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The Honourable Rob Merrifield

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● (1105)

[*English*]

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

We are continuing our study on the Canada-European Union comprehensive economic and trade agreement.

We have with us today John Jung, the chief executive officer of Canada's Technology Triangle Inc. We have also Robert Lewis-Manning and Debbie Murray from the Canadian Shipowners Association. Thank you for being here.

Mr. Jung, the floor is yours. We look forward to your testimony. Following that we'll hear from Mr. Lewis-Manning and then we'll get into questions and answers.

Please go ahead.

Mr. John Jung (Chief Executive Officer, Canada's Technology Triangle Inc.): Members of the committee, I am very proud and honoured to be here today, so thank you very much.

Canada's technology triangle is an area that is geographically known as Kitchener-Waterloo-Cambridge and the townships that surround it. It's a unique community that has grown to 550,000 people and is growing to 750,000 people in less than 20 years and probably one million before 2050. It has some very strong sectors and a diverse economy. We have advanced manufacturing, information technologies, food, finance, and education, among other sectors.

CTT's mandate is to attract foreign direct investment and to assist our export-oriented companies to expand abroad. Likewise, we look to the Government of Canada to help create jobs and opportunities for our companies by ensuring the right kind of market access for our companies to be able to go global and be competitive and grow prosperously.

Accordingly, our region is very interested in this CETA with the European Union which the Prime Minister announced on October 18. As we understand it, CETA is actually going to be our biggest and most important bilateral free trade initiative since NAFTA.

In fact,with NAFTA, Canada has the greatest advantage because we have 28 EU states as well as the NAFTA members. If you do the arithmetic, they represent around 900 million consumers in the EU and North America. That's quite a lot of people that we can service. We all know what the benefits are of bringing NAFTA into play. The U.S. is our greatest trading partner and Canada and the EU also have a long history of economic cooperation.

Comprising 28 member states with a population of over 500 million and a GDP of $17 trillion, the EU is considered the world's largest single market, representing Canada's second largest trading partner and the second largest source of foreign direct investment.

In turn, we look to the EU as being our third largest trading destination and our fourth largest source of FDI, foreign direct investment. We understand that CETA is going to cover 98% of the EU-Canada bilateral economic partnerships, including all sorts of comprehensive trade, IP, HR, subnationals, government procurement, and so forth.

With all these sectors involved, we understand that about 9,000 lines of tariffs are to be dealt with over the next two years. That's a big job. According to our report, we stand to benefit significantly from this. That is what makes members of our Waterloo region industry sectors take notice.

Our region is a leader in research and innovation and contributes towards the production of advanced manufacturing goods, including automotive, medical devices, scientific and precision instruments. It includes companies like BlackBerry, whom you'll hear from a little later today.

Our Canadian auto industry, such as Toyota and others in Cambridge, is highly dependent on trade. From an automotive and manufacturing perspective, we'd like to see the CETA agreement provide market access opportunities for our automotive sector and manufacturing sector, increase our export opportunities to Europe, and remove the tariffs with flexible rules of origin that make benefits for the OEMs, original equipment manufacturers, and the parts manufacturing companies.

CETA is therefore expected to eliminate most of the existing EU tariffs on advanced manufacturing products, medical devices, and so forth. This is an area which our community is well known for. Advanced manufacturing and related represents over 22% of our employment base. That is 56,000 workers. Nationally that is a pretty significant number considering how small our community is. It employs 400,000 and contributed over $42 billion in 2012. This makes a very important aspect of our economy in our society so it's very, very important for us.

Of course, we haven't seen the details, and the devil is in the details, especially in some of the agricultural and food processing industries. We want to learn more. For instance, the topic of cheese keeps coming up in every meeting that I've gone to. We'd like to hear a little more about how that's going to work its way through. As we understand it, once CETA comes into force, almost 94% of the EU agricultural tariffs will be duty free and CETA will immediately eliminate existing EU tariffs on food processing and beverages.

This should make our food and beverage products in our community and across Canada even more competitive in Europe, establishing a new base of opportunities for increased sales and market access throughout the EU.

As you know, the Waterloo region is well known for its unique collaborative innovation and its tech ecosystem. IT boasts approximately 30,000 ICT workers in software development and services, digital media, web, microelectronics and so forth. The Canadian exports of ICT products to the EU can face tariffs from between 1% all the way up to 14% on certain products. Our understanding is these tariffs are expected to be eliminated. This is an amazing opportunity for international commercialization and export by our nearly 1,000 tech companies and significant start-up community that's in our region. This will help not only the Waterloo region innovation and knowledge workers, but nearly every knowledge worker in every corner of our country.

Finally, the Waterloo region has a strong services industry, ranging from wealth and management services to architectural, engineering, environmental, and technical services. It's also a huge opportunity across Canada, accounting for 70% of Canada's GDP and employing over 13.6 million Canadians who export these services to the EU for a total or $14.5 billion annually. As barriers to entry, citizenship, ownership and investment restrictions act as barriers to exports of services, it will be extremely important to eliminate these restrictions in order to grow our services sector in Canada.

Canada's technology triangle works also with what we call pan-regional and pan-Canadian alliances. One of those is Consider Canada's City Alliance which works very closely with Invest in Canada and represents 12 of the largest cities across Canada including the Waterloo region. CCCA, as it is called, is focused on attracting foreign direct investment to our communities. Successful trade agreements like this one will offer EU and Canadian investors greater certainty, transparency, and a protection for their two-way investments, which is really important in fostering greater long-term prosperity and jobs.

Of course, through consumer opportunities we'd all like to see our new shiny BMWs in our driveways.

Recently, at the international function that Waterloo region held with our local ambassadors, I recommended that over the next two years, while CETA is being finalized and ratified, our community should take advantage of this time by becoming more familiar with the opportunity and strategize how best to organize the community and its sectors to leverage this agreement's full potential.

Soon our region is going to be taking on its first region-wide economic development strategy. We expect, by the way, to leverage this agreement as a key aspect of that new strategy. It's also going to be an opportunity for us to look at some of the negative issues and we're going to suggesting across Canada that communities undertake a similar kind of program in order to take advantage of this once-in-a-lifetime opportunity.

In November I travelled with Mr. Jayson Myers of the CME and Invest in Canada and CCCA to Madrid, Amsterdam, and Milan to promote this agreement. I spoke at two of these locations about similar topics around the Waterloo region.

Finally, we recently met with the EU ambassador—yesterday, in fact, at a luncheon in Toronto. She reminded us that the EU is the largest trading bloc, the largest fully integrated market and highly competitive environment. Paraphrasing old blue eyes, Mr. Frank Sinatra, she said that if you make it happen in the EU you can make it happen anywhere. That's a real nod to our Canadian products. We believe that our Canadian products, when given a challenge and the right opportunities, can succeed anywhere.

In conclusion, CTT wishes to ensure that you have good completion of this agreement. We hope that, through good luck and Godspeed, you're able to do this for all of us.

● (1110)

The Chair: Thank you very much.

We'll now turn to Mr. Lewis-Manning.

The floor is yours, sir.

Mr. Robert Lewis-Manning (President, Canadian Shipowners Association): Thank you, Mr. Chair, for the opportunity to speak today.

We're here to speak to you about some initial concerns we have with the agreement and the potential impact on domestic short sea shipping. While we believe that CETA is good for Canada, aspects of its implementation have potentially unintended negative consequences for our part of the marine sector and consequently the resilience of the Canadian supply chain.

Our main concern is associated with the concept of maritime feeder services with European vessels and the impact it could have on Canadian domestic short sea shipping. We are seeking support for our industry through this committee to ensure that Canada maintains a predictable operating environment for its domestic shipping. We are all seeking a very robust trading environment, and our industry has a uniquely Canadian capacity that could be unknowingly marginalized, depending on the conditions, and more importantly, the implementation details of the trade agreement. In order to understand the concern, I will speak briefly to our industry and then more about maritime feeder services.

Our association is quite old; it was established in 1903. It represents companies operating and owning Canadian ships, employing Canadian mariners, paying Canadian taxes, and operating in the unique and demanding Canadian waterways that are part of a larger short sea shipping industry on the Great Lakes, the St. Lawrence waterway, the St. Lawrence River, eastern Canada, and the Arctic. It has an economic impact on this region of $35 billion annually. We represent the lion's share of the Canadian domestic fleet operating in that area, but have also reached out to other non-members to discuss our messages to you today.

We're operating 86 vessels consisting mainly of bulkers, self-unloaders, general cargo ships, and liquid bulk tankers. Indeed, for most Arctic communities, our vessels are the only way in which to attain affordable and reliable goods and items necessary for survival, everything from food to fuel to even houses. Our fleet carried 50 million tonnes of cargo last year, including iron ore, coal, grain, aggregates, and general cargo. Over 70% of the cross-lake traffic in the Great Lakes between the U.S. and Canada was done by our fleet, indicating that there's a heavy demand by both American and Canadian shippers.

Our membership does what is called short sea shipping, which is the transportation of cargo between ports in Canada, largely on inland waterways and coastal waters. These are generally short runs of a duration of hours and days, not weeks and months as in the case of global shipping. Our fleet is unique and built for Canadian waters, and we only trade in these waters. Our mariners have an incredible amount of experience and training. Our fleet is a unique Canadian capacity, and industry and government have built it together through sound policy and investment.

