HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Industry, Science and Technology

INDU • NUMBER 045 • 1st SESSION • 41st PARLIAMENT

EVIDENCE

Tuesday, October 30, 2012

Chair

Mr. David Sweet

Standing Committee on Industry, Science and Technology

Tuesday, October 30, 2012

● (1100)

[*English*]

The Chair (Mr. David Sweet (Ancaster—Dundas—Flamborough—Westdale, CPC)): Good morning, ladies and gentlemen.

[*Translation*]

Welcome to the committee's 45th meeting.

[*English*]

This is the Standing Committee on Industry, Science and Technology. We are studying innovation and intellectual property.

Before us we have four witnesses: from the National Research Council, John McDougall, president; from the Canadian Anti-Counterfeiting Network, Wayne J. Edwards, chair, also the vice-president of Electro-Federation Canada; from the Eaton Yale Company, Vladimir Gagachev, manager, regulatory affairs, electrical sector; and from the Canadian Standards Association, Terry Hunter, manager, anti-counterfeiting and intellectual property enforcement.

It's my understanding that Mr. Gagachev will be here simply to respond to questions, etc. Everybody else will have six minutes for opening remarks.

Mr. Wayne Edwards (Chair, Canadian Anti-Counterfeiting Network, and Vice-President, Electro-Federation Canada): [*Inaudible—Editor*]...seven minutes.

The Chair: Mr. Edwards, I give a little bit of grace on that—

Voices: Oh, oh!

The Chair: —but you'll find only a modicum.

Going by the order on our agenda, the National Research Council will be first.

Mr. McDougall, you have six to seven minutes, please.

Mr. John McDougall (President, National Research Council Canada): Thank you, Mr. Chair.

I'm John McDougall, president of the National Research Council. Thank you for the invitation to appear. I look forward to the discussions today.

As you probably know, the National Research Council was established about 100 years ago, almost, in 1916. It was done so under an act of the Government of Canada. The purpose was really to support economic development in Canada through technology and innovation, in essence to help build Canada's industrial infrastructure and maintain our productivity and competitiveness.

At this point in time, the National Research Council operates with an aggregate budget of roughly $900 million, of which about $150 million comes from industrial and other government departmental sources. We're the largest organization of our kind in Canada, with facilities across the country, about 4,000 permanent staff, and 1,400 or 1,500 staff who would be classified as visiting workers.

Our business includes fee-for-service work, collaborative work, and consortia-based work. We also do some internal projects, and of course we have the very well-known industrial research assistance program that provides grants and other support to emerging enterprises to help them with their technology development.

I'm interested, obviously, in this discussion because IP really is what our business boils down to be. It's about knowledge and know-how. It's the core of what a research and development organization really does. We're trying to develop knowledge and know-how that effectively can be applied, but importantly, in our case, because we're a mission-oriented type of organization, explicitly for the benefit of Canada, and that means both social and economic.

IP, as you know, includes invention and know-how and in NRC's case it's that which is created at NRC. Under the law, employees are required to disclose all IP that derives from their work to NRC. NRC owns it and has the full authority to license, sell, or otherwise deal with that intellectual property.

As president, I'm delegated the authority from the Minister of Industry, under the Public Servants Inventions Act, for the administration and control of our inventions and patents, but disposition of intellectual property in the form of copyright actually requires an order in council under the Financial Administration Act.

When we're working with IP, our job, of course, is to extract the maximum value we can from it for the benefit of Canada—not for the benefit of NRC but for the benefit of Canada. Whether we're developing ourselves or co-developing with third parties, right from the beginning, we have to think about the strategic implications of the intellectual property that will arise. Our IP strategy is developed really on a program-by-program basis.

In our protection mode, we may choose to apply different forms of intellectual property. We may patent. We may simply end up with tacit knowledge and know-how, which is critically important. We may choose to operate with trade secrets so, in fact, we don't release it because that may be the better competitive strategy for Canada. Obviously, in our contractual arrangements, because we deal with many third parties, we have to build in the appropriate clauses and safeguards to enable us to protect.

When time comes to look at transfer, we may license. We may sell. We may, again, choose to retain because the benefits are more appropriate that way. But retention doesn't necessarily mean that we limit its application. It simply means that we maintain control, so that in fact it doesn't slip away from the benefit to Canada.

● (1105)

When we have agreements in place, we then have an obligation to administer them. We need good processes to make sure that we monitor, evaluate, update, collect what to do, and audit that people are reporting correctly. Where necessary, we also have to be willing to enforce our obligations.

So that's a backgrounder. I'm not trying to raise any particular issues at this time. I'm happy to deal with any that the committee may wish to raise.

Thank you very much for the opportunity.

The Chair: Thank you very much, Mr. McDougall.

Now on to Mr. Edwards, for seven minutes.

Mr. Wayne Edwards: Thank you very much, Mr. Chair, and honourable members of the committee.

In particular, thank you to Mr. Wallace, who was helpful in getting us here and spent some time with us over the summer.

We thank you for giving us the opportunity to speak with you today on behalf of the Canadian Anti-Counterfeiting Network and Electro-Federation Canada.

My name is Wayne Edwards, and I'm the vice-president of sustainability and electrical safety at Electro-Federation. I'm also the current chair of the Canadian Anti-Counterfeiting Network.

The Electro-Federation is a not-for-profit electrical industry association. In May 2005, the Canadian Anti-Counterfeiting Network, a coalition of individuals, companies, firms, and associations that have united to fight against product counterfeiting and copyright piracy in Canada and internationally, made a submission on modernization of the Trade-marks Act in regard to product counterfeiting.

During the second quarter of 2007, two parliamentary standing committees—public safety and security and also industry, science, and technology—both made certain recommendations to improve the anti-counterfeiting regime in Canada.

At this time, nothing has changed, and what is even more alarming is that counterfeiting has grown into a criminal activity that supports everything from organized crime to terrorism. Why is this? The current landscape and risk of getting caught is very low, while the profit margin is extremely high.

A large majority of consumers recognize that buying counterfeit goods is unethical, but they feel that it is essentially a victimless crime. Seldom do they feel any guilt. In the absence of obvious penalties against purchasers, or sometimes sellers, they perceive that counterfeiting is harmless. They also are generally unaware of both the economic impact and the dangers that might be present for their health.

But what about the cases where counterfeit products represent a serious threat to the health and safety of Canadians? Consider the potential of fake toothpaste or cosmetics or pharmaceuticals entering the marketplace and in some cases ending up on store shelves as legitimate products. It's one thing to buy a designer purse in the back alley at a discounted price, but it's quite something else to buy some cosmetics or toiletries that may cause you physical harm.

So the risk to health and personal possessions is the most powerful deterrent against the purchase of counterfeit goods. Consumers change their attitudes and their purchasing habits when they understand the risks and dangers to themselves, their families, and communities. Consumers also look for evidence that our government views this as a serious problem, with serious consequences and implications.

Fifteen years ago, one of our member companies, Eaton, discovered that their product, a moulded-case circuit breaker, was involved in a widespread counterfeiting scheme. Used, salvaged, and scrap breakers were being reclaimed, tampered with, relabelled, and sold as new products. Using private investigators, Eaton instigated litigation in Federal Court and won the case. However, 12 years later, we are still dealing with this problematic situation not only for Eaton but also for other manufacturers of those electrical products.

Not only are locals performing the dangerous tampering as described above, but also some Chinese and other Asian manufacturers promise on their websites to export knock-off circuit breaker products. Their websites show precisely that activity, and we are convinced that they have willing Canadian-based resellers of those products. So we need to be vigilant. There are buyers and there are sellers of these products. It's a two-way street.

Our colleagues have encouraged the participation of the RCMP and CBSA with commitments of their time and energy. There have been some successful prosecutions as a result, but we're only scratching the surface on this dangerous public safety problem.

● (1110)

These products find their way into our homes, office buildings, and even military and civilian aircraft.

I will share with you an example that is much closer to home for you here. Some three months ago, members of our association and member companies, who manufacture circuit breakers—the electrical devices that keep you safe in your home and your office, and prevent any short-circuit damage, which usually creates fires—were asked to provide training for the public works department maintenance staff on the perils of having counterfeit equipment in their system. After the training was complete, 64 unsafe breakers were found in the first 122 buildings that were investigated. There are still more opportunities for them to find circuit breakers in the other 5,000 offices and buildings that they are responsible for in the federal government. Some of these buildings are hospitals, so clearly we have some risks to personal health.

In September 2012, I attended the world conference on IP crime sponsored by Interpol and UL. Law enforcement, government officials, and safety standard-setting organizations from 60 countries met in Panama to focus on preventing and combatting IP crime across the world. Over 500 people attended. Notably absent was Canada, with only one official representative, an RCMP corporal. In contrast, Zambia had eight government delegates, China had six, and Russia had four. Obviously it wasn't very high on the Canadian government agenda.

On October 2, 2012, IP rights holder representatives from the Canadian Anti-Counterfeiting Network met with the Canada Border Services Agency at their training facility in Niagara Falls, and we conducted four separate product identification training sessions for border agents. This type of activity helps law enforcement in dealing with the issues at the border.

We'd like to make some recommendations for you to take away from the Canadian Anti-Counterfeiting Network. First, we propose you adopt a system whereby IP rights holders may record their rights with the Canada Border Services Agency and highlight high-risk products that are known or likely to be counterfeit. We recommend that you enact legislation that clearly defines trademark counterfeiting as a specific criminal offence. We recommend you provide the Canada Border Service Agency with the express authority to target, detain, seize, and destroy counterfeit goods on its own initiative—powers it does not have today—and implement policies promoting the searching out of such goods, such as mandatory reporting of brand information as part of shipments.

Some other conclusions that you might take away are that intellectual property theft is a very widespread problem that is growing and often conducted by organized crime. Industry needs to step up its programs across the globe and work with law enforcement in order to train and share best practices in the widest possible population. Educate, starting with the young, to change their perception that free downloads and purchasing pirated goods is acceptable behaviour. Educate on the perils of using unsafe and uncertified products, particularly electrical. We need partnerships with law enforcement, industry, government, and retail to make sure that people are able to focus on this issue. Law enforcement needs to prioritize IP theft as a serious crime worthy of its time and energy.

Thank you for your attention. We're prepared to answer questions in English or French.

● (1115)

The Chair: Thank you very much, Mr. Edwards.

Now on to Mr. Hunter, for seven minutes.

