and that is an amount that we believe will grow. We are predicting a forecast of about 14% of the exports will be in the EU by 2014, and this is without a CETA arrangement. The position we have is that you have strong Canadian clean-tech companies that could certainly do with a strengthening of those opportunities.

•(1105)

If you look at the slide on page 6, you can see that we are competitive with the European Union. We have nine globally competitive subsectors ranging from upstream technologies in biofuels and power generation to downstream segments notably in remediation and soil treatment, recycling and recovery, and energy efficiency. We also have water segments. We have capacity to respond to them.

We're very excited because the European Union represents a very large market and a significant opportunity on the environmental side, because as we know—and you can see that with their low carbon policies—the EU has an orientation towards environmental approaches. Therefore we see this as an opportunity for the clean-tech companies to build and access that market, something that will be greatly facilitated by the CETA arrangement the government is negotiating.

That captures the bulk of my comments in support of this for Canadian clean-tech companies.

Thank you.

The Chair: Thank you very much for your presentation. It was very informative, and I think we could follow very clearly with the slides.

We now have Theresa McClenaghan, from the Canadian Environmental Law Association.

The floor is yours, madam. Go ahead.

Ms. Theresa McClenaghan: Thank you very much for inviting me to appear today and also for accommodating a video conference. I would have preferred to attend in Ottawa. I would have had the benefit of the slides, for example. But it would have meant changing a flight, so I really appreciate this.

The Canadian Environmental Law Association is an environmental law clinic, one of the specialty clinics in the Ontario legal aid clinic system. We're a 41-year-old, federally incorporated, not-for-profit ENGO. In addition to representing financially eligible groups and individuals and families, we also have a mandate that includes environmental law reform and public legal education.

Before I begin, I wish to thank our articling student, Kyra Bell-Pasht, who prepared the backgrounder on which my remarks are based this morning. And I wish to acknowledge the very helpful work of the previous articling students and volunteer lawyers at CELA who conducted earlier analyses.

CELA has had the opportunity to review drafts of the proposed comprehensive economic and trade agreement between Canada and the European Union. Unfortunately, the process has not been as transparent as we would argue for, and our analysis is based on copies of the agreements that have been leaked to civil society. That being said, I hope we can provide some helpful commentary.

The fundamental perspective we bring to our analysis is that we work to ensure that each level of government can act to protect the environment in diverse ways. As we have argued before the courts, and as the Supreme Court has agreed, we have a strong system in Canada of action on environmental matters by municipal, provincial,

federal, and of course first nations governments, which is in addition to action at the international level.

In most of the important environmental issues, action at all levels, at all scales, is essential for strong environmental and environmental health protection. Therefore, when we look at the proposed trade agreements and make recommendations, we're primarily concerned with ensuring that those diverse levels of jurisdiction and the ability to act, with the aim of having strong environmental protection, are flexible and well protected.

We have concerns that the current state of negotiations and drafting may not sufficiently protect the environment, so our analysis makes some recommendations in that respect.

First of all, I'll talk about the concept of national treatment, which is proposed to be applicable, in this case, for the first time, at the provincial levels as well as at the national level. CELA notes that there's language in the draft agreement providing for an exception when there are legitimate objectives, such as public security; safety; public order; protection of human, animal, or plant life or health; and protection of the environment. That's good. What we would recommend, however, is that this exception should not be limited, as is currently proposed, by the language of "necessary" measures only; it should be broadened to measures that are intended to apply to or that relate to environmental and health objectives. Also, we noticed that in the last draft CETA we saw, the EU proposed limiting that exception to exceptional circumstances. We don't agree with that.

The next topic I want to quickly mention is marking and labelling. The draft agreement says that marking and labelling requirements should not be more trade restrictive than necessary. Our point here is that we're working all the time to expand marking and labelling requirements and to provide for more consumer information, such as the ingredients in products, for example. It's important to provide a strong foundation for informed choices. The agreement should allow consumers to be fully informed as to product constituents and ingredients and should allow relevant environmental standards, such as eco-labelling. We wouldn't like to see the language around the words "trade restrictive" hampering that.

The next topic I want to address is the environmental laws chapter and the sustainable development chapter. We have reviewed the proposed draft environmental laws chapter. We prefer the more expansive definition of environmental laws we've seen so far in the EU proposal, which, for example, includes explicit reference to conservation and sustainable use of biological diversity.

•(1110)

We were pleased that it didn't limit the application of the chapter on environmental laws to laws whose primary purpose is environmental protection—it was broadened to include laws that took into account other environmental issues. We also thought they defined the word “environment” very well. Their definition includes terrestrial and marine ecosystems, atmospheric conditions, and climate change issues. It also had a broader definition of “environmental laws”, which we preferred. The EU proposal also dealt with scientific and technical information and the precautionary principle, and we strongly endorse that. In addition, they had similar language in the occupational health and safety section, and we endorse that as well.

Another significant proposal in the environment chapter deals with the creation of domestic environmental or sustainable development advisory groups. They mention independent representatives of organizations of civil society in a balanced representation of environmental groups, business organizations, as well as other relevant stakeholders. We agreed with that EU proposal as well, because much of the practice under the CETA, if and when it's adopted, will depend on state practice and a proactive approach, with advice from well-informed stakeholders. The EU talks more explicitly about the parties implementing in their domestic laws the requirements of multilateral environment agreements to which they are parties. This was a bit more specific than the Canadian language in that part of the agreement.

There was a proposal in the last draft of CETA that we think is quite important, to the effect that challenges to environmental measures would not be subject to monetary compensation. CELA agrees with that provision because otherwise there's the potential—and we've seen it in other cases—to have the agreement operate as a substantial regulatory chill against environmental decision-making by the parties, both nationally and at the subnational levels. The EU also proposed a sustainable development chapter in the CETA, which we support. For example, it included mandated transparency and public participation, and supported fair and ethical trade practices.

I want to mention the topic of expropriation. We would recommend deletion of the proposed expropriation provisions, even though the draft CETA proposes limiting potential claims of indirect expropriation in an environmental regulation context. A better approach, we believe, is the one that we saw in the United States-Australia bilateral free trade agreement, which doesn't contain that kind of a provision, over and above the regular domestic laws of each party. At the time, they did a regulatory impact statement and noted that both of those countries had well-developed court systems and economic systems, with no special provisions needed.

They explained it by saying:

In recognition of the unique circumstances of this Agreement, including for example, the long-standing economic ties between the U.S. and Australia, their shared legal traditions and the confidence of their investors in operating in each other's markets, the two countries agree not to implement procedures in the FTA that would allow investors to arbitrate disputes with governments.

They said that government-to-government dispute mechanisms remain available. Interestingly, this past spring Australia released a trade policy statement reinforcing that perspective. So we would say

the same conditions should apply between Europe and Canada. This would be a significant improvement.

We advocate allowing for green procurement, which aids market transformation in the direction of more sustainable practices, products, and services. In other words, governments can specify that they want greener provision of services, products, and practices.

•(1115)

We are concerned about opening public services to private sector involvement, in particular in the context of drinking water and waste water. We have consistently supported public ownership and governance of drinking water and waste water systems because of accountability, safety, and affordability issues.

The last thing to mention on the analysis is the general exceptions provision, which includes an exception for some of the provisions for those matters necessary to protect human, animal, or plant life or health or those that relate to conservation of exhaustible natural resources. We support that, but, as I indicated in the earlier context, we say it should be drafted more broadly.

So in conclusion, we would submit that there are promising environmental protection provisions in the latest draft of the CETA supported by both parties, as we've seen it. We prefer some of the provisions proposed by Canada and some of the provisions promoted by the EU, and overall we would suggest that as the drafting and the negotiating continue there be stringent evaluation of the entire CETA—all the preambles, the general language, the operative provisions, the interpretive provisions, the side agreements if there are any, the annexes, and so on—to ensure that the direction is to support the ability of all three levels of government in Canada to take strong environmental protection measures.

Thank you very much for the opportunity to make those comments. I'll attempt to answer questions if there are any.

•(1120)

The Chair: I have a feeling there will probably be some, and we'll go to those right now.

We have Mr. Côté first, for seven minutes.

[*Translation*]

Mr. Raymond Côté (Beauport—Limoulu, NDP): Thank you, Mr. Chair.

Ladies, thank you for joining us to answer our questions.

I would like to speak to Ms. McClenaghan first.

Can you hear the translation?

[*English*]

Ms. Theresa McClenaghan: Yes.

