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## **Standing Committee on International Trade**

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**EVIDENCE**

**Tuesday, October 23, 2012**

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**Chair**

**The Honourable Rob Merrifield**



## Standing Committee on International Trade

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• (1535)

[English]

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

We're continuing our study with regard to a comprehensive and high-level economic partnership agreement with Japan. We're looking forward to being in Japan next week as a committee.

Today, we have three witnesses with us in the first hour and three in the second.

The first witnesses we have today are: from the Canadian Vintners Association, Dan Paszkowski; and Lyne Noiseux, president of Posiflex Design Inc. Thank you for coming.

By video conference we have Aaron Moore from Brian Moore Log Homes. We're trying to make the connection with Aaron and expect that will happen very soon.

We'll start with the presentations. Aaron will be our third presenter so, hopefully, the connection will take place before we get to him.

With that, Dan, the floor is yours.

**Mr. Dan Paszkowski (President and Chief Executive Officer, Canadian Vintners Association):** Thank you very much, Mr. Chair, and good afternoon.

As the president of the Canadian Vintners Association, better known as the CVA, I'd like to thank all members for this opportunity to provide our industry's perspectives on the proposed Canada-Japan free trade agreement.

The CVA is the national voice of the Canadian wine industry, representing wine companies accounting for more than 90% of the wine produced and sold across Canada. Wine is increasingly becoming the beverage of choice in Canada and presently accounts for 30% of the beverage alcohol market, up from 18% only 20 years ago. Today the Canadian wine industry represents 11,500 direct jobs, 1,000 independent grape growers, 450 wineries, \$2 billion in domestic liquor board sales, and \$28 million in export wine sales.

Japan is the most developed and competitive wine market in Asia. In 2011, Japan imported 145 million litres of wine valued at \$878 million, a growth rate of 14% over the previous year. Japanese wine imports have increased by roughly 16% in the five-year period 2006 to 2010, and are predicted to grow by a further 18% between 2011 and 2015.

Japan is Canada's eighth largest export market for wine. A free trade agreement with Japan would benefit the Canadian wine

industry if tariffs are eliminated, internationally accepted wine-making practices are recognized, and genuine Canadian icewine and geographical indications are protected from the growth in counterfeit products.

Canadian wine exports to Japan by sales value are as follows: icewine, 59%; table wine, 24%; and sparkling wine, 17%. By export region, Ontario represents 75%, British Columbia represents 18%, and Quebec represents roughly 7%.

Removal of Japan's tariff and non-tariff barriers would benefit Canadian wineries and the growth of wine exports. The import tariff on wine is a 15% ad valorem with a maximum of \$1.57 Canadian per litre, whichever is less, and a minimum customs duty of 84¢ per litre. Sparkling wines are subject to a tariff of \$2.28 Canadian per litre.

Given the differential tariffs in place, Canadian wines can face higher tariffs than wine imported from other countries. For example, Chile is a principal competitor for Canada on the world wine market, but has successfully negotiated the elimination of its wine tariff under its free trade agreement with Japan. With a lower, phasing-out tariff rate, Chilean wine imports into Japan have increased significantly since 2007, capturing a greater market share. There has been a 23% compound annual growth rate since the signing of the free trade agreement with the Chileans. A free trade agreement with Japan must include the phasing out of wine import tariffs.

Japan's regulatory system for oenological practices, including additives and processes, can be difficult to navigate and can represent a costly barrier to trade. To address this concern, Canada is an active participant in the APEC Wine Regulatory Forum to help promote regulatory alignment in the Asia-Pacific region, to help remove costly, unnecessary, and burdensome regulatory obstacles with respect to oenological practices, definition and/or description of products, labelling requirements, and methods for analyzing, assessing or certifying wine products. Mutual recognition of oenological practices and processes and product specifications, as well as a process to address new practices or modifications to winemaking practices, should be part of the Canada-Japan FTA.

Icewine is Canada's flagship wine product. It has garnered global recognition and prestigious international awards. It has helped build Canada's reputation as a wine-producing country, supported the growth of our world-class table and sparkling wines, and helped develop our burgeoning wine country tourism industry.

As with many successful products, genuine Canadian icewine and our legitimate wine businesses have been harmed by the proliferation of counterfeiting on a global scale. Adequate protection and enforcement is a key condition for nurturing the success of Canada's icewine industry. To protect Canadian interests and to assist Japanese authorities in protecting their consumers from counterfeit products, it is essential that icewine be defined in the free trade agreement with Japan as "wine made from grapes naturally frozen on the vine". This would parallel Canada's commitments under the Canada-European Community Wine and Spirits Agreement and the World Wine Trade Group labelling agreement. It would also be in line with the commitment of both Canada and Japan to the Anti-Counterfeiting Trade Agreement to enhance international cooperation and support effective international standards.

Finally, all wine-producing countries strive to protect names that identify wine as originating in a territory where a quality reputation or other characteristic is attributable to its geographical indication, for example, appellation regions such as Prince Edward County, Niagara, the Okanagan Valley, or sub-appellation regions such as Niagara-on-the-Lake, or the Gaspereau Valley in Nova Scotia.

These geographical indications for wine should be protected in the Canada-Japan agreement. Further, these geographical indications should not be allowed to describe or present a wine not originating in Canada, whether or not it is accompanied by expressions such as "kind", "style", "type", "imitation", or the like, to safeguard the distinctiveness and reputation of our wines.

Thank you. I'd be more than happy to answer any questions.

**The Chair:** Thank you very much.

Before we go to Aaron Moore....

Aaron, can you hear us all right?

**Mr. Aaron Moore (Owner, Brian Moore Log Homes):** Yes.

**The Chair:** That's fine. We have one presenter before you, but I just wanted to introduce you to the committee, and I wanted to check your sound system. Everything sounds good, so we will now move to Posiflex Design Inc.

Lyne, the floor is yours.

• (1540)

**Mr. Sébastien Tardif (Vice-President, Sales and Marketing, Posiflex Design Inc.):** Good afternoon, everybody, and thank you very much.

I'm Sébastien Tardif with Posiflex Design. I will speak on behalf of Lyne.

**The Chair:** Please go ahead. I wasn't sure exactly who was presenting.

**Mr. Sébastien Tardif:** I was hiding behind the counter.

**The Chair:** The floor is yours.

**Mr. Sébastien Tardif:** Thank you very much. I'll try to give you a quick picture.

Posiflex Design is a company that works to create innovative and ergonomic solutions to help workers in many fields. Our experience

in the past couple of years has been directed toward the dental industry, from where the initial demand was sent to us.

Literally billions of dollars are spent every year with respect to musculoskeletal disorder prevention or problems. A lot of money is spent in order to replace or train people. A lot of people have either stopped production or stopped working.

Ms. Noiseux is the designer of all the products that we have on the market. All of the products that we create come from and follow up on ergonomic studies that were performed. Specifically, our flagship product, the first product we put on the market, which is called the free-motion elbow support, came from a study that was requested by the health and safety association.

It was directed to dental people, because they realized that they had a lot of claims from these particular people in the workforce and also realized that most of the problems were created by the upper body not being supported. They contacted Ms. Noiseux and asked her to create a solution. The elbow support, which we have here, was created. I invite you to check it out later, after the presentation. Clinical studies with electromyography followed to demonstrate and prove without a doubt that using this technology would help eliminate or alleviate any problems people may have.

That said, we've also realized that the elbow supports that were created were also very useful for other people in other markets or other types of work, such as cardiologists, who use this when they do ECGs. There are also people working in artwork restoration who use this. Lately, we also have a lot of people using it in medical labs. These people spend their days working with their upper body unsupported.

It has allowed us to provide a solution for a lot of people. Some people have been able to return to work, and also, for a large majority, injuries can be prevented with this.

Along with that, for about a year now, we've been using a new technology that was developed with a partner and also with the CNRC in Boucherville, in Montreal. We call it skin foam technology. It's a very neat and unique urethane that we actually build the product with now, which marries to or allows for all of the body forms.

With this, we can actually build chairs. This technology allows us to go into sectors such as those where disinfectants are used, because it is totally resistant to all fluids and all disinfectants. We can make any shape or form with it. It does open up a lot of opportunities for people who want to do things that look different or for a certain sector.

One of the things we like to do and work very hard at is to take this knowledge, this technology which was invented here, and export it elsewhere. That said, we are now exporting some of the products, very modestly, but we have started now in France. We have users in different parts of the world. In Taiwan, there are some dentists who went back to work soon after shoulder surgery, as they could use the elbow support to help them do their work. This is the type of product that our company has developed.

We are local—

**Mr. Ed Holder (London West, CPC):** Mr. Chair, I would never ever show disrespect to our guests, but in the spirit of trying to ensure that we ask questions relating to our discussion on Japan, I wonder if I could direct, through you, the parts that could relate to this. I'm not sure where this is going, where I can ask sincere questions about Japan.

**The Chair:** Let's see where he goes.

Go ahead.

**Mr. Sébastien Tardif:** Okay.

We've seen there is a large number of possible users of this technology in the Japanese market. There are over 200,000 potential users, but there are also large corporations that manufacture. They do precision work. They could use this type of product or this technology in their factories. Some of them also manufacture equipment, so they could use it in their own factory or include it with their equipment and sell it to the end user in different markets.

