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Chair

The Honourable Rob Merrifield

Standing Committee on International Trade

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● (1530)

[*English*]

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

We want to thank our witnesses for coming forward. We certainly appreciate your input into the comprehensive economic partnership agreement with China.

Mr. Pomerleau, you are no stranger to the committee. Thank you for being here. You're from Canada Pork International. Then, from the University of Calgary, we have Eugene Beaulieu. Thank you for being here.

We will yield you the floor first. We look forward to your intervention. The floor is yours, sir.

Professor Eugene Beaulieu (Professor of Economics, University of Calgary): Thank you very much. It's a pleasure to be here. Thank you for inviting me. I am an economist, and I am with the School of Public Policy at the University of Calgary.

I think you just said the CEPA "with China", but I think you meant India. I hope you did, because that's what I—

The Chair: Yes, I'm sorry about that. That's coming some time in the future, but let's deal with India first.

Prof. Eugene Beaulieu: I was invited here largely because of a recent communiqué I wrote for the School of Public Policy, which addressed this issue of Canada-India trade. I would just like to state my position and make a few comments. Then I will open the floor for questions.

I do argue that Canada should push hard for an agreement with India. Evidence is clear that this kind of agreement will facilitate and enhance our economic relations, not only with India but with Asia.

The Chair: Now you're talking about China.

Voices: Oh, oh!

Prof. Eugene Beaulieu: CEPA fits with our global commerce strategy. I know that the global commerce strategy is being updated and renewed and maybe improved upon, but it's important that we pursue our trade interests and our trade strategy in accordance with an overarching strategy. One of the concerns I have is going out there and just signing agreements with any country that might be willing to sit down with us. We want it to fit our strategy.

I also argue that we don't want to oversell the effect of an agreement such as this. It's sometimes simple to make overstatements of how effective this will be or the impacts it will have on Canadian jobs, and that kind of thing. I would argue that Canadian commercial interests are driving our policy to get more involved with India, rather than the other way around. Canadian trade and investment with India has increased significantly, and that has led to more interest. But as I said in my first point, having an investment and trade agreement with India can facilitate the trade that's already growing and expanding. It will not drive that trade.

Finally, I think it's really important that we continue along this path of fostering strong relations at the government and at the commercial level with Asia, and with India, in this case, in particular. There's clear evidence that it's very tough work. It's difficult work for firms to start new markets. It's important to have networks and it's important to have relationships. There's one area where the Government of Canada can support that, and that's by having people on the ground having and developing networks. It is a difficult job. That is a capacity that we have and should continue to foster.

I just have a couple more comments on those positions.

I argued in a recent communiqué that was published by the School of Public Policy that it seems like a slam dunk that we should have a mission to India and an agreement with India. India is large, it's rapidly growing, and we share a lot of common ground in terms of democratic and colonial histories.

For those reasons, it seems like a really strong case for a mission there—at the time I was talking about the mission—but also for an agreement, but there are things working against the effectiveness of these kinds of agreements, and one of them is distance. India is a long way away, and there's very clear economic evidence, empirical evidence, that distance continues to matter. Of course, costs have come down in travel and communication, but distance is vital and it's important. Therefore, even if we sign a trade agreement with India, it's still going to be far away; it's still going to be a challenge to do business there. Again, it's not going to spur trade and investment, but it will facilitate it.

I mentioned the networks being important. Again, there's a lot of empirical evidence that these are important things. One of the rationales for our reaching out more to India was that there is a large Indian diaspora. Some people made arguments that there were good political reasons to go to India, but there are also very good economic reasons. There's evidence that migration stocks, the number of immigrants in countries, can drive trade and investment. That's because of the network effect that I spoke about earlier.

So relationships matter, networks are important, and having strong relationships and building these relationships are important. The long history we have with migration from India, and again, some of our colonial past, shares a strong argument for fostering this kind of trade agreement going forward.

The last point I'd like to make is that there are a lot of challenges that remain in our relationship with India. It's a complicated relationship and it will continue to be that way. But I think the recent Harper FDI policy may actually give us a little bit more leverage with India. India is paying attention to us. India noticed this recent decision on Friday to allow state-owned enterprises to invest in Canada. They noticed very clearly that we stated strongly that the future of such deals will only occur under exceptional circumstances.

● (1535)

I think India took notice of Canada, maybe for the first time—maybe even more than when the recent trade mission visited India. I think they really noticed Canada on Friday.

I would say strike while the iron is hot. We have an opportunity now to push hard. India has noticed us, and maybe this is a good time to push hard to try to get an agreement done.

Thank you.

The Chair: Before I pass it on to Mr. Pomerleau, let me note that you said they “noticed” us. Is it in a positive way or a negative way?

Prof. Eugene Beaulieu: I think it's largely in a positive way. One of the challenges was just in getting noticed. India has a lot of interests. Canada is not high on the agenda. We are very much in the press in India, and I think a lot of their government officials really took note of.... One of their interests in us is in our resources; one of the interests they have is increasing that relationship. They did notice us, and I think it is positive, because before, they weren't noticing us very much.

The Chair: Okay, thank you very much.

Mr. Pomerleau, the floor is yours.

● (1540)

Mr. Jacques Pomerleau (President, Canada Pork International): Good afternoon, and thank you.

This time you have no vote to cancel the meeting.

The Chair: You never know in this place, but I think we're safe.

Voices: Oh, oh!

Mr. Jacques Pomerleau: In any case, it's a pleasure to be here and to talk about India. But talking about Asia, I'm quite sure that you'll see more of us in the next while, when you will be talking about Japan and China—in the very near future, I think—and maybe the European Union. I expect we will be back here to talk about those agreements.

Today is in regard to India. First, although I think you start to get to know who CPI is, let me say that we are the export market development agency of the Canadian pork industry. We were established in 1991. This is a joint initiative of the Canadian Pork Council and the Canadian Meat Council. It has be made clear that our organization deals primarily with market access issues, the promotion of Canadian pork abroad, providing market intelligence, and as well, working on other significant export-related issues, be it transportation or those that are of direct interest to our membership.

Although a significant portion of the population in India will not consume pork for religious or lifestyle reasons—there are about 200 million Muslims and 300 million vegetarians in India—the majority of the population is still not averse to eating pork. This leaves perhaps 600 million people—quite a few, a much bigger number than the Canadian market, that's for sure. The offer for pork products is extremely limited in Indian stores, with only a small number of specialized shops offering some.

While visiting India a few weeks ago, the Federation of Indian Food Importers indicated that three shops represent about 80% to 90% of all the pork sold in Delhi. The only government-approved slaughterhouse for pork is located in Chandigarh, which is about a three-hour drive north from Delhi—and where Canada has a consulate, by the way.

Most pork found in local stores would be slaughtered locally, sometimes in less than ideal conditions, especially if you're aware of how this is done in India. Most pigs are raised in small, backyard operations, with limited control on their food intake—which means eating whatever they can find. There is a limited selection of prepackaged pork, bacon, ham, and sausages, with similar chicken-based products offered alongside.

During our visit, the federation organized a round table with several importers and distributors of imported food products. The participants confirmed their strong interest in importing Canadian pork. CPI provided a general indication of the price for some Canadian cuts, and they confirmed that these prices were competitive. In spite of the import duty of 37% currently charged on imported pork and the VAT of 5% collected on raw meat and of 12% on processed products, they all indicated that they would be able to find markets for the Canadian products.

The participants in the meeting provided a perspective on the Delhi market. We have to be aware that in India, because of the transportation difficulties the big markets do not communicate with one another—between Mumbai and Delhi and Chennai and those places. So you have to look at very specific markets, one by one.

While some of them were confident that they could import a full container of pork, some participants, especially from smaller firms, indicated a preference for a consolidated shipment equally divided between pork, processed pork products, and seafood. So there's also an interest in seafood from the same buyers.

In recent years, we also have had the opportunity to meet the buyers of the major Indian hotel chains, such as Taj Mahal and Oberoi. Without exception, they always mention their interest in Canadian high-quality pork products. We believe that given access to the Indian market, the Canadian pork exporters could achieve good results.

We're also aware that some product has been shipped directly to India from Canada; if you take a look at the Canadian stats, what is presented as Canadian pork exports to India is real, although there are no export certificates. I never ask how it got in there, but it did and still does.

Our industry has been trying for years to gain access to India—I mean official access to India—without success, as it has been very difficult for the CFIA to get its Indian counterparts to negotiate a workable export certificate for Canadian pork products. Since the announcement that the two countries will start negotiations for a trade agreement, we sense that the Indian veterinary authorities are now more open to conducting such discussions.