Many countries seek a stable, sovereign, commercial fleet to ensure they have a reliable source of transportation, which is key to economic growth and the safety of the overall transportation network. Growing and replacing this capacity of human capital, infrastructure, and process takes time, and if lost, would not be replaced, leaving Canadian and American shippers potentially vulnerable to the variances of foreign market pressures, putting more trucks on the roads, and pushing the rail system capacity.

Our member companies are making major investments in technology and capacity, and present a solution to sustainable and green transportation. Canadian ships on Canadian trades are 24% more fuel efficient than rail, and over 500% more fuel efficient than trucks. With the government's removal of a 25% import duty on new vessel construction, our member companies responded by investing over $700 million in world-class vessels. These are green and efficient vessels designed specifically to trade in our unique waters in Canada. Indeed, as an industry that is part of a larger global supply chain linking the North American economic heartland to the world, we anticipated that the capacity we are investing in would be well timed for growth.

We have built our business, our fleet, and our labour force on the predictability of the market. Currently, under the Canadian coasting regime, trading from Canadian port to Canadian port can be done only by Canadian registered vessels, unless there is no Canadian shipping capacity available at a reasonable value. This regime has worked relatively well, providing services to shippers when needed while growing the Canadian marine industry. Our government has been a partner in ensuring the reliability and safety of transportation and infrastructure.

I'll move on to maritime feeder services in general. As I mentioned, the essence of our concern is with regard to potential maritime feeder services.

● (1115)

Although the details are really not yet fully understood by our industry, Transport Canada officials have informed us that the maritime feeder services are part of the agreement. Although we look forward to seeing trade enhanced, and our role in the supply chain enhanced too, this decision represents a potential significant alteration in markets and introduces a high level of unpredictability into our industry, both for shippers, who are our customers, and shipowners alike.

As a Canadian flag fleet with only a short sea shipping market to trade in, we believe that our sensitivity is much higher than international fleets that can seek other markets globally. We are concerned that attempts to present this message to our government were difficult to place and not completely understood. It's quite a complex issue.

You might ask why we should not encourage foreign-crewed and foreign-owned vessels to move cargo between Canadian ports.

First, there is no assurance these vessels will continue to trade in Canadian waters in the long term. The current economic downturn in the global shipping industry encourages foreign shipowners to seek unique market opportunities, such as Canadian maritime feeder services. The Canadian domestic short sea shipping fleet cannot do the same. Consequently, when global trade picks up, there is little assurance that foreign vessels will remain active in maritime feeder services and they could seek opportunities that are more lucrative elsewhere globally. Such an unpredictable situation, if encouraged by the agreement, could marginalize the domestic capability.

Second, foreign crews do not necessarily have the long-term experience and training required to navigate in some of the most sensitive ecosystems in the world: our waters. Piloting a ship in coastal and inland waters, often during severe weather, is incredibly demanding and requires the utmost understanding of not only navigation and ship manoeuvring, but also a myriad of regulations designed to protect our waters and coastlines.

Third, our mode of transportation is the greenest and safest form of transportation in existence. One ship has the same capacity as 301 railcars or 963 trucks, and consequently, has the lowest emissions of greenhouse gases. Likewise, the Canadian marine industry's safety record is second to none because both the government and the industry have made a long-term and sustainable investment in training, regulation, and innovation.

In conclusion, we strongly believe the government should consider the potential long-term consequences of permitting unrestricted access to traditional domestic marine trades. Canada's successful economy is dependent on predictable and safe marine transportation, and it will continue to play a key role in the supply chain in Canada and globally.

The agreement could be a windfall for our industry, and hopefully it will respect our role in the domestic and global supply chain. Indeed, we would like to see our government use the agreement and other policies as mechanisms to grow Canadian short sea shipping.

Thank you again, Mr. Chair, for the opportunity to speak.

● (1120)

The Chair: Thank you to both of you for your presentations.

We'll now move to questions and answers, starting with Mr. Davies.

The floor is yours, Mr. Davies, for seven minutes.

Mr. Don Davies (Vancouver Kingsway, NDP): Thank you to all the witnesses for being with us today. Welcome to the committee.

Mr. Lewis-Manning, I want to start with you. I actually have a copy of the e-mail sent out by Transport Canada, dated January 6, and I'll quote from that. In talking about CETA, it says:

> ...discussions have been held on….
>
> - maritime feeder services for containerized cargo between the Ports of Halifax and Montreal onboard European Union-registered vessels. A maritime feeder service is the transportation of international origin/destination cargo on board a ship from a port in Canada to another port in Canada prior to an export movement overseas or following importation from overseas.

If I understand correctly, currently Canada's Coasting Trade Act and the requirements of the Canadian Register of Vessels would prohibit non-Canadian registered vessels from moving cargo between Canadian ports. Am I correct on that?

Mr. Robert Lewis-Manning: Thank you for the question.

You're partially correct. The reality is that within that same coasting regime there is the ability to apply for a licence to move that cargo on a temporary basis. I think the essence of the issue as it could unfold is how that regime would be implemented if there were changes to the current regime. It's not impossible, but there is a process that has to be followed in order to do it.

Mr. Don Davies: Perhaps you could give me a rough estimate. What percentage of that work is currently being done by Canadian registered vessels and crews?

Mr. Robert Lewis-Manning: If you give that example specifically, from the port of Halifax to the port of Montreal, it is quite low. I'm speculating it's less than 10%.

Mr. Don Davies: For Canadian...?

Mr. Robert Lewis-Manning: Yes. In fact, our members are not specifically working that trade at the moment, but that's not to say it won't be a future opportunity.

Mr. Don Davies: What about Canadian ports in general then, broadening the—

● (1125)

Mr. Robert Lewis-Manning: Do you mean from Canadian port to Canadian port? It would be over 95%. It's quite high.

Mr. Don Davies: Do I have your testimony correct that the concern is that the 95% of work that's currently being done by Canadian-flagged, Canadian-crewed ships internally within ports could be subject to European-flagged vessels and crews? Is that the concern?

Mr. Robert Lewis-Manning: Yes.

Mr. Don Davies: How many jobs would you say would be at stake were that provision to happen?

Mr. Robert Lewis-Manning: It's difficult to put a solid number on it.

We employ approximately 3,000 to 5,000 professional mariners and supporting staff, so it would be some of those. I would not expect, if it were confined to only that type of service, a very limited aspect, it would be very small. I guess the potential is for growth, and understanding the mechanism for implementing such a feeder service is really the concern. The concern is the lack of understanding of what it could mean to the implementation of the agreement.

Mr. Don Davies: If I understand this memo, it refers specifically and only to movement of cargo between the ports of Halifax and Montreal. Is that your understanding?

Mr. Robert Lewis-Manning: I have the same information you do, so yes, but I'm not sure if there's anything else that's being—

Mr. Don Davies: Are you saying that currently Canadian vessels, Canadian-crewed ships, are doing only about 5% of that work?

Mr. Robert Lewis-Manning: That's my estimation. In fact it's not the case for our members specifically at the moment, but I am aware of other Canadian-registered companies that are doing feeder services in the Maritimes.

Mr. Don Davies: I have one final question for you before I turn to Mr. Jung.

The memo also talks about the repositioning of empty containers between ports in Canada. Is there a similar concern that European-flagged, European-crewed vessels may get access to that work as well?

Mr. Robert Lewis-Manning: There isn't specifically from our members, but there is concern within the marine industry that this type of service will impact other business models. It's not so much the revenue that's generated from it; it's actually the logistics of planning future movements, and that's the complexity of moving containers around.

Mr. Don Davies: Overall, for your members, if you lost some jobs there, do you anticipate gaining work for your members and business for your members through other aspects of CETA? I guess I'm looking for the overall comprehensive effect.

Mr. Robert Lewis-Manning: At this stage, we don't see an obvious opportunity, because a lot of what we do is hauling cargoes out of North America. They go to a Canadian port and they're shipped externally, globally by many foreign ships. We provide that service to get it out to the coasts.

Mr. Don Davies: You're the domestic shipping.

Mr. Robert Lewis-Manning: That's correct.

Mr. Don Davies: Okay, thank you.

Mr. Jung, Europe has a very strong technology sector. I'm wondering if you've done any analysis about the impact of increased competition from European firms in Canada on your sector.

Mr. John Jung: We're actually looking at that through comparison to a community called Eindhoven, Holland, which is considered the number one innovative community in the world according to Forbes. They came to visit with us and they believe we have a highly competitive environment in Canada. They are looking at developing partnerships. Even though competition is part of it, collaboration and partnerships are another piece of this puzzle.

Mr. Don Davies: Labour mobility is a part of CETA. Will that influence your feeling on skilled labour?

I hope I can ask just one more question, because I'll probably run out of time.

I agree with you completely about waiting for the details. That's been the position of our party. We're open to an agreement, but we need to see the details. For a 40 chapter comprehensive agreement, we think that's simply common sense.

This may be an unfair question, but the government has floated a jobs number and has said that CETA will potentially create 80,000 jobs, so I ask this of every industry and sector: Do you have any idea of the number of jobs that your sector will create as a result of CETA?

Mr. John Jung: In the IT sector, we have 30,000 now and we believe that should grow, because competition and partnership will grow at both ends. I think the biggest issue is how we retain them if we want to try to keep them in a particular community. That's an issue all of our communities are trying to deal with. I don't have an answer for that. I do know that it's top of mind. In fact most recently, the president of the University of Waterloo made that one of his key platforms.

I can't give you a direct answer.

Mr. Don Davies: Thank you.

The Chair: Thank you very much.

Mr. O'Toole, you have seven minutes.