I'm not sure if that has helped to go toward the direction with Japan. There are different companies that have a large capacity for using this product as well as for offering it to their clients throughout the world and encouraging them to use this technology.

• (1545)

**The Chair:** Thank you very much. I'm sure it will stimulate some questions as we move forward.

Before we get into that, we have, from Brian Moore Log Homes, Aaron Moore, owner.

Aaron, the floor is yours.

**Mr. Aaron Moore:** Thank you.

How many minutes do I have?

**The Chair:** Five minutes. I won't cut you off if you go to six, but I will if you go to seven.

**Mr. Aaron Moore:** All right, I'll try my best.

I'd like to thank the committee for getting our opinion on trade with Japan. I'm here representing two groups, one is Brian Moore Log Homes, of which I'm a part owner. It's a father and son business. We have 15 employees. Three of them are Japanese and they've been able to assist us in our export to contractors in Japan.

I also happen to be the president of the BC Log and Timber Building Industry Association. Our industry in British Columbia has about 120 producers of log and timber frame homes. We are one of them, and many of our members are exporting products to Japan. It's been a very active market for us for about the last 20 years.

In Japan approximately 2,500 log homes are built every year. British Columbia claims a significant share of that, so we see it as a very important market for us. It provides good economic diversification. I know many companies that export to Japan, and considering what has happened in the U.S. recently, it has been nice to have other sources of revenue. We also think there's an increased opportunity to rebuild housing, unfortunately due to the tsunami.

There are a couple of technical barriers to trade that I want to make you guys aware of.

Currently our clients are paying a 3% to 6% tariff on our products. They can avoid the tax if they bundle it into a kit home, which would include doors and windows and roofing materials. Most of the time our clients are not able to do that. They're contractors, so they're packaging materials in Japan as part of their value to their customers.

Right now we're being penalized. I think it's somewhat unfair, because we're providing a high-value product to our customers. There are some substitutes in Japan. They make log homes out of cedar called hinoki there, but it's a very small log. It also doesn't have the same insulating values. We're offering a premium product. I don't see it being a huge competitor to us.

Something else I'm concerned about in the Japanese market is that we end up with some of the regulations that the European Union has right now. I like the status quo that we have for the declaration process in Japan. If Japan were to follow the European road, we would have issues. Something we have to do in Europe is phyto certification; we have to have the Canadian Food Inspection Agency look at every product we export.

Another regulation that will be coming on line in the EU is the European Union timber regulation. It will come into effect in July 2013. They're going to be asking Canadian exporters to declare that we're using legally harvested trees. That's definitely the case in British Columbia. That's definitely the case in Canada. Although it's just another regulation, it's another impediment to trade, and we would like to avoid that happening in Japan.

The last thing is I want to make sure we don't see any more permit regulations in Japan. Their building code is very favourable to us right now. They've adopted stick-frame construction techniques. There's no reason that we are not able to comply; however, in Europe, the CE markings they require are an impediment to trade for kit home manufacturers. Kit home manufacturers are not log home manufacturers. However, we're very concerned that our industry could be targeted next.

• (1550)

In summary, as part of any trade negotiation with Japan, we would certainly like to see a reduction in the tariffs to zero. The other point is that we really like the regulatory status quo right now, as far as the paperwork required and any kind of manufacturing standards they require are concerned.

**The Chair:** Thank you very much.

You hit bang on five minutes. Congratulations.

We'll start with our questioners.

Madame Papillon, the floor is yours.

[*Translation*]

**Ms. Annick Papillon (Québec, NDP):** Thank you, Mr. Chair. I also want to thank our witnesses today.

First of all, I have some questions for Mr. Moore about the forest industry. I saw on your website that you were the first log home builder in British Columbia to receive FSC certification.

Could you tell us whether that certificate is popular in your sector across Canada? In fact, I believe that is a very important feature for the Japanese, is it not?

[English]

**Mr. Aaron Moore:** I'm not sure I understand the question. Yes, it is true that we were the first log home builder in British Columbia and in Canada to receive FSC certification.

I missed the last part of your question.

**Ms. Annick Papillon:** Would you say that this certification is quite popular in your area? I think it is a very important, key element for the Japanese, is it not?

**Mr. Aaron Moore:** We hope so.

We're an early adopter of the FSC standards in British Columbia.

Right now, there's a barrier to adoption with FSC. If you're going to participate in the program, the audit review process is expensive. If you go it alone, you're paying about \$5,000 every year for audits. We've done it under a group called Ecotrust, which is a non-profit organization. Their fee for us to participate is \$1,500 a year. They do group audits.

We have found a way to make it affordable, although we are struggling with trying to find demand for it. We've done a couple of FSC homes with clients. It's something that we have had to advocate for. In both cases they weren't willing to pay the full premium for the products, so we ate part of the expense of providing them logs out of an FSC forest.

I know there's some general awareness about it, but it doesn't seem to be a decision criterion yet.

[Translation]

**Ms. Annick Papillon:** You are among those who have told us they find the current regulatory scheme suitable. So you hope the status quo continues as far as regulations go.

But haven't you had any problems? We've had developers tell us they could not get the right answers about the regulations from Canadian services.

Have you ever used the services of Canadian government trade commissioners?

• (1555)

[English]

**Mr. Aaron Moore:** We use a number of industry resources to help us comply with trade regulations. The wood sector here in British Columbia has a pretty good resource base. When it comes to the European Union, Forintek has been very helpful in our addressing of the new energy codes. All Forest Solutions is another organization that has helped us understand some of the regulatory issues that are coming down the pipeline in Europe.

So far there really hasn't been anything in the Japanese market that we're concerned about. Our concern is that any time a large market adopts new standards, other companies tend to follow.

[Translation]

**Ms. Annick Papillon:** Thank you for that clarification.

I would also think we should highlight the fact that a law was introduced in May 2010 to promote wood usage in public buildings. I assume the law applies to your business as well. How has it affected your industry? Is the infrastructure there to meet that requirement?

[English]

**Mr. Aaron Moore:** Could you clarify what infrastructure could be defined as?

[Translation]

**Ms. Annick Papillon:** Japan's implementation of this law is another factor that could increase the Japanese demand for wood and Canadian wood products. What I would like to know is whether the capacity exists to address that reality given the increasing demand for wood.

[English]

**Mr. Aaron Moore:** I'm not sure I'm able to answer the question.

**The Chair:** Is your question whether there is no product or whether there is enough infrastructure to move the product?

[Translation]

**Ms. Annick Papillon:** I am referring more to what we have in place to promote that measure. At the end of the day, are we able to handle the requirement?

[English]

**Mr. Aaron Moore:** Okay.

Yes, we are. As far as our product is concerned, which is log homes, I'm happy with the infrastructure that we have in place.

[Translation]

**Ms. Annick Papillon:** Very good. Thank you.

[English]

**The Chair:** There are 15 seconds left; that's the problem I have. We'll have to see whether there is another round.

We'll now move to Mr. Cannan.

**Hon. Ron Cannan (Kelowna—Lake Country, CPC):** Thank you, Mr. Chair, and thank you to our witnesses. I appreciate your insight.

You may be aware that some of the committee members will be heading to Japan on the weekend to meet in Tokyo and Osaka with different government officials and industry. In one segment of the round table, Mr. Moore, we'll be meeting with forestry officials.

I want to get a better perspective. I come from British Columbia and represent Kelowna—Lake Country in the Okanagan Valley. The provincial minister of forests is actually from that riding as well. A very important economic generator for the west coast is the forest industry.

Which countries are Canada's main competitors as log home builders in Japan?

**Mr. Aaron Moore:** Are you asking me the question?

**Hon. Ron Cannan:** Yes. Which countries are Canada's main competitors in the log home builders' market in Japan?

**Mr. Aaron Moore:** There are some American companies that do export, but by far the two major competitors are Russian companies, and also manufacturers from Scandinavian countries, Finland primarily, but also Sweden.

**Hon. Ron Cannan:** Do they have a preferential tariff treatment?

**Mr. Aaron Moore:** I don't think Russian companies do. Actually, I'm not sure.

• (1600)

**Hon. Ron Cannan:** You would just like to eliminate the 3% to 6%, but you're not sure whether this is competitive with your competitor countries, whether we're in the ballpark.

**Mr. Aaron Moore:** I don't know. It's a good question.

**Hon. Ron Cannan:** Okay.

As I come from the Okanagan Valley, I'll go on to another great economic generator for British Columbia, the wine industry.

Thanks for being here, Mr. Paszkowski, from the Canadian Vintners Association. I have a couple of questions.

You commented on the issue of counterfeiting. You have a definition in your presentation where icewine is concerned. Has it been agreed upon by all the members of the Canadian Vintners Association?

**Mr. Dan Paszkowski:** Yes, it's a matter that I sense is supported by all the members of the Canadian Vintners Association. As I mentioned, it's included within two trade agreements that Canada is a party to.

**Hon. Ron Cannan:** My understanding is that some were taking grapes and freezing them and putting them in a freezer, and others were taking grapes off the vine and freezing them off the vine and trying to sell the product as icewine as well. Is that correct?