[Translation]

Mr. Raymond Côté: Last June 15, your organization sent a letter to Minister Fast in which you outlined your concerns about the free trade agreement with Europe. Did you get a reply from the minister?

[English]

Ms. Theresa McClenaghan: You know, unfortunately, I can't answer that for sure right now, since I haven't pulled my file in a few days. I've been out of the office. So I apologize.

[Translation]

Mr. Raymond Côté: Fine. I understand.

So it was not possible for you to make contact with the minister in another way?

[English]

Ms. Theresa McClenaghan: To be fair to the minister, I also didn't request a meeting, although perhaps there will be an opportunity in the future to do that.

[Translation]

Mr. Raymond Côté: Thank you.

My next question is for Ms. Sharpe.

Finding out about all your activities is quite fascinating. As one who dabbles in economics, I will admit that the subject of Canadian clean technology exports caught my eye. The table on page 5 shows the present results and the forecasts for the future.

If we look at real exports as a percentage of all export activities, it might be said that you seem very optimistic for 2012, 2013 and 2014. I imagine that is a function of the completion of a free trade agreement. But on page 7, we can see that, in Europe, investments in clean technology are consistently declining. At present, things are difficult; in the future, they are uncertain.

Do you think that your forecasts on page 5 are still justified? Are they still realistic?

[English]

Dr. Vicky Sharpe: Thank you very much.

The assumptions on page 5 are based on the fact that we haven't got the CETA component in there. These are based on questions to the clean-tech companies we work with out of the portfolio across Canada. We've talked about their paths to market, their intended target markets, the partnerships they have, and how they should move forward. So the data is not entirely ours, it's from Analytica. However, we have contributed a lot of work to that. A lot of our assessments are getting quite granular, and we have a number of companies.... I can give you an example. The company is called Ostara. It takes waste water and turns that waste water into a very high-quality fertilizer and reduces the pollution in the water. It has formed a partnership with Veolia, a \$50-billion annual revenue business in Paris. They are partnered with that company and have now become specified within the bid contracts Veolia is putting out into Europe.

So we're seeing partnerships and those opportunities as a reason for the increase. We haven't attempted an exact measurement of what

CETA could do. We just believe that Europe is a great environmentally oriented market.

I hope that helps.

•(1125)

[Translation]

Mr. Raymond Côté: Yes, I understand. Thank you.

Still on page 5, we are talking about a relative increase, by which I mean the impact of trade with Europe as a percentage of all exports. We are not talking about the real volume of exports, of course.

Does the forecast of 13% or 14% represent a real increase in activity or simply a percentage increase caused by a collapse or a decline in the American market?

[English]

Dr. Vicky Sharpe: Thank you—another excellent question.

In terms of growth, we see the U.S. market as not as large as the EU, as you have noted on one of the slides. However, those are percentages. In total size, we see the clean-tech market growing as a whole. At the moment, the clean-tech revenues for Canada are some \$9 billion, currently representing 0.9% of the global market opportunity.

A number of organizations have predicted that the total market for clean-tech will grow from about \$1 trillion in 2010 to anything from \$1 trillion to \$5 trillion in 2020. What we're trying to do is seize 2% of that increased growth. In total numbers, as opposed to percentages, we see genuine growth in Canadian companies being competitive globally. So there will be an increase. I guess a pro-rata thing is that if we currently have 44,000 jobs from 0.9% of \$1 trillion, the forecast is we will have 126,000 clean-tech jobs in Canada, if we're able to move from roughly 1% to 2% of that larger market.

[Translation]

Mr. Raymond Côté: The nature of clean technology depends on the definition, of course. It can include all kinds of things.

Can you give us an idea of the biggest growth areas in clean technology? I am thinking about biofuels, among other things.

[English]

Dr. Vicky Sharpe: Yes, the technologies are integrated into the natural resource. Forestry, agriculture—we're now moving heavily in the oil and gas side—and energy efficiency use in buildings would be the primary ones where we're having big successes.

Thank you.

The Chair: Thank you very much.

Mr. Holder.

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

I would like to thank our guests for attending this morning. We appreciate this very much. I find your testimonies very interesting.

Ms. McClenaghan, I'm encouraged to hear you say you saw promising environmental provisions in what you've seen. I also heard Ms. Sharpe make a number of comments. I'd like to bring some clarity around this first.

Dr. Sharpe, I've had some exposure to your organization by having attended meetings with announcements you've made at Sustainable Development Technology Canada. Could you very briefly put more context to this? Tell us what the purpose of the SDTC is, what it's intended to do. If I understand correctly, the Government of Canada made this investment to get this going, in concert with industry or venture capitalists. Would you help us understand your beginnings or genesis?

• (1130)

Dr. Vicky Sharpe: Thank you very much.

Our mandate is to develop a sustainable development technology infrastructure in Canada. We do that by selecting and picking strong Canadian companies that have clean technologies and need to develop those, and we put funding into them—one third of it being the federal government's, two thirds mostly private sector—and those projects de-risk technology, and then we work with a company to build its capability to seek private sector investment. What we do is we bridge the valley of death, if you'd like to call it that, by taking risk that only the government will take and then working with the private sector to introduce those companies for their investments to get them to the market.

There is twofold benefit. One is that we are providing environmental benefits through these technologies by their application for society, and the other one is that we are obviously improving the economy. We are mandated to do this as broadly as possible and to diffuse into the market as fast as possible, and that addresses the third element, the definition of sustainability, which is broad, societal benefit to Canadians.

Mr. Ed Holder: I thought Monsieur Côté asked a very good question when he asked about the growth in clean-tech jobs over the course of the next several years, and we saw the graph there that showed growth without CETA up to 2014. I'm reminded that we had a recent witness, a representative of the pork industry, who at one point had a market share some years ago that 75% of the market was the United States, but it had been drastically reduced as a percentage to 32%.

I recall asking a question not dissimilar to that of Monsieur Côté. I asked if that significant change in terms of focus in other places was at the expense of growth in the United States. I was advised at that time that in the move from 75% to 32%, in fact the growth in the United States had actually doubled, but all it did was talk about less emphasis or less dependence on the United States, and growth opportunities elsewhere.

As you have indicated in terms of the growth from 2010 to 2014 without CETA, do you have any sense or have you done any projections of what the potential is with the CETA agreement in place?

Dr. Vicky Sharpe: I have to confess that we don't have what I would consider an accurate enough assessment to say what it would do, but I would like to emphasize that we have got a need for our Canadian clean-tech companies to diversify their markets, and the

growth is very strongly export-oriented, so I can only see this as being one of the mechanisms that would allow us to move from having 1% of the global clean-tech business to 2%. It sounds small, but as you can see, it has a big economic impact. But we don't have accurate projections.

Mr. Ed Holder: You talk about that economic impact. I heard you make reference to 126,000 clean-tech jobs. So for every 1% of growth, what does that mean in terms of clean-tech jobs in Canada?

Dr. Vicky Sharpe: I'm trying to do the math in my head.

It's 1% of the market, which we have moved from \$1 trillion to \$3 trillion in that time space, so I'm having trouble answering you, though, specifically on that number. Obviously that's a share of a huge market, and the SMEs are small companies that don't have quite the same legs as the large companies, so some kind of arrangement that makes it easier for them to enter those international markets would be valued.

Mr. Ed Holder: That would mean clearly tens of thousands of jobs as a result of that here in Canada.

Dr. Vicky Sharpe: Oh, absolutely.

Mr. Ed Holder: How do you convince the Government of Canada to make that kind of a commitment in terms of clean tech? I think that's very interesting from all of our standpoints. It's very significant that it would play that kind of a role, as you said, to cross the valley of death into opportunities with businesses.

How does that work, that you would be able to convince it to do such...?

Dr. Vicky Sharpe: I think it's because the wonderful thing about clean technology is it is the nexus of the different systems, in that it is providing both an economic and environmental benefit and it does not have to degrade either of them. If you look at SMEs, which are the majority of the clean-tech companies, they provide economic opportunities in urban and rural communities across this country. They are the engines of 75% of the job growth, as I stated earlier.

If you look at that, the intent around improvement in the environment and the health of Canadians, health is linked to the quality of the environment. If that's distributed widely across the country, that is a direct benefit. The issue has been that with these clean-energy technologies—Canada is a clean-energy superior country—we have to be able to get a relatively high capital equipment expense of technologies into the market. That is not easy with an investment community that is used to more of the ICT side, which is a lower investment. So there's an absence of risk capital in Canada.