Mr. Terry Hunter (Manager, Anti-Counterfeiting and Intellectual Property Enforcement, Canadian Standards Association): Thank you.

Honourable committee members, thank you for this opportunity today to be here on behalf of the Canadian Standards Association, known as the CSA Group.

I've been working in intellectual property enforcement for over 15 years now. I've worked for companies such as the Canadian Recording Industry Association and Nike Canada, so I've worked for some companies with some big IP.

I'll give you some information about the CSA Group. We're the Canadian Standards Association. We're an organization that writes safety standards for Canada. We also certify products to meet those standards; these are products that everybody uses in their houses—industrial, commercial, and consumer products.

Intellectual property law and enforcement are very important to CSA Group. Its proprietary trademarks and certification marks are the most valuable assets of the CSA Group, because they're not just trademarks: they're certification marks. These certification marks actually identify to regulatory folks or consumers that these products are safe.

Numerous Canadian regulations require products to be certified by a certification body such as the CSA Group. These regulations have been put in place to protect the public. For example, certain electrical, gas, and plumbing products are required by regulation to be certified. Products bearing counterfeit certification marks have not been put through certification testing; samples have not been provided for them to be tested. Uncertified or counterfeit-certified products are unsafe in the market.

Based on our experience, a majority of our counterfeits that we're finding are not manufactured in Canada. They're being imported and, based on our statistics, mostly from southeast Asia. What we're recommending or hoping is that the government provide customs officials the express authority to target, detain, seize, and destroy counterfeit goods.

I'll give you an example of how many contacts I have had with CBSA in the three years I've been working for CSA. On a daily basis from U.S. Customs I get two to eight contacts a day verifying certification marks. I've been contacted by CBSA one time in three years. In a three-month period, U.S. Customs seized over $10-million worth of consumer electronic products in one port.

The statistics on counterfeit goods in Canada are based on RCMP reports. I can tell you today that most industries do not report their counterfeits to the RCMP. In most cases, these investigations are not conducted because any reports to RCMP are prioritized and, in some cases, are not dealt with.

I guess what I would like to advise in this situation is that we adopt a recordation system whereby IP rights holders may record their rights with CBSA. This may help us prevent dangerous goods from coming into Canada.

I'll give you some examples from the last short period of time. Mr. Edwards mentioned the circuit breakers that have been found in an intensive care unit in a hospital. I'll have an information package that you will get later, and there are photographs in there of an exploding circuit breaker being tested in regard to meeting standards. This is a residential circuit breaker that fails.

Counterfeit CSA Group marks have been found on thousands of medicine vials in the last year. What you can do right now as an importer is select whatever product you want from overseas and have a manufacturer put on any certification mark they want. Then they can import them into Canada. These products have never been tested. These are supposed to be child-resistant containers and they're supposed to be certified to meet minimum standards. We don't know if the materials in these products are safe or not. We know that they have not been tested; therefore, they're unsafe for the public. We took almost 100,000 of these off the market.

Also most recently, industrial and hobby welder units have been found in the greater Toronto area, with values in the hundreds of thousands of dollars, and these were unsafe as well. They were untested. They had issues of proximity, of loose wires inside. These were portable welding units. The welders themselves carry the units; when welding, they may get electrocuted and killed.

Thousands of Christmas lights were pulled from the retail shelves of a major national retailer last year. This is an annual thing, as they get imported every year.

● (1120)

These Christmas lights had counterfeit CSA labels on them. All the components had counterfeit CSA marks, were substandard, and wouldn't meet our standards. They were fortunately pulled off the shelves of our national retailer, with only six being sold, because of the intelligence we received from China.

CSA investigated 204 incidents of counterfeit use of our mark in 2011. Most of those situations, we dealt with ourselves. So industry is dealing with the crime themselves.

In conclusion, I guess the government can play a role in improving the system to combat counterfeiting. The proliferation of products bearing counterfeit CSA marks is placing the public at direct risk. Counterfeit goods can kill, especially when it comes to certification marks being counterfeited. These products are definitely unsafe and untested.

Thank you very much.

The Chair: Thank you very much, Mr. Hunter.

Thank you to all our witnesses for your testimony so far.

Now we'll go on to our first round of questions.

We'll begin with Mr. Wallace, for seven minutes.

Mr. Mike Wallace (Burlington, CPC): Thank you, Mr. Chair.

My thanks to our guests for coming today.

The study this committee has undertaken is for IP protection. We've talked a lot about patents. But on the other side of it, which you've clearly highlighted today, a patent is only good if it's not being copied by somebody else and put in the marketplace.

Mr. Hunter, your numbers surprised me a little bit. You get more calls from U.S. Customs on their catching, detaining, and finding things they consider questionable. You're not getting a lot of response from the Canadian Border Services.

Is that because they are trained differently? Is that because they have different tools at their disposal? What do you think the difference is?

Mr. Terry Hunter: I provide training to both Canadian Customs and U.S. Customs on an ongoing basis. I believe the difference is they have a trademark recordal system. Where our trademarks are recorded with them, they will verify it. They also have more resources, merchandise inspectors. For example, they'll have someone who focuses on electronic goods, and a team that focuses on toys. It's product-specific.

Mr. Mike Wallace: For that program, which I think was also mentioned by Wayne, there should be an opportunity for registration, in a sense, of your trademark or patent at the border so they can recognize that. That actually happens in the U.S., you're telling me.

Is the corporate world paying for that service, or is it done through taxes? If I'm ABC company and I'd like some protection, do I register with them? Do I pay? Is there a fee for that?

Mr. Terry Hunter: There is a small fee. It's just a registration fee, basically.

Mr. Mike Wallace: Do they claim that covers the costs of that registration program?

Mr. Terry Hunter: I'm not sure how the cost works out. I understand that protecting intellectual property pays off for domestic industry.

● (1125)

Mr. Mike Wallace: Mr. Edwards, do you want to add to that? Do you know how the process works?

Mr. Wayne Edwards: I'm not really sure. I'm glad that Terry had some comment on it. Your thought of how it gets paid for, that hadn't —

Mr. Mike Wallace: It hadn't come across. I'm a finance guy, so I think about those things.

Mr. Wayne Edwards: In our organization, a lot of people have a lot of ideas, but to think it right through and see who's going to pay for them is another thing.

Mr. Mike Wallace: Mr. Edwards, you're basically saying that the Criminal Code isn't good enough to prosecute somebody who's brought in counterfeit. Is the Criminal Code issue for those who actually manufacture the counterfeit items, for those who are importing it, for those who are buying it, or is it all three? Can you give me an idea of where you think we should be starting in our efforts?

Mr. Wayne Edwards: How would you like to handle that, Vladimir?

Mr. Vladimir Gagachev (Manager, Regulatory Affairs, Electrical Sector, Eaton Yale Company): Section 408 in the Criminal Code, passing off, is the one that's most used by the RCMP when they press charges by the crown. The problem with the passing-off section is that to be liable you have to be knowingly passing off counterfeits as original or genuine. If you claim ignorance, then that section doesn't catch you because you can say you didn't know it was a fake.

On the other hand, if the buyer knows it's a fake and the seller knows it's a fake, it's not passing off. It's perfectly fine because they're both dealing with the same information. That's only because counterfeit is not defined as a crime at all, so passing off cannot apply. The buyer knew he was buying a fake, so it's not passing off.

Mr. Mike Wallace: If I'm an electrical company and I'm supplying breakers, and I know that this breaker is actually counterfeited, but I know that in advance and I know that the guy who is selling to me is from another country, and I know it's not an Eaton Yale product but it might say so on it, are there no penalties for that, because you both know that you're selling stuff that's been counterfeited?

Mr. Vladimir Gagachev: At least in the first instance there isn't any, because if you plead ignorance or if the buyer knows that it's a counterfeit, it's not passing off. However, the way the RCMP get around it....

I'm not a lawyer; I'm an electrical engineer, but we have lawyers in our Canadian Anti-Counterfeiting Network organization. The way it's been explained to us by the lawyers is that they're being given a notice, so now they know it is counterfeit. Then they are being watched either at the store where they sell it or on their second attempt to pass it through the border. At that point they cannot claim ignorance any more. But at least at the first offence they get away with it.

Mr. Mike Wallace: You use public works as an example, that you did a survey of 120 buildings and found 65 irregular or counterfeit items. Were they surprised? Or is it something that is not actually accepted in the industry but they know it's out there?

Mr. Wayne Edwards: I think they were surprised. The challenge that public works has is to investigate 5,000 buildings that the federal government has across the country. This was the beginning.

They wanted some help and some training at the beginning of their survey, to know how they could identify an authentic product from a counterfeit one. We gave them the training, and there were probably 65 people in the room. They had a webcast with, I think, another 150 people.

With that, they went on to start the process and we checked them after they had done, I think, 122 buildings. It was about 64 breakers that they had already found. The program is expected to take two years to complete and in that two years, obviously, if you use that same ratio, they're going to find hundreds of unsafe products. What's really scary is that some of these were in hospitals and some of these breakers are protecting life-saving equipment. People might be on a respirator or whatever, and if that thing goes faulty, their lives are at stake.

● (1130)

The Chair: Thank you, Mr. Edwards.

That's all the time we have, Mr. Wallace.

Now we'll go on to Mr. Stewart for seven minutes.

Mr. Kennedy Stewart (Burnaby—Douglas, NDP): Thank you, Mr. Chair.

Thank you to the witnesses for coming today.

My questions are to Mr. McDougall. I have a few general questions about the NRC before I move on to ask specifically about IP. Could I just ask you ahead of time, if you have any documents that you refer to, if you could table them for us as we move along? That would be great.

In an October 26 letter to your employees, you state that “we have continued the review of our research activities to ensure alignment with NRC's new directions”. I'm just wondering if you could tell us what these new directions are and where we might see where they have been prescribed by government.

The Chair: Hold on for just a moment.

Go ahead, Mr. Lake.

Hon. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC): On a point of order, Mr. Chair, I'm just curious as to the relevance to the study of that question. It really doesn't have anything to do with IP.

Mr. Kennedy Stewart: I just explained the—

The Chair: That's not really a point of order, Mr. Lake. I don't know where it's going either. We'll see by the answer where we're headed.

Hon. Mike Lake: Okay.

Mr. Kennedy Stewart: Just to repeat, you said there were going to be new directions. I'm just wondering what these new directions are, where we can see that they've been prescribed by government, and if you expect these changes to be discussed in Parliament.