In light of the above, the Canadian pork industry is requesting the Canadian negotiators to seek the following. First is a firm engagement on the part of the Indian authorities to undertake negotiations toward a resolution of the various sanitary issues within a set timeframe. As a matter of fact, we've been talking to India for over 10 years without any success.

● (1545)

These negotiations should include the following issues: an agreement on export conditions related to societal norms prevailing in India, which means requirements related to religious practices, such as the requirement for the absence of ruminant proteins in the feed given to pigs; the development of an export certificate for Canadian pork being shipped to India; and finally, a system-wide approval of the Canadian meat inspection system.

The final thing is tariff-free access without a quota for pork, offal, and processed meat products as classified under chapter 2 and chapter 16 of the harmonized standard codes.

Thank you very much. I'm open to all questions.

The Chair: Thank you.

We'll now move to the question and answer portion of the meeting.

We'll start with Mr. Davies. You have seven minutes.

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

Thank you to both witnesses for being here.

Mr. Beaulieu, I would like to start with you.

Overselling questionable numbers, ideology, and rhetoric characterizes the whole concept of trade in our country a bit too much, so it's refreshing to hear some number-based common sense.

You asked a question in your article: what can Canada really expect from these negotiations? And you answered: unfortunately, not much.

I want to start by asking you this. Have you done or seen any economic modelling regarding the economic impact of a trade deal with India?

Prof. Eugene Beaulieu: No, I have not done any myself.

I looked at the Canada-India joint committee report. That's the only document I've seen. I haven't seen an economic analysis of this.

Mr. Don Davies: Okay.

Were there some economic numbers in that assessment that seemed to indicate what Canada might benefit from?

Prof. Eugene Beaulieu: When I read that document there were some numbers in terms of goals or objectives, like doubling trade and things like that.

If you look at the data without an agreement, we have been doubling trade and we've increased trade a lot. It's hard to argue that the agreement itself is going to generate a big bang in trade. There's a very loose connection between a trade agreement and actual employment or jobs. One of the things you see a lot are comments that it's going to generate jobs. The economic evidence on job creation from trade agreements is that there's not a big employment effect—maybe in the short run, but not in the long run. There's potentially some economic growth effects and that kind of thing that in the longer term can translate into a stronger economy. On actual employment effects, it's fairly dubious to make arguments that it's going to generate jobs.

I don't know if I answered your question.

Mr. Don Davies: Yes, I think you did. Thank you.

You point out that from 1995 to 2004, there was a clear change in Indian exports and imports, moving decidedly away from North America. Certainly, the United States has slipped a number of positions as India increases its imports and exports with other countries, namely, China, who's now India's largest partner, the United Arab Emirates, Saudi Arabia, Switzerland, Iraq, Germany, and Australia as well. I also note that Canada doesn't make the top 10 list with India.

You've pointed out the distance, and I'm also conscious of the cost of energy rising over time. I think it's a pretty obvious conclusion that in the next 20 to 40 years, energy will probably be more expensive, not less.

Do you see a continuation of this trend of India increasing its imports and exports to other countries as opposed to North America, which, as you pointed, is some distance away?

● (1550)

Prof. Eugene Beaulieu: Well, I'm not going to comment on the direction of the cost of energy, but definitely the impact of distance relates not only to how much it costs to get goods to market, but also to networks and relationships.

Communication and transportation costs have come down. Whatever happens with the price of oil, the logistics and the time and the cost of getting goods to a far-off market I don't think is going to change in a big way.

Mr. Don Davies: Right, and you point out that “the two countries are not what one would consider ‘natural’ trading partners”. You point out that “the relatively low levels of economic integration are not the natural result of significant protectionism or policy-induced barriers to trade”. You point out that India has actually done a fair bit of liberalization through the requirements of the WTO in the 1990s.

But you've said “Barriers have already come down significantly, and Canada's trade and investment relations with India have grown, but have lagged behind India's relations with larger and closer countries”. You point out that trade negotiations—to use your words —“seem to be going nowhere, fast,” and that “One of Canada's goals is to improve Canadian market access to India, something India has no interest in”. I'd like you to comment on that.

You say India is an active user of trade and investment policies designed to achieve domestic goals. India is not prepared to move further on these issues currently, and any improvement Canada can get is hard-fought. You also say that Canada is interested in negotiating the liberalization of services and procurement, but “these are off the table as far as India is concerned”.

Given that description, it would seem to me your conclusion is that while CEPA with India might be desirable, you don't see any hugely significant gains coming out of that.

Prof. Eugene Beaulieu: Yes, I still stand by that. Again, the distance and economic size is a very important driver of trade relations. Why do we trade so much with the U.S.? We like them and everything, but they're very close and they're very big, so it's just a natural.

India is trading with China and other Asian countries, and Iran and other large countries close to it are driving India's trade. When India started liberalizing, it started trading more with closer, larger countries, and Canada was not really on its map. That's changed a bit, and India is actively pursuing trade and investment agreements with a lot of countries. Again, I think it's pretty clear that we're well down on the list of India's priorities.

In terms of…what was the other point you mentioned?

Mr. Don Davies: Liberalization of services and procurement—

Prof. Eugene Beaulieu: Oh, right.

So they have different interests. We've heard again today that we want market access, not just in goods but in services and other industries. If you look at the most recent WTO report on India's trade policies, even though they talk about being liberal and liberalizing their trade and investment, it is an active tool of theirs. It's part of their development strategy. They use those tools to their benefit and they're not going to give them up easily.

I think some of the things we want, India doesn't want to give up. India does have other interests. I just think we're not high on their priority list. It's possible that things may have changed, maybe partly with the trade mission, and also with the recently announced CNOOC deal and Canada's policies towards state-owned enterprises. I think we did get their attention. So maybe things can improve in terms of their being interested in talking to us.

Mr. Don Davies: Thank you.

The Chair: Thank you very much.

Mr. Keddy.

Mr. Gerald Keddy (South Shore—St. Margaret's, CPC): Thank you very much, Mr. Chairman.

Welcome to our witnesses.

I'm going to come at this from a slightly different point of view. I read and listened to your comments. I didn't think they were quite as negative as the official opposition found them, but maybe I just misunderstood them totally.

Mr. Pomerleau, welcome back to committee. It's always good to see you. Part of this discussion is on Indian tariffs and the difficulty of not just entertaining that market, but entering that market. I certainly understand the comments about distance. Without question, your closest neighbours are always going to be your closest trading partners. India is almost equally divided between the east coast of Canada and the west coast of Canada, with the east coast actually being slightly closer. It is about as far away as any market could possibly be for us.

I just want to be clear on your comments on the duty on pork, because I think you said it was 37% duty on top of—and that's what I want to be clear on—5% on raw meat and 12% on packaged meat. Is it actually 43% and 49%?

● (1555)

Mr. Jacques Pomerleau: The way they do it, there's a duty of 37%, and then on top of that you add a VAT tax of 5% on raw meat and 12% on processed meat. The end buyer will have to pay 49% on the processed products.

Mr. Gerald Keddy: Exactly. I think that puts the lie to the point that tariffs are dropping. We have a punishing tariff here, a tariff wall, but yet there's still a market. I don't think anyone can make the argument that there are no barriers. That's a significant barrier to trade.

You want to comment there, I can tell.

Mr. Jacques Pomerleau: In fact, it is not the most significant barrier. The barrier is the lack of a veterinary agreement. We just cannot get them to negotiate. We have been working with the CFIA for more than 10 years now to get access. There's something in India called bureaucracy; let me tell you, it's not easy to get through. Also, there are some remnants of past policies, where India wanted to be self-sufficient at all costs. Some parts of the bureaucracy, especially the ones we're dealing with, have the idea that in this case imports are no good. They are putting blocks and hurdles in our way.

Mr. Gerald Keddy: But the point I wanted to drill into was the fact that there is a market there, even with the punishing tariff system.

Mr. Jacques Pomerleau: Yes.

Mr. Gerald Keddy: I want to go back to our first guest.

There are a number of issues. I'm going to take a little different point of view than the official opposition takes. If we can finally get the FIPA signed by everyone who's involved, it will continue to open those doors that have been closed for some time. It will give us some structures on foreign investment in India. The free trade agreement, which was dead for many years, has been resurrected. It's a long way from being completed, but at least it's been resurrected.

We do have some commonalities with India, including a common language, English. At least one of our official languages is spoken there by millions and millions of Indians. Actually, I think it's the one common language in India.

On top of that, we have some challenges. Those challenges are distance, a protectionist state, at the subnational level especially, and foreign investment policies that are prohibitive.

