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Chair

The Honourable Rob Merrifield

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•(1100)

[English]

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

Pursuant to Standing Order 108(2) we are doing a study of the positive effects of the global markets action plan.

We are just starting this study. As is tradition as we start a study, we have a budget to bring witnesses in. We have it before the committee. We would entertain a motion to accept that budget before we hear our witnesses this morning.

Mr. MacKenzie moves it.

(Motion agreed to)

The Chair: We'll now get down to the more interesting parts of our study.

We have with us from the C.D. Howe Institute, Daniel Schwanen, assistant vice-president of research. We also have John Curtis, senior fellow of the C.D. Howe Institute, Toronto, and of the International Centre for Trade and Sustainable Development, and adjunct professor at Queen's University.

We want to thank you, Mr. Curtis, for being here. We'll yield you the floor first and we look forward to your testimony before we get into questions and answers.

Go ahead.

Mr. John Curtis (Senior Fellow, C.D. Howe Institute (Toronto) and the International Centre for Trade and Sustainable Development (Geneva), Adjunct Professor, Queen's University, As an Individual): Thank you, Mr. Chair. I'm delighted to have this opportunity to comment even briefly on the global markets action plan. I was in front of the committee in December and enjoyed that occasion.

The document, Mr. Chairman and members, is certainly a clearly and cogently set-out document. It's written in easily understood language, which for us trade economists and trade junkies is not always the case. We love acronyms, and this one spares you from that. The graphics and the tables are excellent, and many of the most important aspects of current Canadian trade priorities, including listing the key foreign markets, priority sectors, and the addresses and emails—all of it very useful information—are set out and described very well.

Canadian governments past and present and increasingly provincial and territorial governments, which have partial or full

jurisdiction over many areas of contemporary international trade negotiations, have done a very good job, I would argue, since 1947—the founding of the General Agreement on Tariffs and Trade—in helping, with other countries, to establish a solid framework for trade and related matters, especially investment, on which every region of our country is so very dependent.

So let me say at the outset, if I might, Mr. Chair, that in essence I'm in general agreement with what's in the document. Trade and vigorous trade policy negotiation and implementation is, I would argue, a central pillar, a foundation, of Canadian economic growth and prosperity. The global markets plan provides a good description of what is going on internationally, who is doing what, what Canadian priorities are, and who benefits from all the concentrated, high-priority activity in this important area of public policy and commercial activity.

Although I hate to suggest it, Mr. Chairman and members of the committee, I think that Canada needs a global markets action plan 3.0 right away. The one we are discussing here today, as good as it is, I would argue is already dated. It tells half the story. We need the other half to address and to take advantage of the world that is evolving ever so rapidly.

The new world is a world of innovation, of creativity, of knowledge, of services, of the Internet, and of electronic commerce, none of which the current plan—which I call 2.0—is focused on. The new world is also a world of imports as well as of exports; of investment, which often replaces trade in goods and services; of massive flows of capital, which now overwhelm the volume of international trade and even investment at times. It's a world of highly mobile skilled labour, of entrepreneurs, and of venture capitalists who can invest and settle basically anywhere in the world. It's a world in which Canada has all sorts of advantages, I would argue, if we choose to deploy and to support them in the years ahead.

Given the size of the investments needed in this new, emerging world, this innovation and knowledge-intensive world, I'd suggest that it's very important that the private sector and the public sector in Canada—and indeed elsewhere—work together to get the results we need, especially for the next and succeeding generations.

My thought, then, is that the global markets action plan 3.0 will need to focus much more than the current document does on the domestic economy, to help exporters and investors be in a position to take advantage of all the doors that are so well described and that are being opened for them through our very current successful, vigorous, and ongoing program of trade negotiations and of trade promotion.

As the Governor of the Bank of Canada and others have been saying in recent days, exports and the jobs that are directly and more importantly indirectly related to our international trade have not been increasing as they should, as we expected them to increase. Indeed, if you look at the economy overall, trade is a drag on our economy at the moment, although the numbers, Chair, in the last two months have looked a little more promising again.

• (1105)

We thus have serious work to do in Canada, I would argue. It involves all forms of labour, every community, capital, education, and infrastructure to help our traders and our investors prosper and to contribute even more to our growth and prosperity in the years ahead.

I think further that, while understandable, we haven't paid enough attention in recent years to the United States. Distance, size, and economic growth count in trade—that's what we measure day by day—and our nearest neighbour has all three. It has growth, it has nearness of distance, and it has large size with respect to us in particular. We enjoy an extraordinary privilege, located where we are here in Canada, and I think we should take more advantage of it.

Finally, Mr. Chairman and members, we'll have to get our minds around exchange rate policy. The variability of exchange rates adds to uncertainty and to inefficiency, as every small and medium-sized business—which I know you will be focusing on in this committee—and even larger firms know. We also have to understand matters such as electronic commerce, online trade, and the digital economy more generally, as well as all the privacy and security issues related thereto.

Further, we'll have to address the important matter of how to innovate here or to buy technology and ideas from abroad more effectively, to commercialize these ideas and technologies in order to produce the goods and services that the world's consumers and businesses need in the years ahead.

All this is material, I would suggest, Mr. Chairman and members, for a global markets action plan 3.0.

Thank you.

• (1110)

The Chair: Thank you very much.

Now, representing the C.D. Howe Institute, I guess, we have Mr. Schwanen. The floor is yours.