Mr. John McDougall: Thank you for the question.

As most people probably know, I think, the NRC for the last couple of years has been undergoing a transformation really to align itself better with the existing act. The existing act, as I've described, requires us to undertake economic development essentially on behalf of Canada through technology and innovation. It mandates us to operate and carry out certain functions—for example, looking after Canada's astronomical facilities, ground-based. It requires us to provide services in the area of measurement and standards, which supports organizations like the CSA, for example, and so on.

The process we're in actually is to move away from less mission-oriented work—which was really largely scientist-driven—and more to work that does actually align with obligations under the act. That's essentially what's under way.

Mr. Kennedy Stewart: Where can we read about these new direction changes? Are there any documents? From what I've seen, there's not really much, and it's something that's being done internally rather than discussed publicly.

Mr. John McDougall: That's correct. Essentially, as I say, it's really a realignment to the existing act. We've had a lot of conversations with many people, including members of your caucus, for example, about some of the things we're doing. But it's more of a reorganization than it is a change of any mandate or whatever.

Mr. Kennedy Stewart: Okay.

In an interview with the CBC, the minister of state said that he hopes that the NRC will become a concierge service for industry and said he envisages it becoming “a one-stop, 1-800, 'I have a solution for your business problem'”.

Is this also your vision for the NRC, that it become a concierge service?

Mr. John McDougall: That is really specific to some of the things that are going on within IRAP. I might take a moment here just to outline the nature of IRAP, and how it works, as a preamble to answering that question.

The industrial research assistance program is a grants and contribution program that's delivered in, I guess I would say, probably several hundred communities around Canada through industrial technology advisers. Those advisers are empowered to provide financial support by way of a grant to companies that qualify. They also, at the same time, provide mentoring support about business practices that these companies are following.

The grants are used for technology development purposes, and the industrial technology advisers inevitably require, as a result, a fairly extensive knowledge of what's going on in Canada. Historically, they have been built around particular sectoral areas, so their strength is primarily a sector, or perhaps a platform technology.

● (1135)

Mr. Kennedy Stewart: You mentioned the IP, and that the NRC owns the IP. When you change the nature of the NRC, do you expect that you'll also have to change your policy regarding ownership of IP? For example, the companies contracting with the NRC or being served by the NRC, would they now own the intellectual property? Or is that something you would retain?

Mr. John McDougall: That's a very good question, actually.

If a customer of the NRC is a fully paying customer, they own the IP, and they do today. If we are collaborative, then there's a discussion, because the "benefit to Canada" issue becomes, obviously, more important. One of the things that we don't want to see is companies simply using the NRC as a mechanism to do something perhaps on a joint basis, which reduces the cost, that they simply take elsewhere. So there's a discussion about what the appropriate model or method or strategy might be.

Mr. Kennedy Stewart: Is there any kind of public document we could see that steers your decisions in these matters? Is it just on an ad hoc project-by-project basis, or are there any guidelines under which you make your decision?

Mr. John McDougall: The guidelines are very broad principles because they are things like "benefit to Canada". The challenge is we tend to work fairly close to the marketplace, and usually every deal has a wrinkle in it that makes it a little bit different.

We could easily share with you some of the broad principles that we apply in making those decisions, if you wish.

Mr. Kennedy Stewart: Do you see more or less IP being owned by the NRC now under this new policy direction?

Mr. John McDougall: In the new arrangement one of the things we're looking for is more industrial financial involvement. With more industrial financial involvement, there will inevitably be more that will be paid for, and thereby owned, by industry as a proportion.

Mr. Kennedy Stewart: Okay. I'm just a little concerned that we'd be subsidizing business in this sense, that the NRC was paying for the research but the business owned the IP.

Mr. John McDougall: Yes, that's exactly what we're trying to preclude, actually. If the NRC has an investment in the process, then the Government of Canada, obviously, and the Canadian people, have an investment in the outcome too, and have to share somehow in that return.

Mr. Kennedy Stewart: Okay. Thank you.

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

Now we have Mr. Lake, for seven minutes.

Hon. Mike Lake: I'm interested in following up on the industrial involvement. Mr. Stewart talks about subsidization. In a sense, I think what we want to see in Canada is more industrial subsidization of the research. We want to find a way to get business more involved in actually doing more research and investing in innovation.

Maybe you could speak to that a little bit, the importance of that.

Mr. John McDougall: Sure.

The key test of industrial and economic relevance is actually whether industry is willing to participate, and to participate not just not just in "good words" but in real monetary terms.

One of the things, for example, that we would look at in terms of a few years ago is that the industrial participation in real terms at NRC was actually quite small, in the order of, perhaps, 5%. At 5%, in many ways, it's extremely difficult in its...extremely easy, and not very meaningful, types of participation.

If I could use a very bad analogy, but it comes to mind, is it's a bit like buying a lottery ticket. If you take a little of your play money and put it in the lottery, you may win and you'll be very happy if you do, but you won't miss it, probably, if you don't. But if you were to put all your money in the lottery, you know you're going to lose, right?

Now we're asking them to put a significantly greater amount of their own skin in the game, so to speak, and when you do that the expectation of a return on value becomes much higher. So the whole thing becomes more disciplined. Fundamentally, when you come right down to it, the biggest change is to do things that will be of benefit to Canada, through Canadian industry, and make sure that you validate that it really will be by the fact that they're prepared to put more money into it.

Hon. Mike Lake: You spoke about the IP strategy and you talked about it being on a program-by-program basis. That kind of jumped out at me. Maybe you could elaborate on that a little bit and sort of walk us through on a program-by-program basis what the IP strategy might look like.

● (1140)

Mr. John McDougall: I'll give you a little bit of an example of the sorts of things.

Part of our business is what we would call engineering work, which is quite close to market, things related to aerospace, automotive, and so on. In those areas, most of the work that is done is quite short term in nature, in terms of its application, so it's going to be developed and applied within maybe two, three, or perhaps five years. So the time horizon is relatively short. The industrial participation is higher, and as a result of that, the risk is also lower. When you put all of those pieces together, the question is simply to ensure that we are working with partners in such a way that we maximize, as best we can, the stickiness to Canada of the resulting work.

In the life science area, there tend to be longer-term agendas. These are typically five-year to ten-year type processes and the risk is higher. The companies, in most cases, are relatively early stage and their ability to pay is small, so what we're really trying to do is help them grow. There we tend to take a different approach. The approach is more to work with the companies, share the risk with them, and take the return from the success of the outcoming technology back from them and the work that they ultimately do.

Then we have what we call emerging technologies that are the sorts of things that actually come to grips with, for example, things like counterfeiting where we're dealing with new techniques of encryption or more labelling or ways of telling one molecule from another when something is imported into the country, whether it's really coming from where it's supposed to, through tracking systems and so on.

These are more pervasive technologies. These are ones where NRC will probably end up in an ownership position and will distribute rights according to the appropriate needs and applications, ultimately.

Hon. Mike Lake: Do I have time for one more question?

The Chair: Yes, you have two more minutes.

Hon. Mike Lake: We've heard a lot from different organizations about where patents are filed for first. In your situation it would be very interesting to hear, in terms of filing for patents, to what extent you look external to Canada, because there has to be value for those patents in other places. Maybe you could speak to that.

Mr. John McDougall: The strategy of how you go about protecting is very important. Gradually the global patent system is becoming more uniform. Historically, there were first-to-file or first-to-invent processes, and they were different in different countries.

The Chair: Excuse me: could you turn the other mike your way and use that one instead? That's right.

Okay. I think we've solved the problem.

The mike you were using was creating a hum.

Mr. John McDougall: How's this? Is it better now?

The Chair: Yes.

Mr. John McDougall: Okay. Sorry about that.

As I was saying, the patent system in the world is gradually becoming more uniform. There used to be two significant differences—a first-to-file process versus first-to-invent—and those of course had very serious implications. They are becoming more uniform, but it still begs the question, where is the place that you want to start? That will differ depending on the technology, on its applications, and so on.

One of the real challenges, or a bigger challenge, I would say, is whether to file at all, and whether patents are the right way. As soon as you file a patent, effectively you're publishing what you know. Then reverse engineering kicks in, and you have to make a decision about whether you really want that to happen or whether you want to try to black-box the technology and really maintain it and embed it somehow in ways that you can protect through trade secrets. You can still license trade secrets, but the beauty is that they don't have to be disclosed. You can license their use as opposed to the secret itself.

This becomes a very complex problem. The closer to market, the more problematical it is, actually, because the other side, of course, is that the user communities are different as well, and different sectors are very different. Those who are associated with the B.C. industry are adamant about owning and having control and various other things.

Most established industries are much more pragmatic. Oftentimes they'll try to leave ownership in an organization like an NRC because they think the management of the use is perhaps improved for the industry that way, as long as there are reasonable protections that allow them to kind of have first right to—

● (1145)

The Chair: Thank you, Mr. McDougall. We're over time now in that round.

We go to Mr. Regan, for seven minutes.

Hon. Geoff Regan (Halifax West, Lib.): Thank you, Mr. Chairman.

Mr. McDougall, I hope to have an opportunity to ask questions of other members of the panel, but like my previous colleague, I'll start with you.

I'm interested to know what happens to intellectual property that comes out of a lab—for example, the medical device lab in Halifax, which is now going to be shut down.

In fact, I'd also like to know why the bad news for that lab last week, when previously they were...or I guess it was made public that it wouldn't be touched for three years. What changed?

Mr. John McDougall: The reality, if you like, of the business we're in is that we're now in a mode really of constant assessment. Originally we thought we would be able to repurpose people, although their skills obviously were connected to MRIs. What we determined was that actually we couldn't. That's why the decision changed.

In the Halifax situation, it was a relatively small component of a much larger entity—

Hon. Geoff Regan: It was mainly brain imaging, as I understand it.

Mr. John McDougall: Yes. In Halifax—

Hon. Geoff Regan: They had in fact developed new surgery techniques in relation to the brain.

Mr. John McDougall: Yes. It's actually a very academic unit, if I can put it that way. Our hope, frankly, is that it doesn't go away but that it remains viable in an academic setting.

That was really the—

Hon. Geoff Regan: [*Inaudible—Editor*]...withdrawing funding from it, and you're hoping it's going to have some other life of its own somehow.

Mr. John McDougall: Well, what I can tell you is that there were three components to MRI imaging work in NRC. One was in Winnipeg, one was in Calgary, and one was in Halifax. Halifax was the smallest piece.