Mr. Erin O'Toole (Durham, CPC): Thank you to the witnesses for appearing today. It's nice to see you two days in a row, Mr. Jung, although we didn't get to speak at the lunch with the EU and the European ambassadors yesterday.

There was one thing I wanted to ask you as a follow-up. You may recall at the lunch in Toronto that Jason Langrish, one of the speakers, talked about one of the big benefits from CETA being the centre of excellence concept for a lot of major global players, European and Canadian. Do you see that aspect of increased direct investment in Canada benefiting our communities that already have those sorts of centre of excellence cluster benefits, such as Kitchener-Waterloo?

● (1130)

Mr. John Jung: Absolutely, I think we have the opportunity to showcase our communities around the world. By showcasing them as centres of excellence, as we have at the accelerator in the Communitech Hub and so forth in Waterloo, we know that people will come and be a part of it. Whey want to be a part of it. Similarly, I know they want to be a part of it in places like I just mentioned, Eindhoven and elsewhere.

Strategically, we need to figure out how to work together. With these tariffs removed and with obstacles removed, I think the private sector and the public, private, and institutional—they call it a triple helix—will be able to perform better.

Some of the labour movement that's expected as part of this can also strategically help in terms of bringing the right kinds of people back and forth to the right kinds of projects. I think that will help to motivate and move some of these projects to a higher level.

Mr. Erin O'Toole: My colleague Mr. Holder and I are from Ontario and we certainly know the strength of your sector and your community and the work your organization is doing.

Could you suggest a few other communities, centres of excellence clusters across the country that could have this added benefit from investment from global players much like your company?

Mr. John Jung: Absolutely, I can tell you right now. I mentioned this organization of alliance of Canadian cities called Consider Canada's City Alliance, CCCA, that works with Invest in Canada. It has a website and you can see each of those cities across Canada, 12 of them signed up right away.

Ottawa, Toronto, and Waterloo have the Ontario tech corridor, and there are centres of excellence in each of those cities. We have across Canada—and I was just explaining this to my colleague here—more than 20 cities that have been recognized globally as smart and intelligent communities. Those clusters exist from Vancouver all the way to the east coast.

In cities like Fredericton, Moncton, and Saint John in New Brunswick, even as far north as Nunavut, there are opportunities in every corner of Canada where knowledge-centric opportunities exist. We know this is taking place.

If we could have even more opportunities for free trade and movement, we'd be able to exceed even our greatest expectations right now.

Mr. Erin O'Toole: Thank you.

I have a few questions for Mr. Lewis-Manning.

First off, I certainly know the professionalism and operating excellence of many of your members from my time in the Navy and the interaction we had with some of the merchant shippers.

You talked about the establishment of your organization in 1903. How many operating members are there in your organization? I mean actual operators, not support, or tug, or that sort of thing.

Mr. Robert Lewis-Manning: The fleet consists of five companies delivering cargo.

Mr. Erin O'Toole: Five companies, you say.

Certainly I think most members of this committee would know Canada Steamship Lines well, particularly here in Ottawa, and Algoma Central, some of these great companies that have long track records of operating excellence and very strong corporate backing from very prominent Canadian business leaders. Would it not be fair to say that their history and experience on our lakes and channels, the geographic advantage that an operator here would have.... Do you really feel that competition from Europe would be as disruptive to the industry as, say, my colleague Mr. Davies is suggesting?

● (1135)

Mr. Robert Lewis-Manning: I would suggest that it doesn't necessarily have to be disruptive. It's not the fact that the concept is included in the agreement; it's more likely the details of the implementation.

It's important to look at other models, where other countries have faced similar changes. I think Australia is one we watch closely as a model to learn from. The potential is for it to not be disruptive, and it really depends on how it's implemented, to be quite frank.

I don't want to give you the impression that the sky is falling. That's not the case.

Mr. Erin O'Toole: In particular, in terms of some of the short haul and feeder services you described, which specific channels do you think there might be increased competition on? Certainly there would not be a business case for many European-based operators to try to compete on some short-run work here. Are there one or two specific routes you're going to watch closely?

Mr. Robert Lewis-Manning: My understanding of the industry would tell me that the cost and complexity of operating into the Great Lakes, for example, is significant. That's why companies like the ones you've described have been successful, because they've had the right policies, regulatory frameworks, and investment to be able to do that type of trade.

When you look outside of the Great Lakes, it's probably the area that we focus more attention on with respect to the agreement, because the opportunities may be greater. The reality is that the competitive nature can exist under the current regime, so it's difficult to say whether....

We could speculate as to whether there's an opportunity for EU investment in east coast trades, for example. The reality is that the potential negative consequences in the long term....

Quite frankly, if that competition were there, that's fine. The concern is that when that competition goes away, a lot of the investments that need to happen to maintain the capability in those waters may be neglected over time.

The Chair: Thank you very much.

Mr. Pacetti, the floor is yours.

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): Thank you to the witnesses for coming today.

I have a couple of quick questions for you, Mr. Jung.

You're a technology company, but in your brief you say:

> Of course we haven't seen the details of the CETA agreement, so some sectors, especially in the agricultural and food processing industry, will want to learn more.

Why is that important for your industry?

Mr. John Jung: You're misreading what our organization's about.

Mr. Massimo Pacetti: That's why I'm asking you this.

Mr. John Jung: Canada's Technology Triangle Inc. is a public-private partnership made up of the municipalities, the colleges and universities, and the private sector that make up the Waterloo region. We aren't a technology company. We are a public-private organization not very different from Invest Ottawa, which you're familiar with here.

We're interested in across-the-board industries. We look at the diversity of the community, and we try to bring in businesses from all around the world that branch all of the industry sectors. Food processing and all those things are as equally important for us as our ICT companies that are there.

Mr. Massimo Pacetti: What particular area in agricultural and food processing would you have a concern with?

Mr. John Jung: We haven't actually had any kind of focus group at this stage. At this point, we're just interested in learning more.

As I said, we will be holding our first regional economic development strategy over the next year. We've hired a staff person now to undertake that strategy for the region. I believe that CETA will form part of that strategy.

Mr. Massimo Pacetti: That was going to be my next question. How are you going to organize that?

Mr. John Jung: At a local level, we will have focus groups and—

● (1140)

Mr. Massimo Pacetti: Is it all with the intent of exporting more goods, or being able to get ready to export more goods, or producing more goods, or...?

Mr. John Jung: You're asking at a very early stage.

Mr. Massimo Pacetti: Okay, thank you.

I have one more question. You also referenced that there are barriers to entry, and you specifically said it was in terms of citizenship. Is that a problem right now in terms of getting labour into the country or out of the country?

Mr. John Jung: In some industries it is.

Mr. Massimo Pacetti: In or out?

Mr. John Jung: In. When I've travelled to India, China, and other places like that, some of the companies....

This not just for the Waterloo region. I used to be the head of Greater Toronto Marketing Alliance, and that issue was raised a number of times by companies that have branch operations and want to send in some of their people to help out.

Mr. Massimo Pacetti: Okay, thank you.

Mr. Lewis-Manning, what’s the Canadian route that is the busiest corridor, or whatever the expression is? For trains it's the Quebec City-Windsor corridor. What would be the Canadian shipping equivalent?

Mr. Robert Lewis-Manning: The busiest trade, or the most cargo volume, would be out of Duluth-Superior to Quebec City. It's significant, but there are new trades developing outside of the Great Lakes that are going to offer significant promise. I'm thinking out of Sept-Îles, for example, or some of the resources projects that are anticipated both in the Arctic and the east coast.

Mr. Massimo Pacetti: My understanding is that the big cargo ships will not be able to get past Halifax into the Great Lakes. Is that correct?

Mr. Robert Lewis-Manning: It is correct insomuch as the largest Panamax-size container vessels will not be able to fit within the St. Lawrence Seaway, yes.

Mr. Massimo Pacetti: Do you not expect CETA to bring in extra volume, and for your business to grow?

Mr. Robert Lewis-Manning: The potential is there. Some of the details are unsure for us at the moment. I think the part that we are most aware about is being able to maintain both our capabilities and our labour force, which we invest in significantly to keep at a level to operate safely.

Mr. Massimo Pacetti: I'm not sure I understand that. Your capabilities, how would they be threatened? As for your labour force, is it because you're going to have to pay them more?

Mr. Robert Lewis-Manning: No, that's not the issue. It's really having the access to trade that makes the industry sustainable. If there were a potential loss of some limited markets, it would have an impact.

Mr. Massimo Pacetti: I'm not sure where the loss would come from. If you're doing internal shipping, wouldn't your volume just increase? I don't see how the volume can go any lower.

Mr. Robert Lewis-Manning: Not necessarily. Our concern is what we don't know about the implementation, and it's the real details of the implementation.

The fact of the matter is that a European vessel could apply for a coasting trade licence now. There's nothing restricting it from that.

The Chair: Thank you very much.

Mr. Holder, for seven minutes.

Mr. Ed Holder (London West, CPC): I'd like to thank our guests today. I find your testimony to be very compelling. I appreciate it.

'll start with Mr. Jung and then go to Mr. Lewis-Manning.

You talk about Canada's technology triangle. There is a bit of a debate going on in the House of Commons that I typically lead. I know you represent the region of Kitchener-Waterloo and Cambridge. How many mayors are there in those three cities?

Mr. John Jung: There are three cities and three mayors. There's one per city.

Mr. Ed Holder: Perfect.