Mr. Daniel Schwanen (Assistant Vice-President, Research, C. D. Howe Institute): Thank you very much, Chair.

Maybe we should have reversed the order, because I'm going to talk about the current global markets action plan and not the future one, which John was contemplating.

Thank you very much. I really appreciate the opportunity to appear before the committee.

The global markets action plan is a fairly straightforward document. I'll just make some brief comments on each of its four key elements. The first one is priority markets.

It's nice to see some prioritization linked to the kind of good or service or the kind of business we can do in specific markets. Obviously a fair amount of thought went into this. Resources are tight for diplomats, and it makes sense to have a plan to allocate them or to prioritize the allocation.

I understand that the list of priority markets was put together after a ranking of country business potential was made using fairly basic economic indicators, on which was overlaid a set of "ease of doing business" indicators, an assessment of the potential for the Canadian government to be helpful to the growth of business between Canada and the particular market being ranked, as well as some non-economic considerations, such as good relations or broader geopolitical considerations.

I think the list thus put together is fairly solid. But I say this only because the plan emphasizes that it is flexible. I can think of a number of countries, even quite sizeable economies, even a G-20 country, even countries with which Canada has been trying to conclude trade agreements, that did not make the list of priority markets. It's not a concern, necessarily, but I think it's an interesting point. For most of these, there are very good reasons—I would say non-economic reasons—for their not being on the list, but we wouldn't want to write them off forever.

Of course, one country currently on the list, Russia, which in fact was initially selected precisely because it was not one of the "usual suspects", to quote the original study behind this, has in the space of a few months become a bit suspect, I would say, and certainly distinctly less promising. Indeed, it is experiencing large capital outflows at the moment, for reasons we can all imagine.

So, having thought about a list and produced a list—which was the first part of the plan—of countries and priority markets is very useful, but flexibility going forward is key.

The second part of the plan focuses on economic diplomacy. Some have said that this plan puts economic diplomacy at the heart of foreign policy, but I'm not so sure. It puts it in the brain, maybe, but maybe not in the heart.

Given that this is a global markets action plan and not, say, a human rights action plan or a development action plan or a security action plan, I find it hard, looking at the plan as a global markets plan, to conclude that the commercial concerns, as central as they are in this plan, will override non-commercial or geopolitical considerations. Foreign policy will always influence trade, because like-mindedness or at least compatible-mindedness and dialogue influence both the desire and opportunities for mutual trade, investment, movement of people, etc. In turn, strong economic relations often underpin beneficial relations on other fronts.

People have seen an opposition here between economic diplomacy and perhaps more traditional Canadian foreign affairs concerns. Personally, I see less of that. We just published three or four weeks ago a study showing that there was a strong link, for example, between the strength of government-to-government relations between Canada and a country and trade links between that country and Canada. So I see the two as more intertwined, and not economic diplomacy as something strange or outside of normal diplomacy, necessarily.

This brings me to the plan's short but crucial section on trade and investment negotiations. Obviously it's a very busy period for negotiators, something John has alluded to. From being somewhat a laggard, Canada is becoming a leader again in concluding leading-edge trade and investment agreements. Mutually beneficial trade and investment links both with countries on the priorities list and those left out of it, some of which are pretty interesting countries, can be enhanced through bilateral, regional, and multilateral negotiations that are referred to in the plan.

Furthermore, what I really do like about this short section is that it integrates the trade negotiations with the other suite of negotiations that are really important to make a commercial or a trade relationship—or a relationship, period—work. Education agreements, investment agreements, air agreements, and regulatory cooperation: without these, trade agreements, or the traditional ones at least, would work far less well. So the integration of all these agreements—and including education in the process—I think is very important.

• (1115)

Finally, the last section talks about building on Canada's comparative advantage. I don't have the exact title in front of me, but that's the basic idea. It talks about building on our competitive advantages, and really, there it talks about two things that are of keen interest, at least to me.

One is the sectoral list. I've gone through it. I've analyzed it. I've looked at whether the list of countries corresponds to the list of industries, and actually, it all hangs together. I usually like to find fault with these kinds of analyses, but suffice it to say that I think the list of industries or sectors that are focused on here as part of the plan does highlight the fact that Canada is becoming a more diversified economy.

Yes, there's mining, absolutely. Yes, there's oil and gas. Yes, there's agrifood. But when you look at what we're targeting in terms of our trade with developing countries, you see that ICT, aerospace, and again, education are being featured in the vast majority of the countries that we're focusing on, as well as some R and D-intensive sectors such as life sciences. I think that's a positive story there that we're trying to develop through trade.

Finally, on SMEs, small and medium-sized enterprises, I think that's the right focus. They are facing barriers to growth, and challenges, and learning by exporting is one way that a small or medium-sized enterprise—and there's some literature on this that's quite striking—can learn to become innovative and grow, simply because otherwise you can't export. If you're forced to export or you're forcing yourself to export, you have to become more innovative and more productive and try to plug into the global value chains of some of the bigger companies.

Frankly, we've been having trouble growing SMEs in this country. I think trade is a promising way if we focus on them, as we do in this plan, to help them grow and to help our economy grow.

In short, I don't have a lot of criticism of the plan. It's clear. It goes in the right direction. It's flexible, and I think that's very important. It mentions ongoing consultation. It mentions tweaking the plan as required, and that's very important. Overall, I think it's a good platform for moving Canadian interests forward.

Thank you.

The Chair: Thank you.