They were all operated as a unit. Each of the units had little bits of expertise, as you can imagine. In Winnipeg they were doing a variety of things, etc., but in the Halifax centre, much of the work was on brain-related imaging.

Hon. Geoff Regan: Okay. Well, that seems important, but let me turn to Mr. Edwards now.

I'm concerned about what I'm hearing from Mr. Hunter about particularly circuit breakers, welding units, and so forth, but there have also been reports, I think you mentioned, on counterfeit parts being acquired by National Defence under its procurement plans. I've also heard about that in the U.S. I remember hearing about parts, I think, for radio equipment or something that originated in China, that arrived in the U.S. and were tested in somewhere like Colorado, and then they went to Afghanistan where, in the extreme heat, parts of them melted. In testing that in Colorado, you aren't going to discover that, in all likelihood, unless you test it for heat. That is one more example.

Are you seeing that here? Do you know what procedures are in place to prevent it from happening, to ensure that the items are not counterfeit?

Mr. Wayne Edwards: Thank you for the question.

I'm not specifically familiar with the example you've given, so I can't make a comment on that. I think, in general, what we do see is that we have committees like this within our organization, Electro-Federation. We have senior people from a lot of electrical companies and mechanical companies, and we all talk about the fact that there are issues. Where we have difficulty is getting people to be very specific on their own individual products.

We said here today that Eaton has said it, and another company called Schneider has come out and indicated what they have. But what happens here is that companies don't want their name associated with counterfeit products because it has a negative effect on their market. So they're very, very shy about opening up to the press or putting that in writing so that people can actually say, Company XYZ has a fake product, because nobody else will buy that product again. They're very careful with that, so it's hard to get that kind of information. But we do know there's a significant amount of it going on. Given the fact that only 1% of the containers, we're told by Canada Border Services, are actually inspected, if we pick up a lot of counterfeit equipment, then how much is coming past that we don't see?

● (1150)

Hon. Geoff Regan: Thank you.

Mr. Hunter, can you comment on the question? First of all, if DND, our Department of National Defence, is getting counterfeit stuff, that's very concerning, but so are the examples you gave of Christmas lights, circuit breakers, welding units, pill containers.

If I go to.... I don't want to mention the national retailer. One comes to mind that has its own currency.

Voices: Oh, oh!

Hon. Geoff Regan: That's where I often will get my Christmas lights.

If I'm getting Christmas lights there, I'm going to assume, well, it's a Canadian company, it says it's CSA-approved, so I'm all set. But you're telling us that it isn't that simple.

Mr. Terry Hunter: It's not that simple. Right now, it's buyer beware.

Hon. Geoff Regan: First of all, how does it happen that a national retailer acquires something like that without being sure of its source and being sure that it has in fact the proper rating from CSA, for example, that's required?

Mr. Terry Hunter: Right now, most major retailers have their own supply chain security and verification systems in place. On occasion, what happens, for example, is this. On the Christmas lights that I mentioned earlier, their supplier in Asia sourced it from a manufacturer that provided counterfeit CSA documents and counterfeit testing documents, so these things do slip through the supply chain. We work with retailers right now because we still see the retailers as victims of counterfeit as well. They do the best they can to prevent them from coming into the country, but I spend a lot of time working with our retailers as well to help them identify and ensure that their products are certified.

Hon. Geoff Regan: So should they, when they receive a shipment, be checking with you? What you're telling us is that those retailers in Canada received not only the labels that say CSA , but even documentation that supports that, supposedly indicating that CSA has done its studies and examined and tested these products and they're fine, and they're not. They're counterfeit.

What's the answer to this? Clearly, this has to be a major consumer concern, or it ought to be.

The Chair: Sorry, your time has run out.

Hon. Geoff Regan: I hope to get another chance later.

The Chair: Mr. Hunter, go ahead and answer that question as briefly as you can.

Mr. Terry Hunter: Right.

We are working with the retailers. We have a public database where they can verify that the products they are sourcing are certified by CSA, and likewise with other certification bodies, such as UL or ETL.

It's really up to them right now. We don't have anything in place on our borders to prevent or check the products coming in, so there's no real screening process for counterfeit products coming into the country.

The Chair: I'm sorry, Mr. Hunter, I just want to make sure I heard you: there is a database that a retailer can access?

Mr. Terry Hunter: That's right.

The Chair: And they can conclusively determine whether the product they have is legitimately certified?

Mr. Terry Hunter: That's correct. We have a public database. It is open to the public and industry if they want to check their product and it has a file number related to it.

The Chair: Thank you very much. It was a good question and good answer.

Now we'll move on to our five-minute round.

Madam Gallant, you have five minutes.

Mrs. Cheryl Gallant (Renfrew—Nipissing—Pembroke, CPC): Thank you, Mr. Chairman, and through you to our witnesses.

Mr. McDougall, my question is going to pertain to the NRC's crown jewel. The National Research Universal, the NRU reactor, is situated at Chalk River Laboratories, which the natural resources committee visited back in 2010.

I believe, Mr. Regan, you were there.

The National Research Council of Canada designed and built the NRU, which replaced the NRX as the world's largest source of neutrons, and has been host to a significant scientific community, as well as industry, for materials analysis.

In fact, NASA sent a piece of the ill-fated space shuttle *Challenger*'s O-ring, and through the use of neutron beam scattering, which provides a unique non-destructive means of determining the atomic and/or magnetic structure of material, to determine whether the O-ring was indeed a potential cause of that tragedy.

While the NRU is currently most widely known as the world's greatest supplier of medical isotopes, it also supports the CANDU fleet of clean, economical, sustainable nuclear power generators. It has even played a key role in the non-proliferation of nuclear weapons through its fuel research, which has rendered the nuclear warhead more valuable as a source of clean energy than as a weapon of mass destruction.

The NRU continues to fill a key role in terms of national security and generally making the world a safer place to live. But Chalk River Laboratories is also the proven model for taking a scientific concept from the board to the bench through development and application across the valley of death and on to commercial manufacturing.

One example is the passive autocatalytic recombiner, which, had it been installed in Fukushima's reactor building, would have prevented the hydrogen explosions during that situation.

My question, Mr. McDougall, refers to the NRC's neutron beam centre that arose from Nobel Prize winner Bertram Brockhouse's research. What role do you see the Canadian Neutron Beam Centre having with respect to Canadian innovation?

● (1155)

Mr. John McDougall: First of all, I will say just as a preamble that the comment about Atomic Energy of Canada Limited being an example of the kind of thing we have to do in Canada is probably not a bad example. It was very mission-oriented. It led to exactly what you were talking about, from an idea to the commercial marketplace. We need to do more of that in Canada. I think it's very important.

As you know, the reactor and Atomic Energy of Canada now report through the Natural Resources Canada file, not me, obviously. The neutron scattering activity is a relatively small component that they were going to abandon some years ago, but through a cobbling together of various funding sources it was retained.

More recently, NSERC, which is the predominant funder of that activity, gave notice that it would be pulling back from continuing to do so, which makes it somewhat, shall we say, at risk. The largest amount of funding was coming through them to academic researchers, who are the predominant users.

There are instances where there have been exceptional outside users, but they're very few in number. When they do occur, they're very significant. The challenge that AECL and Chalk River labs are dealing with right now is whether or not that's a capacity they should be trying to maintain.

The Chair: Thank you, Mr. McDougall.

That's all the time we have for Madam Gallant.

Now to Mr. Harris, for five minutes.

Mr. Dan Harris (Scarborough Southwest, NDP): Thank you very much.

Thank you to the witnesses. There certainly won't be enough time to deal with everything I want to deal with.

Mr. McDougall, you made a comment about NSERC pulling back. Is that because of financial challenges that they're facing, that they're able to fund less programs, or is there a different reason?

Mr. John McDougall: I won't pretend to be an expert on their funding, so I can't honestly answer that. I assume they're doing it for some reason that in their mind makes sense, but I don't know what it is.

Mr. Dan Harris: That will be a question to perhaps ask someone else down the road.

Today we have heard a fair bit about counterfeiting and some of the problems that different sectors face. I'm going to draw folks' attention back to a study that the industry committee did in 2007 on counterfeiting, and just list off a few recommendations.

Recommendation 2: That the Government of Canada enact legislation that clearly defines trademark counterfeiting as a specific criminal offence under the Trade-marks Act.

Recommendation 3: That the Government of Canada create a criminal offence for manufacturing, reproducing, importing, distributing and selling counterfeit goods.

Recommendation 4: That the Government of Canada make the manufacture, sale, and distribution of fake labels of authenticity an offence in the Criminal Code.

Moving on to recommendation 11, and I'll just paraphrase this one, that the government provide CBSA and law enforcement officials with "the express authority to target, detain, seize, and destroy counterfeit and pirated goods on their own initiative", and that continues on.

Recommendation 12: That the Government of Canada formalize intelligence sharing between the Canada Border Services Agency and the RCMP.

Recommendation 15: That the Government of Canada provide Health Canada officials with sufficient resources to investigate counterfeit food and drug complaints.

This was a fairly exhaustive study that came out with a number of recommendations that, not just today but throughout this IP study, we've been hearing time and time again. This study was done five years ago. It would seem that the government hasn't moved forward yet on many of these good recommendations.

Is this something you would like to see included in this study and see the government take action on?

Maybe I'll start with Mr. Edwards and work my way down.

● (1200)

Mr. Wayne Edwards: Thank you, Mr. Harris, for the question. I don't think you've been given a copy of our notes, but at least four of those points you made were salient points we did want to make, and we have. So yes, we agree that would take us a long way to helping the situation.

As we look back, nothing really has changed in the five, six years that have gone by. Nothing has happened. That was one of the points we tried to make as well.

Mr. Dan Harris: Thank you.

Mr. Vladimir Gagachev: Absolutely: that's why we're here. We realize counterfeiting might be on the outskirts of the scope of this particular study, but we were hoping it would draw attention back again to that issue. I don't think another study is necessary; we'd just refer back to this one.

Mr. Terry Hunter: Thank you.

I believe the strain on industry for protecting their own IP is quite heavy. If we can get any of these changes made to government, it would be amazing. We would be behind that, for sure.

Mr. Dan Harris: I can say in my own experience of going out and working in the oil sands and having to buy my personal protective equipment, my PPE, that of course everything is based on the CSA standards. It would be quite frightening to think that I might have ended up getting some counterfeit protective gear. It certainly could have put my life or the lives of the tens of thousands of workers out there at risk. I think we need to see some action; it has been five years.