Good for you. I wanted that on record because London is actually the 10th largest city in Canada. There is sometimes some confusion about that, where Kitchener-Waterloo sometimes combine for competitive advantage, like you've done with the triangle. In fact, I think if you added London to your technology triangle, it might be the greatest trapezoid or rectangle in it all. It could be square.

Mr. John Jung: Are you from London?

Mr. Ed Holder: I am actually from London, Ontario, sir, so I have a sense of your region.

I appreciate your interest in commercial agri industries too, because my city of London, notwithstanding the tough news about Kellogg's recently, is a leader in commercial agri. I know your region has some great organizations, so I respect your interest in it.

I know my colleague asked about your interest in cheese. I want to give you some confidence and comfort. Right now 4% of the cheese in Canada, in terms of the current quotas, comes internationally, or certainly from Europe. That will expand another 4% from Europe, so it will be 8%. Interestingly, it's unfettered the other way and all of Canadian cheese, if we decided not to eat any, could go over to Europe, if we chose. Frankly, that was admittedly a good strong preservation, I think, of the cheese industry. I wanted to give you some comfort about that.

You talked about your organization, how large it is, what it means not just to your region but across Canada. One of the things we've talked about as a committee is that here we have large companies that know how to market internationally, or usually they do. Whether they do it really well or not is a fair question. Most of our trade, as you rightly pointed out in your testimony, is with the United States because that's the logical north-south.... Certainly some 75% of trade goes to the United States. Interestingly though, volume has gone up but percentage has gone down with the United States, and that's very good. What this means is we are trading more in the United States but we are less dependent on them as a function of our overall trade.

Where I get concerned and I think members of the committee do, is how we communicate to the small and medium enterprises about their opportunities. While we'll have trade commissioners and chambers of commerce that will try to do their part, what would you imagine your role would be within your region to educate SMEs about the opportunities of dealing with the European Union? Have you given some thought to that?

● (1145)

Mr. John Jung: Absolutely, and as I mentioned, we already had a meeting with what we call our ambassadors, our local ambassadors, who are mostly SMEs.

We have a target in Germany; we have other regions of Europe we work with. With this committee, a structure of ambassadors, we've taken this notion that the Canada-EU CETA is so important that we need to develop a strategy of how to go forward with them. We have just done a foods strategy, a go-to-market food strategy, for instance. This agreement fits perfectly within that two- or three-year strategy that we want to move forward with.

By the way, just as an aside, we just brought London in—the number 12 city—as part of the CCCA, so we see them as a partner. Once we get everybody to take notice of Canada, we'll all compete based on our merits, but we need to go abroad, bringing our SMEs with us, into those markets.

Mr. Ed Holder: I need to clarify on the record, because I'm hearing muttering around the table—

Some hon. members: Oh, oh!

Mr. Ed Holder: In fact, we are the 10th largest city in Canada, but do note, colleagues, that Kitchener, Waterloo, and Cambridge came as a unit. To repeat my guest's testimony, he said there were three cities and three mayors, and they were ahead of us, so just for the point.

Mr. Don Davies: Mr. Chair, I have to raise a point of order.

Mr. Ed Holder: No, you can't take my time.

Mr. Don Davies: Well, you can freeze the time, but I do have a point of order.

Mr. Ed Holder: Freeze my time.

The Chair: I think he just wants to make a quick point here and....

Mr. Don Davies: Yes. I was informed last week that actually London is Canada's 11th biggest city, so I just think—

Some hon. members: Oh, oh!

Mr. Don Davies: I don't want to mislead the committee.

The Chair: Okay, continue on.

Mr. Ed Holder: Chair, just because my friend comes from a very large city and he wants to denigrate great cities like London, Ontario, I'm very disappointed.

I would say, Mr. Jung, my sense is that your organization is stronger as a result of London being a part of it.

Mr. Lewis-Manning, first I'd like to thank you for your service. Your years as commander of HMCS *Vancouver* and your commitment to Canada is sincerely appreciated. On behalf of all of us, I want to extend our gratitude to you for what you've done and express our deepest respect.

I have a question for you. I thought your information was interesting. I thought the only issue about supply management initially was cheese, but I almost got the sense, hearing your testimony, that we're talking about Canadian vessels almost as a supply management issue. I know you wouldn't want to talk about it like that because it really begs the question, I suppose, can you imagine that the shipping industry.... Let's say within the Canadian perspective where you have your relationships, are there some opportunities for growth in there as a result of CETA?

Mr. Robert Lewis-Manning: We'd like to think so. We would like more information about the agreement so we can make that accurate assessment.

Mr. Ed Holder: Are you familiar with the Canada-EFTA free trade agreement?

Mr. Robert Lewis-Manning: Yes.

Mr. Ed Holder: It was interesting. It was the first deal I was involved with when I came on this committee five-plus years ago. The biggest challenge we had was the country of Norway, which is not part of the European Union as far as these discussions go. We put in a very extended deliberation before they could compete in Canada.

Do you know how long that was, just out of interest?

● (1150)

Mr. Robert Lewis-Manning: I don't, I'm sorry.

Mr. Ed Holder: It was actually 17 years. We did that because we wanted to ensure that we would allow the shipbuilding industry in Canada to grow and prosper and have opportunities to bring in and adapt to competition. We had some very strong positive responses from the shipbuilders as a result of that accommodation, because we're trying to be sensitive to the realities that Norway, as powerful as they are—

The Chair: Very quickly.

Mr. Ed Holder: We wanted a fair compete.

Do you feel confident in the quality of Canada's shipbuilding that we can compete with them?

The Chair: A quick answer.

Mr. Robert Lewis-Manning: The quick answer is I don't represent shipbuilders, but my impression of the Canadian shipbuilding industry is it's gaining its expertise and credibility for the long term and it will be a good thing for Canada.

The Chair: Very good, thank you.

Madame Liu, the floor is yours for three minutes.

Ms. Laurin Liu (Rivière-des-Mille-Îles, NDP): Thank you to our witnesses for coming in today.

Coming from the city of Montreal, I certainly understand the importance of our innovation sectors. I guess the big city slickers are on this side.

Some hon. members: Oh, oh!

Ms. Laurin Liu: With our four universities and our 200 research centres, certainly innovation is very important to my region.

In the IT sectors that you represent, what tariffs exist currently with the European Union?

Mr. John Jung: You'll probably hear more on this from our colleague from BlackBerry who will talk more specifically about those tariffs. I haven't done the study of the tariffs themselves, but I understand they are an issue. I'd rather not go into the detail because I don't have that background.

Ms. Laurin Liu: We'll certainly ask your colleague about that.

You mentioned that job growth would be probable as a result of CETA, but you also mentioned there would be issues or challenges related to retention. Could you elaborate on that?

Mr. John Jung: Yes. We've done a talent study or a strategy of how we can best keep the talent in the community. It's sometimes very difficult in a smaller community. There was a study done in the United States where the focus was on affordable housing, good transportation, and as they said, things to do. Smaller communities have that struggle.

One of the things that is being developed in our region is better transportation. An LRT system is being built. We have the universities in one cluster of our region, but a lot of our entertainment and other things are in areas where the students can't get to. They don't really know what the community is about in some of the other areas. Finally, those people who do graduate tend to want to go from the tech cluster to other regions and try them out, but they come back as families. Our region is well known for bringing them back to raise their families. You have that sense of maturity in some of those tech communities that exists there.

By the way, we have a tremendous start-up community. We want to get venture capital to come there and many other things that help to keep the start-ups there. Otherwise, of course, they're taken away.

Ms. Laurin Liu: I had a chance to visit Communitech. It certainly is an exciting incubator. I'm looking forward to what they can do in the future.

On labour mobility, what sectors would benefit the most from increased labour mobility through CETA?

Mr. John Jung: Obviously, the tech community at large would benefit.

We also think we can grow in various targeted advanced manufacturing areas, including some of our clean tech and the activities around that, and data centres. There are opportunities for some of the lifestyle businesses that are there. We also have a very strong financial services sector that we want to continue to grow. Also there's what we call tech and ops. The technology and the operations side is a new area that we want to grow. We think we can be part of that by getting that kind of expertise from Europe. There are some other sectors as well, such as growing aerospace and so forth.

The Chair: Thank you very much.

Mr. Hoback, for three minutes.

Mr. Randy Hoback (Prince Albert, CPC): Thank you, Chair. Three minutes, you said?

The Chair: Yes.

Mr. Randy Hoback: Okay, so that's rather quick then.

Mr. Jung, I'm curious. You have a unique situation in your ability to attract outside investors from around the world. You not only have NAFTA, bit you also have trade deals such as Canada-Peru, Canada-Chile, Colombia, and other bilateral trade deals. Of course, CETA is coming into play, and then hopefully the Korean trade agreement.

How does that impact you when you seek investment abroad and in positioning your region for the place to be?

● (1155)

Mr. John Jung: I think you partly answered the question.

We have a great community and a great story. We have great companies. We have great people already. People come to us for talent. People come to us to be partners. When we go abroad, we raise that as part of our arsenal, our tool kit. We do go to many of those places. Next week I'll be in China, Japan, and Taiwan. I'll be in Brazil later next month. The point is that even though we don't have a lot of resources, we know we need to be out there.

Mr. Randy Hoback: You have a tool in your tool bag now called CETA that's going to make it that much—

Mr. John Jung: Well, that's what I said earlier. We have an opportunity, probably second to none, because we now have the United States and the rest of NAFTA, Mexico, of course. We have CETA. We have all of these other agreements. We have a great tool kit.