The government plays a policy role in addressing that risk capital. As you can see from my last slide, which I didn't speak to directly, we're already getting good investment from Europe. We'd like to get more of that money into our companies. It's a very logical combination.

• (1135)

The Chair: Thank you very much.

Mr. Easter.

Hon. Wayne Easter (Malpeque, Lib.): Thank you, Mr. Chair.

Thank you both for your presentations.

Starting with you first, Ms. Sharpe, what are the current restrictions for the companies you represent in terms of getting into the European Union, and how do you see the CETA agreement improving that access?

I think a lot of European governments, probably even more than the Canadian government, lean more strenuously toward environmentally sustainable conditions. I think you have access to the Europeans with your clean technologies. What are the current restrictions, and where do you see the benefits?

Dr. Vicky Sharpe: Thank you for that question.

One area is important for sure, which is that investments in small companies are somewhat complicated by the fragmented rules on deal structures and terms we have when we're trying to look at moneys moving between Canada and the EU. If at all possible, we'd like to see further standardization across Europe to make the flow of moneys easier, because none of these things gets money from just one jurisdiction. There's syndication on the investment side, and that means we have Canadian money going into our companies going into Europe. We'd like that to be a little bit easier.

In terms of the companies themselves, how can they tackle that market? It is a large market but a fragmented one. Anything in the CETA agreement that makes the arrangements between the different parts of the EU more standardized and more consistent is something that is of value to our companies. It's not like moving a multinational into those areas. It's hard for them to get the legs to deal with all that.

So I think one of the clear messages is consistency across the EU for the conditions they have. Obviously, relative to some of the jurisdictions, the intellectual property protection is pretty good in the EU, but anything there that would make it simpler and less costly for IP protection.... Again, it's important for companies to get that protection for the markets that they wish to enter and some of the processes are very expensive for SMEs in particular.

Hon. Wayne Easter: Thank you. I guess the bottom line would be more predictability.

Ms. McClenaghan, you made a lot of really good suggestions in your presentation, certainly based on experience in many of the trade agreements you've been involved in. You talked a number of times about the last draft you were working from. What draft are you working from? We as a committee have not seen any of the drafts other than what was leaked, which would seem rather strange, but we haven't. This is a very secretive government, as you know.

• (1140)

Ms. Theresa McClenaghan: We'd much rather that the debate was happening in a much more public way. We obtained a draft in the spring, and then we had another draft in the late summer, and that's the one we looked at to revise, and do this backgrounder. We have a more lengthy backgrounder. I don't know if there was time to have it translated, or if that's something the committee has resources to do. I provided it only in English to the clerk. I'm assuming that we've seen the same last version as you've seen, and that it's that language.

But it's for the reason that it may change as negotiations continue that I made the comments at the end about applying that kind of a lens to the overall agreement, as things may change, or as additional annexes or side agreements in some of the agreements.... We've seen different letters of interpretation or annexes that get added later, and then it's just important to look at all those pieces, and take that really strong environmental and health protection perspective, because I don't know if we'll see every draft or be able to comment on every draft.

Hon. Wayne Easter: I do think you made a very important point, that there needs to be a stringent evaluation of the entire CETA. I think that is extremely important.

But I might mention to you—and I hope that you would be given the same opportunity—that we had the Canada Pork International before the committee. They see a lot of potential in the market. But they did say that they would be given the opportunity to sit down with the negotiator, and go line-by-line in terms of the areas that affect them. I would hope that you're given the same opportunity, because your organization has a wealth of experience in these trade agreements in terms of the impact they could have on sustainability and environment. So I'd just suggest to you that it may be a request you'd want to make.

Two areas.... You mentioned that the U.S.-Australia agreement is better. Could you tell us what that agreement is? I believe that was relating to the topic of expropriation, but I might be wrong.

And the other area.... Could you expand on the concept of national treatment? In one case you felt the EU position was better; and in the other, ours.

Could you expand on those two areas?

The Chair: I'll ask for just a very short answer on those two, because his time has gone.

Ms. Theresa McClenaghan: Yes.

With the second one first, the common point in both cases was not to limit the wording to necessary measures, but to broaden it to those things intended to protect the environment and health.

On the first point, the U.S.-Australia agreement in 2004, it's the specific point on expropriation that we preferred, in that there was no ability of private companies to sue the government of either country for environmental regulation and claim damages. We've seen that happen under NAFTA. We don't like it happening. We think it's a problem, and we don't think it's necessary.

The Chair: Thank you very much.

Mr. Cannan.

Mr. Ron Cannan (Kelowna—Lake Country, CPC): Thank you, Mr. Chair.

Thank you to our witnesses. I appreciate your being here this morning. Parliamentary committee meetings are very important to get this information out. We've had numerous meetings, and we'll continue to have debate in Parliament as well, as this process unfolds.

I'd also like to thank you, Ms. McClenaghan, for your comments about the importance of protecting the environment. That's been a strong objective of our government, and also creating jobs in a sustainable way. I think it's important to balance that with environmental preservation, something I've been very keen on. I appreciate your efforts, as well, to focus on that.

As Minister Fast has said in this room and in Parliament several times, this trade is a kitchen table item, an issue that is so important to Canada. One in five jobs is created from trade.

We need to continue to grow our economy in a sustainable way, but I also think it's important that we work together in harmony, without communicating mistruths or sometimes misinformation. So to clarify, one of the comments in your report—and I appreciate having had the opportunity to read through it—with regard specifically to water...

...in the case of the privatization of a public service for example (for example water management) it would be almost impossible for local governments to roll back liberalization policies and to re-municipalize such services for the well-being of the population.

Our government's position on water has been clear no matter how much misinformation or misunderstanding or hyperbole there has been by the NDP and other organizations. We had the Council of Canadians here last week. I think it's important that our position has not changed and it's clearly communicated. Our government has always stated that we prohibit removal of boundary waters from our basins, for any reason, including export.

Provinces also have measures in place to protect water within their jurisdictions. Nothing, in any way, in Canada's trade agreements prevents governments from setting standards to ensure Canadians have access to safe drinking water. Nothing in any of Canada's international trade agreements can force countries to privatize or deregulate their public services, and all companies operating in Canada must respect Canadian laws and regulations.

This is not affected by trade agreements. I think it needs to be reinforced that this does not affect water in our trade agreements.

The aspect of the state of water is a concern. I'm a father and a grandfather. I've got three children and a grandson. We're not selling off our water or privatizing it. Nothing is changing. Local governments today can incorporate a private user, if they want, for the operation of their utility. As a matter of fact, a B.C. municipality recently had a referendum and it was voted down.

To clarify, if I could ask a question to you, Ms. McClenaghan—and I'd like to share my time with Mr. Keddy—how does your organization get this information? Is it misinformation? Do you want to fearmonger over water, or is it a miscommunication of evidence that shows your claims are not true?

The evidence I have here—I just need you to clarify—is meant to be in a cooperative manner, to communicate the message, because I think it's important for all Canadians to realize that our government is protecting and preserving the environment and water.

Thank you.

● (1145)

The Chair: Let's get a response.

Go ahead.

Ms. Theresa McClenaghan: We argue for public ownership and governance, especially of drinking water and municipal waste water systems. That is what I said. We don't have a quarrel with provision of services to public utilities, for example. But with the access of the European Union to the provincial governments and the municipal sector, my understanding is that there are private corporations that would like to directly own and operate.... I'm not suggesting for a minute that any particular political party in Canada is advocating that, but there are companies that would like that to be the end result, and it's something we wanted to flag as a consequence to be avoided.

For example, when Ontario did the recent Water Opportunities Act, which we strongly endorsed, that government felt compelled to put in a statutory statement that it wasn't intended to privatize water. It's a constant pressure, and we saw in Walkerton that we need public governance.

I agree with much of what you said, but we are always very worried about this constant pressure for privatization that we see in the private sector. I'm not making any assertions politically.

Mr. Ron Cannan: I'll pass the floor over to my colleague.

And don't worry, be happy, we're here together. Thanks.

Mr. Gerald Keddy (South Shore—St. Margaret's, CPC): Welcome to our witnesses.

Ron, you were very generous leaving me two minutes. I appreciate that.

I have a couple of issues that I just want to try to get a bit of clarity on.

Ms. McClenaghan, you made the statement about public consultation, but I can tell you there's been a lot of consultation with stakeholders and with elected officials. Those are the groups that represent all Canadians, the same as we members of Parliament do here at the table today. We have certainly had in-depth discussions with the provinces and with the municipalities. Both the provinces across the country and the municipalities are supportive of the CETA.