That takes us to the questions and answers. It's going to be interesting. One of you is saying greater ties with the United States to exploit the opportunities, and the other is saying greater diversity. Let's see where it goes.

Mr. Davies, the floor is yours.

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

Thanks to both witnesses for appearing before the committee. Welcome.

Mr. Schwanen, the GMAP identifies a number of goals. Some are fairly specific and some are more amorphous. One is to “help SMEs expand into new markets” and make the leap to exporting, and you commented briefly on that.

I've read some statistics recently that show most of Canada's trade is really conducted by very large corporations in this country and SMEs really do not tap into export markets. We all want that to happen, but I'm just wondering, do you have any specific recommendations for a concrete measure that the government could take that would help SMEs actually penetrate those markets?

Mr. Daniel Schwanen: That's a very good question. I think part of the answer is within the plan, and it is a greater focus on economic diplomacy on the needs of SMEs. When you meet diplomats abroad, the fact is that they are now more than ever—I think they've always done this—helping to build connections with businesses, whether it's in India, or in Africa, or in the United States. I've seen this happen, with a greater focus on not what the needs of our SMEs are, but on what they have to offer.

Part of it is being more knowledgeable about what we have to offer. In manufacturing, for example, obviously a big part of the future of manufacturing is niche markets. By definition, this starts with a small firm producing something extremely innovative and original. My view is that it's true the statistics show that there are not a lot of SMEs exporting, but for those that are, they are very enthusiastic and entrepreneurial about it. The idea is to connect those entrepreneurs that we do have with the growing markets, and that's the job of economic diplomacy.

That's still a very general answer, but I think part of it is information.

• (1120)

Mr. Don Davies: Thank you.

Picking up on the dilemma the chair mentioned, we have a bit of a dilemma in that we recognize that some developing countries have relatively low per-capita incomes and slow economic growth rates and relatively high poverty rates, so it leads to a question about what magnitude and types of benefits would accrue to Canada from enhanced trade and investment with them.

On the other hand, in a speech to the Greater Kitchener Waterloo Chamber of Commerce in April 2012, the previous governor of the Bank of Canada indicated that Canada's share of world exports has been declining since the turn of the millennium. He said that:

Since 2000, Canada's export growth was almost 5 percentage points slower than global export growth on average per year. Our share of the world export market fell from about 4.5 per cent to about 2.5 per cent and our manufactured-goods export market share has been cut in half.

According to him, Canada's deteriorating export performance could be explained by the concentration of Canada's exports in slow-growing advanced economies, rather than in the faster-growing emerging markets, and to a lesser extent, by some competitiveness challenges, and at the time the high relative value of the dollar. I'm going to get to you, Mr. Curtis, on that in a moment.

What advice would you give the committee on where we should focus? Should we focus on the faster-growing developing countries that have the challenges or should we focus on the advanced economies that have slower growth but are large markets?

Mr. Daniel Schwanen: I think we're big enough to focus on both. Some of the statistics—and I live in Kitchener-Waterloo and so we're well aware of that speech—reflect the fact that the U.S. went through a very deep recession, for example. It's now coming back up I think, in a nice way. The recent forecasts show this for the advanced economies, while the emerging economies slow down.

If you look at the plan and you look at the sectoral breakdown of countries and what we're trying to sell in each, they're very different. I think if you are in certain industries—very advanced manufacturing for example, some services industries, professional services—you would want to focus on large, established economies because there are some new markets opened by new trade agreements, like the CETA, for example. There's an opportunity to sell there in a very rich, albeit a bit more slowly growing, market.

In emerging economies, obviously there is a demand for resources. There is a demand for certain types of more infrastructure investment that we can also provide, but I think the two are different. I think we can do both.

Mr. Don Davies: Thank you.

Mr. Curtis, you mentioned the exchange rate. Recently, a number of U.S. congressmen made some very strong statements in the context of the TPP negotiations that their support for that agreement would depend on whether it contained an exchange-rate mechanism, something that Canada's trade agreements, in fact most trade agreements, do not contain.

Given the absolutely vital importance of the effect of currency on trade, and I think we all know the Canadian dollar plays a pivotal role in that, you mentioned the importance of that, what advice would you give the government in how we handle currency valuations and exchanges in the context of trade agreements?

Mr. John Curtis: Mr. Chair, and the critic, Mr. Davies, this is really a new and unmined area, especially when we tie it to trade. You're quite right. Right from 1947, we didn't build into any world trade agreement the management of currencies. It was kind of there. We knew through the financing of trade that money and levels of the exchange rate were important but not important enough to put it into a trade agreement, or we couldn't agree on that. That continues to this day, and this is why the Canadian government, for example, is still reluctant to have anything about exchange rates.

Going back to your question to my colleague, one reason small business has been unable to get involved in international trade, any more than it has been able to, is that they can't afford the risk of moving exchange rates. Big firms can hedge, and it's big firms that do most of the international trade, as you said. Smaller firms, SMEs, can't afford to predict the exchange rate, and the buy and sell exchange rate, looking ahead. This is a major factor in affecting the success or lack of success of small business.

To answer your question directly, I think in a trade agreement we probably cannot do what we wouldn't encourage American congressmen or others to do; that is, to tell anybody, including us, what exchange rate we should have, or what the Chinese should have, etc. We should, on the other hand—and there are other parts of our international economic policy—push our federal Department of Finance and the bank to begin working much more actively on redesigning the international financial system.