Here's my challenge to you, sir. If you took Canada's GDP and India's GDP, we have somewhere around \$3.7 trillion or \$3.8 trillion or \$3.9 trillion, and we're doing a couple of billion dollars' worth of trade. When we started this discussion with the Indians when we formed the government, I think we were doing about \$6 billion worth of trade jointly. We're above that now, so we're headed in the right direction.

Even with the challenges, what's the potential?

Prof. Eugene Beaulieu: Again, I was pretty clear that there is potential. There is huge potential, and I think businesses are discovering that. This is the reason we're trying to foster stronger relations.

Let me be clear. In both the communiqué I wrote and in my comments today, I fully support going forward with this. I think that we want to, that it's important, and that there is immense potential.

As we've heard in testimony today, there are tariff barriers and there is investment protection. I didn't ever say that those things weren't there. I guess one of the things I was a little bit skeptical or cautious about was our ability to get India to move on some of these things.

Perhaps the investment decision on Friday might actually help us in our Indian negotiations on other fronts. There's a potential for this, because they are very interested in that resource part of our economy, for various reasons. But as you've pointed out, and as we heard from Monsieur Pomerleau, India has a complex political system. It's very difficult, it's very bureaucratic, and there are also other issues. It's hard to get progress, so even though they talk about making things happen, maybe they don't happen very fast.

I am skeptical that we're going to get much done, especially since we're not high on their list, but definitely there's potential. Distance is just one of the factors. If you look at the evidence, language is important—these common things work to our benefit. The distance just works a little bit against it.

A lot of my point was that we're expanding trade with them without these investment and trade agreements, but I think that at this stage it's important to do them so that we can facilitate trade. I don't think we're going to drive it, but I think if we don't do it, we're going to continue to have other people with....

So market access is a problem, but again, India is not as interested in relinquishing that as we are in getting it.

● (1600)

The Chair: Thank you very much.

Mr. Easter.

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

Thank you to both witnesses for coming. Welcome.

Jacques, to start with you first, you talked somewhat of the potential in Korea. In the short term—you've been before this committee—certainly the Korea trade agreement is the one that is crucial to the Canadian pork industry. As you're well aware, the Americans have now implemented their free trade agreement, so we're falling behind.

I wonder whether you have any information you could update the committee with concerning what stage it is at, or whether you would express an urgency that Canada move a little more rapidly in securing a market that is already ours.

Mr. Jacques Pomerleau: We have to keep in mind that there are presidential elections in Korea on December 19. Because the election campaign was run on anti-free trade agreement lines, we feel that there's a sense of urgency to conclude the Canadian-South Korea free trade agreement before the new president is voted in.

We also realize that because we are lagging behind the U.S. and the European Union, we may not get what we want. At the same time, we have to make sure that we will not be excluded from that market forever if we don't have an agreement; there's a balance here. We are in close contact with the Canadian negotiators.

My plea today would be that we should try to have as good a deal as possible, but as soon as possible, to make sure that we don't jeopardize having any deal at all. We need one, and knowing the situation in South Korea, we need to hurry up.

Hon. Wayne Easter: Thank you.

You're talking about this December 19, eight days away?

Mr. Jacques Pomerleau: Yes.

The Chair: I allowed a question on the India study, but—

Hon. Wayne Easter: Well, Mr. Chair, we are the international trade committee, and I think if we should be saying to the government that they'd better get off their butt, then they had better get off their butt. I think that's what Jacques is saying. He's not using my terminology, but I'll use it for him.

Thank you.

In terms of the India trade agreement, who is selling pork in that market at the moment?

Mr. Jacques Pomerleau: Hardly anybody.

Hon. Wayne Easter: I know there's not a lot of pork eaten, but there is potential.

Mr. Jacques Pomerleau: Are you talking about Australia or the other countries?

No, the point is that India's Minister of Agriculture and those on the veterinary side are very protectionist. So hardly anybody is in there. What we found out is that there can be a lot of product in India, but it gets smuggled in from Dubai, in whatever ways they can get it in. At the same time, you have to keep in mind that a lot of people are western educated in India and they look at the quality of the products that are offered in their markets. Many of them are wondering when they can get fabulous Canadian bacon, or whatever. That's what we've found out.

India, for us, would be a market of very high-value products, processed products, and we have very few of those markets worldwide.

That's one reason we want to get into India.

● (1605)

Hon. Wayne Easter: So the bottom line is their potential.

I will turn to Mr. Beaulieu. I went through your paper, Eugene, "The Comprehensive Trade Agreement with India: What's in it for Canada?"

Don questioned along the lines of what Canada can really expect from these negotiations. The answer, unfortunately, is not much.

Since this paper was written in November, and by your statements here today, you seem a little more favourable. Given your first response in this paper, I don't think you're against a trade agreement with India. I will say that one of my concerns on all trade agreements that this government is pursuing to date is that they're pursuing them as if it's just for the numbers—let's get a deal.

The history in trade agreements in terms of gaining more income equality, establishing more manufacturing and value added in Canada is not great. In fact, it's absolutely poor. So what do you see from government policy that's needed to gain value from a trade agreement with India?

Prof. Eugene Beaulieu: I'm not sure what your points about inequality or employment were.

Hon. Wayne Easter: Well, you should be sure if you look at the numbers.

Income inequality—the gap between the rich and poor in Canada—is growing rapidly, even though we're doing all this trade. Our manufacturing base has been in decline. We're not doing enough in terms of value added in this country. Those are the kinds of things I'm talking about. It's not just about signing a trade agreement. We need a policy that I think establishes an industrial policy in Canada.

But my question to you is this. Given your concerns that we're not going to gain enough out of a trade agreement with India, how do we compensate for that? How do we establish that we do in fact gain value out of a trade agreement with India for Canadians?

The Chair: Before you answer that, Mr. Easter, do you have the numbers you're referring to?

Hon. Wayne Easter: I can get them for you. I don't have them here.

The Chair: If you can get them and give them to the table, because those are new numbers to me....

Mr. Don Davies: Mr. Chairman, might I just ask something as well? I'm sorry, a number of us have referred to the article that Mr. Beaulieu wrote. Could we maybe have that tabled before the committee at some point? It would help us all to have that.

Hon. Wayne Easter: I have a copy here if you want it. I can leave it with you.

Mr. Don Davies: Yes. I just think it should be tabled in case we do a report.

Mr. Ed Holder (London West, CPC): Chair, I have a point of order.

The Chair: Yes, go ahead.

Mr. Ed Holder: You have a copy of...?

The Chair: No, he got it on his own.

Mr. Ed Holder: If you could share it, that would be nice—

Hon. Wayne Easter: No, no, we didn't get it—

The Chair: If you can get it to the table, we'll have it translated and sent around. I appreciate that.

Hon. Wayne Easter: Talk to the PMO. Get them to give you—

The Chair: Okay, go ahead. Go ahead with your answer now.

Prof. Eugene Beaulieu: Again, part of my early comment was not to oversell the trade agreement. Saying that trade agreements either increase inequality or significantly diminish it is probably not the right way to look at a trade agreement. There is very little evidence that inequality is going to be affected one way or the other.

On the one hand, it might help, because if trade and investment increase economic growth and development in India, then it's going to reduce worldwide inequality. Within Canada, it's not likely to have much effect at all.

In employment, it's the same thing. A trade agreement with India, as far as I understand the evidence—and I haven't crunched the numbers; the trade numbers are small. If you look at trade agreements even with large countries like the United States—and I've looked specifically at these agreements and at the impact on labour forces—there is no evidence that inequality increased because of free trade with the United States and Mexico. There is no evidence that long-term employment was affected. Manufacturing is declining not because of trade. Those aren't the right considerations.

In the article I wrote, I asked, “What do we have to gain?” and I said, “Not much”, because I just don't think there is an appetite in India for having a free trade agreement with Canada—not that we shouldn't do it. I haven't changed my view on that, but I may be a little bit more optimistic that something could come, because one of the stumbling blocks was the nuclear issue we had with India and we've addressed that.

The mission seemed to be successful, and now with attention to the state-owned enterprises, we have really got India's attention. So maybe we have some leverage to get something done.

Market access is a key, and we've heard that today. The way Canada can benefit is if we get market access. I'm just a little bit skeptical that India is willing to give that up.

That's my view.

● (1610)

The Chair: Mr. Shipley, go ahead.

Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC): Thank you very much.

Thank you, both, for being witnesses today.

Mr. Beaulieu, I want to follow that up, because it's an interesting topic you raised regarding the Friday announcement by the Minister of Industry and the Prime Minister. I think that's an awareness issue you've indicated.