**Mr. Dan Paszkowski:** That's right. There's a unique practice in Quebec whereby they pick the grapes before they get to the internationally accepted level of minus eight degrees, and then they hang them in nets in the vineyards and process them once the temperature reaches minus eight. That is not the internationally accepted definition of icewine in Canada or in countries around the world that produce icewine, or of the International Organisation of Vine and Wine.

**Hon. Ron Cannan:** Do you have any idea of the volume, either quantity or value, of how much Canadian producers lose because of counterfeit wine?

**Mr. Dan Paszkowski:** We don't have an estimate because we have difficulty estimating how much counterfeit wine is actually out there. There have been some estimates that as much as 50% of the icewine sold in China is actually counterfeit. This is one of the key reasons that we attempt, with every opportunity, to have icewine defined in international trade agreements. We attempted to do that in the Korea agreement; however, we didn't have a definition in Canada. We're trying to get it now into the Japan agreement. We're waiting for *Gazette* part I to come forward with the internationally accepted definition of icewine, hopefully within the next few days.

**Hon. Ron Cannan:** The other key issue for you, then, is phasing out the elimination of the import tariff.

**Mr. Dan Paszkowski:** That's right. It is a very large tariff that's in place, at 15% *ad valorem*. It does have a maximum in place of \$1.57, but if you think of a \$10 Canadian wine being sold in Japan with a tariff of \$1.50 and a \$500 bottle of Bordeaux being sold in Japan with a tariff of \$1.57, it creates some significant competitive disadvantages. In the Canadian circumstance, there were a number of key tariffs that were eliminated on wine in 2010, but our tariff rates range from 2.8¢ to 13¢ per litre, which are nowhere near the maximum tariffs that are in place in Japan.

**Hon. Ron Cannan:** One issue on non-trade barriers, maybe you could elaborate on what your concern is on Japan's accepting our wine-making practices to ensure there's compatibility in the countries. Maybe you could give a specific example of your concern.

**Mr. Dan Paszkowski:** Again, we attempt to do this with all major trade partners. We have done this with the Europeans. We have done it with the World Wine Trade Group. Canada, as do other countries, puts scientific rigour behind the approval of use of different additives, processing aids, different processes that we use that are internationally accepted. When we enter into agreements, our hopes are that those practices will be accepted into the exporting country.

Currently there are additives, such as copper sulphate, I believe, that are not approved for use in Japan. It has been a challenge for a number of countries to get that approval in place. That's one example of a whole list of additives that can be used, that could block the ability of your wine from entering into that particular marketplace, even though it has received positive approval by Health Canada and by a number of other scientific bodies.

What we're hoping for is that we accept their practices, they accept our practices, and the wine flows freely between the two countries.

• (1605)

**Hon. Ron Cannan:** It seems like a low-cost and reasonable request.

I'm just wondering, if we are able to successfully ensure that these non-trade barriers are in place and remove the tariffs, what would be the anticipated increase in volume the Canadian wine industry could expect from this economic cooperation agreement with Japan?

**Mr. Dan Paszkowski:** Currently our exports to Japan are relatively small. As I mentioned, they're our eighth largest trade partner. We're not a large exporter, but the market in Japan is becoming very, very interesting. You're looking at 86% of the Japanese population who drink wine regularly, at least once per month, and 64% of Japanese wine drinkers base their decision on price. Beyond price, they look at the countries and regions of origin. If we address the tariffs, we address the price. If we address geographical indications, we address their selection point.

With the growth in youth who have an interest in wine in Japan, we see it as an extremely interesting market. Right now it's more geared toward your typical Bordeaux old-world types of wine, but as the youth become more educated, as they are, they can become more liberal in terms of the types of wines they're willing to select. We believe that's a huge opportunity for Canadian wines.

**The Chair:** That's very good.

We'll now go to Mr. Easter. He'll be talking about potato wines.

**Hon. Wayne Easter (Malpeque, Lib.):** That's a good word; I like that: it's more liberal.

Anyway, Mr. Paszkowski, partly on the same point Ron raised, and something you mentioned several times in your paper, beyond the trade agreement itself is the counterfeit problem. I guess one of my pet peeves with the government on trade agreements is that they seem to be agreements on trade for trade's sake. I think we really need a strategy around agreements in other areas, whether it's eliminating counterfeit wines, whether it's adding value to manufacturing in Canada, whatever it might be, which in the end would make the trade agreement beneficial to Canadians.

Where do most of the counterfeit wines come from, specifically in terms of countries? You mentioned the icewine in Quebec. Where do they come from, and what can be done to counter that problem in other areas of policy, not necessarily trade?

**Mr. Dan Paszkowski:** The vast majority of the counterfeit products are coming from Asia. That's where we see them showing up in the marketplace. They aren't just showing up in the back streets of major metropolitan centres. They're showing up in high-level retail stores, in five-star hotels, and five-star restaurants. That adds additional supply to the marketplace, which puts a damper on the price of a unique product that can only be produced in very few parts of the world. Of greater concern is what is inside those bottles. Is it water mixed with sugar? Are there other chemicals added to that product?

In today's age of social media, if somebody got really sick or died from a product that was not icewine, but it was viewed as icewine, the media would have a significant negative impact on our ability to build our product back to where it is today. It's a serious concern from a health and safety perspective as well.

**Hon. Wayne Easter:** I understand the concern, but how do you deal with it either in a trade agreement or from a government perspective with, in this case, Japan, to try to lessen that problem of counterfeit wines? I think it is real. We hear that a lot.

**Mr. Dan Paszkowski:** Currently the difficulty we've had is not in the support from the international trade department and the post to try and identify these fake products in retail markets, and they tell us, and we test the products. There is no international definition in many countries. Canada, being a superpower in icewine, does not have a definition of icewine. We're almost there. We're waiting for the *Gazette* part I to come out, and then hopefully we'll have that in place.

Once we have that in place, we'll be able to negotiate that definition into multiple trade agreements. Once it's a regulated definition in Japan and Korea, etc., they'll have the enforcement powers to stop and destroy any products they identify that are not genuine icewine.

•(1610)

**Hon. Wayne Easter:** I want to come back to you in a minute if I have time.

Mr. Tardif, are you in the Japanese market now?

**Mr. Sébastien Tardif:** No, we're not.

**Hon. Wayne Easter:** You're not. Do you anticipate that, or are there barriers now to products getting in there that you would expect a trade agreement to eliminate?

**Mr. Sébastien Tardif:** Not for the moment. We have started to make contacts with some people in Japan, and there do not seem to be any so-called barriers as you may have with other people.

**Hon. Wayne Easter:** There are no tariffs that you're aware of.

**Mr. Sébastien Tardif:** There's no tariff because even though it's a unique device, it's considered to be furniture. It doesn't go in people's mouths, so it doesn't have to have the CE set-up, or a special set-up.

**Hon. Wayne Easter:** In terms of your original research or investigation into the Japanese market, are you satisfied with the assistance you're getting from whoever it may be, Foreign Affairs and International Trade Canada, or do you think there's more that has to be done in that area to give Canadian businesses the opportunity, one, to understand, and two, to get into the Japanese market, and three, to support them there?

**Mr. Sébastien Tardif:** We understand from experience that it may take long to get there, but with respect to everybody, sometimes it's even difficult to get people to realize there's an issue in Canada about musculoskeletal disorders, even though there's been a lot of dollars spent on it. On the aspect of your question directly, no, we have not encountered anything that prevents us from bringing this technology over there.

**Hon. Wayne Easter:** The last question I have relates to the non-tariff barriers on wine, as well the issue that Ron also touched on.

Can you give us an example of what those are and what has to be done in a trade discussion to make sure they don't remain a barrier?

**Mr. Dan Paszkowski:** As I mentioned, there's the opportunity for mutual acceptance of oenological practices so we don't need approval or certification, which would reduce the cost of selling wine into Japan. There's a long list of winemaking practices.

**Hon. Wayne Easter:** Is that an international standard that's agreed to by, say, other winemaking countries than Canada?

**Mr. Dan Paszkowski:** Yes. For example, we signed an agreement with Europe and with the World Wine Trade Group. We accept the practices that have been put in place. We accept the chemicals that are added in their winemaking process, based upon the sound scientific rigour that has been undertaken, and wine flows freely between the two countries, and they accept ours as well. In most cases, they're not identical but they're very close.

One of the issues that we have in Canada is that the approved list of additives and processing aids for use by winemakers in Canada is significantly lower than would be the case in Australia, New Zealand or South Africa. Even though all those wines are flowing into Canada, are being sold in Canada and we're consuming them, our winemakers can't use those tools in their tool box. A large part of that is because we're a small industry; we're a small organization. We don't have deep enough pockets to get some of these products approved in Canada. We're working on it but, hopefully, we'll be able to get some of those taken care of sooner rather than later. That's been one of the challenges. However, all of the additives and processing aids that are approved by other countries undergo scientific rigour to ensure that health and safety is protected.

**The Chair:** Thank you very much.

Mr. Keddy, seven minutes.

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

Mr. Paszkowski, it's nice to have you here again. We always enjoy bringing the wine industry to committee any chance we get. There will be samples later, right?

I'm a little surprised at the strength of the Japanese wine industry. It's a \$878 million—almost a \$1 billion—industry that is growing, 14% over the previous year. There's obviously a lot of potential.