I appreciate some of the comments that you made about environmental protection, and I think most of us at the table here are in agreement that we need to protect our environment, but we also have to be very clear and concise when we put our facts out. To say that there's been no public consultation is just incorrect. We've met with groups across the country, we've met with industry, and it has occurred, and we've met with elected officials, so both municipal nationally, municipally and provincially.

•(1150)

Ms. Theresa McClenaghan: If I may, I don't think I said there wasn't public consultation. I said that the draft text has not been out in the public for comment, and that's where I think it would be extremely valuable, and I presume not just on environmental matters that we can comment on and many others can comment on, but across a whole range of other topics. It would be hugely beneficial to the public in Europe and in Canada and to all kinds of different interests to comment on the exact text. It's great to talk about general interests, but we then need to see how they're going to actually be embodied in the agreement.

The Chair: Thank you very much.

Yes, he's out of time, but it was very interesting.

Madame Péclet.

[Translation]

Ms. Ève Péclet (La Pointe-de-l'Île, NDP): Thank you very much, Mr. Chair.

My question is for Ms. McClenaghan. If I am not mistaken, you said that you gave the clerk a draft of the agreement, with your analysis, but it was written in English only. Did I understand correctly?

[English]

But we would like to have this—

Ms. Theresa McClenaghan: The analysis was prepared several weeks ago, but that was only in English, so my apologies for that.

The Chair: Just for the committee's information, the clerk has informed me he got it Monday. We can have it translated. It's about 36 pages, so there wasn't time to do it for now.

Ms. Ève Péclet: Thirty-six pages, that's not a lot.

My first question will concern the investor rights part of the agreement.

[Translation]

Those rights repeat what is in chapter 11 of the NAFTA treaty.

Up to 2010, actually, 29 of the 66...

[English]

investor-state disputes under the NAFTA have involved environmental regulation or natural resource management issues.

[Translation]

We know that regulations like that...

[English]

—investor rights regulations—

[Translation]

...prevent the government from passing environmental regulations, for fear of being taken to court by companies. We know, for example, that there was...

[English]

Ethyl v. Canada. The gasoline additive MMT was banned by Canada for health reasons.

[Translation]

Basically, investors sued Canada, which lost. Another similar case was...

[English]

SD Myers v. Canada, where a U.S. company successfully challenged a Canadian ban on the export of toxic PCB wastes.

[Translation]

Could you tell me what impact passing these kinds of environmental regulations, or deregulations, will have...

[English]

investor rights disputes

[Translation]

...on the free trade treaty?

[English]

Ms. Theresa McClenaghan: I think it's one of the most significant issues in the free trade agreements. So I gave you the Australia-U.S. example to say that we don't even need that kind of a clause; we could just do away with it entirely and not have this problem.

In the current draft that we saw, it was a little bit better than NAFTA because it had a better statement that indirect expropriation claims could not be made for environmental protection reasons.

We think that a better approach would be to just do away with those direct claims by private companies against governments for valid environmental and health regulation.

We often argue that those claims will not be successful and people shouldn't be so scared of them, and we do want them doing their environmental regulation. But at the same time, we don't like the fact that they can be waved around, and people can say they're going to bring such a claim, and then you wonder whether governments are taking a second look at the kind of environmental or health regulation they were considering.

We don't need that kind of a provision between Canada and Europe at all, in my opinion.

•(1155)

[Translation]

Ms. Ève Péclet: Turning to the tar sands, I don't know if you have been consulted by the government or by the negotiators.

We know that Canada has been exerting strong pressure on the European Union over...

[English]

article 7a of the European fuel quality directive, which calls for recognition of the higher greenhouse gas intensity of fuel produced from oil shale and tar sands.

[Translation]

So could you tell us...

[English]

A voice: Oil sands.

Ms. Ève Pécelet: Oil sands, if you prefer.

[Translation]

A voice: Thank you very much.

Ms. Ève Pécelet: So could you tell us what you think about the discussions between the European Union and Canada on this fuel quality directive?

[English]

Ms. Theresa McClenaghan: I'm sorry that I'm not going to be very helpful on that, because CELA has not been directly working on tar sands and oil sands issues. Some of our colleagues have been working on those issues, and I would have to ask them to make comment, which I could do.

The Chair: Thank you very much.

Mr. Shipley.

Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC): Thank you very much to the witnesses for coming.

I am going to start off, Ms. Sharpe, with you. When I'm going through your deck, I'm looking at a robust export picture that will be enhanced. The agreement will provide new access to venture capital, equity dollars, and established markets.

The interesting part about your deck is that 92% of the clean-tech companies that are part of Sustainable Development Technology Canada are small and medium-sized enterprises. I think that rings well. We all know that what drives the economy in Canada is our small and medium-sized business enterprises.

What I'm wondering is that when you talked about the revenues of \$9 billion in Canada, and as we watch the total market, which would grow from \$1 trillion to \$5 trillion to \$10 trillion by 2020, this is a huge increase. Why are we going to be successful? Why do the small and medium-sized companies see this trade as such a good thing for them? Is it because we're competitive? Is it because we have quality? Is it because Canadians are known and seen to be reliable entrepreneurs and business people, or is it some other reason?

Dr. Vicky Sharpe: Thank you.

Canada is a leader in the clean-tech arena because we have a very strong entrepreneurial spirit. We have an orientation to doing things better and faster and with less, and also with lower environmental impact, and we've integrated those concepts very cleverly. So we are competitive globally for a number of reasons. One is the fact that we have great institutions that have brought forward good ideas.

The other one is—and I have to say thank you for this, really—that the government has different policies around supporting these companies, because they are not able to get enough risk capital in Canada. So SDTC, with its partners, has been able to bridge that gap, that valley of death, and bring them forward and coach them and take them to the markets.

Another illustration of how competitive these companies are is that we have seen the growth in foreign direct investment into the SDTC portfolio companies. In the last five years the Canadian growth in investment has been about 60%. The foreign direct investment numbers have been 200%. A lot of that, in fact 50% of it, is currently from the U.S.

When we talk to U.S. investors and ask why they come to Canada when they have lots of opportunities in the U.S., they say it is because perhaps we don't have as much surplus cash, the companies we grow are used to doing more with less, and also they are very tightly managed. The other part of that is that because our own economy is not huge, we grow companies that start out their business knowing they have to export, so they're very export-oriented from day one. All of those things have contributed to our competitiveness.

• (1200)

Mr. Bev Shipley: Thank you.

I want to switch now to Ms. McClenaghan.

In your report you said the CETA benefits solely “transnational corporations...at the expense of people's rights and the protection of the environment”.

We've heard, actually, that Canada is a clean-energy leader. We've just talked and had questions about how important small and medium-sized businesses are. So my concern is that comments by you and your organization are misleading, when the sole benefit... In fact, it isn't transnational. We've had agriculture, and we've just heard about all these small and medium-sized business that are in here.

I'm wondering why you would make these inaccurate statements.

The Chair: You have a minute.

Ms. Theresa McClenaghan: Yes, I'm sorry, I'm looking for where that is.

Be that as it may, in general, the debate between environmental interests and trade interests sometimes does become grounded on the debate between taking precautionary approaches to sustainable development and environmental protection on one hand and economic interests on the other hand. Too often, we've heard the jobs-versus-environment argument.

We agree—and I share much of what Ms. Sharpe said—that both must work together, and we really want both working together. So that's the fundamental perspective we bring to it. As I indicated at the outset, our fundamental review of this agreement, as it has been in other contexts, is to ask whether it will support governments that want to proactively take strong environmental protection measures forward.

The Chair: Okay.

Thank you very much to both our witnesses, Ms. Sharpe and Ms. McClenaghan. Thank you for your time and for accommodating video conferencing.

With that, we will suspend this part of the meeting as we set the table for our next set of witnesses. Thank you very much.

•(1200) _____ (Pause) _____

•(1205)

The Chair: I call the meeting back to order again.

I want to thank Mr. Don McIver of the Atlantic Institute for Market Studies for being here. As well, from the C.D. Howe Institute, we have Mr. Daniel Schwanen.

We're going to start with you, Mr. Schwanen. The floor is yours.

Mr. Daniel Schwanen (Associate Vice-President, Trade and International Policy, C.D. Howe Institute): Thank you very much.

I appreciate the opportunity to appear before the committee. Much of what I will say draws on a publication, a backgrounder on the Canada-EU negotiations published last month by the C.D. Howe Institute, of which the clerk has an electronic version.