I'm going to go back to Mr. McDougall, provided I have time. Since the chair's not looking at me, that means I do.

You mentioned that in early-stage development, the NRC takes on more risk in those endeavours, and as such expects more ownership of the IP. I think that's perfectly reasonable. You mentioned in the shifting of direction at the NRC that the expectation of return that would exist with industry playing a larger part...that you still want to hold on to the IP.

How do you realistically expect the NRC to hold on to that IP when industry's taking a much larger role and has an expectation of return?

The Chair: Please be as brief as possible.

Mr. John McDougall: Yes.

Well, I obviously wasn't clear, because what I was trying to say is that when you're upstream you have less industry participation. The further you are away from the markets, especially from a time point of view, the more difficult it becomes for industry to invest, because their models discount the returns that they get, and the longer the time, the less the return in their mind.

So you have to deal with it, and that's why you have a progressive kind of a model.

The Chair: Thank you very much, Mr. McDougall and Mr. Harris.

Now on to Mr. Lake briefly, and then over to Mr. McColeman.

Hon. Mike Lake: I'm not going to ask a question, I am just going to make a point.

Mr. Harris made a point earlier about counterfeit. I just want to point out that, of course, prior to his time here, we had a minority Parliament, and it was very difficult for our government to pass anything that strengthened our laws because the opposition parties would rally together against it.

So when the government does move forward to take measures to strengthen the laws in these areas, I'm hoping it will have the NDP support on that.

● (1205)

The Chair: Mr. McColeman, the time is running.

Mr. Phil McColeman (Brant, CPC): Thank you, Chair.

I'd like to go to Mr. McDougall. We've heard testimony at the committee several times that underscored that Canada does not do a great job of commercializing IP, and I think you've touched on it a little. We are good in the labs with inventions, good with innovative ideas, but turning those into actual commercialization, we rank far below other countries.

You've been talking about the kinds of transitions you're making. We've heard from post-secondary institutions that use various different models to retain ownership—for example, 50:50 arrangements. Others hold it 100% and others just absolutely open it up wide in the spectrum of things. I'm intrigued by that possibility, and there's been talk about an IP czar kind of overseeing that.

I'd like your views in a general way around some of those issues that I've just mentioned and particularly the ownership of IP and the thought being that if you open it up, if it wasn't proprietary to one source in the pre-stage of IP—not after the actual product's been developed but in the very early stages—does the NRC see themselves playing a role with kind of opening up to that more entrepreneurial way of looking at things?

Mr. John McDougall: I think with your question you actually touched the heart of one of Canada's real challenges. It's not a challenge that's faced by just Canada, but others seem to have come to grips with it a little better.

IP should be an enabler, not a barrier, first of all. One of the challenges that inventors have in general is a tendency to overvalue the importance of the technological component relative to everything else that has to go in. That leads to an awful lot of conflict in negotiating, especially where you have in many cases in the academic environment almost an individual negotiation, even though sometimes you go through these transfer offices.

One of the advantages of trying to move NRC more squarely into the mission-oriented and applied and outcome-based environment is you get more pragmatic about those decisions. IP is of zero value if it's not used. That's one of the things we have to remember, because a lot of people do forget that. That's why I'm trying to emphasize not a formula approach but rather a pragmatic approach: what are we trying to achieve, and what's the best way to achieve it? Let's do it accordingly.

Mr. Phil McColeman: As part of that kind of approach of seeing things in a much more environment versus closed environment, would you agree that this enhances the chances for more commercialization to happen here in our country?

Mr. John McDougall: Not necessarily: that's the problem. It depends on how good you are at harvesting things. A lot of others around the world are very good at harvesting things. In fact, they're harvesting today out of Canada in very sophisticated ways, some of them along the lines that we've talked about that are maybe a little more nefarious than others; but others in very straightforward ways, where in essence we're selling off technology as a non-processed resource.

So we need a way to build a little more depth and capacity in Canada in order to make sure there are receptors who can actually take advantage of it, because otherwise that will continue.

Mr. Phil McColeman: What are your thoughts on this conceptual idea of an IP czar?

Mr. John McDougall: An IP czar could cover many things, but I think one of the challenges is that if we think we can solve the problem by edict, we're probably misguided. I think we need people who understand really well and that Canada kind of has an IP strategy, for sure, that recognizes how we're going to play in broad terms. But I think it has to be principle-based, not rules-based.

● (1210)

The Chair: Thank you, Mr. McDougall.

Now to Mr. Stewart for five minutes.

Mr. Kennedy Stewart: Thank you, Mr. Chair.

Within the NRC there seems to always be a tension between basic and applied research or commercializable ideas. Ms. Gallant referenced the value of the basic research that the NRC produces.

I asked the Library of Parliament to look into this a little bit for me, and they said that between 1997 and 2008 the NRC produced over 12,000 peer-reviewed articles, which is almost 3% of all peer-reviewed articles produced in Canada.

Do you think these changes will increase or decrease the number of peer-reviewed articles that the NRC produces?

Mr. John McDougall: Again, if we move into a more industrial space, which we're talking about doing, the peer-reviewed articles will decline. The industrially oriented articles will rise. What we'll start to see more of is publications in industrial-type publications as opposed to peer-reviewed.

Peer review, again, has benefits and challenges. My point would be that you actually need both in your system, and that the real question is about the balance and making sure we have a complete system. Right now we're a bit overly biased toward what I call generating knowledge as opposed to generating outcomes. What we're trying to do is push the balance a little more toward outcomes.

Mr. Kennedy Stewart: How far to do you see the decline going? Do you think it will be half the number peer-reviewed?

Mr. John McDougall: The decline? I don't think that's a measurable or estimable thing, but—

Mr. Kennedy Stewart: And that's not part of your—

Mr. John McDougall: No, it's not a metric, really.

Mr. Kennedy Stewart: You're not using peer-reviewed articles as a metric for measuring your success?

Mr. John McDougall: Historically we did.

Mr. Kennedy Stewart: But you've stopped that.

Mr. John McDougall: We're moving away from that, yes.

Mr. Kennedy Stewart: I noticed that you were in Wellington, New Zealand, and you presented a paper called “Increasing the Impact of Canada's National Research Council”.

Would that outline some of the changes that you're planning for the NRC?

Mr. John McDougall: I'm sure there are things in there that will be very aligned with what we're trying to do, absolutely. It might not be complete, but it—

Mr. Kennedy Stewart: Could you table that? Could you let the committee have a copy of that?

Mr. John McDougall: Oh, sure. It's a public document.

Mr. Kennedy Stewart: Are there other documents of a similar nature you could supply us that would give us a better idea of what your directions are?

Mr. John McDougall: There are some, for sure.

Mr. Kennedy Stewart: Could you table those for us as well, so we can take a look at what your plans are?

Mr. John McDougall: We can certainly try to provide sort of a framework that would be useful to you.

Mr. Kennedy Stewart: Okay. Thank you.

Hon. Mike Lake: A point of order, Mr.Chair.

The Chair: Yes, Mr. Lake.

Hon. Mike Lake: The honourable member is a very smart man and a good friend of mine. I'm sure he knows how to use Google. It sounds like the documents we're talking about are public documents.

It seems not an efficient use of Mr. McDougall's time to have him go and put together these documents, to bring them before the committee, when they're readily available on the Internet.

Mr. Kennedy Stewart: They're not, actually. This document I've referred to is—

Hon. Mike Lake: I think he said it was a public document.

The Chair: Okay, folks, I think I will make it very easy for Mr. McDougall.

If you just send the links to the clerk, the clerk will assure they're in both official languages so then we'll be copied on it.

Mr. Kennedy Stewart: I do have the link here, but you can't get in unless you have a particular password. It would have to be supplied by Mr. McDougall. That's exactly why I asked.

The Chair: That's great, Mr. Stewart. We've asked him to do that.

I'm certain, if can judge from his character, that he's kind enough that he'll fulfill that request.

If there are no other points of order, we'll go back to your questions, Mr. Stewart.

Mr. Kennedy Stewart: Thanks. I have another question.

It has been mentioned that you'll be closing the construction research groups in Regina and London. What research capacity do you think we'll lose by closing those groups?

Mr. John McDougall: Those groups are actually quite small. They're doing work that is done in lots of places that are well established in industry today.

Our view is that actually there will be no net loss to Canada from that, although there will be a small number of people, some of whom will be reallocated....

Mr. Kennedy Stewart: Impacted by it.

In terms of your overall reallocation of the workforce, do you expect a significant downsizing of the NRC workforce? Maybe you could give us a sense of how many layoffs we can expect over the next year.

Mr. John McDougall: The NRC exercise is not about shrinking. As you will have probably noted, the budget actually provided additional resources, so my expectation is actually that we will be growing, although, you know, as you go through processes, that you go up and down, right?

● (1215)

Mr. Kennedy Stewart: But you'll be laying off some people and hiring new types of people, essentially—

Mr. John McDougall: Yes, that's correct.

Mr. Kennedy Stewart: Okay. Is there any idea on the shift of the balance from basic research to applied?

Mr. John McDougall: Basic to applied is not a good way of assessing it.

Mr. Kennedy Stewart: Okay.

Mr. John McDougall: You do basic that you have to do to achieve an end. We don't do basic in the sense of curiosity. That's the difference.

How that will shake out is going to be a moving target. It will move all the time, so it's not a very meaningful number.

Mr. Kennedy Stewart: Will there be reports that we could read on how that is changing?

Mr. John McDougall: I don't know what you'd read in reports. You can read on how what—

Mr. Kennedy Stewart: I guess you will be reporting this in your annual reports so that the public—

Mr. John McDougall: We don't talk about basic research, actually; the outside community does a lot, but internally we actually don't very much....

Mr. Kennedy Stewart: Okay.

Thanks.

The Chair: Thank you, Mr. Stewart.

Mr. Carmichael, for five minutes.

Mr. John Carmichael (Don Valley West, CPC): Thank you, Chair.

Thank you to our witnesses this morning.

I'd like to focus my short time on the anti-counterfeiting issue. I've done a bit of reading on the scale of this industry in Canada. It's an industry worth some $20 billion, I guess, as projected by Baker and McKenzie. I don't know their source, but it's a pretty sizable industry. It goes beyond safety, obviously, with all shapes and sizes of products.