One of the things we've heard from other witnesses who have come in is: how do we get people in India to know about Canada? We have a distance thing, and we have a population of 34 million compared to 1.2 billion or 1.3 billion.

You indicated that you are dubious that it would create jobs. I’ll have a question for Mr. Pomerleau, where in pork, we are basically selling zero. I'll follow up with that.

We had the manufacturers and exporters in last week. They were indicating—I don't have the numbers, but you may have that in your research work—that their members would easily have the ability to double what they're doing. I guess if you start at a low enough level, doubling becomes easier.

One of the other things they talked about, though, was that because of this, there is the significance of being able to develop value-add to the products they sell to India.

When you say you're dubious that it would generate any jobs…it's sort of interesting that when we talked about science and technology, resources development, as we're moving to ship to Asia, and also the development.... One of the things they talked about, not just in India, but actually here, was to make sure that we have a transportation infrastructure to make sure we can move products if we're going to be selling, to get them there.

Could you comment on that, please?

Prof. Eugene Beaulieu: If you look at the evidence of impacts of agreements—not specifically the India agreement because I haven't studied that one specifically—if you look at the vast literature of the impact of liberalizing trade, often it does shift employment from some firms to other firms. Typically, smaller, less productive firms may close and those jobs may disappear, and larger, more productive firms will find markets in places like India or the foreign market and those firms will expand. So there would be a shifting of employment, but not a net effect.

Again, if you look at the Canada–U.S. agreement in NAFTA, it didn't affect our unemployment rate. It did contribute to a decline in employment in manufacturing, but those jobs later became part of other manufacturing sectors or the service sector. So some firms expanded, some firms contracted, and the net effect was pretty much a wash.

That's why I say that an agreement with India...you're right, it will generate employment and trade opportunities for some firms, and for other firms it may go in the other direction.

Mr. Bev Shipley: Would it be fair to say that what it does will promote and give businesses, manufacturing, and industries of all kinds that opportunity to profit, if it's not generating jobs, as you say? When you add value, you move the bar up. Now you would have a higher skill...better-paying employment. Is that part of the thought?

Prof. Eugene Beaulieu: It's probably important to separate short-run effects from long-run effects. We have already talked about how this agreement doesn't represent a lot of trade, but it does represent potential. There is potential for growth. In the longer run, it's probably going to increase productivity and improve the employment situation at that end. In the shorter run, it could lead to some transitional effects where some people are laid off from some firms and other firms are hiring to expand. An example is if the pork industry does expand with trade with India, there could be expansion in some of those firms. There would likely be some contraction in other firms or maybe some shifting within the pork industry. Maybe we will go to the higher end. Maybe it's bacon production.

● (1615)

Mr. Bev Shipley: I'm going to get to that right now then.

Mr. Pomerleau, the value shipped now and sold to India is basically zero; it's non-existent. A side that we recognize, through CFIA, is that we need to get a veterinary agreement in place. We know that. We're hoping that the recognition we talked about before...now that we're in the talks, there would be a notice to the bureaucracy by those elected that we actually start to move forward on that.

What sort of potential do you see for the pork industry, and what sorts of products do you see?

Mr. Jacques Pomerleau: In terms of products, it's fairly easy. It would be the very high-end, further processed products, like hams, bacon, sausages—of that nature.

One thing that needs to be recognized is that in India you don't have large retailers yet. As soon as the Metros or Walmarts of this world get into India, there will be a demand for those kinds of products. It cannot be found in India.

Mr. Bev Shipley: So there's also quite a logistics issue.

Mr. Jacques Pomerleau: It's major in India. You just don't try to move product from Mumbai to Delhi. It doesn't work, unless you have days ahead of you. That's one thing people need to be aware of. The four corners have to be worked differently.

Mr. Bev Shipley: I want to let Devinder have my last question.

Mr. Devinder Shory (Calgary Northeast, CPC): How much time do we have?

The Chair: You have 30 seconds.

Mr. Devinder Shory: That's very kind. Thank you.

I'll quickly come to a question to Mr. Beaulieu. You made a comment that we are not high on the list in Indian eyes. At the same time, you said we have their attention now. They have ONGC Videsh, a company in Calgary. They brought their office and they have made a bid to buy some interest in oil and gas.

Then you talked about distance, that distance matters. My question is, once we sign this agreement and everything is online, with the volume and the rebate in the tariffs, etc., and distances becoming shorter and shorter every day, would that not help?

Prof. Eugene Beaulieu: I do think that a trade and investment agreement will facilitate and help trade between the countries. The distance won't go away, but that's one of the barriers—the tariffs and the investment. Walmart was just mentioned. India doesn't want big box stores in their country right now. They are resisting that. That's an issue, right? That's one place where they are not liberalizing. They are not prepared to move. That indirectly would affect Canadian business.

The Chair: Thank you.

Mr. Sandhu, you have five minutes.

Mr. Jasbir Sandhu (Surrey North, NDP): Thank you. It's a very interesting discussion.

Mr. Beaulieu, I have a question for you. Given that the primary products we export to India right now—peas, lentils, potash, chloride, and newsprint—make up, what, 45% of the trade we do with India, what impact do you think this will have on value-added products that we could export with the new trade agreement? Do you think there will be quite a bit of expansion in that? Are we looking at a huge benefit to Canadians?

Prof. Eugene Beaulieu: I don't know exactly. I don't have a good answer for that question. A good example is what we just heard from the pork side—that there is potential. That's an industry that I wouldn't have thought was going to benefit from this, but he was talking about market access, and not only affecting the volume of trade, but also the value added, or the products that are traded—higher-end products going to India. I think there is potential for that, certainly. I just haven't crunched the numbers.

I don't know the chick pea industry. I don't know if there are any value-added opportunities there. There are value-added opportunities in other sectors, so our trade would expand, not just in those industries, but in other industries as well.

I don't know the answer in terms of value-added improvements.

Mr. Jasbir Sandhu: You talked about how when we're signing trade agreements it's not just a matter of signing trade agreements, but it's a matter of taking a strategic place. Can you expand on that a little?

Prof. Eugene Beaulieu: Part of it is this: who should we sign agreements with? I'm an economist, so I believe there are resource constraints. And there must be some resource constraints in negotiating agreements, so how do we decide which countries to sign agreements with?

I read in the newspaper a couple of weeks ago that we have to be doing more with Vietnam, that Vietnam is a fast-growing economy and we're missing the boat. You could rank the countries and go through the list, but I think having a more systematic approach to understanding which countries we should have agreements with and where we're going to get the big returns.... I think that kind of analysis should be done, and that should be part of the global commerce strategy. Then we could go down the list and knock them off. I don't know if any kind of prioritizing system exists. I just think there should be some way of doing that.

In the paper that you've been talking about, I do mention some of the reasons why India is a prominent case for us, and that's because of the fact that it is large and it is growing rapidly. Those kinds of things are reasons to have an agreement with them. Also, we have some common history and some commonalities that reinforce this. But again, going against that are other challenges.

One of the reasons why India is a positive place is the growth in trade that we've had with them, even without having an agreement. I think if businesses are showing that they're interested in an area where the government has some evidence that it could be a potential market.... I think that's happening with Canada and India. We are starting to expand trade, even without an agreement.

● (1620)

Mr. Jasbir Sandhu: Our trade critic and we in the official opposition have talked about looking at trading with countries that are of strategic importance to us. Countries we have mentioned are Japan and Brazil, with India being part of that, but also South Africa. These countries are emerging countries, like Vietnam. It's something that I think we can benefit from strategically in looking at the resources we have.

I know that this government has been interested in negotiating with anybody; it doesn't matter if we have a 0.3% growth-to-GDP trade with these countries. Yet there may be a little bit of a shadowy past to these countries.

I'm going to ask Jacques a question.

You talked about the Indian market. How is the refrigeration in India?

Mr. Jacques Pomerleau: It's a challenge, a major challenge. I visited the largest cold storage in Delhi, and it is smaller than this room. It is a major challenge, and it's also something that is one of the major opportunities for Canada. In Canada, we're used to the big distances and everything. That's the kind of experience we need to share with India. We have a lot of expertise that could be of help to them.

Instead of just trying to open the door, maybe we should also look at how we could become a friendly partner in helping them to develop what's badly needed, such as transportation and distribution and that kind of thing.

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

Mr. Ed Holder: Thank you, Mr. Chairman.

I thank our guests for being here today. It has been very, very interesting. I appreciate your testimony.

It's always fun when you hear discussions from folks opposite. When I heard the member of the third party switch the subject from India to South Korea, it reminded me of something my Cape Breton mother used to say when negotiating. She said, “If possible, win the argument, but if you can't win the argument, attack your opponent, and if that doesn't work, change the subject.” I think he's mastered that—or he listened to my Cape Breton mother, I'm not sure which.