Mr. Chairman, as I mentioned to this committee in December, each week there's more value traded in financial assets than there is per year of trade in goods and services. The financial system has overwhelmed the trade system, and we're suffering from it to some extent. The Canadian dollar is no longer totally based on how well or poorly we're trading. It's based on the flow of financial assets coming into and leaving Canada. It's a whole new area to get at.

I don't have a direct answer, except to say that the financial system is an area this government is working through on its own, through the Federal Reserve, through the G-20, and through the G-7, where the former Minister of Finance was so strong and so interested. That's where we have to focus on because the bottom line is that it's disrupting the trade system, and hurting small and medium-sized business in particular.

● (1125)

The Chair: We're going to get into more of that, I'm sure, but we'll respect our time.

Mr. O'Toole, the floor is yours for seven minutes.

Mr. Erin O'Toole (Durham, CPC): Thank you very much, Mr. Chair, and thank you both for appearing. Mr. Curtis, welcome back. Mr. Schwanen, I'm sure you've been here before, but maybe not during my tenure.

I have some comments and questions for both of you, and I'll start with Mr. Schwanen.

You gave a good overview of how, from a practical basis, it makes sense to prioritize, not only from a budgetary standpoint in terms of resources to be deployed for trade missions and that sort of stuff, but on a diplomatic basis as well, to prioritize the use of our diplomatic tools in developing relationships with countries. The C.D. Howe study, from a month and a half ago I believe, did talk extensively about how important those government-to-government relations were in establishing sustained market access for our exporters.

One interesting part of your study sort of juxtaposed our Conservative government approach of economic diplomacy—as we coin it—through the global markets action plan with the old Team Canada Liberal approach that had a number of political leaders piling on a plane for one visit, with some pre-arranged agreements or memorandums that were negotiated in advance, and almost signed. But studies have demonstrated that it did not lead to sustained market impact, and it was an ongoing full-court press by all parts of our foreign service to really sustain the growth of those markets. Would you care to comment a bit more on that aspect of your study?

Mr. Daniel Schwanen: I think the Team Canada approach, on a case-by-case basis, might work in certain markets where those kinds of representations are very important, where the kind of big-team approach is important. But what the study says is that really when you look at the two approaches overall, the one that really keeps a relationship on an ongoing basis and makes sure that the Canadians, the diplomats, and the economic diplomats who are on the ground really foster those sustained relationships is really the key—that and trade agreements. It's even more so the key when you deal with countries that are perhaps not quite as open as Canada, countries that perhaps have different systems, that are not quite as high ranking on the economic freedom index.

So the study clearly says that the traditional, if you like, more sustained diplomacy, with the presence of embassies and particular trade agreements and so on, really does have a sustained impact, which is not necessarily always the case with a Team Canada mission.

• (1130)

Mr. Erin O'Toole: Thank you.

My colleague Mr. Davies brought up one thing that I'd like to explore a little further and that's the important role of SMEs. Small and medium-sized enterprises are embedded into the strategy of the global markets action plan. In particular, as parliamentary secretary to trade, I've lost count now of how many positive stories I've heard from exporters about how our trade commissioner service has helped non-global Canadian players. In the case of an SME that, for instance, exports to the U.S. but for the first time is looking at Germany or at a market in Europe, the trade commissioner service helps them to access the tools they need to find distributors, set the stage for sales, understand the regulatory environment, and that sort of thing. I find our plan also helps prioritize that spending and the deployment of the trade commissioner service.

With respect to SMEs in particular, I'd love to hear your comments on something. I don't know how familiar you might be with the trade commissioner service. Do you think that's an area we can continue to develop to help the SMEs grow their markets?

Mr. Daniel Schwanen: Yes, and that allows me to give a more specific answer, I think, to Mr. Davies' question.

I think it's pretty clear. There was an assessment of the previous global trade strategy or global commerce strategy, which went in that direction, that the trade commissioner service is very important and very useful, so we should focus more on that. I think this is a kind of follow-up to that earlier strategy and the assessment that the strategy was working. Perhaps it needed to be more focused on the trade commissioner service, but let me be more specific, because I had written down some notes in the margin.

As well as having country specialists, by virtue of their being on the ground, maybe we could also have sectoral specialists within that service, who understand an industry, the development, and the linkages that can take place. So that's one thing.

The other possibility would be for that service to help develop accelerator centres in certain key markets. Again, I'm from Kitchener-Waterloo, and those work fantastically well. We have old companies—well, some of them are not doing so well—and large companies that are already established, which, with the help of these centres, are helping the small companies grow. It's a wonderful way to help the smaller companies grow. The large companies want to help the small companies grow.

Mr. Erin O'Toole: Very quickly, I have one last question for Mr. Curtis. I'm aware of my time.

Mr. Curtis, I admire your enthusiasm. We're here on GMAP 1.0 and you're already on GMAP 3.0.

Mr. John Curtis: I'm always looking ahead.

Mr. Erin O'Toole: But what I might suggest to you—and I'd love your comment on it—is that GMAP does not stand alone. The global markets action plan is, I think, a very strategic and responsible way to deploy our diplomatic and trade assets to grow export markets. But at the same time we're modernizing our intellectual property regime here in Canada, from copyright to trademarks through some patent reforms. We have innovation culture and things like that. Is that not also going to help our traders in those sectors outside of the trade strategy?