At our last session, we heard Mr. Spreekmeester of Canada Goose talk about the counterfeit product and, as an example, some of the health and safety issues around the content in the jackets. It was very disturbing. When you look at the product, unless you have a very keen eye or some other method of scoping out the fraudulent product, it's virtually identical to anything that's manufactured in their plants.

Today it sounds as though we have tremendous agreement with our colleagues opposite on some of the recommendations from previous testimony. In fact, from my colleague opposite, we even heard an endorsement, I think, on the oil sands, which I appreciate. That was well placed.

An hon. member: [*Inaudible—Editor*]

Mr. John Carmichael: We want to ensure that we have safe equipment for our workers in those fields because there are tens of thousands of workers in that area.

I wonder if you could just talk to me a bit about the actual costs, and not so much the dollar costs, but the impact of trying to police this product at the border. You have a database, Mr. Hunter, which you referred to, and I think that's an incredible place to start for anybody bringing in product, whether they're safety products or for general retail.

While we've heard about U.S. border officials being able to capture some of this product at the border, I think you're absolutely right: we need to have more stringent authorities for our CBSA officials to be able to do likewise. What is entailed in meeting this objective?

Mr. Edwards, maybe you could start. To me, it's a massive project. This is a very large business.

Mr. Wayne Edwards: Yes, but you need to start somewhere. Like I said in my notes, I attended an IP conference in Panama that was hosted by Interpol and UL. They referred to numbers that were in the hundreds of millions of dollars. Because of the nature of this, it's difficult to come down with a scope-out. In particular, how big is this issue?

What was very clear is that all countries are experiencing it and that there are all kinds of devious things going on that you can hardly imagine until you hear other speakers address them. Here, we've tried to keep our issues specifically in the safety area. There are all kinds of other areas that are outside of that realm, but it's a huge problem. Other countries are trying to address this. At this particular conference, as I indicated, there were 60 countries present, and Canada had one RCMP corporal. I said "official", but I'm not even sure he was official—he was there.

I was there with Mr. Hunter and some of his colleagues, representing my own organization and Canadian Anti-Counterfeiting, and we heard for three days about what is going on across the world. It's a huge problem. Some of the recommendations that were put forward five years ago are a good place to start.

● (1220)

Mr. John Carmichael: I would agree with you. Clearly, the reason we are here today is that we take this very seriously. Having your expert testimony here is validation of that.

Mr. Hunter, is CSA approval adopted by other jurisdictions outside of Canada because of its quality and stringency?

Mr. Terry Hunter: That's right. We certify products to Canadian and U.S. standards. We would use our mark in the U.S. as well.

Mr. John Carmichael: Sorry, I'll ask that more deliberately: do other jurisdictions mandate safety product on your standards?

Mr. Terry Hunter: Yes. Different states have different policies and mandates. Some do use our mark as an authorized certification mark.

Mr. John Carmichael: So to your comment, Mr. Edwards, and a very good one, $20 billion of fraudulent counterfeit product in Canada is only the tip of the iceberg.

When we looked at the maps from Mr. Spreekmeester the other day on the Canada Goose product, he showed the distribution of their product globally. I can't imagine what that reflects in terms of counterfeit product, where you have untrained experts. We're just talking about product coming to Canada. Obviously we have to focus on our own safety.

Thank you very much.

The Chair: That's all the time for that round.

Now we'll go on to Madame LeBlanc

[*Translation*]

You have five minutes.

Ms. Hélène LeBlanc (LaSalle—Émard, NDP): Good afternoon, gentlemen. Thank you for your statements.

Mr. McDougall, as you know, the aerospace sector is incredibly important to the Montreal area, providing 70,000 jobs and bringing in billions in revenue. Montreal is one of the top five industrial clusters in the aerospace field.

The NRC Institute for Aerospace Research makes public labs available to the private sector for research and collaborative initiatives, in both Montreal and Ottawa. However, in its 2012 budget, the government announced major changes to the NRC.

Can you give us any reassurance in that regard? Will the Institute for Aerospace Research continue to support research and development to ensure the aerospace industry remains competitive?

[*English*]

Mr. John McDougall: Well, as I am sure you know, the Canadian aerospace industry was number four in the world until a couple of years ago. It's now number five. Its overall sales have risen, but its world ranking has slipped.

I am sure you also understand that there are changing global landscapes in aerospace, especially with emerging countries and so on. The challenge is obviously that, for Canada to remain a strong player, it definitely needs research and innovation.

[*Translation*]

Ms. Hélène LeBlanc: So you're saying that the NRC will be a strong player, that it will help the industry retain its ability to compete.

[*English*]

Mr. John McDougall: Yes.

[*Translation*]

Ms. Hélène LeBlanc: I know budget figures were set and cutbacks and changes were expected at the NRC. Will the Aerospace Manufacturing Technologies Centre on the Université de Montréal campus have to close its doors?

[*English*]

Mr. John McDougall: Again, I have to reiterate that to this point in time, the budgetary impact on NRC has been positive, not negative. With a growing participation by industry, that should continue, notwithstanding whether the funding goes up any more from government. Aerospace remains a very large component of our business. We actually do, overall, the equivalent of about $60 million per year, plus or minus, related to aerospace research. We're a very important player in working with Canadian industry and also with international industry, connecting Canadian suppliers to it.

[*Translation*]

Ms. Hélène LeBlanc: Very well.

Gentlemen, you talked to us about counterfeiting. I would like to know if there is any innovation on that front. You realize that our study has to do with intellectual property and innovation, and how the two go hand in hand.

Are there any innovations or companies out there that could prevent counterfeiting or the entry of counterfeit goods? I am just trying to establish a direct link between those companies and the government, so we are aware of the latest developments and engaged in the fight against counterfeiting.

● (1225)

[*English*]

Mr. Wayne Edwards: I'm going to ask Mr. Hunter to relate to the committee some of the activity that's going on with chips that are going into products. This is a way to help prevent fraudulent product from coming in. Maybe that partly addresses the question.

Mr. Terry Hunter: There are a number of private companies out there that deal with levels of security to protect from counterfeiting, and it comes within labels or synthetic DNA. For example, some of our labels have synthetic DNAs built into the label itself, so that label can't be counterfeited.

I'm not sure if there's a company out there that can actually help on a nationwide basis, but there are services right now that industry can use to help them out that specialize in intellectual property protection, and that would be investigators and security features for their product, and synthetic DNAs, reflective labels, and different technologies out there.

[*Translation*]

Ms. Hélène LeBlanc: Could you give us an idea of how much counterfeiting activities have cost us every year since 2007, for example? Specifically, I would like to know how much the Canadian economy has lost.

Earlier, we were discussing the famous report and recommendations that came out. You can tell us where things stand in your sector or in Canada, in general.

[*English*]

Mr. Wayne Edwards: Again, it's not an exact science, and numbers are not readily available, so whatever we do find is estimated.

One of our members...and if I'm allowed, I'll use the company General Electric, which owns Universal Studios. They feel that, because people are knocking off their DVD products, they're losing $500 million a year. That's one example.

The Chair: Mr. Edwards, I'm sorry, but we're away over on our time. Thank you very much for that answer.

Now we'll move on to Mr. Braid for five minutes.

Mr. Peter Braid (Kitchener—Waterloo, CPC): Thank you, Mr. Chair.

Thank you to our panel members for being here today and being part of our study on IP.

Mr. McDougall, I have some questions pertaining to the NRC and the important work that's done there. At a recent committee meeting we had RIM appear. One of their recommendations for us was that IP developed in Canadian government labs—I think they were referring primarily to the NRC—should be more accessible to private sector companies like RIM, and not only RIM but companies like RIM, so that the IP that's developed with Canadian ingenuity doesn't just sort of sit on a shelf somewhere.

You indicated that with the IP at the NRC you have the option to either license it, to sell it, or to deal it for the benefit of Canada. There seems to be a disconnect in terms of understanding there.

Could you address that? Are there barriers to the licensing of IP developed by the NRC?

Mr. John McDougall: Historically, if you went back a few years, it was probably more difficult to access than it will be going forward. The primary reason for that was that we were operating in a very fragmented fashion. As we go forward, we recognize that we've got to make our business processes more integrated and more common, so that it's much easier to deal with issues like that. I think that by itself will make a big difference.

I think there's a second component, though—namely, that we tend to be conditioned somewhat by our experiences, not just necessarily with NRC, but with the whole industry. Dealing with IP is very difficult in Canada in general. It's very variable in the way it's done, and there are so many different approaches to it that it's very difficult.

So a little bit more consistency, especially in the public areas, whether it be academic or NRC, would probably be valuable.

● (1230)

Mr. Peter Braid: Great.

I want to make sure I get this question in before I run out of the time. The sixty-thousand dollar question as part of this overall study has been the following, and I'd like you to address this: from your vantage point at NRC, how do we encourage the creation of more Canadian-developed IP, and how do we better protect it?

Mr. John McDougall: That definitely is the sixty-four thousand dollar question, there's no question.

I think one of the ways you do it is that you actually work on issues and problems that matter to Canada, and you do that very explicitly. Then you do it by designing your approach with complete understanding of the value chain that you're trying to plug into, so that you understand actually the way in which deployment will be successful right from the beginning. If you wait until the end, it's too late, and you end up trying to stuff it down people's throats as opposed to having them very receptive and willing to take it up.

I think those two things by themselves would make a major, major difference.

Mr. Peter Braid: Great.

As a subsequent question, then, changing tracks a little bit, I presume the NRC interacts with the Canadian Intellectual Property Office. Do you have any recommendations on the work of that office, from your perspective?

Mr. John McDougall: I have to say that I personally haven't had really any direct interaction for some time. My views would be dated. I'd rather ask our staff who are working with them to bring some of those views forward.

Mr. Peter Braid: Great.

Finally, if I still have time—

The Chair: You have 40 seconds.

Mr. Peter Braid: —the IRAP program is, from my perspective, your flagship program. Is there an aspect of IRAP that helps to promote Canadian IP?

Mr. John McDougall: Yes. Actually, IRAP is interesting, because the company really has the IP. In every case that's the circumstance. NRC retains a bit of a hook so that companies can't just flip it internationally and that sort of thing—i.e., they actually have to live up to the "benefit to Canada" deal they kind of cut going in—but it's a contractual obligation as opposed to an ownership obligation.

The Chair: Thank you very much, Mr. McDougall and Mr. Braid.

We're going now to another round of five-minute questions.

I want to let members know that out of courtesy we'll have to keep it tight. Another committee will be coming into this room, so I'll need to cut you off at five minutes.