What we need to be able to do, though, is to create great champions. We need to have resources to go out and do this. Organizations like ours don't have those kinds of resources, so we work very closely with Invest in Canada and other organizations where we leverage on what they can do for us. We work very closely with our end-market people from each of our provinces, as well as with the trade commissioners and ambassadors directly in each of the countries that we go to.

We cover the world. You'd be surprised at how little money organizations like ours have, and others like us across Canada. We're your front-line people. We bring along business to business. We don't have a lot of government officials and mayors and EDOs with us. We really have a mixed bag of people, from universities to the private sector.

Mr. Randy Hoback: To sum it up, you're pretty excited then.

Mr. John Jung: Well you can tell that. When I heard about this opportunity to come and talk to you I wanted to let you know we're very pleased with this. There are some things that might rumble from time to time in any community, but we think this is a fantastic opportunity. In fact, we want to take advantage of it by leveraging it for the next two years to come up with some strategies that we can take advantage of.

Mr. Randy Hoback: I think I'll end on that high note.

The Chair: Thank you very much.

Thank you to our witnesses for being here with us.

We will now suspend as we set up for the next panel.

● (1155)

(Pause)

● (1205)

The Chair: I would ask members to take their seats. We have our witnesses before us and we'd like to get this session on the way.

As an individual, we have Marc-André Gagnon. Thank you for being with us. From BlackBerry, we have Morgan Elliott. Thank you for being here.

Before we start I want to ask the committee for consent. Mr. Gagnon has a PowerPoint that he could follow through. It's a document, half in English and half in French, but it is not in both languages. We need unanimous consent if we want to hand this out. It would be translated and distributed later.

Do we have consent for that?

Some hon. members: Agreed.

The Chair: Very good. Then we will get that passed out.

We are starting with Mr. Elliott. The floor is yours.

Mr. Morgan Elliott (Senior Director, Government Relations, BlackBerry): I'll keep my comments relatively short to enable more time for questions and answers. That might be a little bit more productive.

Thank you very much for the invitation. I'm really happy to comment on some of the economic benefits we see from CETA, this agreement, coupled with other free trade agreements that have already been negotiated. The other ongoing trade negotiations with Canada and India, Canada and Japan, and Canada and South Korea really do represent some of the best opportunities for Canadian companies to not only compete in open markets, but to compete fairly in open markets.

As a European master's graduate who studied public administration, what really strikes me is the skill with which the Canadian government and the trade negotiators were able to reach a very ambitious trade agreement. The EU took 45 years to reach agreement among themselves, and in just a few short years, the Canadian government was able to negotiate what I think is an even more liberalizing agreement.

Doing business in Europe can be fairly daunting. We've faced some pretty complex regulatory barriers. There are numerous product and testing certification procedures and other barriers that can make us slower to market and less competitive, so in BlackBerry's analysis, CETA certainly addresses a majority of the tariff, and more importantly, the non-tariff barriers to trade and investment.

At first glance, it also appears to ease the temporary entry of our employees who need to work across borders in order to support, service, and train our customers on our products.

We believe that the agreement's use of a negative list approach to services and labour mobility, and the fact that it actually "future-proofs" Canada in terms of most favoured nation should other countries reach more advantageous agreements, will ultimately facilitate the tech industry in terms of doing business and in its ability, as I said earlier, to compete not only in an open market, but also in a fair market, especially when you do consider those non-tariff trade barriers.

We operate in over 100 countries so we're certainly versed in the types of shenanigans—that's the best word that comes to mind—that other countries can play in terms of protecting or extracting concessions in terms of operating in their country.

We realize it's still an agreement in principle and there's more work to be done. We encourage and support the government's efforts in finalizing the agreement.

As I said, what will be particularly interesting to us are the regulations affecting business travel, product certification, and especially a timely and effective dispute settlement procedure.

I'll sum up really quickly and point out that in relative comparison, Canada's size limits our economic and political influence on the world stage, so we need to work smarter than other countries. However, that smaller size is also a competitive advantage because it enables us to be more nimble and responsive to changes on the global social and economic stage. We're really reliant, and all tech companies are reliant, on constant innovation, but we're also reliant on modern, enabling and competitive public policies from our governments. We believe, in this case, that CETA represents sound, modern public policy and will enable Canadian companies to compete effectively on an open market.

Thank you.

● (1210)

The Chair: Thank you very much.

Now from Carleton University, speaking as an individual, is Mr. Gagnon. He is assistant professor at the school of public policy administration.

The floor is yours, sir.

[*Translation*]

Dr. Marc-André Gagnon (Assistant Professor, School of Public Policy and Administration, Carleton University, As an Individual): Thank you very much for the invitation. I am very sorry about the PowerPoint presentation. As I was given very short notice, I prepared it at the last minute.

I am going to talk to you about the Canada-European Union Comprehensive Economic and Trade Agreement and its consequences on the cost of patent medicines. I am going to try to demonstrate that here, unfortunately, we have a clear case of what can be called corporate welfare for parasitic enterprises.

The graph showing the total expenditure per capita on prescription drugs for 2011, or the last available year, shows that in Canada, we are paying much more than in the vast majority of OECD countries, except for the United States. One could think that that is because in Canada we have better access to medications and that consequently people consume more of them. However, that is not at all the case. All of the European countries have a universal drug insurance program of one kind or another, and they have better access. In Canada, 10% of the population does not buy prescription drugs for financial reasons.

Let us now review prices. In fact, the group of countries Canada is normally compared to includes the four countries where the cost of patent drugs is the highest in the world, that is to say the United States, Germany, Switzerland and Sweden. I would also like to direct your attention to another fact. In Canada, we pay from 25% to 30% more for patent medicines than in other countries that are more comparable, such as France and the United Kingdom.

There is this tendency to inflate the cost of prescription drugs somewhat. There was logic to this in the beginning. In 1987, when the Conservatives amended the Patent Act in a way that favoured the pharmaceutical companies, they did so the right way, that is by stating that they were going to put in place a better piece of legislation and a method of setting the cost of patent drugs that would benefit the industry. In exchange for granting privileges, they required that there be economic and industrial spinoffs. The level of research and development can be measured by the money spent on R&D as compared to sales. Thus, the government required that 10% of money generated by sales in Canada be spent on R&D.

This worked very well for a few years, but toward the end of the 1990s, the system collapsed. The ratio whereby the funds devoted to R&D were supposed to be in proportion to sales collapsed in Canada, and rather than penalizing the industry for not having respected the 1987 agreement, the government put in place a series of measures to attempt to provide more assistance to the industry. They increased tax credits and granted direct subsidies, particularly in Ontario and Quebec. There was the 15-year rule. A series of measures were put in place that benefited the industry even more, so as to curb the drop.

Despite all that, the decline continued inexorably. In Quebec, we lost half of the members of the patent drug industry that used to allocate funds to R&D. We lost 50% of the jobs in that area over the past 10 years. In the rest of Canada, the figure is 18%, is a little less serious.

As for the level of research and development as compared to sales, Canada is almost dead last, behind Cyprus, Croatia and Romania, among others. So no one can say that this experience has been a success, or even close to one.

According to the industry, the problem is due to the fact that the intellectual property regime in Canada is not competitive. In the opinion of the industry, the system needs to be changed. The industry suggests that we use the free trade agreement with Europe to put in place provisions that will increase the protection of patent medications.

So, broadly speaking, the industry would like the government to increase its revenues, and in return it is ready to commit to spending more money on research and development. However, no conditions are imposed. The industry's logic is to say that if it has greater revenues, it will have more money to invest.

● (1215)

From 2000 to 2012, patent drug industry revenues in Canada increased considerably. However, investment in research and development stagnated or even declined. The claim that the higher the industry's revenues, the more it will invest, is magical thinking.

Indeed, in its last annual report published in October, the Patented Medicine Prices Review Board clearly stated that we had to stop believing that inflating drug prices would lead to an almost magical increase in investments. That logic is faulty; there is no cause and effect relation.

Regarding patent drugs, the free trade agreement with Europe started from the principle that being more generous with the industry would generate more spinoffs. There were three demands: restoring the duration of patents, extending data exclusivity, and a right of appeal under the notice of compliance regulations for both generic drugs and patented drugs. The extension of the data exclusivity was set aside, the length of patents was reset at a two-year period, although Europe was asking for five years, and the right of appeal was put in place.

With Joel Lexchin, I examined the meaning of these requests. We considered drugs from 2010, that is to say the available sample .

First of all, we wondered how much additional time would have been needed to put the generic version of these drugs on the market if the free trade agreement had been in place in 2010. In summary, we felt that for the 2010 medications, if that clause had been in place, generic drugs would have taken one to two years longer to reach the market. This one-to-two-year variance depends on whether exclusivity of data should apply to non-innovative drugs. That was one of the requests, however the agreement in principle presented by the government is not clear on that matter. That is why the additional delay to get these generic drugs on the market varies from one to two years.

On the basis of this sample, we estimated that if the provisions had been in place in 2010, the increase in the prices of patented drugs in Canada would have been on the order of 6.2% to 12.9%. Clearly, the CETA provisions will not have an impact before approximately 2023, but this gives us some idea of the increase in the cost of patented drugs.

What will the consequences of this be on the Canadian pharmaceutical sector? No conditions have been imposed on the industry this time. There will be no clear request requiring spinoffs from the industry. I do not believe in magical thinking. In my opinion, investment will not increase as a result of this, nor did it previously, as we saw during the past 15 years. In Canada, the increase in the industry's revenues did not lead to an increase of investments in that sector.