[*Translation*]

I have prepared my presentation today in English, but I will be happy to answer questions in either of Canada's official languages.

[*English*]

As members of the committee are aware, the European Union is the world's largest markets in terms of GDP and one of the richest and most sophisticated markets in the world. The EU economies remain potentially dynamic in spite of the drag on economic confidence caused by the current eurozone turmoil. The European Union is also negotiating or has signed agreements with many partners of great interest to Canada, including Mexico, Korea, the Caribbean, and is negotiating now with India.

So these facts alone make the successful negotiation of a comprehensive trade and economic agreement with the EU, CETA, a strategic necessity for Canada. Apart from this overarching interest, I would like to draw the attention of members of the committee to some important qualitative aspects of our relations with the EU.

First, the EU-Canada relationship reflects a greater emphasis on two-way direct investment flows and on trade in services relative to the exchanges we have with the U.S. or with Asia. The relationship with Europe is more intensive in terms of foreign direct investment—there are lots of European investments here, and vice-versa—and in terms also of trade in services.

In addition, except for automobiles, where our exports to Europe certainly are weak, our goods trade with Europe also takes place in relatively sophisticated goods, notably in aerospace. These features—the importance of investment and services and sophisticated goods—explain the natural focus of the negotiations on movement of key personnel, protection of intellectual property, access to public sector procurement, and non-discriminatory application of regulation and non-discriminatory access to services markets proper.

A little-noted fact is that Canada runs a trade surplus with the EU in commercial services, which include legal, architectural, and engineering services, for example. To me, these features of our trade with Europe indicate that achieving more open trade and investment relations with the EU is a chance to parlay our advantages in our

more traditional exports to new and perhaps unheralded areas of strength.

A Canada-EU deal would also of course mean more competition—let's not kid ourselves about that—on both sides of the Atlantic. Open international trade and investment, within accepted rules of fair competition, so long as governments do not relinquish the ability to regulate and set standards in the public interest or to help the disadvantaged, is beneficial for sustainable jobs, innovation, and economic growth.

Conversely, restricting trade, given intensifying global value chains within which products are increasingly made in the world by combining inputs and expertise from many different countries, means shooting ourselves in the foot. This fact—that imports are actually good—is increasingly recognized in the official trade policy statements of countries such as Australia or Sweden.

At a time when public expenditures will be severely constrained, enhancing the ability of governments to pursue more innovative or less costly ways to deliver services through a more competitive environment, without sacrificing key policy goals, is a good thing. And the CETA talks certainly do reflect the need to foster a more competitive and open environment in public procurement, for example.

I agree with those who say that this is the biggest non-WTO deal for Canada since the NAFTA. The NAFTA resulted in stronger and more competitive Canadian industries overall, including a number that were expected to wither and die. And many of those industries now employ a larger and more sophisticated labour force than ever before. So I like invoking the NAFTA in this context. I think the experience has been very good overall.

Many specific issues on the table with Europe are different from those with the NAFTA, but they remain fundamentally about the rules of competition. Through evolving agreements worldwide, as well as through regional integration in Europe and elsewhere, these rules of competition are rapidly changing. If we don't think through how we want to deal with these leading-edge issues with Europe, we will inevitably face them in other forums, such as the Trans-Pacific Partnership.

So CETA is an opportunity for Canadians and for all levels of government to decide how they want these new issues to be addressed more generally, not just in the context of our relations with Europe. To be clear, focusing on fairer, more open competition between Canada and the EU should never mean being forced to adopt European policies, rules, standards, or regulations. These likely would not be the best, or the best for us, or be compatible with the objectively more important regulatory cooperation exercise we are undergoing with the United States. Nevertheless, this is a chance for us to devise a framework within which irritants caused by different levels of protection or competition or regulation in different sectors can get solved.

● (1210)

The key is maintaining or enhancing Canada's ability to achieve important policy objectives. Exactly how we do this may be subject to what is considered fair under international standards and agreements. For example, our trading partners, and not only the EU, have concerns about the effective period of market exclusivity in Canada for patented products. Canada should consider committing to high international standards in this area, provided it can be satisfied that it can do so over time, i.e., without an immediate transfer to patent-holders. Canada should also take steps to advance innovation that will improve the welfare of Canadians and preserve the government's ability to be active in the marketplace in the pursuit of legitimate public policy goals, which in this case deal with patented products such as pharmaceuticals.

The CETA will most likely affirm the government's ability to regulate in a non-discriminatory way in the public interest. But it is important that Canada and the EU devise a proper framework to deal with products the EU blocks or seeks to block, not on account of the intrinsic characteristics of the product but on account of objections to how a product is made.

In the absence of internationally accepted rules, Canada should uphold the position that trade bans are not the first or best way to deal with concerns about the policies of another country.

A framework agreement would provide a proper way to deal with attempts by one party to impose its regulatory standards on another. The agreement would confirm that one of the parties may review the effectiveness of the other's regulatory process in areas where the other party has expressed special sensitivity, and it could contain a mechanism to engage in consultations and joint fact-finding on issues of interest. As I've said, Canada and the EU need to find mechanisms to address these issues in a fact-based, non-discriminatory way that treats government restrictions—or trade restrictions—as a last resort.

I hope I've been able to sketch the strategic and economic importance of the CETA for Canada, from our perspective, and to suggest some principled ways to deal with potential obstacles to reaching such an agreement.

I'd be happy to answer any questions.

The Chair: Thank you. I'm sure you're going to get a few.

But before that, we'll ask Don McIver to make his presentation.

Mr. Don McIver (Director of Research, Atlantic Institute for Market Studies): Thank you very much.

I'd like to focus on a few elements that have been recommended to be put on the table by the Europeans. My argument is that it is within our own personal self-interest to resolve the difficulties in these four areas. While I fully appreciate that we want to be in a position to negotiate with the European Union in a manner that we don't give up what we don't have to give up, what I'm suggesting is that we should consider correcting the deficiencies in these four specific areas, whether or not there is an agreement with the Europeans. The four areas are agricultural supply management, government procurement, intellectual property, and labour certification. Let me just quickly go through those.

On the agricultural supply management side, basically, we have an anachronistic situation, which, as we well know, interferes with other trade arrangements. I'm sure everybody here is familiar with the comments made yesterday by the New Zealand trade minister that suggested that Canada is not going to be able to be at the table on the TPP if we're going to stand alone, basically, in the industrial world behind our supply management mechanisms. It harms Canadian consumers. It may very well harm Canadian producers. The evidence of that comes from what has occurred in some of those countries that have eliminated supply management, like Australia and New Zealand. The consequence has been better production, better profits, new markets, and increased exports. Of course it also interferes with internal trade.

The Europeans themselves, in their background report behind these negotiations, appeared somewhat puzzled when they said:

Although Section 121 of the Canadian constitution prohibits the use of inter-provincial tariffs, subsequent judicial interpretation has allowed provinces to implement non-tariff barriers which have fragmented the country's internal market and provide obstacles to pan-Canadian standards.

They go on a little later:

While internal trade barriers impede a number of different sectors, the most prevalent internal trade impediments exist in the agriculture and agri-foods sectors. For example, restrictions are in place that limit inter-provincial shipments of supply-managed commodities such as wheat, dairy and poultry products;

Clearly, it seems to me that it is in our own self-interest to resolve the supply management dilemma, regardless of whether it's on the table with the Europeans. Yes, by all means let's bargain with that tool, but at the end of the day I certainly hope that supply management is eliminated.

The second area I want to talk about is government procurement. It's a small matter between Europe and Canada, at least as it stands now. It's a big advantage unilaterally—that is, within Canada. Let's cure the problem in Canada. Basically, buy local programs are essentially “beggar thy neighbour” for provincial barriers and national barriers, as we've seen with respect to trade with the United States. Again, it's an anathema to economic efficiency.

Now, there are a few things that are a little bit hopeful at this stage. I think it's a good sign that the provinces have been engaged actively in the negotiations. But Europe faced basically the mother of all procurement issues a couple of decades ago when the union was formed, probably 15 or 16 countries at the time—now it's 27 or 28 countries—all with essentially national procurement policies, and they overcame them. We should be able to overcome them, when we are one national country.

Look what the Europeans got—and this is, again, their assessment:

An impact assessment of the increased intra-EU competition for foreign procurement resulting from the EU's procurement directives is estimated to have delivered price reductions of around 30%, according to European Commission studies. The EU has already experienced improvements in the effectiveness of public procurement through increased foreign competition, both within Europe and from outside Europe.