Mr. Wallace, for five minutes.

Mr. Mike Wallace: Thank you, Mr. Chair.

That was directed at me, was it?

The Chair: No, no.

Voices: Oh, oh!

Mr. Mike Wallace: I'm wondering if I could get something clarified, just for my own education on this.

For me, if I go out and buy golf clubs that say "Ping" on them, and I get the whole set for $150, I'm pretty sure they're not real Pings, right? I'm pretty sure they're fake, and somebody has brought them into the country.

In terms of the issue that, say, Eaton Yale is looking at, or CSA, is it the price point that would turn the light bulb on that this can't be real? Or are they so good at faking it that they leave it at a price point where it's very close to where it could be, and they're making even more money on the thing?

Is it all price that's driving them to do this? Or how would a guy like me figure it out?

Mr. Wayne Edwards: Mr. Wallace, I think what the RCMP would tell you is that if the price is too good to be true, it's too good to be true. That's the first indicator.

If they were a little smarter, some of these people.... They're looking for quick bucks. It's easier to sell the set of golf clubs for $150 than for $800 or whatever it might be valued at. So they get the quick buck, they get the high margin, and they get it turned around. The actual cost might be $60 or whatever; it's hard to tell.

Mr. Gagachev has a moulded-case circuit breaker in front of you, and he'd be hard pressed to tell, if somebody had a really good knock-off, unless he went inside that unit, whether it was defective or counterfeit or not.

So it's hard to tell. To the untrained eye, it's very difficult. That's why we like to spend time with Border Services Canada to train them. We train the RCMP and we train other police forces to try, but it's a huge problem. We don't have enough staff or finances to do it. It's really a drop in the bucket, what we are trying to prove.

So as the first indicator, if somebody offers you something at a really good price, chances are it's a counterfeit.

● (1235)

Mr. Mike Wallace: You listed some things you'd like to see done—criminal offence and so on and so forth—but one of them was about shipments, about manifests or listings of what the shipments contain.

I didn't catch all of that. To my understanding, a shipment comes in within a container, and the container listing is there. Some are opened to see what's actually there. Were you making a recommendation that some additional stuff needs to be done in terms of the actual shipping in?

I don't think we're going to be able to stop it at the source. We don't have enough people around the world to do it at source. We have to stop it as it hits the border.

Is there something we can be doing from that perspective? I think you mentioned something, but I didn't understand what it was.

Mr. Terry Hunter: It is around the supply chain, security of supply chains, and verifying each step of your product's manufacturing and shipping.

One of the biggest problems we're seeing right now is that it's not the complete unit that's counterfeit, it's components of the unit that are counterfeit. The counterfeiters are getting smarter all the time. They're not paying for the research and development into the products, they're cutting corners, using shoddy materials. They're making the product look good on the outside, but on the inside it's not. They haven't invested any money in it.

To control, if you're importing goods, you have to maintain the security of your supply chain, and verify each stage of the process of manufacturing to the point where it arrives in Canada, and then we train the border service to look at things like the cost of the goods. If the price is too good when the product's being imported, that's another sign. U.S. Customs will use that one as well.

Mr. Mike Wallace: Right.

You use the U.S. example quite a bit. The marketplace is ten times the size. So if I were someone who was doing things counterfeit, I may want to go to the United States. I have a better chance of selling the stuff there and getting lost easier because it's ten times the size.

Are they doing ten times as much in terms of protecting? With this registration piece, is everybody involved in that? I can't imagine training every border guard to be able to recognize a counterfeit good.

As you said, you have to open up that circuit breaker there, or that switch, to find out. There's no way you'd expect Canadian border guards to do that.

Mr. Terry Hunter: What they do is randomly inspect certain items. Then they'll send me a photograph of a CSA mark on a product and I'll identify it as being counterfeit or not.

So it's just random checks, or audits, I would say, of containers. They don't have to be experts. They just have to check the odd one, and then they'll find them.

Mr. Mike Wallace: Okay.

Thank you very much.

The Chair: Thanks, Mr. Wallace.

Now we go to Mr. Harris and Mr. Stewart, who are splitting the time.

Mr. Dan Harris: Thank you.

I'm going to be really brief. Mr. Lake raised the point about that 2007 study, and kind of alluded to how it was the opposition that was a barrier there.

But at that time, since the government was in the minority, it was actually the opposition that had the majority in the committee and got those recommendations passed. Of course, the government controls the agenda in the House, and that's why we haven't seen that yet, because it hasn't been a government priority.

I'm going to let Mr. Kennedy take over now and ask some good final questions.

The Chair: Mr. Stewart.

Mr. Kennedy Stewart: Thank you.

Mr. McDougall, what is a research and technology organizational model?

Mr. John McDougall: If you go around the world, what you'll find is that there are many organizations that call themselves research and technology organizations. They have, typically, common characteristics. They have differences too, but the common characteristics are that they tend to be more outcome-oriented, they tend to be public interest-based, and they tend to have strong relationships with other parties.

● (1240)

Mr. Kennedy Stewart: So this is what you're moving towards, I understand, or at least where you're....

The NRC really wasn't that, then, prior to you coming on board?

Mr. John McDougall: The NRC actually was operating over the last 15 years or so very much like a university without students. That's the fundamental difference.

Mr. Kennedy Stewart: Okay. So you're making it again more outcome-driven, and based on metrics, and—

Mr. John McDougall: That's correct.

Mr. Kennedy Stewart: Are those going to be monitored internally, or is that—

Mr. John McDougall: They'll be internally monitored and published.

Mr. Kennedy Stewart: And published: right.

Could you give us an example of some of the metrics? You touched on it before.

Mr. John McDougall: The kinds of impacts that start to become important, as opposed to the outcomes that you were describing earlier, of publications and so on, are things like the jobs that are created, the increased sales in companies. It's very much the economic impact.

Mr. Kennedy Stewart: So is it almost exclusively economic impact, or are there other kinds of wider contributions?

Mr. John McDougall: As I said in the opening remarks, it's really a socio-economic impact, so you're looking at other things as well. We're concerned about the fact that internally we have reasonably happy employees, that the customers are satisfied with what they're getting, and these kinds of things as well.

Mr. Kennedy Stewart: Do you expect to train students in the NRC?

Mr. John McDougall: Not as a predominant thing, but it will happen. It's not a fundamental job of NRC. It's a fundamental job of academia.

Mr. Kennedy Stewart: But it has been a large part of its past mandate. Is that something you're moving away from?

Mr. John McDougall: That's why it became very academic. It gradually drifted to be quite academic, and we're drifting it back to be less so and to let the academics do the academic.

Mr. Kennedy Stewart: Okay.

Are there any new mechanisms for collaboration with universities, for example?

Mr. John McDougall: The collaboration has now become a value of the organization. Collaboration was actually not very high in the past, and now it's fundamental in everything we do.

Mr. Kennedy Stewart: Is there a formal mechanism for that, or is it just as it happens?

Mr. John McDougall: The mechanisms that lead to collaboration are that you design what you're going to do together with the partners that should be at the table. That leads inevitably to collaboration.

The historic models that have been applied were “Here's what we're going to do. Do you want to participate?” Most of the time the answer was no, because they were doing something else.

Mr. Kennedy Stewart: Okay.

This does seem to be a fairly fundamental shift that's happening within the NRC, moving from, as you said, a university without students, or training a few students, to now a concierge service for industry, perhaps through IRAP, perhaps through other programs.

Is that how you characterize it, essentially?

Mr. John McDougall: Well, I characterize it as going back to the job we're set up to do, which is what the act says.

Mr. Kennedy Stewart: It's fairly broad. I was looking at the act and it's a fairly broad mandate, so it could be interpreted in any way. You're just interpreting it in this particular way.

Mr. John McDougall: I think the mandate is broad, but if you look at it, it does talk very much about industrial impact and industrial development.

Mr. Kennedy Stewart: One half of it does, and the other half talks about encouraging science as well. It's an interpretation, and that's why I've been asking for documentation in terms of your specific directions.

This research and technology organization model is helpful. I'm the critic in this area, so I have to get my head around what you're planning to do.

I do appreciate your coming today, and I thank you very much for your answers.

Mr. John McDougall: Thank you.

The Chair: Thank you, Mr. Stewart.

Now on to Mr. Lake, for five minutes.

Hon. Mike Lake: Thank you, Mr. Chair.

I want to ask Mr. Hunter a couple of questions. Mr. Wallace was going down the direction that I was thinking of going down as well, in terms of understanding what counterfeit imports look like and what that process looks like now.

You said they would take a picture of the counterfeit markings and send it to you. I would think, though, there is probably a certain level of sophistication whereby they can make those markings look exactly like your markings. Would that not be the case?

Mr. Terry Hunter: That's correct, but when we get a photograph of whatever they're inspecting, I look at the model number, UPC codes, and all the different elements of the product, and I verify with our database as to whether it's authentic or counterfeit.

Hon. Mike Lake: Okay. You verify where it's coming from versus the numbers on it and you can come to some sort of conclusion, in most cases, I would imagine.

Mr. Terry Hunter: That's correct. They'll tell me on occasion about the manufacturer of origin.

Hon. Mike Lake: With regard to this idea of training the border officers, like some of my colleagues here, it sounds to me to be quite an onerous thing. The number of potential things that could be counterfeit would seem to be almost equal to the number of things we bring into this country.

How do you zero in on specific things that you want to target?

● (1245)

Mr. Terry Hunter: What we do is give them some basic knowledge and awareness that anything can be counterfeited. We share what the trends are right now, what products are being counterfeited. For example, earlier I said that components of other products are being counterfeited. What's happening right now is that they're taking photographs of components of units and sending them to me for verification.

With Canadian Customs, we would share with them the trends, popular items that are being counterfeited, just some general knowledge and awareness.

Hon. Mike Lake: Could you be specific, if possible, in terms of what you would like to see in legislation to address these issues?

Mr. Terry Hunter: I'd like to see our border services have the ability to question the product coming in, go to the IP owner and verify that IP—who it belongs to and whether it belongs on that product.

Hon. Mike Lake: Mr. Edwards, do you have anything to add to any of that?

Mr. Wayne Edwards: I would share Mr. Hunter's comments on that, for sure.

I think what you're driving at is that it is a huge problem. Everything you do almost sounds like a drop in the bucket. But you do need to start somewhere, probably by educating young children. We have another association that we work with, educating school children on safety. That's the safety part of it.