Here the privileges granted to the industry have been broadened and exclusivity increased, but we have nothing in return. I feel this is the very definition of aiding corporate welfare parasites. What to do?

First, let's make sure we do not extend data exclusivity to non-innovative drugs. If we did do so, we would create an incentive for those medications, on the one hand, and the costs would be much higher, on the other.

Secondly, we have to revoke the patent linkage system. I think the NDP tabled a private member's bill in 2003 or 2004 concerning this. At the time, it may have been somewhat premature. But now that the right of appeal has been granted, the patent linkage system becomes much more costly and presents few advantages. I think that the time has come to carefully reconsider it.

● (1220)

You will remember that in 2012 Italy attempted to introduce a patent linkage system similar to the one in effect in Canada. Europe then said to Italy that it did not have the right to do that, because it would cause too long a delay in the arrival on the market of generic drugs. At the same time, Europe asked Canada to not repeal its patent linkage system, but to strengthen it by adding a right of appeal. Let us simply imitate Europe and revoke the system, as it did.

Then, what to do next? Here is a very simple idea: if we want to compare ourselves to Europe, then let's compare ourselves to Europe. The price of patent drugs there are 20% to 25% lower than those in Canada. There is no reason to explain why Canada does not enjoy the same prices as those in France or in the United Kingdom, for instance.

If we want to encourage the industry to invest in the country, that is all well and good, but let's do so through other means, not by artificially inflating prices, which is costly and has no impact on investment.

Thank you very much.

[*English*]

The Chair: Thank you very much.

We'll now move to questions and answers.

We have Monsieur Morin. The floor is yours.

[*Translation*]

Mr. Marc-André Morin (Laurentides—Labelle, NDP): Thank you for your presentation, Mr. Gagnon.

I was struck by this right from the outset: purchases of prescription drugs are about the same in Canada and in the U.K., but the U.K. has twice as many residents as Canada. I read your article, and there seems to be a faulty perception of the provisions of the legal framework in Canada, almost as if that framework was a hostile environment for the pharmaceutical industry. I would like you to tell us about that perception, which differs from the studies proving that our approval system is not that slow and ineffective.

● (1225)

Dr. Marc-André Gagnon: The comparison with the United Kingdom is interesting. Do not forget that the U.K. has a universal, national drug insurance program. In Wales, Northern Ireland or Scotland, patients make no co-payment. Everyone has full or almost full access to that program. There is no problem then with access to medication for financial reasons. And there is indeed greater consumption.

However, the United Kingdom represents 2.5% of the world medication market, and as you say it has about twice the population of Canada. Canada, whose population is half that of the U.K., represents 2.6% of the global medication market. In addition, some say that Canada is not doing its share to help the industry. I think people should be careful. Canada does much more than countries such as the United Kingdom, France or most European countries; they, furthermore, have a universal public drug insurance program which ensures far better access to these drugs.

As for the hostility of the Canadian regulatory framework, of course it is the role of industry to claim that that is the case to try to obtain more privileges. However, we have to take a close look at this: in Canada, we pay much more than elsewhere.

As for the repayments, there is the matter of restoring the length of patents. The regulatory timeframe to get a drug approved can sometimes be several months. So we are extending the length of the patents by that many months, so as to compensate for the regulatory delay that had to be respected to get the drug approved. As a logical argument, the fact that Canada takes much longer to get a product approved has caused people to conclude that our system is slower and less effective. Well, no, we are not less effective than Europeans.

A study was published by Norton Rose, but it was proven that they had used data that made no sense. The Fraser Institute, for its part, published studies with methodologies that seem quite problematic to me.

According to different studies done of the necessary regulatory delay, Canada does not take longer than the others. It is quite simple. In the United States, for instance, when a file is not approved, it is sent back to the industry and the industry takes the time to rework the file and submit it again, and that is not necessarily a part of the regulatory time it needs to get the drug approved, whereas that is the case in Canada. Obviously, if we are comparing apples and oranges, we will say that we need more time in Canada. The United States, we must remember, does not include the time taken by the industry to submit its request again.

In addition, the American market is much bigger than the Canadian market. Consequently, it is clear that the industry will make good time and resubmit its request for the American market, but it will be in less of a hurry to do so for the Canadian market.

So, we have to be careful. I believe that the matter of the long regulatory timeframe for the approval of drugs is not a problem in Canada.

[*English*]

The Chair: You have a couple of minutes.

[*Translation*]

Mr. Marc-André Morin: In one of your articles, you talk about what the increase in the cost of drugs could be. We are talking about 32.3% for provincial governments, another figure for the federal, 29% for private insurance companies and 32.9% for patients.

Can you provide some explanations on this? I think the governments are going to shoulder the additional costs we will be facing, and at the end of the line, the same person will pay.

Dr. Marc-André Gagnon: We have to be careful here. I think that this study was carried out based on the hypothesis that all of Europe's demands with regard to broadening the intellectual property regime in Canada would be met.

Normally, health is a matter of provincial jurisdiction, just like national drug insurance programs. Consequently and first and foremost, the provinces are the ones that will have to deal with the cost increase. However, by tabling an agreement in principle in connection with the free trade agreement, the federal government committed to offering compensation to the provinces for the cost increases caused by certain provisions in CETA. In this way, this is no longer an obstacle for the provinces.

I am both a Quebec and Canadian taxpayer. This money will come out of my pocket one way or another. I am very conservative on tax matters. If the money is coming out of my pocket, I want it to be of benefit to me. However, that is not the case. Sixty per cent of Canadians have private insurance, but some, among the most vulnerable, have no insurance at all. Not only will they be subject to an increase in the cost of their drugs because of provisions in CETA, but they will receive no other benefit to compensate. This situation seems very problematic to me.

● (1230)

[*English*]

The Chair: Thank you very much.

Mr. Cannan and Mr. Hiebert, I think you're sharing your time.

Go ahead.

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

Thanks to our witnesses.

Mr. Gagnon, I just want you to be comforted to know it's good to be a fiscal conservative. There's nothing wrong with that. We support you on that.

I appreciate your being here today.

I represent the riding of Kelowna—Lake Country, which has a variety of industries in research and development working with our post-secondary institutions, so technology and innovation is a big factor.

My first question is for Mr. Elliott from BlackBerry. Could you share with the committee some of the roadblocks, the barriers that BlackBerry has encountered over the years, as you've tried to enter and do business in the European Union and various countries within the EU?

Mr. Morgan Elliott: Sure. I won't specifically name countries because we still operate in there, but we've faced all sorts of barriers, from our managing directors being arrested in different countries and being asked to report to the police station every 12 hours to be interrogated, to revenue police showing up at our doors. Unlike CRA, in some countries revenue police are armed, so that often sends a strong message.

In the European Union, to a lesser extent, they believe in the rule of law and it's a little more sophisticated in terms of the way they operate. Certainly a barrier we've faced in certain countries was that BlackBerry wasn't secure, which is kind of funny because in other countries we hear we are too secure.

There are all sorts of different questions, different certification testings, different processes that are not violating the letter of agreements or processes but certainly violate the spirit of them.

Hon. Ron Cannan: Is it fair to say you support the rules-based level playing field that the comprehensive—

Mr. Morgan Elliott: Absolutely. We're not a military power. We're not the biggest economic power on the globe. We're a small population, so back to my other comments, we need to work smarter and those rules-based trading agreements allow us to really punch above our proverbial belt.

Hon. Ron Cannan: Excellent.

I have one quick question for Professor Gagnon before I pass the floor to my colleague, Mr. Hiebert.

During your comments, Mr. Gagnon, you said you felt there was no correlation between research and development and innovation. I just want to know if you believe in rewarding research and development, and whether you support patent exclusion for innovation.

Dr. Marc-André Gagnon: I did not say there's no link between research and development and innovation. I said there's no link between increasing the cost of drugs and increasing the amount invested in Canada by the pharmaceutical industry.

Keep in mind that, yes absolutely, in terms of the whole logic of the patent itself, it's just let's reward innovation so the industry has more incentives to invest for more innovation, which makes good sense, absolutely. The thing is, if Canada decides to pay more for their drugs, foreign companies will not start investing in Canada if they get more money from what they sell in Canada. They're going to continue to sell the same thing whether they invest in Canada or not, so their decision to invest or not is not based at all on the price level that Canada will accept to pay for their drugs.

This is an important point for me. What I think is a huge problem right now, when you look at the way the patent system is organized, keep in mind that 80% of the new drugs driving the market do not provide any therapeutic improvement, as compared to the drugs that already exist on the market. The problem with that is if we provide massive incentives or we organize the patent system protecting the new drugs that are not providing these therapeutic improvements, we're sending a message that industry focuses on me-too drugs, because real breakthrough drugs are more risky to invest in, but will give you the same protection, the same amount of money if you invest in me-too drugs instead and do not contribute to therapeutic improvement.

For me there are problems with the incentives in place in the patent system, yes, but when it comes to having a patent system in Canada versus more investment in Canada, just know you can increase the price of the patented drugs as much as you want; there is no causality in terms of increase of investment in Canada.

● (1235)

Hon. Ron Cannan: We heard from the Alzheimer Society, I think it was rare disease disorders and others that support CETA. I think there's definitely a reason that we need to support innovation.

Mr. Hiebert.