I have some concerns over some of the issues you've raised. One of them is on additives vis-à-vis Canadian wine versus that of our competitors. However, I would argue, especially in the Japanese market, because it is a very demanding, very science-based marketplace, that it may actually be a competitive advantage to have fewer additives in Canadian wine that's destined for the Japanese market. Have you found that to be the case?

• (1615)

**Mr. Dan Paszkowski:** Currently, we do have fewer additives than the wine of any other country shipping into Japan, simply by virtue of the length of our list. I wouldn't view it as a competitive advantage to have fewer. Our winemakers simply have fewer tools in their toolkit to produce the wine. All of the additives that are included in any wine produced in the world are completely safe for human consumption.

**Mr. Gerald Keddy:** It's not the so-called organic label that's going to make a difference in the Japanese marketplace. The same wine that's coming out of Australia into Canada is the same wine coming out of Australia and going into Japan. Okay.

How close are we to actually gazetting the definition of icewine? It would seem to me that this needs to be in the early part of these negotiations so our trade representatives and our chief negotiator in particular can have an opportunity to, first of all, understand it, and second, make sure it's represented in these negotiations.

**Mr. Dan Paszkowski:** In January 2007, Canada signed a labelling agreement with the World Wine Trade Group. The deadline to ratify the labelling agreement for icewine is December 31 of this year. At this point, I don't think we're going to make that deadline. However, if we have the legislative process in place, we should be able to get that definition finalized in the early part of 2013, which would suffice for the World Wine Trade Group, I believe, and provide us

with the time required for negotiators to get this into the Canada-Japan agreement.

**Mr. Gerald Keddy:** I'd like to understand a little better the other issue concerning the wine industry, because we get representations on both sides of the geographical indicators. We have a number of cheese manufacturers, prosciutto manufacturers, and salami manufacturers in Canada making a product that their ancestors brought out of Europe 300 or 400 years ago. They're still making it the same way. That's a real trade obstacle for us with the European Union, yet here you are in the wine industry promoting this as a good thing for us worldwide for the wine industry.

**Mr. Dan Paszkowski:** In wine you have to look at things differently. When we signed the Canada-EU Wine and Spirits Agreement back in 2003, we had to give up the rights to a lot of terms, which the Europeans may call geographical indications, but we call them traditional terms.

For example, we can't use the term "champagne" any longer. At the end of 2013, we will no longer be able to use the terms "port" and "sherry". To us, those are traditional terms. I'm talking about geographical indications, the Gaspereau Valley, the Okanagan Valley, Niagara-on-the-Lake, St. David's Bench. These are appellation terms. They're geographically based. They define the value and the quality of the wine.

Just last week, after about four or five years of attempts, Napa Valley was finally accepted in China as a geographical indication, so no wines can be sold in China unless the wine originates from Napa Valley in California. That provided them with a huge benefit in terms of fighting counterfeit products.

Another example is that for the past five years, we have attempted to get VQA, the Vintners Quality Alliance, trademarked in Japan. When we put in the application five years ago, we found out that three Chinese nationals had also applied for the VQA trademark in hopes that if they won it, they'd be able to charge us, say, a dollar a bottle for every bottle of wine we sold in China. We fought them all down and five years later, we finally got the trademark approved.

It's those types of terms that people can use to support the sale of a product that isn't truly coming from the appellation region it's attempting to define. That's where we're coming from in terms of geographical indications; it's purely from the site-specific part of Canada.

• (1620)

**Mr. Gerald Keddy:** That's very interesting.

Do I have time for another question?

**The Chair:** You have time for one quick one.

**Mr. Gerald Keddy:** I will ask Mr. Moore one quick question.

The tradition of building with wood in Japan is very strong, as it is in Canada. The Canadian brand is very strong and welcome in Japan in just about every instance when I've been there. You say your competition is mainly coming out of Russia, Finland and some other Scandinavian countries, and the U.S. How serious is that competition, and is it based on price?

**Mr. Aaron Moore:** I would say that we're on equal footing with our Scandinavian counterparts. I know that those governments are more active in subsidizing some of their research and development costs. I'm unfamiliar with that, though. Russia is a problem. Russian manufacturers are ones that we have had problems with in the European market, as well as the Japanese market. Illegal logging is very common in Russia, unfortunately. The European Union is very active right now in trying to address that. I don't know where the Japanese are, but that's a real concern. I think there probably are some Chinese manufacturers exporting to Japan, but I don't know. I don't have any information on that, but Russia is certainly a concern of ours.

**The Chair:** Thank you very much. We have two questioners left in the second round. We'll split the time.

Go ahead, Mr. Morin.

**Mr. Marc-André Morin (Laurentides—Labelle, NDP):** Mr. Paszkowski, don't you think we have a challenge only in defining what icewine is? It's never been very scientific. It was invented by monks who were busy testing the previous year's wine and left the grapes to freeze. Then they decided to try to make wine with them. That was the first time icewine ever existed.

We have a complex reality with climate and climate change. In some areas, you have to adapt to climate conditions. We've got to be careful when finding the definition not to write off some producers. I know that between Quebec icewine producers and western producers, there's a little more than a discussion about that. We have to make sure we don't do that, because some producers from Nova Scotia or wherever else could be written off in the definition. That wouldn't help us because in the long run there's a huge potential for icewine in Japan. We have to make sure that we don't paint ourselves into a corner. The market is huge, and the demand will increase tremendously. If we can't produce enough icewine, other countries that are less respectful of international agreements or definitions will take over. You could freeze grapes or apples in China in a freezer and make very good icewine. Then we're in trouble.

Don't you see that as a bigger threat than agreeing on a definition for our country?

• (1625)

**Mr. Dan Paszkowski:** I see it as the same threat. If we allow wine practices to be stretched out even so slightly, that's where we open up the door to the measures that you just mentioned, taking grapes, apples, what have you, and freezing them in a freezer. We just faced that in Spain. Spain is a hot country, and they were freezing grapes in a freezer, trying to sell the product as icewine. Not only that, they were trying to get their government to develop an appellation region for that freezer wine.

With any wine in history, there's a certain practice to use. If you move away from that practice, you hurt the product internationally. Quebec is producing a fantastic product, absolutely fantastic.

However, the process that they're using is different from the process used for icewine, so there's no problem calling that product winter wine, *vin d'hiver*. Call it anything else, but you can't call it icewine because it does not meet the international standard for icewine production. If we do open that up, we will be kicked out of the Canada-EU Wine and Spirits Agreement. We'll be kicked out of the World Wine Trade Group agreement where all these definitions appear. The International Organisation of Vine and Wine has defined it as naturally frozen on the vine and said that it has to be harvested at minus eight degrees. Harvested means picked from the vines, not cut and then left in the vineyards to be produced into a wine product later.

It's a fine line but it's one for which we've spent years and years developing a product where we've become the superpower in the world. There's no interest to move away from what that international definition is without hurting the entire icewine industry around the world.

**The Chair:** Thank you very much.

Spain would have a hard time getting to minus eight degrees on a natural vine, I would think.

Go ahead, Mr. Holder.

**Mr. Ed Holder:** Unfortunately, my freezer's not big enough to make icewine.

I'd like to thank all of our guests for coming today.

I have one question for you, Mr. Moore. I want to extend the discussion that Mr. Keddy had.

You indicated that in terms of regulations as they relate to wood products and Japan you're concerned about declarations regarding illegally harvested trees. I thought I heard you say you like the regulations pretty much the way they are. Then you said that Russia is involved in illegal logging and that it was prevalent.

Wouldn't the adherence to a rules-based system, where you declare that only legally harvested trees are acceptable, shut out the illegal logging and give you a clearer path to marketing without those predatory practices?

**Mr. Aaron Moore:** Yes, that's true. British Columbia in particular, more so even than eastern Canada, is in a really good position to comply with any regulations having to do with illegal logging or harvesting. There certainly isn't—

**Mr. Ed Holder:** Mr. Moore, what you're saying is that you actually support a declaration and regulations regarding legally harvested trees. I just want to be clear on that. It wasn't clear before to me.

**Mr. Aaron Moore:** Okay.

I would prefer to have fewer regulations. If there are regulations, we certainly have a competitive advantage there in comparison to builders outside of Russia. Right now, though, I don't know what restrictions there are on Russian manufacturers selling into Japan.

**Mr. Ed Holder:** I'm always mindful of the extension of the rule of unintended consequences. As my Cape Breton mom used to say, "Be careful what you wish for." You might want to reflect, and your association might want to reflect more, if what you're trying to do is get rid of the illegal competitors. Anyway, that's a thought.

Perhaps I could just ask our friends from Posiflex a couple of very quick questions. Thank you for coming.

Do you export outside of Canada now?

•(1630)

**Mr. Sébastien Tardif:** Yes.

**Mr. Ed Holder:** To where, please?

**Mr. Sébastien Tardif:** We do export. We have a partner in Bay Minette, Alabama. We have actually designed product for them. We have a modest distributor in France, in Brittany. I've sold products in Taiwan—

**Ms. Lyne Noiseux (President, Posiflex Design Inc.):** By Internet.

**Mr. Ed Holder:** Good. Have you used Canada's trade commissioner service to assist you in exporting to Japan, or have you been looking at that?

**Mr. Sébastien Tardif:** No, not in this particular aspect for Japan. I've worked with the trade commissioner service in the past. We have tried different things with them. We did go to Boston a couple of times to meet some people. We had some work with them, but not specifically for Japan.