Mr. John Curtis: The direct answer is, yes. I think it would help the public in general understand—those who don't follow trade by day and night—if those were all packaged in such a way that everybody understood. If it was clear to the broader public that education, intellectual property, infrastructure, skills development, and retraining of labour are all part of a successful international trade strategy, then it would help them understand what was going on and why it was going on, and I would suggest, it would improve the legitimacy of the whole operation.

At the moment I think, probably, trade negotiations seem a little remote from most people. Whereas, in fact, I would argue it's the basis of everything we do in this country. It's important for prosperity and human progress.

I think I'm answering in a long way to say "yes". It is all part of the big package here, and that's what I'd like to see the next version of this encompass. Just in terms of the present document, I would suggest that the trade commissioners think of themselves as investment prospectors, in effect. They're not only linking up with what's going on now in country X and country Y, but a lot of trade also involves looking for new ideas, looking for new marketing, looking for new ways of doing things. They're already trade and investment and innovation counsellors, if we can call them that.

• (1135)

The Chair: Thank you very much.

Mr. Pacetti, the floor is yours.

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): Thank you, Mr. Chair.

Thank you to the witnesses for coming today.

Mr. Schwanen, I have a couple questions for you. They're mainly overview.

On the priority market side, is there any country that you think is not in the priority that should be?

Mr. Daniel Schwanen: Some large countries that have a lot of economic potential are not there. I don't really feel like questioning the reasons why they're not there. It's probably not necessarily for economic reasons. I can think of Venezuela. I can think of Argentina. I can think of the Caribbean countries, which are not large, but we're negotiating trade agreements with them at the moment.

Looking much further down that road, one day Iran will emerge from where it's at today. It's a very large economy—

Mr. John Curtis: Innovative.

Mr. Daniel Schwanen: —that we can think of eventually down the road.

The Philippines is not there either, so there are some significant markets—

Mr. Massimo Pacetti: My other question would be, at what point does a country come off the list? You mentioned Russia because of certain difficulties. Is that a criteria, where a country should be removed from the list, or do we look at environmental or labour? We had discussions with Honduras, with human rights for example.

What's your view? What's your institution's view on that?

Mr. Daniel Schwanen: I certainly didn't say or mean to imply that Russia should come off the list. I was just saying that it's not because you're on the list that all of a sudden it's going to be a great market for the next two years, and it's not because you're off the list. Actually, the people in the trade commissioner service assured me that if you're not on the list and you have an opportunity, we'll still help you.

It's just a cautionary note to say that these things come and go sometimes. There are quick changes and opportunities, up and down.

I didn't mean to criticize the list as such, only to say that I was very happy it explicitly said that it was flexible and would be reviewed as circumstances—

Mr. Massimo Pacetti: In general then, you would promote trade with any country, whether on or not on a list, and not even worry about their political environment? To include some countries like Venezuela or Iran, not that they are necessarily the same, but with different circumstances, different instability let's just say—you would have no problem with that?

Mr. Daniel Schwanen: No, I didn't say that, not under the current circumstances.

What I'm saying is that, as we've seen in Russia and other places, political circumstances change. We need to be ready to change with those circumstances. That really was my point.

Mr. Massimo Pacetti: That leads to 3.0, right? We have to be ready for 3.0.

Mr. Curtis, I have a question for you.

Thanks for the presentations. This is quite helpful. We sometimes don't get them on time.

You state that we need to focus more on domestic economy. I have a lot of questions I can ask, but this one was a little bit more interesting. You say we need to focus more on domestic economy, but you didn't really expand on that. I have my own theory on that. I have limited time, but could you expand on that?

You go on to your next paragraph, saying we're also not increasing our trade as we should be, so I'm tying the two together. Is that where you're going with this?

• (1140)

Mr. John Curtis: To some extent, I was responding to your vice-chair, saying that education, infrastructure, labour market development, intellectual property reform and revision, and the factors that lead to innovation, all, I think, should be seen as part of the ultimate trade agenda. I think I used the expression, Chair, in December that trade is an imperial subject. It touches literally on everything, especially for a country like our own, so that's what I was getting at.

Mr. Massimo Pacetti: Should we be expanding our domestic supply to have a vision for the future so we can trade, then?

Mr. John Curtis: Yes. Trade and invest—

Mr. Massimo Pacetti: Which comes first, though, the horse or the cart? That's the question. Do we start by expanding our supply before we are even able to get into market? Or do we wait until we go into the markets? That's where the problem is. We're not able to get into those markets for various reasons.

Mr. John Curtis: I think the former. I think on the whole we haven't been restricted in getting into markets. There aren't that many obstacles. There are issues like exchange rates and things. I think the problem is that the country as a whole is not as "modern" as it once was. Investors aren't as attracted because of our problems, for example, of getting around Toronto. It's much more pleasant to be involved in a country that's working, for example, than it is in others.

Mr. Massimo Pacetti: I don't know of any big cities where it's not difficult to get around. Some of—

Mr. John Curtis: Some are better than others. Mind you, I know Vancouver traffic jams.

Mr. Massimo Pacetti: No, but not including Canadian cities. There are a lot of cities—

Mr. John Curtis: That's true. I guess my central point is that the domestic economy and the international are ultimately all one. How successful a country is in participating in the international market—trading, investing, and innovating—depends ultimately on the strength of your domestic economy.

Mr. Massimo Pacetti: Thank you.

The Chair: Thank you.

Mr. Cannan.

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

Thanks again to our witnesses for being here. Thank you for your comments.