Mr. Russ Hiebert (South Surrey—White Rock—Cloverdale, CPC): I need a short answer, Dr. Gagnon. Why are Canadians paying 20%, 25%, or 30% more than Europeans?

Dr. Marc-André Gagnon: It's for different reasons.

One of the reasons is that we don't have the institutional capacity to contain the cost of drugs. For me, one of the main reasons is not having a universal pharmacare system, as compared to European countries. It's a huge issue.

In 1987, the way we decided to regulate the price of patented drugs was to take a basket of seven countries, the ones that had the most intensive research and development as compared to sales, and cap the price based on the median of these seven countries. That was the system in place in 1987 through the PMPRB, the Patented Medicine Prices Review Board. Inside this basket you have the four most expensive countries in the world, so we're capping the price based on the four most expensive countries in the world.

Mr. Russ Hiebert: Are you saying we need to change the countries that we average the prices through?

Dr. Marc-André Gagnon: Absolutely. It's just if we extend the basket to, for example, 13 comparative countries.... There was a good study by the PMPRB on this, I think in 2007. If we include other countries like Australia, the Netherlands, etc., in the end, if we regulate the price based on this new basket of 13 countries instead of seven, we could save something like 15%, I think.

Mr. Russ Hiebert: Why wouldn't the PMPRB do that?

Dr. Marc-André Gagnon: They are just in place to implement the legislation that was put forward. They are not there to change legislation. This needs to be done politically at the government level.

The Chair: Thank you very much.

Mr. Pacetti.

Mr. Massimo Pacetti: Thank you, Mr. Chair.

[*Translation*]

I thank the witnesses for being here with us today.

Mr. Gagnon, it seems to me that there are two separate issues here that are being mixed up. I would like some clarifications on some of the things you said in your presentation.

The cost of medication is much higher in Canada than in Europe. However, investing in research and development is also at issue. The cost of medication is linked to the factors you have just spoken of, but investment in research and development is also related to other factors. However, in your presentation you did establish a correlation between those two.

Under the free trade agreement with Europe, are these two different things or should we consider them together?

Dr. Marc-André Gagnon: This question is important. In my opinion, these are two completely different things. The decline in the industry's investment in the pharmaceutical sector in Canada is due in large measure to emerging economies. In the pharmaceutical sector, developed countries are going to see annual growth of 1% to 2% over the next few years, whereas emerging countries will see growth expressed in two-digit numbers. In their case, we are looking at 14% or 15%. It is clear that the industry negotiates its investments here as though they were chips in a poker game. They offer such and such investments, and ask what will be given to them in return.

At this time, whatever Canada does, it is no longer a strategic market for the industry. It is clear that investments will be focused on emerging markets.

And yet the inclusion of these provisions in the free trade agreement is justified by saying that the real issue is the intellectual property system in Canada. According to the industry, revenues are insufficient in Canada and if they were higher, the industry would invest more in R&D.

● (1240)

Mr. Massimo Pacetti: But that is not what you just showed.

Dr. Marc-André Gagnon: Well, precisely...

Mr. Massimo Pacetti: It is static. The revenues increase a little, but investment in research and development remains equal or inferior.

Dr. Marc-André Gagnon: Quite so. And this explains the importance of comparing the words of the industry, which is promising greater spinoffs if we increase its income, with real figures, which show that that is not at all what happens.

Mr. Massimo Pacetti: I am trying to understand the link between the free trade agreement and this. You are asking that we negotiate better prices for drugs, but will the R&D not take place in Europe?

Dr. Marc-André Gagnon: In my opinion, if we want to attract investment in research, inflating the prices is not the way to go.

In order to justify including provisions in the free trade agreement on reforming the drug intellectual property regime, people said that this would make Canada more competitive and allow it to obtain the lion's share of investment in R&D. I would like to point to the fact that we included these provisions and imposed no conditions. Having omitted to do so, we will not be obtaining the spinoff benefits we would like to see.

Mr. Massimo Pacetti: Thank you.

[*English*]

Mr. Elliott, we met before when I had a few questions on my BlackBerry. I'm quite happy with the BB7, but I think I'm going to go to a Z30. Thank you for that.

I have one quick question for you. You were saying that we need a better dispute settlement mechanism in the Canada free trade agreement with Europe. What exactly are you looking for? What is the problem you're having right now, and what would you like to see in the agreement?

Mr. Morgan Elliott: First, thank you. I know that you and some of your other colleagues were on the pilot projects for the new BB10. I really appreciate that and I'm glad you're upgrading already. I highly encourage everyone to upgrade.

It is not so much improvement in a dispute resolution mechanism as much as actually having it in a timely fashion. There are some strategies where a country might put up a non-tariff trade barrier and know it's going to take two or three years for it to work through a dispute settlement mechanism. Certainly in a technology world when you're looking at an 18-month maximum product turnover, but usually 6 to 12 months, two to three years is far too long.

Mr. Massimo Pacetti: What would you like to see in the agreement, a quicker kind of resolution?

Mr. Morgan Elliott: Quicker timelines, yes.

Mr. Massimo Pacetti: How would you go about that when there are other sectors that would probably not be able to do all that?

Mr. Morgan Elliott: If there were carve-outs for the technology field, that would be wonderful. I know some others would probably not agree to that, but just a short, quick timeframe for doing all resolutions.

Mr. Massimo Pacetti: For your sector, you mean?

Mr. Morgan Elliott: For sure.

The Chair: We're good.

Mr. Holder, for seven minutes.

Mr. Ed Holder: I'd like to thank our guests for being here today to share their particular views and areas. These are two very divergent series of interests.

Mr. Elliott, I'd like to start with you. Am I behind the times with my BlackBerry Bold? Is it time for me to consider something else?

Mr. Morgan Elliott: Absolutely, it is.

Mr. Ed Holder: I'm one of those antiquated technology types. The reason I haven't failed the test is I didn't take it. We'll do this a step at a time, I think.

Congratulations. We all know the story of BlackBerry and its history right near my city of London, Ontario, and Waterloo, its great history in a short period of time, its dominance, and then some of its challenges and its resurgence. It's an interesting process. I commend you and your colleagues for that.

As I've been thinking, I heard you say something about proverbially punching above our weight. Sometimes I think what people forget is that Canada has a population of some 34 million, give or take a person or two who may or may not live in London. There are 500 million in Europe, a considerably larger population. When you think of what we've done with North American free trade, there's a 900-million person market. You talk about punching above our weight when we will have free trade deals with the two largest, thus far, and most sophisticated consumer groups in the world.

Again, sometimes people forget too about what we are trying to do with this European Union agreement, CETA. We're trying to put in an arrangement that is pro-consumer, pro-business, and that will lower costs. What I particularly don't seem to understand is why there is the hesitation. There are going to be wrinkles that we work through in any process of any agreement. I get somewhat frustrated, I must admit, when people are inclined to be very negative about what opportunities it gives to Canada. We're a trading nation; it's been our history.

This brings me to my first question. Where would BlackBerry be without exports?

● (1245)

Mr. Morgan Elliott: It would be a much smaller company, for sure.

Mr. Ed Holder: Significantly, I'm sure. I know we can say that about many.

You made a comment about the use of the negative list, and you thought that was a good approach. Could you expand on that a little bit? Just give a short sentence to it. Why do you think the negative list approach is good for Canada and for your firm?

Mr. Morgan Elliott: Again, it future-proofs an agreement. There's no way any regulator, any legislator, any court could predict where technology's going to go, where industry's going to go, where cheese may go. The ability to say that unless you have something specifically on the list up front, everything is carte blanche, it goes through, that really speeds up any agreement in terms of future disputes or future-proofing.

Mr. Ed Holder: You made the comment as well in your testimony, which I thought was interesting, that in any future deal the European Union negotiates with any other country, Canada will be its beneficiary. It really is adding to the point you just made, is it not?

Mr. Morgan Elliott: Absolutely.

Limiting my comments to the tech sector, we're good at software, hardware, and making things.

With a lot of start-up companies accessing foreign markets, they don't understand or they don't have the expertise in terms of navigating through all these different trade rules. When things are open, it allows them to focus on what they do best, value-added to their stakeholders, to hire more employees, and hire fewer trade negotiators or trade brokers to get through the maze and myriad of rules that some countries have.

Mr. Ed Holder: You indicated in testimony that your firm now deals with some 100-plus countries around the world. To work through the various rules and regulations with respect to these various countries, have, for example, the Canadian trade commissioners been of any benefit to you?

Mr. Morgan Elliott: Absolutely. Actually I had the opportunity of speaking with Minister Fast this morning. Any time we have the chance, we sing the praises of the trade commissioners across the globe. They've been integral in terms of making interventions on behalf of BlackBerry with different countries. They've opened doors for us. That is absolutely, bar none, the best investment for BlackBerry for all the tax dollars that we paid. They've been integral. I can't stress how much they've been integral in our success internationally.

Mr. Ed Holder: I appreciate your comments and wish you success.

Monsieur Gagnon, thank you for your testimony as well. You give an interesting insight, and again it's somewhat different from our BlackBerry friends.

I saw your pedigree. You have a very impressive background. There's your study on pharmacare and the pharmaceutical industry. That's obviously been a life passion for you.

I'm trying to get a personal sense from you. As a matter of social policy, is it your personal belief that drugs should be available to all Canadians at no cost?