I'll give an example. I worked for a company before, called Philips —with one “l”. We used to say it was one “l” of a company.

We had people knocking off our lamp products. They had the box. It looked exactly like Philips, except it had two “l”s. So they weren't very clever in how they were knocking off those lamps.

I've seen Duracell batteries at stores, and Duracell is spelled wrong, or the product is not in a bilingual pack. We know that in Canada it has to have a bilingual pack. When you point this out to the clerk, they'll tell you, oh yes, it's good stuff. Well, no: this is not for sale in Canada, and I can tell, because you have spelling mistakes in this document. It's counterfeit product.

These are little hints, but as people get more sophisticated, you have to be a couple of jumps ahead and come up with some nanotechnology that can help you in the future have something integrated into a product that is foolproof, if that is possible.

Hon. Mike Lake: That's really interesting, actually. As you're talking about nanotechnology, I'm thinking about the Edmonton Research Park. Mr. McDougall is very familiar with some of the work that's going on there at the University of Alberta and other places where we've seen that very technology.

This is the last question, though. I'll come back to you folks. You talk about retailers. It's really interesting, because I think about knock-offs being sold in a back alley somewhere or something else. You're talking about big-name retailers who are being fooled by this stuff.

Maybe you could speak to how that can happen and to what extent that is happening.

Mr. Wayne Edwards: I would say that in the Canadian community in retail, I don't believe anybody is making deliberate attempts to have inappropriate products on the shelf. I really don't. They have protection in place with the purchasing people. They send inspectors over there themselves. But criminals are smart. You're dealing with some smart people here on the other side of the fence too. They find a lot of deviant ways to get uncertified or unsafe products onto the shelves at retail. It's a continuous process.

The Chair: That'll have to be the end of it there. We're running short of time.

Mr. Regan, you have five minutes.

Hon. Geoff Regan: Thank you, Mr. Chairman.

Mr. Hunter, let's talk some more about the process that would happen with this database you've talked about. A retailer in Canada may know that the products being produced by a company outside Canada were tested last year, five months ago, whenever. But how do they know that the latest shipment is certified, that it's legitimate as opposed to the counterfeit kind of documents you've talked about?

● (1250)

Mr. Terry Hunter: Our database is quite up to date. They can use the manufacturer's name, or brand name, or model number to search our database.

We had mentioned General Electric or Philips earlier. You can type General Electric into our database, and you'll come up with 300 pages of certified products. Then you type in the model number, and it will hone it down to the model number you want to verify.

Hon. Geoff Regan: There was mention of a lot of this counterfeit product coming from southeast Asia. What's your presence there? How often are you in a factory in one of those countries that produces Christmas lights, for example?

Mr. Terry Hunter: We have a lot of clients there. We have four offices in China right now, and our inspectors work with the Chinese government to inspect our client factories to ensure they're maintaining their standards while manufacturing products.

The factories are being inspected. There are so many factories over there. You have a whole community that manufactures Christmas lights. They're at the same address. They're all different factories under different ownership. Two of them may be CSA certified, and the others are not.

So we don't have the right to enter those buildings to inspect—

Hon. Geoff Regan: Of course the database would show that, right? The database would show which ones you have certified, clearly.

Mr. Terry Hunter: That's right.

Hon. Geoff Regan: It wouldn't show, perhaps, the ones you didn't, right?

I guess it really brings me back to the question of the retailer, whether it's negligence if retailers aren't checking every shipment they get against your database.

Mr. Terry Hunter: The retailers do have a buying process. Some of the retailers are specifically asking for CSA-certified products, so the manufacturers are providing documentation to support their manufacturing. Unfortunately, some manufacturers either forge or counterfeit the CSA documents as well.

Hon. Geoff Regan: That's why my point is that the retailer ought to be checking, not just looking at those possibly forged documents but checking the shipment against your database. Am I wrong?

Mr. Terry Hunter: You're correct. I've been spending time with a lot of our retailers, providing training for their buyers to use our database to verify.

Hon. Geoff Regan: So how confident can I be when I go to buy Christmas lights?

You're not sure.

Mr. Terry Hunter: Not very confident.

Hon. Geoff Regan: Oh, boy. Well, that's scary. That's very worrisome. We're talking about fires in people's homes.

Anyway, let me go to Mr. Edwards. You mentioned that DVD knock-offs cost something like $500 million a year. Let's talk about, for instance, software that may come in that's counterfeit. If there's a digital lock on that software, including perhaps counterfeit software, you can't check it without breaking that digital lock to find out whether in fact it's legitimate.

Bill C-11, the new copyright act, prevents you, makes it illegal to break that, even for a legitimate purpose. Was that an error? What would you do about it?

Mr. Wayne Edwards: Well, again, I am not familiar with Microsoft or that type of technology, but I would guess that if there are locks and so on, and it's against the law to tamper with them.... It's also against the law to drive 120 kilometres on the 401, but people do it and get away with it. This kind of stuff happens.

There are people who are smart and can get into that. A lot of kids can break into those programs. This is part of the problem.

Microsoft is a big member of the Canadian Anti-Counterfeiting Network. It spends a lot of time and energy trying to prevent that. Maybe the question would be better put to a company like Microsoft.

Again, all we can say is that if the price is too good to be true, it's too good to be true.

Hon. Geoff Regan: Back to Mr. Hunter, have you had any experience with CBSA officials seizing any counterfeit items that you...?

Mr. Terry Hunter: I've been with the Canadian Standards Association for three years, and I've been contacted by CBSA on one occasion, with no follow-up.

The Chair: Thank you very much, Mr. Hunter, Mr. Regan.

On behalf of the committee, I want to thank the witnesses very much. This was a great panel, with very knowledgeable people, and we've had the benefit of sharing their knowledge.

I would like to conclude on one thing, because we've heard it repeatedly at these committee meetings. We talked about nanotechnology and ways to trace products.

It seems to me, Mr. Edwards, that one of the initiatives you're taking right now is just to create, for lack of a better word, a mindset, or a moral framework, that stealing is wrong. If you're stealing IP, it's wrong, just as much as if you're stealing a product off a shelf.

I think the more that we can maybe inform schools and parents that this is the case, the more we'll have a grassroots movement as well that respects the value of people's work and IP.

Thank you very much.

We are adjourned.

MAIL POSTE

Canada Post Corporation / Société canadienne des postes

Postage paid / Port payé

Lettermail / Poste–lettre

1782711
Ottawa

If undelivered, return COVER ONLY to:
Publishing and Depository Services
Public Works and Government Services Canada
Ottawa, Ontario K1A 0S5

En cas de non-livraison,
retourner cette COUVERTURE SEULEMENT à :
Les Éditions et Services de dépôt
Travaux publics et Services gouvernementaux Canada
Ottawa (Ontario) K1A 0S5

Published under the authority of the Speaker of the House of Commons

SPEAKER'S PERMISSION

Reproduction of the proceedings of the House of Commons and its Committees, in whole or in part and in any medium, is hereby permitted provided that the reproduction is accurate and is not presented as official. This permission does not extend to reproduction, distribution or use for commercial purpose of financial gain. Reproduction or use outside this permission or without authorization may be treated as copyright infringement in accordance with the *Copyright Act*. Authorization may be obtained on written application to the Office of the Speaker of the House of Commons.

Reproduction in accordance with this permission does not constitute publication under the authority of the House of Commons. The absolute privilege that applies to the proceedings of the House of Commons does not extend to these permitted reproductions. Where a reproduction includes briefs to a Committee of the House of Commons, authorization for reproduction may be required from the authors in accordance with the *Copyright Act*.

Nothing in this permission abrogates or derogates from the privileges, powers, immunities and rights of the House of Commons and its Committees. For greater certainty, this permission does not affect the prohibition against impeaching or questioning the proceedings of the House of Commons in courts or otherwise. The House of Commons retains the right and privilege to find users in contempt of Parliament if a reproduction or use is not in accordance with this permission.

Additional copies may be obtained from: Publishing and Depository Services
Public Works and Government Services Canada
Ottawa, Ontario K1A 0S5
Telephone: 613-941-5995 or 1-800-635-7943
Fax: 613-954-5779 or 1-800-565-7757
publications@tpsgc-pwgsc.gc.ca
http://publications.gc.ca

Also available on the Parliament of Canada Web Site at the following address: http://www.parl.gc.ca

Publié en conformité de l'autorité du Président de la Chambre des communes

PERMISSION DU PRÉSIDENT

Il est permis de reproduire les délibérations de la Chambre et de ses comités, en tout ou en partie, sur n'importe quel support, pourvu que la reproduction soit exacte et qu'elle ne soit pas présentée comme version officielle. Il n'est toutefois pas permis de reproduire, de distribuer ou d'utiliser les délibérations à des fins commerciales visant la réalisation d'un profit financier. Toute reproduction ou utilisation non permise ou non formellement autorisée peut être considérée comme une violation du droit d'auteur aux termes de la *Loi sur le droit d'auteur*. Une autorisation formelle peut être obtenue sur présentation d'une demande écrite au Bureau du Président de la Chambre.

La reproduction conforme à la présente permission ne constitue pas une publication sous l'autorité de la Chambre. Le privilège absolu qui s'applique aux délibérations de la Chambre ne s'étend pas aux reproductions permises. Lorsqu'une reproduction comprend des mémoires présentés à un comité de la Chambre, il peut être nécessaire d'obtenir de leurs auteurs l'autorisation de les reproduire, conformément à la *Loi sur le droit d'auteur*.

La présente permission ne porte pas atteinte aux privilèges, pouvoirs, immunités et droits de la Chambre et de ses comités. Il est entendu que cette permission ne touche pas l'interdiction de contester ou de mettre en cause les délibérations de la Chambre devant les tribunaux ou autrement. La Chambre conserve le droit et le privilège de déclarer l'utilisateur coupable d'outrage au Parlement lorsque la reproduction ou l'utilisation n'est pas conforme à la présente permission.

On peut obtenir des copies supplémentaires en écrivant à : Les Éditions et Services de dépôt
Travaux publics et Services gouvernementaux Canada
Ottawa (Ontario) K1A 0S5
Téléphone : 613-941-5995 ou 1-800-635-7943
Télécopieur : 613-954-5779 ou 1-800-565-7757
publications@tpsgc-pwgsc.gc.ca
http://publications.gc.ca

Aussi disponible sur le site Web du Parlement du Canada à l'adresse suivante : http://www.parl.gc.ca