**Mr. Ed Holder:** I would encourage you to consider that. If you need some contacts, I'm sure we could provide them.

Mr. Paszkowski, thank you for coming back.

I'm very concerned about your definition of drinking regularly means one time per month, because I'm not sure how I would define it certainly for myself.

It's a quick question that I have for you, if I could, please.

You talked about geographical indications and you talked about the Niagara region, you talked about the Okanagan Valley, or at least Mr. Cannan did. How far does that go? Where, from your perspective, would you define a geographical indication as being a territory? For example, in southwestern Ontario, near the 10th largest city in Canada, which is London, there is Point Pelee and Pelee Island Winery. Just outside my area, in the Sparta area, there are some fruit wineries. How far does that go in terms of how you anticipate a trade deal should look in terms of trying to protect regional interests? How small does that go?

**Mr. Dan Paszkowski:** Well, if you mean in Canada, Canada would be a geographical indication, a large one. Provinces, for example, Nova Scotia, would be a geographical indication today, but there are opportunities to break it down into smaller lots. Ontario has already done that. Ontario has the province, and the appellations, and sub-appellations within the appellations.

**The Chair:** Okay, thank you very much. Your time has about gone.

How large is London, did you say?

**Mr. Ed Holder:** It is the 10th largest city in Canada, Chair.

**The Chair:** I thought that's what you said. It's just for the record.

I want to thank the committee for their questioning. I want to thank our witnesses for coming forward. We certainly appreciate your testimony as we continue our study.

With that, we will suspend the committee and bring forward our next panel.

Thank you.

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\_\_\_\_\_ (Pause) \_\_\_\_\_

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•(1635)

**The Chair:** I want to call the meeting back to order.

We are in our second round. Our time is right. We have three presenters with us. From the Railway Association of Canada, we have Michael Bourque, Bruce Burrows, and Robert Taylor. We want to thank them for being here. Also, from the Canadian Association of Importers and Exporters, we have Joy Nott, who is the president. Thank you for being here. By video conference, from the British Columbia Trucking Association, we have Louise Yako.

Louise, can you hear us?

**Ms. Louise Yako (President and Chief Executive Officer, British Columbia Trucking Association):** I can, thank you.

**The Chair:** You are coming through loud and clear, so we are all set to go.

With that, we will turn the floor over to the Railway Association of Canada. I imagine Michael will be doing the presentation.

**Mr. Michael Bourque (President and Chief Executive Officer, Railway Association of Canada):** Yes, thanks very much.

I am Michael Bourque. I am with the Railway Association of Canada. We are the voice of the Canadian rail industry. We like to say we are moving people, goods, and the economy. The reason we say that is that our large class I carriers—CN, CP, and BNSF—operate on more than 45,000 kilometres of track, which is larger than our national highway system. We represent over 40 short-line private railroads that contribute a quarter of the traffic carried by class I carriers. We also represent passenger railways, including commuter, tourist, and inner-city railways. We keep business moving. We improve productivity while reducing congestion, and we enable people from around the world to witness our beautiful country and drink our excellent wine.

I have five slides here, so I will move through them very quickly, given the short amount of time there is. I will go to the second slide.

Rail business in this country is handling 75% of all surface traffic. I should add that we do so while emitting 3% of the greenhouse gas emissions in the transportation sector. That's a pretty good deal. We move about 60% of the volume of GDP.

In 2012, railways are expected to invest more than \$3 billion in infrastructure, rolling stock, and technologies. That's about 20% of revenues. Even through the recession, we have continued to invest in this country. I would challenge you to find another industry that is investing so much in infrastructure.

The graph is very interesting. You will see that intermodal is a significant piece of the pie. Let me explain that. Intermodal means we are using more than one mode to move products. The reason for the growth is container shipments. For example, the port of Prince Rupert has grown from moving one container in 2007 to an expected 550,000 containers in 2012. This is not just import business. This is significant export business for Canada. Some \$5 billion in exports from the port of Prince Rupert is expected this year.

• (1640)

**The Chair:** Was that \$5 billion?

**Mr. Michael Bourque:** Yes, it's \$5 billion.

In terms of broader transportation trends, the number one global trend in transportation is supply chain integration. What this means is the interoperability of hard assets, which is infrastructure; connectedness, which is making sure that everything works together; funding of joint projects, such as we've seen at ports; cross-border harmonization, which is also something we're active on here in Canada; information technology and systems that can talk to one another to get information; and work practices and safety. We also have, related to that, things like P3s, various policies, regulations, red tape, and so on.

Part of this supply chain infrastructure issue is capacity. I always like to point to the Keystone pipeline lesson. If you don't invest in that infrastructure, at some point you will have more product than capacity to deliver it. It's important to have adequate infrastructure for planning in advance.

This leads me to my bottom line, which is that railway supply chain enhancements are going to be critical for enabling the \$650 billion in new resource development planned over the next 10 years in Canada. That's a really important number to keep in mind—\$650 billion. That's a big number.

Turning for a moment to the economic partnership with Japan, I can start by telling you that our top exports to Japan are coal, seeds and grain, minerals, livestock, and forest products. The top imports, not surprisingly, are automobiles, auto parts, construction machinery, computers and information technology, and various machinery and manufacturing.

You can see on this chart from Canadian Pacific Railway that 39% of its revenues are from global shipments. This is significant growth for that company. It's more or less the average for the industry, which shows that we're really moving from a north-south trade pattern to very much an east-west trade pattern. That is consistent with a focus on the supply chain overall and on supply chain partnerships.

The bottom line is that rail can facilitate growth in Canada and can support the agreement's objectives.

I'll end by asking a question. Will Canada be ready for its success?

In 1972, Walmart had \$44 million in sales. Because they had ambitious plans, as do we, by 1992 they had \$44 billion in sales. Today they are the number one importer into North America.

We have to be ready for an order of magnitude of success in this country. To do that, we're going to have to keep in mind that you have to deliver your product. To do that, you have to have the infrastructure in place. That's a very complicated thing, as I mentioned, with supply chain integration. There are a lot of aspects to it. What really underlies it all is supply chain collaboration.

That's my presentation and I'd be happy to take any questions.

• (1645)

**The Chair:** Thank you very much.

That kind of optimism is contagious and exciting, and we're going to hear a little more of that from the Canadian Association of Importers and Exporters.

Joy, the floor is yours.

**Ms. Joy Nott (President, Canadian Association of Importers and Exporters):** Thank you, Mr. Chair, and members of the committee, for giving us the opportunity to present today.

My name is Joy Nott. I am the president and CEO of I.E.Canada, otherwise known as the Canadian Association of Importers and Exporters. We've been around for about 80 years. Our members include importers, exporters, Canadian manufacturers, retailers, and supply chain service providers. Our members in total employ over a million Canadians and in 2010 generated \$270 billion for the Canadian economy.

In brief, I.E.Canada very strongly supports an EPA with Japan. That said, there are strategic considerations that must be taken into account when Canada considers signing either an EPA or a free trade agreement, an FTA, with any country. It becomes even more critical when we look at doing it with an economy such as Japan, which is so well developed.

In the world of business, supply chains are integrated. Business people don't really differentiate between an import and an export. It's one continuous flow of materials, components, and finished goods until it actually hits the end consumer. Unfortunately, traditional government structure and policy doesn't match that business reality all that well.

In government, import and exports are generally viewed as two discrete operations where imports are generally considered bad for the economy and exports are generally considered good for the economy. In today's global environment with the supply chains integrated the way they are, that's not really the case any more for business. In fact, I think it actually hurts Canadian companies when the philosophy is that imports are less than favourable for the Canadian economy, because no Canadian exporter can successfully export without importing at least something for the manufacturing process.

To illustrate even further, imports and exports are also governed by two separate ministries of the Canadian government: exports by the Department of Foreign Affairs and International Trade, and imports by the Department of Public Safety under the Canada Border Services Agency.

Canadians would be well served if there was a single body that was tasked with overseeing both imports and exports. If you're wondering what this has to do with Japan, I'm getting there.

Japan and the Japanese are very sophisticated traders. They are well versed in the world of global trade. They are very successful business people. If we are going to enter into agreements with countries such as Japan, once again I need to clearly state that the Canadian Importers and Exporters Association and our members have made it very clear to me that they are fully in support of this agreement with Japan and other agreements that are currently being negotiated and discussed.

That being said, as a colleague of mine said when testifying to a Senate committee in late September on Bill S-11, the devil is in the details. I have two very quick examples here, one where under Bill S-11 there are going to be requirements that products manufactured for export comply with Canadian regulations and if they don't comply there's going to be potentially a prohibition to export. What that accidentally does is it prohibits Canadian-made goods from entering foreign markets.

The second example I have is an issue that has been recently resolved, but I think it's a really good example of what we're talking about. Both Canada and the United States, along with other developed countries, are signatories to something called the Wassenaar Arrangement. It's a treaty that ensures sensitive goods are controlled for export so that they don't end up in the wrong hands.

On October 3, 2008, the U.S. allowed, and I'm going to call it an exception to this agreement, companies to transfer information intra-company among each other between countries without having to go through a formal process of applying for paperwork. It took Canada three years, nine months and 28 days to catch up, and we're both signatories to Wassenaar.