It's the first meeting we've had on this very important document. I was thinking, instead of the analogy of 3.0 or 4.0, it could be the 43.0 because when I started on the committee in 2006, we had trade agreements with five countries, and now we have 43. It's emerging, and the commitment to expanding our trading partners shows how serious the government has been, and is, about opening new markets.

To the chair's opening comments, do we continue with our biggest ally, the U.S., and focus there or expand? I don't think it's either/or; it's both. We need to continue. I was reflecting that when I graduated from business school in 1981, the dean of the faculty was saying, "You have to go into international marketing". I'm wondering now, from my educational perspective....

It's easier to go to the United States where the infrastructure's in place. How many decide to go that route because they don't want to take that risk? We're risk adverse by nature as Canadians, so maybe you'd like to expand on that. That would be my first question, please.

Mr. John Curtis: Is that directed to me?

Hon. Ron Cannan: Both of you.

Mr. John Curtis: I guess, trying to answer a couple of points that have already been made, specifically, trade and the success of the domestic economy depend not only on the economics, they depend on cultural behaviour. To answer your question directly, I think risk taking, which is part of the Canadian culture. I'm talking in the private sector. They always say this is the case. They are not prepared to risk as much as entrepreneurs in other countries. I've talked to individual Canadians working now in Dallas who've come from Edmonton, Boston, and elsewhere. There's a succession of anecdotes. But the point is that they all say, "The reason I, as a 35-year-old, left Edmonton for Dallas was because people are willing to take risks here, which they weren't in Canada". So, yes, the answer is we're not prepared to undertake the risk.

I go on and make the point, to some extent in the trade area I think government, your government included, has done a bang-up job in opening markets. I think the private sector, speaking generally, has not bellied up to the bar as much as it should have.

Mr. Daniel Schwanen: I don't have a lot to add. I think we are living in a pretty nice country with a big market next door. I think that just overwhelms the thinking sometimes when you start a business. We still have interprovincial trade barriers, and all that kind of stuff, to overcome. I agree with John; I think it's a mindset. We have to understand the national economy. Our well-being is integrated with that of the global economy. That means we have to actually—

• (1145)

Mr. John Curtis: Take some risks.

Mr. Daniel Schwanen: —go out there, take some risks, and find the financing to do it. That can sometimes be an issue, and that's addressed in the document as well.

Hon. Ron Cannan: Interprovincial barriers have always been a big pet peeve—I come from the Okanagan—when we've tried to get our wines into Ontario. I know the Canadian vintners are on the Hill today actually, so my colleagues around might hear from them.

I have one other quick question.

The Chair: I'll let you do that.

Just to answer some of your questions, we're hearing from the private sector next panel, so you've cued them well.

Hon. Ron Cannan: Hopefully you'll stay for that session.

The other aspect is that we as Canadians have a lot to offer, not only with our finances and our skills but also with our corporate social responsibility. I was in a bank the other day, and they had a brochure about taking it international. Part of this document is also about how we can help other countries in development or we can just improve—and some of the trade committee members were looking at this—the CSR of the mining companies. Maybe you could expand about how this document can help raise the social responsibility and the quality of life for other countries as well?

Mr. Daniel Schwanen: Sure. I think trade and development are definitely hot topics, especially in developing countries. I think—and this speaks to an earlier question—policies we put in place regarding corporate social responsibility, corruption, and setting high standards for our companies might, at the margins, stop some business from taking place, which others may then swoop in and take. But I think those things are part of the Canada brand, which I think we need to develop. That will help all of our businesses expand. When you come from Canada, that has to mean something. I think that's also reflected in the plan, and I think overall it's a good development, both for Canada and for the country that we invest in or trade with.

The Chair: You have another minute, if you want.

Hon. Ron Cannan: I have just one quick question following up on Don's comment.

Mr. Curtis, in your written comments you said there are only about 17% of Canadian businesses exporting. So if we're looking at trying to increase that up to 40% or 50% by 2018, do you think that's realistic?

Mr. John Curtis: Doing that by 2018 would be ambitious, but I think if we get our domestic economy right and we are successful in pushing through the doors—and don't forget the growth in the United States in this half-decade. I'm not saying we should be influenced by that forever, but the next five years, surprisingly, will be the American years.

So I think we'll have a dramatic increase in export performance over the next half decade. To say 40% by 2018 would be ambitious, and we won't get there, so I wouldn't set it as a target. But it is important that government and the Canadian public more generally, as well as the institutions of which we are a part, keep pressing on that front, because ultimately it leads to more prosperity for everybody—for small towns, the resource sector, and everybody.

Hon. Ron Cannan: As far as trying to help Canadian SMEs, do you work with post-secondary education? For example, you mentioned incubators. Do you work with co-ops and things like that to try to encourage entrepreneurialism? If you have a business and you need help, especially if you're only 25 years old, and you have the desire and the ambition, how do you take that concept to commercialization?

Mr. Daniel Schwanen: That goes to the culture question. One of the reasons I mentioned the accelerator centres—not quite incubators—is that they literally match successful companies, sometimes established companies that have an interest in the growing overall business environment, with the smaller companies to help them succeed and to give them advice on the ground. I think that's one way we take our successful companies and get them to pass on their culture.

The Chair: Thank you very much.

Madame Liu.

Ms. Laurin Liu (Rivière-des-Mille-Îles, NDP): Thanks, and thanks for mentioning incubators, they're certainly a really important way of simulating R and D for SMEs.

We've discussed in committee certain goals related to trade. GMAP identifies a number of goals. Some are phrased very specifically and some are very amorphous.