Now, in these straitened times, 30% on our budgets would look very, very nice indeed. It's in our self-interest.

•(1215)

The third area I wanted to talk about is the Europeans' wish to harmonize intellectual property regulations with Canada. Why are they so concerned about that? I think, essentially, it's not because they're greatly concerned with Canada, but because they're more interested in the next stage in their discussions, which will be the EU-U.S. discussions.

I think it's important to put into context how important R and D is to Canada. We have a tendency to think it's peripheral, but it's a long way from being peripheral. Canada is right in the middle of the OECD pack in terms of the proportion of GDP it devotes to R and D and the number of people engaged in R and D. Even just in dollar terms, without relation to per capita, without relation to the size of the economy or the size of the country, there are very few countries in the OECD that actually expend more on R and D than Canada. Fifteen percent of our R and D spending comes from foreign investment. Canada is at the top of the G-7 per capita in environment, health-related, and biotech patents. We've got a lot vested.

In the past, we talked about trading patent protection for R and D spending. There seemed to be some desired trade-off. The past is no longer. Today, for example, the big pharmaceutical companies in Europe are greatly concerned about the loss of R and D to the U.S. U.S. companies and the U.S. government are greatly concerned about the migration of R and D spending to Korea, to China, and to India.

China and India will become the largest R and D spenders, the nations mostly engaged in the state-of-the-art activities that give the highest value-added employment. As important or more important in many ways is that, as they reach the stage of becoming upper- and

middle-income countries, they will also be among the world's largest consumers of health-related products. So I think it's very important for us not to think in terms of trying to make inroads in global R and D but to actually maintain our toe hold. We are in a difficult situation, and I think we need to be sure that we, in conjunction with the Europeans and ultimately with the Americans, are on track with respect to our intellectual property regulations, to ensure that as these new markets become the mature markets, we are able to participate in those markets and not be alienated.

The last point I would like to make very briefly is on the whole question of labour certification. In many ways, that's been preempted by what has occurred. That is, at the provincial level the internal trade agreements are now focusing on the importance of getting certification across provincial jurisdictions. Immigration interests are concerned about making sure that some of the foreign individuals who have taken up residence in Canada are fast-tracked into their occupations. Why? Because of demographic pressures. Reality is actually outpacing the whole issue of labour certification. As the population ages over the next several years, certainly in the province where I live right now, we're expecting significant labour force contraction. We're going to need all of the skilled workers we can attract to the region.

Those are basically the points I wanted to make. I have prepared a submission, and it's probably not available for circulation yet, but I guess it will be. At the end of that submission there is a reference to the paper we recently penned, about a month ago, and it gives you an idea of where you can get that online.

Thank you.

•(1220)

The Chair: Thank you very much.

We'll now turn it over to the question and answer portion.

We want to welcome Mr. Rousseau. We don't discriminate in this committee. The floor is yours.

Mr. Jean Rousseau (Compton—Stanstead, NDP): Thank you very much, Mr. Chair.

[*Translation*]

I am particularly interested in supply management. My question goes to both witnesses.

My main concern is for the farms and family businesses all over rural Canada, where jobs are created and preserved because of the supply management system. Those sectors are not asking for any support or funding from governments of the day. The system works; it provides people with reassurance about the quality, and especially the availability, of the products.

The current government says that it supports supply management plans and intends to respond to farmers' claims by keeping the system in place. What are you going to say to all those owners of businesses and family farms, the people who shape the identity of our country, if they are forced into bankruptcy, if they lose their jobs and if unemployment in the regions goes up?

•(1225)

Mr. Daniel Schwanen: I would say that, in the long term, the support we are giving them through the prices of supply managed products is turning into a very heavy cost for the rest of the Canadian economy. It will cost a lot more if we cannot get into rapidly growing markets such as Asia-Pacific. The European market is a factor too. We block others' access to our markets. We may have to start to think of a new long-term strategy, for the good of Canada. That does not mean that the strategy cannot focus on the quality and availability of the products. You were mentioning family farms, but they are not the only ones to benefit from the present system. Big companies do too.

I see it as very simple. For consumers, and for producers in other areas, including some other areas of agriculture, opening up markets is basically a good thing. In the long term, we will have to find a new way of supporting the family farms you mentioned. We certainly have to start talking about it. The reason is simple: it is getting more and more expensive and it is costing us jobs in other sectors of the economy.

[English]

Mr. Jean Rousseau: Mr. McIver, please, on the same subject.

Mr. Don McIver: Sure.

First of all, I think there's a question about the size of many of these operations. I know it's nice to have the image of the family farm and a family maintaining a few head of cattle, and living a sort of idyllic life.

In reality, as I understand it at any rate, a large number of the quotas in the agricultural field are held by fairly large concerns, and they're exceptionally valuable. I do recognize the value of these quotas; people have invested in those, and they've planned their lives around an expectation that those quotas will yield them a certain amount of product that they can sell.

We do have to find a way of resolving that issue for those people who have invested or who have inherited an expectation attached to a quota. Yes, probably we're going to have to buy them out in one form or another. That's only fair. But I would also suggest that in the other countries where this issue has been addressed, the whole industry becomes that much more profitable. And I use "industry" advisedly, because maybe when I say industry we don't have the same image as the family farm, but it is an industry. It's just a micro-industry.

The agricultural industries where supply management has been abolished in other countries have often done very well. Try going down to the supermarket and looking for a chunk of lamb. Almost for darn sure it's going to say New Zealand on it. Why is that? That's because they have successfully modernized not only their agricultural industry itself, but their marketing capacity.

•(1230)

Mr. Jean Rousseau: You talked about R and D.

[Translation]

You said that we are behind in comparison with China and India. How will intellectual property play a role in this area? I know that a lot of university researchers share this concern, that too few measures are being taken to protect investments and especially development. How can we position ourselves in relation to China and India in the protection of research and development?

[English]

Mr. Don McIver: Both of those countries have been viewed as having considerably weaker intellectual property protection than Canada.

The observation I was making with respect to us lagging is that as we go forward.... Already China is essentially by volume the largest R and D country in the world—and not surprisingly. They have the population. They now have the educated population. They now have the market.

China is already an upper-middle-income country, as identified by the OECD. My contention is that as these countries mature economically, they are going to demand the type of high-quality, leading-edge innovation that we in North America and western Europe have taken for granted for a number of decades, and it's going to be in their interests at that stage to protect their investment, being the leading R and D producers.

I'm just suggesting that we don't want to be left behind with even weaker than their newly determined level of protection. We're already in a vulnerable situation. We don't have the R and D we would like to have, certainly in the pharmaceutical area, relative to Europe and the United States. When those other countries come on we're going to be that much further behind.

So let's at least try to make ourselves at an internationally recognized level of IP protection.

The Chair: Thank you very much.

Mr. Keddy.

Mr. Gerald Keddy: Thank you, Mr. Chairman.

Welcome to our witnesses. It's an interesting discussion.

I think we all recognize the opportunity that's here before us to finish these and have successful final negotiations on our comprehensive economic and trade agreement with the European Union.

Mr. McIver, you had listed off four issues. I'll come back to supply management. We may be in a slight disagreement on that. I think there are four significant areas that are important to this agreement.

On procurement, the provinces and the municipalities have come to the table, so we do have some national procurement here.

On copyright and IP, we just put a new copyright bill through. It's going through the House. And we were behind; we recognize that. This is something we tried to get through the House before and were unable to. I think there's a general recognition from our side that we needed to improve IP and that there are direct results and benefit from that.

On your comments on IP with China and India, I agree, but I think they'll drive their own intellectual property marketplace, if you will. As the Indian and Chinese marketplaces have become more advanced, the whole question of IP becomes more important, because they need to own their own technology. I think that will drive it more than any other single thing. They'll want patent protection, because they aren't just using somebody else's technology now, they're using their own technology. That will work on its own.

The labour certification, we recognize that. The European Union recognizes that. I think the biggest change in that particular issue is that the labour unions have finally come to recognize it. They're much less protectionist, because they're losing their membership and they absolutely have to have certified people within the unions. We have to get more and better tradesmen across Canada. I think that's the only thing I'd add to those.