What does that have to do with Japan? Japan is a very sophisticated global trader and the message that I'm here to deliver today is that while we are fully in support of this sort of thing, we think there is definitely the opportunity to start looking at importing and exporting in Canada strategically, as opposed to two discrete operations. Business doesn't look at it that way and to ride the wave

of optimism of my colleague at the other end of the table, I do think we need to be prepared for success.

• (1650)

If we're going to be successful and if we're going to actually enter into the trade agreements that we're currently negotiating, we have to get ourselves in a more strategic mindset so that we look at imports and exports, the general flow and what's good for business overall, as opposed to two discrete processes. Thank you.

**The Chair:** Thank you very much.

Now we will hear from the British Columbia Trucking Association. Louise, the floor is yours.

**Ms. Louise Yako:** Good afternoon. I would like to thank the committee for the invitation to appear today.

As you know, I am Louise Yako. I am the president and chief executive officer of the British Columbia Trucking Association. Our association represents about 1,200 fleets offering a variety of freight transportation services.

The Trucking Association does not have any particular expertise to provide on trade with Japan; however, our association can comment on the ability of the trucking companies transporting containers, also known as drayage carriers, to accommodate increased container volume through the Asia-Pacific gateway.

About 50% of container movement in the Vancouver region is by truck. Our association represents about 25% of the drayage carriers that operate about 50% of the trucks licensed by Port Metro Vancouver. This licence allows drayage carriers to operate to and from the four marine container terminals located in the Vancouver area.

Today's system faces a number of challenges. First, three of the four marine container terminals are at, or near, maximum capacity for daytime truck reservations. When maximum capacity is approached, the amount of time a truck spends at a terminal is less predictable and often longer. This is a problem because many truck operators are paid on a per-trip basis. Longer waits for service means fewer trips, which translates into lower compensation. Poor compensation has historically led to service disruptions in the Vancouver region.

To address increasing demand for service, some marine container terminals are now providing intermittent nighttime service for trucks. However, night gates are not well utilized because there is no coordination among the marine container terminals or with off-dock facilities. Off-dock facilities load export containers, de-stuff and distribute imported goods, and store empty containers. If these other facilities aren't open, trucks can't maximize their productivity, so are less likely to work at night.

There's no direct business relationship between marine container terminal operators and drayage carriers. Terminals contract with shipping lines, while cargo owners or their agents generally contract with drayage carriers. Where drayage and terminal interest converge is their mutual desire to move containers on and off the terminal as quickly as possible, but when terminal resources or space is limited, trucks will always come last. From a terminal perspective, that's a rational decision. From a supply chain perspective, it may not be.

Drayage trucks are not as efficient as they can or should be because current terminal reservation systems inhibit the scheduling of what we call double-ended moves. This means that many trucks either arrive or leave terminals empty. This is an entirely fixable inefficiency that will help the supply chain handle increasing container volumes.

Unnecessary truck movements are upsetting to communities and result in other unintended negative consequences, such as increased emissions. Community support and understanding is fundamental to growing the gateway. Improving truck efficiency will help to address community concerns.

We've ended up with today's system because historically, each participant in the gateway has made independent decisions without considering the impact of these decisions on the entire supply chain.

The good news is there is recognition that the current practices are no longer adequate as we approach maximum capacity. Our system will only be as efficient as its weakest link. The Container Drayage Leadership Team grew out of this recognition. The team is composed of senior executives from the three terminal operators, the Chamber of Shipping of British Columbia, the Western Canadian Shippers' Coalition, Port Metro Vancouver, and the Trucking Association.

Our mandate is to identify, communicate, and implement system-wide efficiencies as they affect trucks, while consulting with affected constituents. If this voluntary process is successful, servicing the additional volume created by an economic partnership with Japan is entirely achievable and would be welcomed. If it is not, we may need to consider other measures to achieve a more efficient Asia-Pacific gateway to accommodate increasing trade volumes.

● (1655)

**The Chair:** Thank you very much.

We'll now go to questions and answers. We'll start with Mr. Sandhu.

The floor is yours.

**Mr. Jasbir Sandhu (Surrey North, NDP):** Thank you to all the witnesses for being here today. I'll direct my first questions to Ms. Yako.

I'm from the Lower Mainland myself and we've had discussions around the issues that pertain to the trucking industry. With a free trade agreement with Japan, we've heard from the railway industry that there's a chance there will be a growth in the container trade that will benefit Canadians overall.

You mentioned some of the significant challenges facing the trucking industry and also the movement of goods out of the ports that the trucking industry is feeling. We know there are delays. These

delays haven't only been happening in the last five or ten years, delays at the ports have been an ongoing issue. We've had a number of disruptions at the ports.

What can the federal government do to help resolve this ongoing issue of delays and inefficiencies in the system?

**Ms. Louise Yako:** At this point there are no performance standards that are applicable to marine container terminals, and there doesn't appear to be a way for Port Metro Vancouver, the landlord of those marine container terminals, to require performance standards.

If we're able to improve truck productivity, one way to do that would be to require terminals to provide service within given timeframes, and if those timeframes aren't met there would be penalties associated with that. That's a normal way of doing business. That's certainly something the federal government could help incent.

**Mr. Jasbir Sandhu:** Performance indicators are certainly something I want to ask the witnesses about from the railway unit.

There is another issue you brought up and it is also mentioned on your website. It is the issue around traffic congestion in the Lower Mainland and how the movement of goods is restricted and adds time and cost to moving those goods.

What do you think needs to be done in the Lower Mainland to alleviate some of that pressure of congestion?

**Ms. Louise Yako:** If we're able to spread truck movement, particularly to non-peak hours—afternoons, evenings, nights—that will certainly help with congestion. At the same time—and I know you know this, Mr. Sandhu—we are in discussions with TransLink and with other government agencies to help incent individuals to use public transit, and to encourage the use of HOV lanes.

I think there are other policy incentives that could be put into place that would reduce the use of private passenger vehicles, that form the greatest part of traffic movement today.

● (1700)

**Mr. Jasbir Sandhu:** Beyond the expansion of transit, that would certainly go a long way to reducing that congestion. Canada is the only country in the G-8 that does not have a national transit strategy.

Do you think that providing a national transit strategy is something the federal government should look at so that we can move single vehicle occupancy off the highways and into a more robust transportation system that would move people throughout the Lower Mainland?

**Ms. Louise Yako:** I think that's part of the solution. I've been trying to figure out how to increase double-ended moves for container trucks, how to improve efficiency through long combination vehicles. There is a whole series of things that can be done that would improve traffic movement in the Lower Mainland.

**Mr. Jasbir Sandhu:** Thank you.

I only have a little bit of time so I'm going to put a short question to the railway people.

Right now we have a big problem in that farmers are having great difficulty transporting their products on our rail system. We've heard that in our committee. The number I have is that more than 80% of all service commitments for agriculture rail customers are not met by all the rail companies.

With an expansion of trade with Japan, you mentioned there will be an increase in the container traffic and in the goods going out of the Prairies as well as from eastern Canada. Can you describe the problem that farmers have indicated they have? What is the issue?

**Mr. Michael Bourque:** First of all, the number doesn't sound right to me. If you would like an accurate picture of service from the railways, I'd refer you to the Canadian Industrial Transportation Association, which is the association of shippers.

**Mr. Jasbir Sandhu:** Let's not worry about the number. We've heard testimony from farmers and agriculture associations, and they clearly pointed out they had some difficulty in getting their product on time. What seems to be the problem?

**Mr. Michael Bourque:** I'm not sure we have a problem. I was about to say that we don't have a perfect record in service, but our service improvement has been drastic as measured by the shippers themselves. It has improved by 46% since 2009, and it's now at about 73% satisfaction. It's difficult for me to break it down by commodity group, but I'll use canola as an example. We're moving tremendous volumes of canola. Those products are reaching ports and reaching markets. We're not hearing any dissatisfaction from those customer groups directly.

**The Chair:** As a prairie farmer from the west, I can tell you that the movement of product has never been better than this year. The removal of the Wheat Board certainly helped. I know Wayne Easter will be encouraged to hear that.

Mr. Shipley.

**Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC):** Thank you, witnesses.

On moving people and goods, will Canada be ready for the success? Will the rail association be ready for the success? I agree with you. I think with the route that Canada is on, with our development of economic agreements and trade agreements in strategic locations around the world, that will develop beyond those hubs, and it is going to lead to a significant amount of success. The challenge is that Canada is a large country with few people and a transportation system that has to run from one coast to the other.

I recognize from your chart the amount of money you put in. I look back in terms of developing infrastructure. A few years ago, CP was tearing up tracks. In Ontario, it had become an issue. It took up double tracks, left one, and then put sidings on it.

I'm wondering what your plans are to improve that type of transportation. What are your goals? Is one of them to rebuild those again, to increase the flow from the United States, and to get more manufactured goods out of our ports?

●(1705)

**Mr. Michael Bourque:** What you've seen over the last 10 years is a significant transformation in the rail business. It wasn't that long ago that CN was a crown corporation. What we've seen is there have been investments. Yes, some of those rail lines that are no longer used unfortunately end up being decommissioned, but at the same time there are new rail lines starting.