Mr. Curtis, one of the goals stated in GMAP is to “advance Canada's core industrial capabilities and competitive advantages”. In your view, what are these?

• (1150)

Mr. John Curtis: I better ask you specifically to repeat the quote out of the GMAP to make sure I answer directly.

Ms. Laurin Liu: The stated goal was to advance Canada's core industrial capabilities and competitive advantages. In your opinion, what are Canada's competitive advantages?

Mr. John Curtis: The competitive advantages are that we have the labour, the knowledge, the marketing organization, and the international focus of both entrepreneurs and labour that are able to sense the importance of the international market and operate Canadian-based firms in such a way that they are attentive. That's the great Canadian advantage in my judgment. You just have to deal with Americans or, often, Europeans, and they'll all say that one thing about Canadians is that we all understand that it's important out there because we are a relatively small country in terms of the size of

the country. So I think it's a combination of people, culture, and economics to make it all work. Plus there's our foreign policy and the politics, of course.

Ms. Laurin Liu: You might be able to go back to that answer later on in my questioning, but because of time I'd like to go to Mr. Schwanen.

I was really interested to read the August 2012 report by the C.D. Howe Institute that stated:

Canada's productivity performance over the past decade was among the worst among OECD.

The report lists many reasons for this, as you are aware. Some of these reasons were: business leader risk aversion, inefficient and ineffective private sector support for innovation, lack of risk capital for start-up companies, chronic underinvestment in machinery and equipment, sheltering of the Canadian economy, and increasing competition for human capital.

What factors among these listed in the C.D. Howe report are expected to be affected by the GMAP?

Mr. Daniel Schwanen: I'm trying to remember which report that was. That's a long list of domestic factors that we need to address. We need to try to find ways. We are not as innovative as we should be. We don't invest as much as we should in machinery and equipment.

Let's address, among the many factors, the innovation factor. Canada used to discuss the economy in terms of natural resources versus manufacturing or trade. But quite quickly, trade is shifting towards more knowledge-based activities like research and development, life sciences—as mentioned in the plan, for example—and ICT. That's where the Canadian market is—sustainable technologies. The Canadian market is not big enough to sustain growth in these kinds of knowledge-based activities for all kinds of reasons. With anything that is knowledge-based, you immediately want to apply it to the global market to benefit from it and grow your business, and become more innovative.

That's one example.

If we grow those sectors, automatically that addresses the issues.

The Chair: Thank you very much.

Mr. Hiebert, you have last four minutes.

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

Gentlemen, it's been very interesting to hear your comments about the GMAP. You've raised a lot of good questions, and what I'm looking for is some specific examples as to what 3.0 would look like.

Mr. Curtis, you've highlighted for us that there's a need for another half to this document, highlighting our way of dealing with the Internet, electronic commerce, imports, massive flows of capital, mobile skilled labour, and entrepreneurs and venture capitalists who are willing to move and invest anywhere.

Personally, I don't disagree with you one bit. I think you're on to a much more accurate description of where the world is at. The question for me, and I think for everybody at the committee, is what would a strategy look like that addressed those issues. Do you have some clear ideas that we could incorporate as we start drafting the next global action plan?

• (1155)

Mr. John Curtis: That's the challenge for the committee if we're going to get into 3.0.

I think, in fact, Mr. Hiebert, to some extent we've touched on this already with all the various questions that have been raised and I risk now duplicating what I've already said. I think probably one should be quite clear as a theme if you were to comment on the present plan—which is fine, it's good, but it just doesn't go far enough, in my judgment—it would be to ensure that all the domestic departments, your ministerial colleagues, and the broader public understand that our ultimate success in the international trade and investment area depends on all these domestic factors working well and working better.

I would then focus on international education, making sure that our business schools have strong programs of international business, for example. That isn't the only thing that's important out there. It's important that marketing skills be there and be understood, and new ways of organizing business, and how to take advantage of online purchasing because it's affecting the consumer in every corner of Canada. I'd focus on all that.

I'd focus on increasingly encouraging the banks to worry less about lending against real estate, and lend against ideas for bioscience, biopharmaceuticals. These are all the things that people are going to want in the future.

I'd also focus on energy conservation, climate change conservation matters, and on cancer and other medical issues.

I'd organize our economy to be a little clearer that the training of our people and the operation of our companies, as well as our public sector often working together with them, is all part of the same operation.

That's basically the focus I would take.

Mr. Russ Hiebert: Would you do that through the tax code, through tax incentives, or what mechanism—

Mr. John Curtis: No, I don't think one would necessarily do it all through tax. The tax regime has to be as good as anybody else's, no question.

I think it would be partly government procurement in conjunction with the private sector. I don't think this is a private sector or a public sector job. I think it's a partnership job, so I would argue that you do it both ways. Taking the Saskatoon biosciences centre as an example, you would make sure that the centre is connected with similar centres around the world, and have the provincial government and the Canadian government, and also get the Americans and the Chinese, and do these things cooperatively to focus on problems that we all face, whether it's rich or poor or emerging countries, in areas that we can be quite clear we all have an interest in seeing get better.

The more we can show that Canada gets it, I think the better off we'll be.

The Chair: Thank you very much to both of you for kicking off this study.

We'll now hear from the private sector in our next panel and it should be a lot of fun. Thank you, again.

With that we'll suspend as we set up. We have one witness by video conference and another one in the room, so we'll suspend until we are ready for that panel.