But I have to say, on supply management, the concept—which I haven't heard either one of you say—that farmers are paid a fair and reasonable price for their product.... The supply-managed sector in Canada is the only sector of agriculture that's not subsidized in any way, shape, or form. You can say that because they have a quota system, the marketplace is subsidized. I beg to differ. It costs so many pennies to produce a litre of milk. They get a small profit on top of those pennies, and that's how the system works. It worked well in those specific areas for those specific farmers.

• (1235)

The Chair: Do you have a question?

Mr. Gerald Keddy: I'm coming to that, Mr. Chair.

My question is, what's wrong with that concept?

The Chair: There's a good question.

Mr. Don McIver: I think the answer is that unfortunately, the areas in which we have supply management are the types of staple consumption goods that, if you want to talk family values.... I'm not trying to be dramatic here. Young families attempting to bring up young children are paying—I don't know what the price is now—a couple of dollars more a gallon—

Mr. Daniel Schwanen: [*Inaudible—Editor*].

Mr. Don McIver: No, but I'm saying compared to the U.S., it's substantial. I appreciate the counter-argument—and I've heard it before—that the Americans have substantial subsidies built into their production. Ours is built into the marketplace. I don't like subsidies under any circumstance. That's the type of economist I am.

Mr. Gerald Keddy: I beg to disagree. You can't say that getting a fair price.... The Americans' price of milk is 60 cents a litre cheaper, within pennies. Yes, that's a lot of money. But the American government and the American taxpayers are paying the difference.

The principle of agriculture—and this needs to be worldwide—is that farmers have to be able to get the cost of production. If we were

shipping that product, it would be anti-dumping, internationally—you could literally bring anti-dumping charges against any country shipping food cheaper than they can produce it. All we're doing here is saying that farmers have to be able to make a living, and that means the consumer pays what the product is actually worth.

The Chair: Mr. Schwanen.

Mr. Daniel Schwanen: Milk prices are higher than they would otherwise be without this system by a very large amount, and certainly—

Mr. Gerald Keddy: With respect, where do you get those numbers from?

Mr. Daniel Schwanen: Simply from the import prices that prevail in other countries.

Mr. Gerald Keddy: I'll just interrupt you for a second.

If you look at Australia and New Zealand, New Zealand is a great producer, no question. They have a competitive advantage over us that they have great weather, and they don't have to put their cows inside in the wintertime. They're the best producers in the world.

We recognize that and we're envious of that, but that doesn't mean that you open your market up to them overnight.

Mr. Daniel Schwanen: No, I didn't say overnight. What I said is that consumers as well as producers that use supply-managed products—which we are driving out of the country because of this, preventing them from creating jobs—are paying more than they would, by a large margin, than if we had a more open trade system. The current system also prevents new entry by younger people into the business because the quotas are so expensive.

Mr. Gerald Keddy: No. New entries go into the supply-managed sector all the time, generally in family farms.

The Chair: The time has gone for a question.

Mr. Daniel Schwanen: Let's just say that there ought to be a less trade-restrictive way and a more consumer-friendly and user-friendly way of supporting our dairy farms and other supply products.

• (1240)

The Chair: Time has gone.

Mr. Easter, do you want to pick this up?

Hon. Wayne Easter: I will pick this up, Mr. Chair. There are some other questions I have as well.

I will say, Mr. McIver, I don't appreciate one bit—because I am a past dairy farmer—that you are leaving the impression that dairy farmers are out there with a few head of cattle and the iconic life. Have you ever been on a dairy farm?

Mr. Don McIver: Yes. I've never lived on one.

Hon. Wayne Easter: At 5:30 in the morning, 365 days a year, up at 2 o'clock in the morning looking after a cow.... I mean, look, you can attack the supply management system, but for Christ's sake, don't attack us as individuals in terms of—

The Chair: Order, order.

Hon. Wayne Easter: Look, I don't appreciate it a bit, Mr. Chair, because from some of these think tanks we are just getting too much rhetoric on supply management and misinformation.

The Chair: My argument is not that. In fact I agree with you. The issue is in how you display the question. Use parliamentary language, please.

Hon. Wayne Easter: That's okay. I come from a farm, Mr. Chair.

The Chair: So do I, Mr. Easter.

Hon. Wayne Easter: In any event, in terms of both the C.D. Howe Institute and AIMS, where would you say the gouging of the public is higher—in the dairy industry, or in the oil industry?

In the dairy industry the most efficient producers are losing money all the time at the bottom end, and it's based on cost of production. Oil gets up to \$100, and I think that's \$80 over the cost of production in some countries.

How about in the potash industry? At the agriculture committee we learned that it is an administrative supply system, where they try to short the system on potash in order to make greater profits.

So why in these other areas...? Why is it always supply management? How come these other areas are never talked about in terms of gouging the public?

Mr. Don McIver: Let me have a crack, and I'm sure Daniel would like to get in there as well on this one.

I'm not suggesting that there's gouging going on. All I am suggesting is that in the agricultural supply management side there is a built-in inefficiency. The example that I use, and I've seen talked about elsewhere, of Australia and New Zealand overcoming these issues and having a much more productive and profitable agricultural industry... As you say, the bottom line—

Hon. Wayne Easter: Mr. McIver, I think you'd better double-check your figures. In Canada, because of the security, our Holstein breed is the one everybody around the world wants. Because we've had the security of an income from the sale of milk, we've been able to put money into the genetics to build the herd.

We produce more per cow. In fact, I think you should go back to look at your New Zealand numbers, because we were looking at them yesterday on another issue. Production has gone down per cow in New Zealand in the last few years. They're a grass-fed industry versus a grain-fed industry. Gerald is right that they are the most efficient in the world in terms of milk per acre, where we are most efficient in milk per cow. We can argue that all day, I guess.

But I would just ask you to look at some of these other industries, maybe raise some issues there, and really look at the facts surrounding the supply management industry in Canada. The fact of the matter—as Bev said to me a moment ago—is we allow more chicken into our Canadian market than the Americans allow into their market. That's the reality, but everybody thinks we have put this wall up. We've been accommodating as an industry. So I'm just saying to look at those facts.

There's a question I want to get to on CETA.

Daniel, you said that a fair bit would mean more competition on intellectual property. I think this is something we're all questioning. The generic pharmaceutical industry says it will cost \$2.6 billion more for our health care system as a result. I quite honestly think their numbers are a little high. The pharmaceutical industry says the

increased investment for greater IP will mean more research, better drugs, and cheaper drugs eventually.

Where are you in that area? Do you have anything you can provide to us? Is there any worry about sovereignty on some of these competitive issues?

• (1245)

Mr. Daniel Schwanen: On intellectual property, I have the same type of answer I provided on supply management. We just need more intelligent tools to deal with some of the issues, and we have access to those tools.

Governments in Canada have an overriding interest in making sure that when drugs are available they're available at a price that encourages drugs to be made available in the long run. That requires innovators and people to have good protection for their patents. It also makes sure that governments use their purchasing power to ensure that drugs needed for public health are available.

We also provide a number of R and D tax credits to people who perform research here. To me that means Canadians have a public interest in the results of that research to make sure research doesn't get held up and that it gets disseminated. So there is inevitably a trade-off between the two.

But I'm not quite sure, for example, that we are intervening in the market for patents the way we should. In other words, why does government not have a proprietary interest in these patents?

In short, like Don, I think we need to bring our standards to an international level. But there are other tools—whether it's intervening in the patent market or through competition policy—to make sure the product gets to the consumer at the appropriate price so there is no price-gouging.

The Chair: Thank you very much.

Mr. Hiebert.

Mr. Russ Hiebert (South Surrey—White Rock—Cloverdale, CPC): Thank you.

I'm going to follow up with questions on both these recent topics, intellectual property and supply management, more so on the latter. I also wanted to give you a greater opportunity to respond to one of the comments that was made by my colleague and also by the member from the Liberal Party, and that is why would we want to put our Canadian producers at a systemic disadvantage?

If it's true that the U.S. subsidizes their supply-managed or their agricultural industries behind the scenes, and if it's also true, as we know, that the New Zealand and Australian farmers work in a very different environment—they have a climate advantage, they don't have to keep their cows inside, they can grass feed them—that being the case, why would we want to put Canadian farmers at both of those disadvantages? What's the benefit? Sixty cents a litre—is it worth it?

Mr. Daniel Schwanen: It's worth it for me. I have a nine-year-old. I love milk. I love cheese. I buy lots of eggs.

Mr. Russ Hiebert: But if it means the end of the industry...