There are rail lines in Saskatchewan that have just started up. They're moving shale oil. That's the nature of the market. Where there are goods that need to be brought to market, people find a way. As a country, we need to give some serious thought to how we hold onto those rail lands so that when they are needed for future use, whether it's for mining in northern Ontario or other reasons, we can use them.

I think we are very much ready for growth. This more or less addresses some of the issues brought forward by Ms. Yako. The truckers are currently experiencing problems related to capacity. We are operating 24/7. We have collaboration agreements with ports and terminals, and others in the supply chain. We are sharing information on dwell times and how to reduce them.

If you were to talk to a CEO of one of the major rail companies, he'd tell you that he's getting that information on his BlackBerry every day. That's the level of collaboration that allows that growth.

**Mr. Bev Shipley:** But when I listen to Madam Yako talk about trucking, I wonder how the coordination is in terms of intermodal transportation of goods that we're going to be able to move from ports across Canada and get them to the Japanese market. Most of those are going to go by ship once they get to port. It would appear that we're not getting that coordinated effort for intermodal transportation within the ports that you're talking about. Can you help me with that?

**Mr. Michael Bourque:** I think what she's describing is a particular issue that relates to an agreement between truckers and the terminal. What I'm telling you is that in the railway business we have taken great efforts to sign collaboration agreements with performance metrics, with terminals, with ports, with other supply chain partners to make sure that we know exactly what's being held up and why and to keep things moving.

I would counsel them to try to undertake the same thing and not look for government to provide the solution. It's there to be had in negotiations directly with those supply chain partners.

**Mr. Bev Shipley:** I want to expand on that, because Canada has now walked through the door in terms of the trans-pacific partnership negotiations. I would ask not only Ms. Nott but the other participants about the significance of the Japanese agreement continuing to move ahead. Some have said that if we're in the TPP, what is the value in continuing to push to move forward with an agreement with Japan. Taking that initiative, would there be a negative by not continuing to move ahead with the talks with Japan ahead of the TPP?

**Ms. Joy Nott:** Speaking on behalf of the Canadian importers and exporters association, I think it would be a negative if the talks did not continue. Southeast Asia is a varied region. There are all types of different countries, all at different stages of development and sophistication in international trade. Japan is obviously a very sophisticated and well-versed international trader. They also have a long tradition of trading very heavily with China.

If Canada ultimately negotiates a free trade agreement as well as an EPA with Japan, ultimately that would serve as a launching point for Canadian companies within Asia. Japan is slightly different from some of the other Asian countries in that there's rule of law, there's infrastructure, there's a familiarity of doing business in Japan that may not exist in all countries in that region. I agree with what you're saying about the TPP. We think it's imperative that Canada be included in the TPP and keep all of that going, but Japan is a slightly unique entity within Asia and we think that the talks should definitely continue.

• (1710)

**The Chair:** Your time has gone.

I don't know if the railways or truckers would want to add to that, but I'd allow a very short answer if they want.

**Mr. Michael Bourque:** We're supportive of the agreement because we're seeing quite a bit of two-way trade. We're positioned to enable that and I think it's good for the country.

**The Chair:** Go ahead, Louise.

**Ms. Louise Yako:** To the extent that we can encourage incremental growth in order to deal with increased volume, going ahead with Japan makes sense.

**The Chair:** Thank you.

Mr. Easter.

**Hon. Wayne Easter:** Thank you, Mr. Chair.

Based on your comment, I would say that we would love to see the government put in place the service agreement with the railways, but that's a discussion for another day.

Thank you, all three witnesses, for your presentations. Really, very little was on the specifics of a trade agreement with Japan, but all three made a point that a number of us have been making for a while. It gets rather tiresome hearing the government talk about how many trade agreements they have signed. Basically, they've now signed another trade agreement, and you're on your own. At a time when we've seen our first trade deficit in 30 years, we need to see a net benefit to Canada from these agreements.

That goes to your point on imports and exports, Joy. I am intrigued by your comments on imports and exports, and I want to expand on them in a minute.

From our perspective on this side, the bottom line is this: What other strategic policies do we need that would allow us to add value in Canada and make the best of a trade agreement from a Canadian perspective?

I would turn to the railways first. One of your slides has the heading: "Will Canada be Ready for Success?" What are you talking about there? Is it infrastructure needs?

I was in Chicago recently at the CN switching yard. I was really intrigued that CN has spent \$1 billion buying railways to move around Chicago, which really gives us good flow of product right down to the Mississippi now. What is needed from a federal government perspective that would make this success a greater possibility?

**Mr. Michael Bourque:** I'm glad that you mentioned Chicago. It's true that CN bought a line to get around Chicago. That was because 70% of all rail traffic in the United States touches Chicago. There's a bottleneck going right through Chicago. Twice a day, freight rail is held up—45 minutes in the morning and 45 minutes in the afternoon—to allow commuters to go through. They've initiated a public-private partnership called CREATE. They've sought investment from the federal government, from state governments, and from railways. Railways have contributed upward of \$200 million already. There are investments in signalling, track, and overpasses and underpasses. All of this is designed so that goods can move more quickly and more freely, recognizing that this has an impact on the whole country. They've done studies. They've shown the economic impact right from the ports all the way to the receiving companies in the east of the country.

If I were to take that example and apply it to Canada—in fact, I should commend the Government of Canada. Some years ago, when we started to see a lot of Asian trade, we had mostly containers coming into the country, and we had a great deal of difficulty dealing with them. Working together in a collaborative fashion, working on a commercial basis, we were able to initiate the Asia-Pacific gateway project, and we have greatly increased our capacity at the port of Vancouver, at Deltaport, and of course, in Prince Rupert. It's that kind of collaboration.

I'm not calling for a specific infrastructure fund, but what I would like to see is the government perhaps starting to paint a picture of what the supply chain is today and what they think it's going to be when we have \$650 billion in investments in mining, forestry, and agriculture. It's more of a call to realize that we are going to see exponential growth and we need to be ready for it as a society.

By the way, on grain shipments, my colleague sent me a note saying that grain is at 90% on-time performance this year.

• (1715)

**Hon. Wayne Easter:** I would agree with you that there needs to be more strategic planning overall, 10 years ahead, and that kind of thing.

I was at a meeting in Burlington, Vermont of all the Canadian provinces from Quebec east and the New England states. I was intrigued at the cooperation within that sector on both sides of the border in looking at moving everything from highway infrastructure to pipelines to rail north-south in that corridor. It taps into the Atlantic gateway at some point as well.

I was really intrigued by how they are planning ahead. That's key on trade agreements. If we're going to increase the volume of trade both in and out, then we need strategic planning to have the infrastructure to make sure we can handle it in an efficient way.

Turning to you, Joy, there's no question that you need this even in the trucking business. We find that in moving potatoes from eastern Canada, often the trucks come back from central Canada. You can't have that. You have to have two-way trade.

Could you elaborate on your point about import-export?

**Ms. Joy Nott:** The point I was trying to make overall is that we've heard here about strategy concerning physical infrastructure, whether it be trucking terminals or rail lines or whatever else, but the point I'm bringing to the table is to have a strategy around the policy and regulatory environment.

What I mean by that is shown by the two examples I've put on the table. These are real examples that our members deal with every day.

To go back to the first example, with food, if Canada, for example, through Bill S-11 makes it a requirement that baked goods have fortified flour and it is required in all product that is going to be exported, then if the receiving country has a different regulation, those goods may be prohibited from entering. What I'm asking is, are we prepared for success from a regulatory standpoint?

The second example I brought up was that in a competitive situation with the United States—and we've had long-standing trade with the United States, and I don't need to elaborate for this committee exactly what our relationship is with the United States—it took almost four years to catch up with something that the Americans did simply because it got lost in the bureaucracy.

All I'm saying is that if we're going to enter into more trade agreements with different countries around the world, and we are wholeheartedly in favour of that, we need to start thinking very strategically. Traditionally we've only been focused on the United States, our major trading partner. They are always going to be our major trading partner. We can't take our eye off the United States. I'm just saying that we need to be a little more aware of how other countries are responding when we sign these agreements and they change regulations after the fact, and of what a negative impact this may have.

For those negative impacts not to become lost in the shuffle, we need to have some sort of body that recognizes them and reacts quickly in order to even the playing field again.

**The Chair:** Thank you very much.

Mr. Shory.

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

Witnesses, thank you for being here.

Mr. Bourque, I am very happy to hear from you that you have ambitious plans. So have I. I'm very proud to be part of a government that has a very ambitious trade agenda, because on this side of the table we know that trade brings prosperity. Trade brings prosperity for families, for businesses, and of course for Canada.

I have a question for Ms. Nott. You made a comment on the trade deficit. It seems that a trade deficit is looked at as a really bad thing. You made a comment that no Canadian company can export without importing something in its process of manufacturing.

Can you elaborate on how this trade deficit works and how it is good for businesses?

• (1720)

**Ms. Joy Nott:** Traditionally, when we started 80 years ago, we were the Canadian importers association. In 2000 we changed our name to add the word “exporters”, and that was more than just a marketing ploy. We realize that compared with 1932 when we were founded and when importing was a discrete activity and exporting was a discrete activity, the lines had really blurred by the year 2000.

It's very difficult in today's global economy to source all of your components, if you are a manufacturer, for example, domestically within Canada. Even if you can purchase or acquire a component in Canada, maybe from a cost perspective it's not competitive.