Dr. Marc-André Gagnon: In terms of social policy this is where they are moving in the United Kingdom. Yes, I think when it comes to drugs, thinking about prescription drugs as a commodity that should be ruled based on supply and demand, especially based on the budget constraint of the different individuals, for me it is really bad policy. Especially if we have a system organized based on private insurance, private insurance is basically creating loyalty of the worker with the employer, which is not a bad thing, but what is good as well is labour mobility. The more you can have labour mobility by having coverage for everybody so they can go work anywhere they want where they are the best fit to work, yes I think it is the best policy.

Mr. Ed Holder: If you don't think that Canadians should pay for their drugs, that brings a whole series of questions to my mind. One of them is where will that cost come from?

It's interesting that we had the brand name drugs in front of us for testimony, Rx and D, and we had the generic drug manufacturers, the senior companies in front of us giving their testimony. They both felt that the deal was something that they could live with.

It makes me wonder, perhaps tied into your first response and it may be evident, is it your view that Canadians pay too much for generics?

● (1250)

Dr. Marc-André Gagnon: Absolutely.

There has been for example, I don't remember which.... It's produced by Apotex, the cost is something like 10 times more in Canada than in New Zealand, but it is Apotex selling the same drug in New Zealand as well.

The way we price generic drugs is politically decided. It should be based on the price of brand-name drugs while there is market competition. This is kind of nonsense. We're paying way too much for generics as well.

The fact that the generic sector and the brand-name sector can live with the agreement, I can absolutely understand. The generics were expecting something much worse in terms of what it would mean for them in terms of being competitive with the brand-name drugs. In the end it wasn't so bad. In the brand-name sector I completely understand that they can live with that as well because basically it is more earnings without anything in compensation.

In terms of Canadian citizens, I think it is basically a bad agreement. I think in the end it increases costs without providing anything back to Canadian citizens.

The Chair: Thank you, very much.

Mr. Davies.

Mr. Don Davies: I want to get some basic things straight.

Do you think that CETA, once it's implemented, will delay the introduction of generic medicines to the Canadian market? Will it have that effect?

Dr. Marc-André Gagnon: Yes, absolutely.

We're beefing up the intellectual property regime for brand-name drugs. The effect of an intellectual property regime is to increase the cost we're paying for something in order to provide incentives for innovation. So yes, absolutely this is the nature of it.

Mr. Don Davies: Do you have an estimate or a range of approximately how long you think the provisions of CETA...? We know that it's the right of appeal and what's the other?

Dr. Marc-André Gagnon: Patent term restoration.

Mr. Don Davies: The patent term restoration provision. Do you have an estimate of on average how long that will delay the introduction of generics to the market?

Dr. Marc-André Gagnon: The study I mentioned, and I will be happy to submit the memo to the committee, for—

Mr. Don Davies: Could you please submit that to the committee?

Dr. Marc-André Gagnon: Basically we're thinking between one year and two years, but this is based on a sample of drugs that were going off patent in 2010. Will it be the same thing in 2023? I don't know. It will be a different basket of drugs. To give you an idea, right now, this is what it would mean.

One thing I think is very important when we talk about the cost of drugs, etc., is it's not a question of saving a bit of money; for me, it is also a question of access. When you have these new breakthrough treatments against cancer, for example, fantastic, but then if we pay 25% more than European countries pay, maybe the European country will be able to accept to reimburse this drug and Canada will not be able to do that. We'll not be able to provide the same access to the same treatment because it is just too expensive in Canada.

I have a problem with a lot of patient advocacy groups that are saying, for example, that CETA is a good thing, that it is better for innovation. Many of these groups get funding from the industry itself. If you want to have better access to new treatment you need to reduce the price of the drugs. We need to get value for money. As long as we don't get value for money, for sure there will be health technology assessment in place making sure that not everything will be reimbursed at any price.

Mr. Don Davies: What is your estimate of how much money per year the delay of generics to the Canadian market will cost the Canadian pharmaceutical...?

Dr. Marc-André Gagnon: We're talking about an increase. What is not clear in what was disclosed in terms of principles of the agreement, is we don't know exactly if that protection will be extended as well to non-innovative drugs. If that is the case, the cost will be more important, but we're talking between 6% and 12%, more or less.

● (1255)

Mr. Don Davies: Can you give me a figure in dollars, a range?

Dr. Marc-André Gagnon: In dollars we're talking between $800 million and $1.6 billion today. In 2023 it will be different.

Mr. Don Davies: Some proponents of CETA make the argument that drug prices are lower in Europe even though they have longer, stronger intellectual property provisions. They point to that as an argument that if we strengthen our intellectual property provisions in pharmaceutical drugs in Canada, therefore there is no relationship to that in cost. What's your comment on that?

Dr. Marc-André Gagnon: When we're talking about an intellectual property regime for brand-name drugs, we need to look at the period of market exclusivity, so, yes, in terms of patent protection, exclusivity, etc., but also how much we're paying in terms of prices while it's under market exclusivity.

The idea, or the wisdom, is that in Europe they have longer protection and lower prices. It's just longer protection. They don't have a patent linkage system in Europe. We do have it in Canada.

What it means is that for all the blockbuster drugs this patent linkage system is being used in order to introduce further delays. We're talking usually about a year, a year and a half of further delays.

In the end, when you look especially at the blockbuster drugs, they benefit from the same market exclusivity, be it in Europe or be it in Canada.

The Chair: Thank you very much.

Mr. Hoback, the floor is yours.

Mr. Randy Hoback: This is actually a very interesting debate, and my friend from BlackBerry, just so you know, I'm staying with the team here. I just highlight that for you. If I didn't mention MP Peter Braid then Harold Albrecht would have my hide. I wanted to make sure they're okay with what we're doing.

It's really interesting talking about your slide, when you talked about that, it acknowledges the base sector is in decline. When I look at the writing on your slide here, sir, it talks about the loss of jobs just in Quebec alone from 2003 to 2012 by some 50%. That tells me obviously what's in play right now in that sector and what we're doing in Canada isn't as attractive as other parts of the world, because the R and D going on in the pharmaceutical sector is going on, it's just going on somewhere else. Obviously there is something that's a disincentive in Canada, or a better incentive somewhere else maybe is a better way to put it, so they look at it.

Then I go to your R and D-to-sales ratio based on 2011 and look at Canada and it's 5.6% and in Switzerland it's 126.2%. That makes me very curious about a couple of things.

First of all, R and D-to-sales ratios by country, is that the right way to look at it? R and D sales based on sales in total per company would be something I would have looked at when I was with Flexi-Coil and Case New Holland. I'm curious about that.

The other concern I have is you talk about wanting to see standardized pricing and basically drugs free for everybody. In a futuristic world that may be something, but the reality is...at least I believe that if somebody is going to spend billions of dollars developing a new drug that's going to save my kid's life or takes all that risk on to find out it doesn't work, they have to have the ability to reap the reward and the benefit from that. How do we do that? What is a fair way of doing that so that we still see that innovation happen here in Canada?

That's the goal here. We want to see this innovation happen here in Canada. We want to see our kids working in these high tech companies because they're great jobs and they're great for our kids. Not only that, we want the benefits to be here in Canada from the new drugs. We don't want to create a disincentive. That's what concerns me when you say that we just ignore the research side of things and we go to a cheap drug policy. How would you react to that?

Dr. Marc-André Gagnon: I absolutely agree with you on this. In terms of R and D-to-sales ratio this is the standard that is being used in order to measure the R and D intensity in different countries. You're absolutely right. We could look at other ratios, but normally this is the one that is established in terms of a standard.

Mr. Randy Hoback: That is a benchmark that's global. It's not just one that you're using yourself.

Dr. Marc-André Gagnon: No, no. This is the one used by PMPRB, but this is what is used in other countries as well.

In terms of drugs for free, oh my God, for fiscal conservatives it sounds like absolute nonsense. We have a medicare system in Canada. We're the only country in the world with a medicare system that excludes prescription drugs, as if prescription drugs were a health care service that was not part of medicare, as if it was not a health care service, as if it was a commodity that should be regulated in a different way.

• (1300)

Mr. Randy Hoback: I think that reflects the costs. I'm looking at the cost of not only the service of the doctor, but actually the service of the medication at the time.

Dr. Marc-André Gagnon: The fact that we have a medicare system excluding pharmacare is an anomaly in this world.

Right now we have this pan-Canadian purchasing alliance. We are doing these PLAs, product listing agreements. The official price for selling drugs sometimes is much higher than the real price we're paying based on these PLAs. The PLAs are what the public pharmacare programs can afford in terms of negotiations, but then you have the people with private coverage or people with no coverage at all. In the system we have in Canada, they are still stuck with paying the artificially inflated prices having no negotiation capacity.

The fact that we're asking people to pay.... If you have a drug, you can negotiate, for example, on the specific drug, let's say a rebate of 75%. Your co-payment is 32% if you're part of the public plan, so in the end you're paying out of your pocket something higher than the real price of the drug being paid by the pharmacare plan.

Mr. Randy Hoback: That's because of the insurance aspect of that.

The Chair: Thank you very much.

Our time is gone. We could go round and round on this for a long time and probably not solve it.

Dr. Marc-André Gagnon: Something very important on reaping the reward is, yes, absolutely, but, as I said, we have a system right now that is focusing on providing incentives for drugs that do not provide any therapeutic improvement as compared to what already exists.

The Chair: That's fine.

I want to thank you, witnesses, for coming forward. It was a very interesting round.

Just to let the committee know, on the 27th we're asked to be in the House as we have a guest speaker in the House of Commons, so we'll probably suspend that meeting.

Have a great break, and we'll be back after that.

Thank you. The meeting is adjourned.