Mr. Daniel Schwanen: No, it does not mean the end of the industry. When we opened our wine industry to competition from the U.S. under NAFTA, everybody was predicting the end of the industry. It's flourishing in Ontario and B.C. It doesn't need to mean that at all. If we have competitive disadvantages of the kind Mr. Easter mentioned with respect to fuel, potash, climate, needing barns when others don't, let's address those more specifically but not protect against competition, especially when opening up to competition would mean that consumers and users would tend to be forgotten in these discussions. They would pay a significantly lower price, which for some people means a lot.

I see advertisements from the milk producers saying milk is such a healthy thing. It is. I love it. Why keep the price artificially high? That's my question. As has been mentioned, other countries are using other ways of supporting farms that seem to be more acceptable to their trading partners.

• (1250)

Mr. Don McIver: What I would like to come back to are the economic fundamentals of the whole issue. I do not like any type of distortion built into any product market, whether or not the oil market or the potash market is distorted. As a free-market economist, I don't like that. I would prefer to have a level playing field across the board.

That may raise the suggestion that I'm somewhat naive in the real world, because our trade competitors are actively engaged in destructive practices and have been for a long time, but that's what these negotiations are about. Not just these negotiations, all trade negotiations are about trying to get free trade, which has never existed, but that's the objective, to eliminate these distortions and try to have a level playing field. If it turns out that the Australians have a fantastic advantage in terms of producing cheese, is there any reason why we cannot use our tremendous advantage, perhaps in higher education and R and D, and concentrate on those areas and trade those to the Australians and import cheese? We'll be better off.

I don't want to leave the impression that I am ignorant of a lot of the distortions that are out there in our trading environment. I'm just in favour of finding the way. That's why I said for me it's not about the free trade agreement, it's about what's good for Canadians.

Mr. Russ Hiebert: In the paper you submitted, Mr. McIver, you covered four areas, as you did in your discussion, and I think some are worth repeating. You said government procurement saved European nations at least 30%. That's substantial. That's a huge saving. In terms of labour certification, I haven't heard a lot of opposition to providing opportunities for labour mobility and recognition of professional credentials, because you're right, we do have a declining population and we need access to those bright minds. We've covered supply management.

The only one left is the IP regulations. You make the statement in your paper that unless Canada endorses and adopts broad intellectual standards of property protection, a lot of bad things are going to happen. What are those broad intellectual standards of property protection you're referring to?

Mr. Don McIver: I'm not professing to be an expert in patent law by any stretch, but some of the areas that have been brought to my attention are on the pharmaceutical side. For example, one area is

how long you're able to keep information proprietary that you, as a producer, generated to support your patent case, instead of having others simply walk in and use the evidence that you've shown, with respect to the efficacy of your product, to prove the efficaciousness of their product.

One of the other things that comes to mind is, again, in the pharmaceuticals, where you have such a lengthy process of testing by regulatory agencies before a product is actually allowed on the market. The patent protection period needs to encompass when the clock needs to start.

Mr. Russ Hiebert: That's the issue, absolutely.

The question is, do we simply mirror the standards elsewhere? Is that what you're suggesting?

Mr. Schwanen, do you want to comment on this?

Mr. Daniel Schwanen: Yes, I think we need to bring those kinds of timing issues up to international standards.

But what I was trying to say is that we want the effects of this to be mitigated by other tools we could use to make sure. For example, I know everybody is thinking about pharmaceuticals, but too much patenting is not necessarily a good thing either. If you create patent tickets, people can't innovate because they're infringing on somebody else's innovation. We could play with that, as the U.S. has done in their recent patent reform, for example, to make sure we don't use a patenting system to prevent other people from using your own innovation down the road as the basis for something else. So those are the kinds of tools....

We can also look at the limit and at using competition tools to make sure products can get to the market efficiently once they're past the competition, so that you don't use your patent in an anti-competition way by preventing others from using your innovation and spreading it to the market.

• (1255)

The Chair: Thank you very much.

We're finished our first round of questioning and we're going into the second round. We have two questioners and I'll ask each of them to take a couple of minutes. But I'm going to use a chair prerogative right now and just ask the witnesses to expand on some of their testimony.

You came to this committee suggesting supply management... You may have rattled us a little bit, in the sense that you have a number of dairy farmers or farmers around the table.

We've talked a lot about Australia and the United States, but we haven't focused in on Europe. I find it strange that in your testimony you've attacked supply management in Canada, yet you have not attacked supply management in Europe or the agricultural subsidy in Europe. If you could eliminate all of those, then I think you'd get a much softer response to playing on a level playing field. But I find it striking as to why you never addressed that when we're talking about CETA.

Mr. Daniel Schwanen: I think I'm going to have an easier time than Don will.

Some hon. members: Oh, oh!

Mr. Daniel Schwanen: Because in fact I didn't mention supply management. I said that imports were good, and that does apply to the milk—

The Chair: If they're not subsidized.

Mr. Daniel Schwanen: I said there just happened to be a lot of questions about supply management.

Just to be clear, in the fuller paper, of course I'm saying that Canada should get something in terms of market access, whether it's for fish, beef, or other products, in exchange for anything we might give—which, in my view, at the moment would be only marginal. I did say I think these issues are coming down the pipe internationally, on even bigger files than that of the EU, and that it would be a good time to start thinking about alternative strategies to promote and support the people who are currently under the system.

The Chair: Okay. In fairness, I'll let you stew on that question for a bit.

I'll leave two minutes for Mr. Côté, then two minutes for Mr. Shory, and we'll wrap it up.

Go ahead.

[*Translation*]

Mr. Raymond Côté: Thank you, Mr. Chair.

Gentlemen, I am going to dive right in, with no preparation.

Canada's trade balance has been getting worse for years. It doesn't look like any free trade agreement is improving that situation. We could even ask ourselves whether they are helping to make the trade balance worse.

Recently, Mr. Myers, the president of Canadian Manufacturers and Exporters, told me, in terms of trade with Europe, that a lot of trade was going to be done between branches of the same company.

I will grant you that we hear a whole lot of generalities, for example that the eventual benefits of a free trade agreement will possibly be in the order of \$1000 for each family in Canada. That really is a simplistic view. It's the same as dumping ten loads of topsoil at my house. I am just interested in the final result; I don't want to know what the wind and the rain will do to the topsoil.

Can you tell me which groups in Canadian society are going to benefit the most from a free trade agreement between Canada and Europe?

Surprise me, gentlemen.

[*English*]

Mr. Don McIver: Maybe I can shoot at that one.

If you get a chance to look at the paper, I think you will see that I stress that I understand that the European-Canadian trade agreement is essentially small potatoes. Any of the numbers we look at say that less than 1% of Canadian GDP is what an agreement would be

worth. We don't know, because we don't know what the agreement is. But that is a one-off thing. It is not 1% per year; it is one-off once implemented.

It is small. It is the illustration value that is more important than anything else. It is important for us to be clear that we're working with the Europeans and with the Americans and use that as a means of getting to the next level, which is the Asian.

• (1300)

The Chair: I believe that the study done by the department said it was \$12 billion per year, if I'm not mistaken.

Mr. Don McIver: That is one time. That builds up.

The Chair: It's not per year.

Mr. Don McIver: It's not incremental.

The Chair: Mr. Shory, go ahead.

Mr. Devinder Shory (Calgary Northeast, CPC): Thank you, Mr. Chair.

Thank you to the witnesses for coming here.

You can see totally different visions on both sides. In the last testimony the Council of Canadians and the NDP teamed up, basically. They went so far as to say that this trade agreement is stupid, when we know from the research that there will be 80,000 jobs created. There will be \$12 billion in increased trade. I don't see anything stupid in job creation for Canadians.

Let me go to you, Mr. McIver. In one portion of your presentation you talked about the recognition of foreign education and certification. That is very near and dear to my heart. Of course I agree with you. You recognized the labour shortage. You recognized the labour mobility issue and all of that.

Quickly, because the chair will not give me enough time, I'd like you to comment on the opportunities CETA will provide, for example, for labour mobility.

Mr. Don McIver: As I suggested in my comments, I don't think there is a lot of benefit that comes through CETA for this, because we are already making efforts within the country to address it. In fact, the advances we've made in certification basically have pre-empted CETA. As I understand it, what they wanted we already have decided to give, and not because we are negotiating with them. As I've tried to say throughout, we did it because it's in our own self-interest, which is exactly to your point.

The Chair: Thank you very much.

Thank you for coming in. You've created some interesting stimulus over the last hour, and we appreciate your testimony and your time here before the committee. Thank you very much for coming.

With that, the meeting is adjourned.

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