I'm not talking about the extraction services, mining and that sort of thing where something is coming out of Canadian soil. That's not what I'm talking about. I'm talking about manufacturing and processing facilities.

At some point or another, every manufacturer or processor in Canada is going to have to bring something in, whether it be from the United States or China or wherever. I don't mean to sound flippant, but the price, for example, of a Canadian manufactured fastener, such as a screw or a bolt, might be cost prohibitive when compared with its Chinese competitor. That's just the reality. It's true not just for Canadian manufacturers but for every manufacturer around the world. It's the reality that we're in.

**Mr. Devinder Shory:** Another comment you made when we were talking about the Canada-Japan free trade agreement is that it becomes critical even when it comes to a developed country like Japan.

What do you mean by that?

**Ms. Joy Nott:** What I'm saying is that when Canada starts to negotiate with more underdeveloped economies, the companies within those countries and their traders—I wouldn't say they're unsophisticated; I wouldn't be so unkind or impolite—in Japan, however, they are very good at what they do. Look at where they were after World War II and look at them today. They're very good at what they do. If we're going to enter into commerce with these people, we wholeheartedly agree that we should be doing it. That's the direction in which Canada should be moving; however, we need to be prepared and not show up at the table half asleep.

It's like playing a game of chess. We have to be awake. We have to be aware of what moves we should be making, and when they make a move, we have to be able to counter it.

**Mr. Devinder Shory:** What are the mechanisms by which Canadian manufacturers, processors, and service providers are consulted prior to the commencement of these negotiations or during the negotiations? Has any process been adopted by the government? Was industry consulted or informed of the negotiations between Canada and Japan?

**Ms. Joy Nott:** I don't know the answer to that question. I've been with I.E. Canada for two years, and in the time that I've been with I. E. Canada, we have not consulted on the Japan-Canada discussions. That being said, we've been included in many other negotiations, but not specifically Japan.

**Mr. Devinder Shory:** The committee will be travelling to Japan this weekend. What would you be looking to convey to the committee as the focus we should have while in Japan?

All of you may comment.

**Mr. Michael Bourque:** I'll jump in on that.

One thing I should mention—and maybe I did mention it, but I'll repeat it—is that we have a number of suppliers in our association. We have a relationship with the Canadian Association of Railway Suppliers, and we consulted them before coming here. They are supportive of an agreement with Japan. There are some well-known names such as Bombardier in that group. They obviously have sales around the world now. They realize that fair, balanced trade agreements allow them access to important markets. They also realize that trade agreements help them to maintain their competitiveness here.

My view personally is that if you're still standing in this country as a manufacturer after the recession of 2008, you are globally competitive. Really, what we're talking about here is opening up new avenues of trade, new markets in growing areas.

Now, Japan has had some growth problems, and maybe, thanks to the efforts to enter into the TPP, we may see some agreement with countries that have even higher rates of growth. But Japan is an important market, one where we already have established agreements, established relationships, very good trade patterns. Everything is in place to grow that market.

Certainly, speaking from the \$5-billion business of rail supply which employs 50,000 Canadians, I would say let's get a good, strong, fair agreement in place. We'll have that much more of a market to sell our goods to.

• (1725)

**The Chair:** Thank you very much.

We have two questioners left, and we're into the second round. We'll just split it between the two. There are three minutes each.

Go ahead, Mr. Davies.

**Mr. Don Davies (Vancouver Kingsway, NDP):** Thank you, Mr. Chairman.

Ms. Nott, the figures I saw indicate that Canada had a current account surplus of \$25 billion in 2006, and this has swung by \$75 billion to a \$50-billion deficit today. You're not suggesting that's a good thing, are you?

**Ms. Joy Nott:** I'm not suggesting that it's maybe as bad a thing as it might appear to be on the surface. Various studies have been done in the United States to show that imports also create economic activity within the importing country. That's all I'm saying.

I'm not here to take a particular stance one way or the other, other than to say—

**Mr. Don Davies:** Well, you said it's not as bad as it seems, but it's not a good thing. Wouldn't you agree that generally a country would want to have a balance of trade, or perhaps even a surplus, that a growing economy would rather be exporting its goods and services to the world than be a net importer?

**Ms. Joy Nott:** I would say yes to that. That being said, it depends. We have to take a look at the types of imports that are coming in and what they're being used for, with the qualifier.

**Mr. Don Davies:** Yes, and I was just thinking that, because the deficit in manufactured items has exploded six times in that same time period. It was about \$17 billion of deficit in manufactured items in 2006. That's over \$90 billion today.

The figures I've seen also show that the percentage of our exports that has been growing in terms of raw or unprocessed goods is now reversing. It's going the other way. What we're doing, in short, is we're exporting more raw or barely processed items and we're getting an exploding deficit in manufactured items. I take it, as an importer-exporter, that's not a good thing either for our country. Would you say that, or do you think it's a good thing?

**Ms. Joy Nott:** I'm not going to say it's either a good thing or a bad thing. As I said earlier, to the companies that are our members, importing and exporting is a continuous flow. From their perspective, they don't actually think of the deficit in trade. When a company is making a decision, for example, of where to place a factory or where to place a distribution warehouse, that's not what they're considering. They're looking at supply chains. They're looking at a continuous flow process.

What I would answer to what you're saying is I agree, and I am familiar with those statistics as well. There are two things I would say to that. I would say on a lot of the goods that are coming into the country now that Canadian consumers want lower end products. They want to be able to buy them.

**Mr. Don Davies:** They want good jobs, too, don't you find?

**Ms. Joy Nott:** Yes, they do. They want jobs. What we're saying is that imports of consumer products don't necessarily eliminate jobs because there are distribution warehouses that are required. There is trucking that's required to get those goods. There are jobs that are created. They might not be manufacturing jobs, obviously, but there are jobs that are created.

**Mr. Don Davies:** I'm just going to stop you. I have one more quick point for the railway people.

You've mentioned, and we've seen these figures, the top five exports: coal, seeds, grain, livestock, forest products. We're importing automobiles, construction machinery, computers. There's definitely a pattern with trade between Canada and Japan of our sending raw goods to Japan and Japan exporting heavily value-added goods back.

Do you have any suggestions as to how we might address that balance?

**Mr. Michael Bourque:** One of the trends that I talked about, which is the most important trend in the transportation business, is supply chain integration. One of the key factors in that has been containerization. If you look at what's happened with containerization, we've started to import a lot more product from different countries in containers. That has created empty containers, which has created a business opportunity for North Americans to export to other countries.

What we're seeing is that there is an opportunity in forest products, for example, to upgrade their products, put them in containers, and the cost factor of shipping those containers back to those countries is now there. I would agree with Joy when she said that it's not necessarily a bad thing when you start with a high number of imports. What that does is it creates the possibility of new trade on the way back. I agree we should add more value to our products on the way back, but having the trade patterns, the flows, and the agreements in place help that process.

• (1730)

**The Chair:** Mr. Holder, perhaps you would finish this off.

**A voice:** No, it's Russ.

**The Chair:** It's not who I had, but that's okay. Russ, go ahead.

**Mr. Russ Hiebert (South Surrey—White Rock—Cloverdale, CPC):** You think exports and imports need to be considered as one process in your opening remarks. What change would that accomplish? What would result from viewing it in that perspective?

**Ms. Joy Nott:** I think it would emulate what actually happens in business. In business, of course, the ultimate goal is to have satisfied customers, and satisfied customers give you money. It's as simple as that. In the importing and exporting realm, when you're actually standing back as a business entity and looking at your supply chain, international borders become very blurry because you're focused on something other than international borders, which is very different from what we're doing here.

What I was saying earlier is that, unfortunately, Canada's not alone in how imports and exports are viewed as being on separate sides with different ministries. It's true in the United States as well. All I'm

saying is that the first governments that recognize the way that business has changed in the past 20 years and emulate the business model, I think, will leap-frog.

**Mr. Russ Hiebert:** Mr. Bourque, what increasing traffic would you expect if an EPA with Japan was concluded successfully?

**Mr. Michael Bourque:** One of the things we're doing is moving a lot of auto parts. Don't forget that Japanese cars are made here. Toyotas and Hondas are made here. We're importing auto parts in the creation of those vehicles and shipping those vehicles to global markets. Again, it's a snowball effect.

From the railway supplier standpoint, they would love to have the opportunity to become part of other supply chains globally, and I think this offers that opportunity.

**Mr. Russ Hiebert:** What do you expect it to be as a percentage?

**Mr. Michael Bourque:** I wish I had the president of the railway suppliers here who could answer that question for the suppliers.

**Mr. Russ Hiebert:** Thank you.

Ms. Yako, before I get cut off, you talked about the need for a performance metric so truckers don't waste time at the ports. How could that kind of metric be incorporated into this process? Is it part of your truck terminal team negotiations?

**Ms. Louise Yako:** It certainly is.

I take Mr. Bourque's recommendation that we try to come up with something voluntary, and that's certainly our intent.

Because there is no direct relationship between terminals and trucking companies, creating that relationship within the context of a supply chain is what we are trying to achieve.

**The Chair:** Thank you very much.

I want to thank the witnesses for coming forward. This has been a very interesting hour of presentation as well as questioning.

I thank the committee.

With that, the meeting is adjourned.





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