Voices: Oh, oh!

A voice: A wise lady.

Mr. Ed Holder: It's interesting when we talk about market access being the key.

Mr. Beaulieu, you mentioned that, and you said you were skeptical that India would give it up. I was compelled by that comment, because when I think of something a member of the official opposition said, which is that Canada's trade does not make the top 10 list with India, it strikes me that perhaps that is all the more reason for us to want to do a deal like this—to increase those numbers.

Speaking of numbers, though, it was interesting to hear the Export Development Corporation give testimony recently. I just want to share it with you in case you haven't heard it. It's very compelling. Let me just get the exact stat so I don't mislead you; that would not be right. I'll come back to that stat in just a moment, but let me just say this.

I direct this to you, Mr. Beaulieu. You wondered if CEPA would have a significant economic impact on Canada. The Forest Products Association of Canada thinks so. The Association of Universities and Colleges looks at that as a monster opportunity...and I say these as organizations you might wish to follow. The Export Development Corporation has a number of stats you might like to see. The Canada-India Business Council reported that, the Indo-Canada Chamber of Commerce.... Spirits Canada talked about the volume of opportunity. It sounded very much like the pork industry in terms of opportunities there—phenomenal.

Mr. Pomerleau, if you were able to export pork to India the way you want to, what would that do for jobs in Canada?

● (1625)

Mr. Jacques Pomerleau: One thing for sure is that it will increase the competitiveness of our plants, especially the further processing ones, because they have a very limited capacity and market. Right there it will increase, as Mr. Beaulieu said, the level of competitiveness and expertise in our plants.

Mr. Ed Holder: Will you sell more pork?

Mr. Jacques Pomerleau: Obviously, yes.

Mr. Ed Holder: So if you sell more pork, presumably that will mean you're going to hire more people for the processing of pork.

Mr. Jacques Pomerleau: For the whole chain.

Mr. Ed Holder: So that's kind of like employment; that's like jobs.

Mr. Jacques Pomerleau: Yes.

Mr. Ed Holder: Okay. I just wanted to be clear on that.

Perhaps you and Mr. Beaulieu should chat about that, because I think sometimes in real-life scenarios, especially when there are opportunities that are.... I'll call them “ground zero” opportunities.

Again, Spirits Canada...which has such an incredible trickle effect through various of our grains and other sectors, and what it means to producers right across this country. It's actually very compelling.

Actually, often we ask you for information, but you should seek out, or we should give you, the information and testimony from Spirits Canada.

You know, Mr. Pomerleau, I heard you talk about where Canada is with India, and ask what our strategy is. Well, actually, I would submit to you that we have a strategy: in fact we call it a global commerce strategy.

What that means is that we tried to make sure we secured North America. We started 25 years ago with the United States, then expanded that to NAFTA. You can look at what we've done with Central and South America in terms of trying to ensure that we've done that. With CETA there's a population of 500 million people—huge opportunities for the pork industry as well, just since you happen to be here, sir.

Then you look at India, with 1.1 billion people. We're also dealing with Japan right now. We're dealing with countries, frankly, that have stability politically, which we think is important; that are areas where we have the opportunity to expand our markets—and not every market, but that's why we do these kinds of things; and that are geographic opportunities for us as well.

I look at the balance of trade between Canada and India. We started with some $400 million in 2005, and we've grown to $2.6 billion in 2011. I just look at those kinds of numbers...and that's without an agreement. Imagine what we could do with an agreement.

Mr. Pomerleau, would you think that if we were able to somehow challenge those norms, that if we had the circumstance where we could get rid of those subnational governments...cooperating, that this would matter to your industry? Do you not think that would be supportive to you?

Mr. Jacques Pomerleau: No, no, we would support it. There's no doubt about that.

Mr. Ed Holder: Chair, can I just suggest that if we get into this business, I'd like to get into the fridge business in India?

The Chair: That would be a growing business, I'm sure.

Mr. Ed Holder: I'm just thinking that might be worthwhile.

Gentlemen, thank you both.

The Chair: Thank you.

Thank you very much. We appreciate your testimony and your coming forward.

We will now suspend as we bring forward the next panel. We have a teleconference to set up, and we will have one witness here in the room.

● (1625)

(Pause)

● (1630)

The Chair: Let's call our meeting back to order.

I will introduce our witnesses. First, from the Canadian Federation of Agriculture, we have Ron Bonnett, president.

It's good to have you with us. You are not new to committees. I'm not so sure you've been to this committee that often, but it's good to have you here.

We also have, from Canaccord Genuity, Mr. Mahajan.

Are we coming through? Can you hear us all right?

Mr. Sachin Mahajan (Managing Director, Mergers and Acquisitions, Canaccord Genuity Corp.): Yes, absolutely.

Can you hear me?

The Chair: We're good.

With that, we will start with you, Mr. Bonnett. The floor is yours, sir.

Mr. Ron Bonnett (President, Canadian Federation of Agriculture): Thanks for the opportunity to make a presentation to you on behalf of the Canadian Federation of Agriculture.

Today we're talking in particular about the possibility of an India-Canada agreement. I think that's part of an overall initiative of trying to open up trade agreements around the world. Actually, I met some of you in Japan recently at the talks there.

For those of you who may not know, the Canadian Federation of Agriculture is a general farm organization representing commodity organizations and general farm organizations from right across the country and representing over 200,000 farmers. Because we represent a number of commodities in a number of different provinces, a lot of the comments I'll be making will not necessarily be commodity-specific in detail, but will give some general areas of interest as we move ahead with discussing India and our trading relationship.

At present, India is the sixth-largest agriculture market for Canadian exports. In the last five years, on average, Canada has exported $503 million and has imported $245 million in agriculture and agrifood products to and from India. Our top exports were peas, chickpeas, lentils, frozen fish, whey, and mustard seeds. Imports included rice, cereal flours—but that is not wheat—tea, oilseeds, and food products. Canada's trading relationship has grown steadily over the last decade, with exports increasing by close to 300%.

The Indian market continues to present tremendous potential for Canadian agriculture. According to the 2011 Indian census, the current population of India is 1.21 billion people. The country added 181 million more people in the last decade, making India one of the fastest-growing markets in the world.

A recent study performed by the India-based National Council of Applied Economic Research predicts that the percentage of middle-class consumers in the country's total population will increase from the current level of 13.1% to 20.3% by 2015-16 and to 37.2% by 2025-26. This growing middle class will create a new and diversified demand for food and food products and increased market access opportunities for Canadian producers.

When assessing the market, it must be recognized that India is one of the top producers of cereals and vegetable products in the world and is a net exporter of agricultural products. Over 50% of the Indian population relies on agriculture for their livelihood. Food self-sufficiency and increased productivity are central policies of the Indian government. As a result, domestic agriculture supplies some 97% of consumption.

While views differ on whether India can sustain this policy, Indian producers are faced with land and input constraints and the need to increase production levels. Already the demand for oilseeds and pulses regularly exceeds production, and imports are required to cover that shortfall.

To ensure a successful trade agreement for Canadian agriculture, it is imperative that negotiators understand both the domestic Indian agricultural policies and the import and export regulations. The Indian market is complex and sometimes difficult to navigate.

The government plays an active role in agriculture and tightly controls domestic production and trade. Depending on the commodity, policies could include setting minimum support prices, state trading, establishing import tariff rate quotas, dictating import regulations, granting export quotas, and issuing export subsidies.

According to the World Trade Organization's 2011 trade policy review, the average tariff protection for agricultural products in 2010-11 was 33.2%, considerably higher than manufactured products at 8.9%. Applied tariffs vary between commodities and the situation in the domestic market. For example, imports of fresh and frozen chicken cuts were subject to a 100% applied tariff, largely to protect the domestic industry. In contrast, tariff rates have been temporarily eliminated for pulses and have been reduced to an average of 9.7% for vegetable oils, to address demand and inflation.

With the majority of the country following a strict vegetarian diet, pulses are a key protein source. India is consistently among the top market for Canadian pulses—for example, chickpeas, lentils, and peas—with sales valued at $632.7 million in 2011.

● (1635)

Pulses have accounted for 98% of Canadian exports to India. Bound tariffs are 50% for peas and 100% for lentils and other pulses. Permanent elimination of import duties for Canadian pulses and a mechanism to address market access issues would be of significant benefit to this important pulse market.

India is also a significant importer of vegetable oil, importing 10.2 million tonnes in 2011-12. While India has not traditionally been a large market for Canadian canola, the elimination of tariffs on canola seed, oil, and meal would greatly assist canola producers in promoting the benefits of canola as an alternative to other vegetable oils and in building a new customer base. The relevant biotech approvals will also be required.

In certain years, market opportunities for wheat have existed. Depending on the production and stock levels, India can both import to cover production shortfalls or export surplus supply. India last imported wheat in 2006-07, when it purchased a million tonnes from Canada.

The government tightly controls the wheat market, setting minimum domestic support prices, issuing public tenders for domestic and import wheat purchases, and controlling export quantities. Given current high levels of stock, the Indian government lifted its four-year export ban in 2011 on Indian wheat and established an export quota. Exports are expected to continue in 2012-13.

While not considered a traditional market for pork, India has a growing tourist industry and an affluent upper class and foreign population, all with the potential to create new niche markets for Canadian pork. The market for imports is currently limited to hotels, restaurants, and institutions as well as importers of processed products. As meat consumption continues to grow and full market access is secured, market opportunities for Canadian livestock will also increase. Pork imports currently face basic tariffs of 30%.

Market access is related not solely to tariffs. Addressing non-tariff barriers related to sanitary and phytosanitary regulations and import measures and establishing a mechanism to discuss future issues are critical outcomes of the negotiations. Without solutions, Canadian agricultural products won't benefit from the liberalization of tariffs. India has, for example, agreed to extend the pulse fumigation derogation granted to Canadian pulses until the end of March 2013.

Canada and India are working to find a more sustainable solution. Ongoing negotiations could be used to address the issue. There are also various sanitary and phytosanitary issues to solve in the poultry and livestock sectors.

In general, Canadian cereals meet the Indian import requirements; however, in the past India has relaxed these measures when imports have been required and tightened them when they have not. Improved transparency and predictability would enhance the attractiveness of the Indian market to Canadian exporters.

The impact of Indian domestic agriculture and trade policies is not limited to India, but it distorts global trade in the respective commodity. One of the contributory factors of volatility in the international sugar market is policy-induced production swings in certain Asian markets, particularly India. Similar to the situation with wheat, India is either an exporter or an importer of sugar, depending on domestic production and stockpiles. Government policies aimed at stimulating domestic production and establishing a pricing stature and relaxing import restrictions or granting export licence all distort the international sugar trade.

Canada doesn't currently export sugar from or import sugar to India, but the U.S. imports a small quantity under a tariff-rate quota.

In conclusion, India's fast-growing market holds future potential for Canadian agricultural producers. Favourable market access conditions, including a mechanism to address non-tariff barriers, and predictable rules of trade would be beneficial to Canadian agricultural producers.

Thank you.

● (1640)

The Chair: Thank you very much.

Mr. Mahajan, the floor is yours.

Mr. Sachin Mahajan: Thank you.

I don't really have prepared remarks, but as a typical investment banker, I do have some bullet points that I've jotted down, and I'm happy to have a more interactive discussion on those.

Just quickly on my background, I spent about 23 years of my life in India initially and then the last 13 years or so in Canada. I have had the benefit of studying both in India and here when I did my MBA. I am a managing director in Canaccord Genuity. We're the largest independent investment bank in Canada, but we also have offices globally.

India is one jurisdiction where we don't yet have an office, but we are the only Canadian investment bank to have actually done Indo-Canadian transactions. We started with Birla Minacs back in 2007, which I think was about a $300 million enterprise value transaction. We also did the Algoma and Essar transaction, which was about $1.8 billion.

The trade on the M and A front has been fairly active, but mostly inbound—that is, Indians buying Canadian assets. On the other side, there hasn't been much activity going from the Canadian side in buying Indian assets. A big part of what I do is advise large Canadian corporations on how to do business in Canada. That has been a key part of my role here at Canaccord Genuity, and, before that, at Genuity Capital Markets. I've been doing this for about 12 years now.

I have a sort of compendium of issues that I've come across over the years. I'm sure that at various points in time this committee has probably heard about these issues, some of which Mr. Bonnett has just outlined on the agriculture side. I'd like to point out that I've actually travelled with Viterra several times to India to help them with their strategy in India, and also to Saudi Arabia.

Some of the key issues that we have come up with on that trip, or with other conglomerates when they want to do business with India, have been around trying to protect their dollars. The Canadian corporations have the willingness. They understand that India is integral to the world economic order going forward and that it's getting more and more significant. They do want to be part of it, but one of their key issues is as follows. Let's say that I have a pocket of capital—$100 million or $200 million—and I have board approval. How do I go about making sure that the money can travel to India and that I can invest in certain assets, but also make sure that I have the proper title to those assets? How do I make sure that I can take that money out if there are any issues—whether that's internally within Canada or political issues in India—whenever the economic climate tells me that I need to exit that investment?

There are issues around the legal framework and the arbitration. We all know that the Indian legal system uses English, which is fantastic—so it's different from the Chinese system—but on the other hand, litigation can take years in India.

In the broader sense, in trying to promote trade with India, I think those are two of the more key topics that come out in all of my discussions, whether it's convincing a board or the management team to make the investment in India.

Also, on licensing requirements, we haven't found a one-stop shopping sort of climate, whether it's for an agricultural company or for somebody like McCain or some other company that wants to go to India only to find out that if you want to open a warehouse, these are the 10 different licences you need and here's how you go about getting them.

On the level of India it has been difficult, but on a state level it has been helpful. But that shouldn't be the case. When Canadians want to do business, we want to be open to all of India, and not just to states like Gujarat—which is more proactive and has set up very good standards for dealing with foreign companies—and maybe a couple of states down south. I think it has to be more pervasive, which is hopefully one of the things this agreement will establish.

● (1645)

The other thing that's always been the issue has been the visa requirements. For any C-suite Canadian executive to travel to India, he needs to give his passport and have that passport back to him—I know these are very basic issues, but I think they are fundamental—within two or three days, because he has to travel. This is a multi-billion dollar corporation he's running, and he has to have that passport back.

So we need to make sure that in Canada, in order to get a visa, we have to streamline the processes, as the Chinese have done. I've travelled to China about five times. To get my visa, I go in the morning and in the afternoon I have my visa in my hand. We need to make sure that the Indian consulate works that way.

It's the same thing on the Canadian side. We have to make sure that the Indian business visas are cleared within a matter of two or three days. Significant business people do not have the ability to leave their passports for a week or ten days at the consulate and not get their visas.

The other key issue that always comes up is the idea of the parallel economy in India and the fact that cash is king. It's always been a big impediment. One thing that came up in one visit was that the company wanted to make a significant investment in India, and they wanted to acquire land. That becomes a big issue unless the land is actually owned by the government. If it's private land, it's almost impossible to pay the full price of that land. Nobody is willing to transact, because all you have to give is a cheque in Indian rupees or in Canadian dollars. On the other side is the stated rate for that and the actual rate that the seller is willing to sell at. There's probably a differential of four to five times between those.

This is just one example. I know that people have several other examples. Walmart is going through that issue in India right now. They have spent $25 million on what they call “discussions” with India over the last two or three years to get Walmart into India. Now they're being questioned on why they would spend $25 million on discussions. They are being questioned on that.

But that is a fact of life when dealing with India. It's tough to address, but that's something on the other side of the equation, not on the Canadian side but on the Indian side, that needs to be at least addressed from the government point of view. Then we can have arguments and counter-arguments on that.

On the Indian side, their biggest complaint, from the Indian large conglomerates, has been, every time I've gone there, “Sachin, we've gone to Canada. You showed us great assets. We've made the transactions. We've bought billions of dollars of assets in India. We'd like to see some of that capital come back, whether it's pension plans or whether it's Canadian corporations.”

That is one of the key themes when I go and see the Tatas or the Birlas or the Essar Group: “Hey, we've got a lot of these assets. Why don't the Canadian companies want to come in and start looking at them? M and A means bilateral trade. It shouldn't be a one-way street.”

They were very concerned with the whole net benefits test. When I was in India a couple of weeks ago, one of the biggest concerns they had was what this net benefits test would mean for an Indian company trying to acquire oil sands, for example, or assets within the oil sands, or a services company.

At that time, I sort of told them, look, this has more to do with NOCs, with state-owned entities, and it would probably be on a case-by-case basis. Every transaction, whether it's done by Indians or down from the U.S. to Canada, has the same level of scrutiny. Hopefully this will only be limited to the state-owned corporations and not private investors. I think that's the spirit of the remarks that were made by Prime Minister Harper on Friday or Thursday.

Another point I have on my list here is that when I went down with the Toronto Stock Exchange a year and a half ago and met with many Indian corporations and the Securities and Exchange Board of India, the key issue that came out of that related to the listing of Indian companies in Canada. There is no ability for an Indian incorporated entity to actually raise capital on the Canadian capital markets. They are just not allowed.

● (1650)

So if there is an Indian company with Indian assets, but it has a Mauritius holding company, that company can list on the Toronto Stock Exchange, but an Indian company with Indian assets domiciled in India has to list on the Indian Stock Exchange before it lists on the Canadian Stock Exchange. This to me, from a capital markets perspective, is the single biggest issue that needs to be addressed. I think we need to have more robust capital markets.

That speaks to a lot of capital raising, because Canada has been great at taking assets all over the world—they could be in very remote locations such as Mongolia, Africa, South America—and people come to Canada for mining companies and for oil and gas companies and list them. The Indians are not able to to do that. Even all the Indian companies were baffled by that part of the legislation in India.

The Chair: I'm going to slow you down there, because our time is tight. We will move on to the question and answer portion, and we'll allow you to answer some more when we get into that.

We'll start our questions and answers with Mr. Morin.

The floor is yours.

Mr. Marc-André Morin (Laurentides—Labelle, NDP): Mr. Mahajan, do the hurdles you were talking about among the different states in India just happen to be there, or are they part of the economic structure of India, like all the economic and political structures?

Mr. Sachin Mahajan: They are obviously not, because I've seen that in a state like Gujarat, the chief minister will gladly take a meeting with one of our large corporations. He'll sit down there and instruct his deputy ministers at the meeting to ensure that these licences are done. The deputy ministers follow up immediately. So if it can be done in a state like Gujarat, I'm sure it's not enshrined in the legal system. It's more the way business has generally been done in India, and it's just that certain states are more lubricated now in terms of doing that and more efficient in doing that. I would like to see that be more pervasive. Why can't the other 24 states do the same thing?

I've heard good things about two or three other states, but there are 20 others that could probably do the same thing and haven't.

● (1655)

Mr. Marc-André Morin: Can India's national government influence the different states? Does it have some sort of influence over its different states in a negotiation?

Mr. Sachin Mahajan: It can, as much as our federal government can have on Quebec, for example, or on British Columbia. There are certain subjects that are state subjects and other subjects that are federal. There is an ability, but it is limited, because at the end of the day, you have to work in that particular territory or state that you are going to. The federal government might help in the initial licensing, but you will need ongoing support.

Mr. Marc-André Morin: Having lived here for years, you can see that even here it is not that easy, so I wonder how it is in India.

Mr. Sachin Mahajan: That is true. Here are some of the experiences of Indian counterparts working in Quebec, for example. They have had no issues in getting licences or getting approvals. It's a very streamlined process. Under all our securities laws, for example, if they want to acquire a company or they want to acquire land, it's very easy. It's simple, whether it's here or whether it's in New Brunswick or in British Columbia. I think generally it's simpler. I'm talking about licensing, not about the actual net benefit or those issues. Those may be localized. I'm simply talking about establishing a business presence in this country.

Mr. Marc-André Morin: For example, in Quebec a few months ago they announced the construction of a big plant. The deal is between Quebec incorporated farmers and India's largest farmer co-op.

Mr. Sachin Mahajan: Yes, it's IFFCO.

Mr. Marc-André Morin: Apparently, the deal is fantastic. I didn't hear anything against it.

I'll ask Mr. Bonnett a question.

I don't want to criticize the nature of India. It's not a mature industrial country like Japan or Korea. In agriculture, how do you see possibly expanding our share of the market to other things, like perishable produce, let's say, with no supply chain? There's not really a huge middle class of consumers with wages much higher than.... It's not like what we call a middle class.

Mr. Ron Bonnett: I think this is where some of the change is taking place in Indian society. A middle class is starting to rise in India. When you take 1.2 billion people, a very small percentage creates a fairly substantial number of people. I think what we have to start focusing on is targeting some of those high-value markets where Canadian product could be given a premium price.

I think in order to make it work, we have to have a rules-based system. I think it's fair to say, from some of the experience with trading in agricultural commodities in India, that it's been more about politics than about having a clear set of rules and an understanding of what is going to take place. I think that is core: having predictability when you start gearing up to supply a market. I think that would be critical, to build that predictability into any outcome of negotiations coming out of the Canada-India deal.

● (1700)

The Chair: That time is gone.

We'll move on to Mr. Shory. The floor is yours, sir.

Mr. Devinder Shory: Thank you, Mr. Chair.

Thank you, witnesses, for being available.

Mr. Mahajan, my focus will be on your testimony, because we have one thing in common to start with. I was also in India. I spent a few years of my initial life in India, and you did the same thing. We understand the culture. We understand the hurdles you mentioned. Your focus was all on challenges, and definitely challenges are there.

I'm also a little familiar with one of the comments you made on land transfer. I agree that in general the land price is different from that for registration purposes, but at the same time, if any company, for example, your company, wants to get that transfer at exactly the same price you pay, you can have that registration as well. It is available there.

When we talk about all the challenges that are there...part of the testimony in our committee was that:

> Despite some very real challenges in doing business in India's business climate, it would be wrong to paint them as insurmountable.

I'd like you to make a comment on this.

Mr. Sachin Mahajan: I'll start with my conclusion. My conclusion, which I've written down here, says exactly that. People have always debated whether India needs Canada more or whether Canada needs India more. I'm Canadian, but I'm going to tell you that we represent less than one percent of the trade with India. They do not see us as a big trading partner, but we need to recognize India as a big trading partner. If we stand back and just lay out all the issues without finding the solutions for them, Canada will be the one to suffer, not India. India is growing at an exponential pace.

Canada needs to diversify its base from the U.S., and maybe even from China. I think India is the next explosive economy, and we have to be part of it. They need what we have, but they will find it somewhere else if we don't give it to them.

You are 100% correct. I am 100% in agreement with you on that. There's no doubt in my mind, and that is why I think this is a critical piece of legislation. We need to get this right and work on it. I'll keep on pushing. Every single time I take a large Canadian conglomerate to India, I always have tough questions to answer, but the fact is they are tough questions, and we will surely get there soon.

Mr. Devinder Shory: Regarding the regulation of the Indian market, if you noticed, I was part of the Prime Minister's delegation this time as well. When we were in India, the Prime Minister clearly said, as you did, that we have what India needs and we recognize that it is a market with great potential. It was very clear. It was said in the meeting. It was said in public. When the Prime Minister addressed 400-plus delegates or representatives of companies, he said the same thing: that we do realize India is a potential market.

During those days, actually, I read the Canadian papers. One of the statements made by, I believe, Rahul Gandhi talked about FDI. I have been noticing that in India's parliament, even though they have a minority government, the talk is there. I believe that gives us hope that they will come up with some regulations, some laws at some time, or they will make some policy adjustments for multinationals and all these retailers. We talked about Walmart, and even though there is a concern, the government, their prime minister, their parliament, have been constantly talking about opening the markets, and they've been talking about foreign investments as well.

Do you think there is hope?

● (1705)

Mr. Sachin Mahajan: There's no question in my mind.

I don't know when you were in India, but perhaps you remember that Pepsi tried to enter India way back in the seventies, I believe. They were thrown out. The first store that KFC opened was actually stoned. When Walmart tried to open up its stores, it was ridiculed in Maharashtra. IKEA stated the set of rules it would operate under. Today Coke and Pepsi have, I think, about a 90% market share, and they're growing. They are one of the biggest markets. There are KFCs in every single town in India. McDonalds is everywhere. I forgot about McDonalds, but they're everywhere.

I think at the end of the day, people will find a way to work. If people could find a way to work in the Soviet Union and open up all the capitalist businesses in that era, I'm sure in India it will be a no-brainer, given that it's a very entrepreneurial society. They will accept us with open arms.

Mr. Devinder Shory: I agree with you.

I came to Canada only in 1989, by the way.

You were talking about McDonalds. It was mentioned in the previous testimony that there are 300 million vegetarians living in India. McDonalds has its first two vegetarian franchises in India, which are very successful.

I was there with another delegation. We visited McCain and we did meet Viterra, and they are very successful. Other witnesses also told us that when you go to India for business, you have to have long-term goals there. You have to be on the ground. You have to understand the culture. You have to work with the culture within the legal meanings.

Would you agree with all that?

Mr. Sachin Mahajan: Yes, absolutely.

The Chair: That's very good. That's hard to argue with.

Some hon. members: Oh, oh!

The Chair: Mr. Easter.

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

You asked me about motions. I'll put forward only one in order to save time later, and it'll be the one relative to supply management.

Mr. Mahajan, you raised the point that India was concerned with the net benefit test on investment in Canada. For a while we thought the FIPA was signed because it was on the International Trade website, but now it has come down, so obviously it's not signed. What's the view now with the FIPA still in negotiations and the announcement of CNOOC on Friday? Has that changed their view, do you know, because—

Mr. Sachin Mahajan: I haven't had direct conversations—

Hon. Wayne Easter: Sorry. The last witness kind of indicated that views might have changed as a result. What are your thoughts?

Mr. Sachin Mahajan: Look, there will obviously be two sets of views. One will be from organizations that are state-controlled and were trying to do business with Canadians in the past. In the mining sector, for example, NMDC has been here several times. ONGC Videsh has been trying to acquire oil sands for the last several years. Obviously, they will have a bigger issue with the statements that were made. I think private companies like Tata, Reliance, Essar, or Birla will probably view those comments—because they're not state-owned—as not really directed at them. I mean, at the end of the day we have to protect our jobs and we have to protect our industry, but they have successfully transacted in this country on a private scale.

But look, the Indians haven't done that in the past, so I think it will be a test coming up for them. They are state-owned; some of those companies are state-owned, and those are the ones that will actually have a bigger challenge, I think, and more scrutiny. I don't remember a large transaction done by the Indian state-owned companies in Canada, but I'm sure it will be an issue for them.

Hon. Wayne Easter: That is in fact helpful.

The other thing you mentioned was that there are concerns about the legal framework, arbitration, and the amount of time litigation takes in India. That's true. Do they have any concerns on our side about the legal framework? I don't think our system is all that fast either, but they don't have any concerns about our legal system...? Just as background?

● (1710)

Mr. Sachin Mahajan: No. In fact, I haven't heard anything. I've actually travelled a lot with the law firms from Canada, going to India and vice versa. It has always been an issue that Canadian law firms can't open up offices in India, and obviously the legal system is an issue, but I don't think it's the other way round. They are very happy with our legal system.

Hon. Wayne Easter: Thank you very much.

Ron, welcome to you as well.

First off, I do have to ask a question, because I don't think the Indian trade agreement is of immediate priority, but the South Korean trade agreement may be. I wonder if you have anything you want to add on it that's of an urgent basis.

Mr. Ron Bonnett: Well, I think the South Korean one is extremely urgent, particularly for pork producers wanting access to that market. Now that the United States has an agreement in place, they're going to have preferential access all of a sudden, so anything that can be done to speed up that negotiation would be appreciated.

Hon. Wayne Easter: Okay. Thanks.

You mentioned in your paper that the tariffs have been temporarily eliminated for pulses, which we do know is true. Is that the major reason why we're doing so well in the Indian market on pulses and why it's a growing market? Because tariffs are lowered, because there are shortages there, or what...?

Mr. Ron Bonnett: I think the elimination of tariffs is one of the reasons, but I think the other reason is that we have really established ourselves as a reliable supplier with a high-quality market.

I think the problem with temporary tariffs and temporary tariff elimination is that it doesn't give you confidence to do the planning you need to put the infrastructure in place for the long term. If you look back at a number of commodities that have been traded to India, I think you'll see that their policy has been based on what they want to do domestically, as opposed to having some long-term rules and having an understanding of what you would be faced with when heading into that market.

Hon. Wayne Easter: So the bottom line—and you're the second or third one who's said that—is that even though we're in a market, if I could put it this way, without a trade agreement, the stability isn't there to ensure that we invest in the infrastructure, or indeed that farmers invest in further expansion of their level of production in order to target that market.

Mr. Ron Bonnett: I think the word I would use to describe it would be “predictability”. You don't have knowledge of what the rules are going to be. We can see that the Indian government has put a lot of effort into making sure they have domestic capacity. It's fine to have domestic capacity, but we also understand that there's going to have to be a lot of trade in agricultural products just because of the size of the marketplace. We need a rules-based system to make that happen so that people have enough confidence to make the investments that are necessary.

The Chair: Thank you very much.

Mr. Cannan, you have seven minutes.

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

Thanks again to our witnesses. Welcome back to Canada.

We did see each other—we were the two Ronnies—in Japan.

I just want to follow up on Mr. Easter's comment about the tariffs.

You mentioned that a lot of tariffs for lentils have been removed, but there's still 100% tariff on what product?

Mr. Ron Bonnett: I have to go back to my notes on that. As I said, I'm not specific in each sector.

I believe it was on lentils and other pulses. There's a 50% tariff on peas.

Hon. Ron Cannan: Okay.

We talk about free and fair trade, and we want to grow our agricultural opportunities. What are the agricultural opportunities for Indian farmers exporting to Canada?

Mr. Ron Bonnett: Indian farmers have had quite a bit of opportunity with some of the spices there. With some of the commodity-type products there is likely not as much opportunity. But some of the spices and specialty products would be the market opportunities for them.

● (1715)

Hon. Ron Cannan: The pork association just testified, and they mentioned the refrigeration issue as a big concern. From your experience in your association, has that been a detriment as well for getting your product to market?

Mr. Ron Bonnett: It depends on the type of product. If you're talking meat products or vegetable products, refrigeration would be critical. When it comes to peas, lentils, and grain products, it's not as much of an issue. But there I think the issue would be making sure that you could get your product right to the final market. It's one thing to get it to the edge of the country, but you have to have the infrastructure, whether it be rail systems or storage systems, to make sure it gets right to the customer. It's that old situation of making sure the last mile is there to get it to the customer.

Hon. Ron Cannan: Thanks.

Mr. Mahajan, thank you for being here today by video conference.

You said you've spent the last 13 years in Canada, so you still have a lot of activity back and forth with India. Have you done business in other countries outside of India, and how does that compare as far as the emerging markets go and accepting the contractual rule of law from a North American perspective?

I've been in business relationships with the Indian culture. There's a different way of doing business. I was just wondering how this.... You understand the premise of the question?

Mr. Sachin Mahajan: Absolutely. The two other jurisdictions we have done business with are China—I don't know if you can really call it an emerging market anymore or not, but we could call it an emerged market—and the Middle East. There are a couple of points there.

Each of these jurisdictions has its own unique challenges. On the Chinese side, the language barrier aside, even their legal system is very challenging. Their state-owned intervention creates a big predicament for Canadian companies going there. It's a positive as well as a negative, because the financing gets easier and the licensing gets easier, but then again you're in bed with a state-owned entity, which is not typically the way we do business here. Even if you are with a "private entity" there, it will still have some state-owned backing. That always becomes a challenge in China, I have found.

On the Middle Eastern side, their issues are more to do with general perception, what the people want, how to keep the people happy within the state. It's not driven by a business element. They have a social and a business element to it, which are very different from the situation in India. In India, if you are dealing with a private enterprise, there is a profit motive and a transaction motive. In the Middle East, it will be more about, "If I am doing this, how do I look in the eyes of the ruling party, or the sheik, or whoever the supreme head is?" That consideration is paramount within the actual business transaction.

Every jurisdiction has its own unique elements. India, in some ways, is much easier to do business with. On the other hand, you find an equal number of challenges. But I find that on balance, if I had to rank them in terms of ease of doing business, it would probably be Middle East, India, and then China, in my book.

Hon. Ron Cannan: How do we get Canadian business then to invest in India? You say there are opportunities. Other than with the FIPA, are there some ways we can break down those barriers?

Mr. Sachin Mahajan: I think it's more a question of a mindset change. I've always found that the U.S. firms are greater risk-takers. We Canadians are generally more conservative. In order to do business in India you have to—

Hon. Ron Cannan: I just want to clarify....

Mr. Sachin Mahajan: You just have to be....

The Chair: You just had to get into the politics, didn't you?

Voices: Oh, oh!

● (1720)

Mr. Sachin Mahajan: I don't want to be too controversial, but I can probably do that. I'm a new Canadian. In general, I have found that in a boardroom in Canada, you have to lay out the risks and benefits, and obviously the risks generally outweigh the benefits in the short term.

I think Mr. Shory mentioned that you have to take a longer-term view. There's no question in my mind that if you have a one-year or three-year time horizon, doing business in India will be next to impossible and frustrating. If you have a five- to 15-year time horizon, I think you will do wonders for yourself. You can ask people like SNC-Lavalin. They had the same experience. If you sit down with the CEO of McCain, he will tell you exactly the same thing: the first few months or years were absolutely painful, but since then it's been phenomenal.

The Chair: Thank you very much to our witnesses, Mr. Bonnett and Mr. Mahajan, for coming forward. Thank you for your testimony and for your answers to our questions. They've been very valuable and very interesting .

With that, we will move in camera.

[*Proceedings continue in camera*]

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