Mr. John Curtis: Thank you.

• (1155)

(Pause)

• (1200)

The Chair: I'd like to call the meeting back to order.

Just to introduce this panel, we have from the Canadian Manufacturers and Exporters, Jayson Myers, president and CEO, who is in the room.

Welcome, Jayson.

From the Canadian Association of Importers and Exporters, we have Joy Nott, president and CEO.

You are by video conference from Mississauga, Ontario. Joy, can you hear us?

Ms. Joy Nott (President and Chief Executive Officer, Canadian Association of Importers and Exporters): Yes, I can.

The Chair: Very good, and you're coming through loudly and clearly on this end.

We'll proceed with this panel. We'll start with Mr. Myers.

The floor is yours, sir.

Mr. Jayson Myers (President and Chief Executive Officer, National Office, Canadian Manufacturers and Exporters): Thank you very much.

[*Translation*]

Thank you, Mr. Chair, for the opportunity to say a few words to the members of this committee.

[*English*]

Joy and I represent the private sector here today in your discussion.

I have to say that I have a bit of a—

The Chair: We just heard that all trade issues are your problem.

Mr. Jayson Myers: That's right. I heard that and I hope we can get into a discussion about that.

I have a bit of a vested interest in the global markets action plan as a member of the advisory council advising the minister. I do think it's a good plan. I think the minister and officials in the department and other agencies all deserve a lot of credit for putting this together, because it's the first plan we've had in a long time that tries to prioritize government trade policy, government trade services, and tries to align across government.

As you discussed, the success of the plan is going to be seen in the results at the end of the day, and that's clear. I look forward to discussing with you what I see happening in Canadian business. I'd be very pleased to speak about the specifics of the plan itself, but I wanted to make a few very general observations at the beginning.

From an economic point of view the first is the strategic importance of exports and of international business for Canadian companies. I think coming out of the recession between 2002 and 2012 we saw 23,000 manufacturing operations close down in this country and out of that probably about 20,000 exporters disappeared. Most of that took place before the recession, and it was largely driven by the very rapid and volatile appreciation of the Canadian dollar, so we have a lot of rebuilding to do.

Now, as we're in recovery mode, export sales and manufacturing sales have recovered to pre-recession levels, but what has become very clear for the Canadian economy as a whole is that our economic recovery depends on business investment and on exports. Canadian consumers are pretty much maxed out as are governments, so from focusing on where the key levers of economic growth are the export side business investment is crucial. I see them tied together, but it's also crucial to prioritize where government is putting its investments and where it can make the biggest impact on international business development; and that was a part of the thinking behind the GMAP.

It was to identify the priority markets for business, and there was a lot of consultation with the business community along those lines. It recognizes—and I think previous witnesses spoke to this as well—that international business is not just about exports and imports, it's about investment and intellectual property and the movement of people, which is more and more important today. It's about being able to meet standards and about being able to enter into procurement markets and provide services, which is becoming more and more important as well for any company that's trying to find new customers. That was very important, because in the recession 30% of our exports disappeared in a matter of six months, between October of 2008 and March of 2009.

In looking at how we rebuild our export base, how we respond to the new reality of international business, I think this action plan goes a long way and does a good job in prioritizing markets, and not only from the point of view of what markets are growing. You do need a different plan. Businesses need a different plan and governments need a different response in our developed markets, like the United States, versus those new markets that are emerging or in particular market segments where we don't have a general interest but maybe, as in the area of energy in the Middle East or procurement projects and infrastructure projects in Africa, where there are specific business interests that are not general. I think the plan does a good job in prioritizing that.

•(1205)

The third thing that is really important, apart from responding to the changing nature of business, business needs, and trying to put priorities around this, is the alignment that the action plan rolls out for agencies, for trade policy, for foreign policy, and for development policy behind the economic diplomacy that it talks about, but also the alignment of trade services and of business development services that are being provided by agencies like EDC, or CCC, or the trade

commissioner service, right across the government. I think that's important.

There are two other things. In any good strategy, of course, you need metrics. You need objectives and you need metrics and you need to continually judge the success of the implementation of the strategy against the reality of whether this is working or not. It does provide that. There are metrics in here, and it also provides an adjustment strategy. We talked a little bit before about further iterations of this, but what it really does is it provides a response mechanism through better consultation with business to adjust priorities.

I guess I see three areas where I think we should go further. The first is in the area of investment. Over half of our trade is carried out within companies; it's intra-corporate investment. It's BlackBerry selling to BlackBerry, and Bombardier selling to Bombardier, and Ford selling to Ford. So that investment to secure anchor investments is crucial in the Canadian economy, and our ability to access those investments through supply chains is—in some cases—an even better way of accessing international markets than a direct export approach.

I was reminded of this. I made a visit to Hong Kong with an extremely innovative water technology company. They thought they would be able to sell this technology to clean up the harbour by Kai Tak Airport. We were told by the Hong Kong government—very politely—“Great technology, but it would be better for you to work with an engineering company in Canada, partner with them, because we don't buy technologies; we buy engineering solutions”.

So there are better ways, I think, that need to be.... John Curtis spoke before about how we can develop capacity within Canada to build supply chain relations internationally. I think capacity building is very important. If you're going to go to new customers, you need new products, you have to meet new standards, and you have to develop new products. Innovation plays a key role in that, as well as new skills.

Another way I think we can do a better job is in the effective enforcement of our trade rules. It's great to be able to negotiate new market opportunities—that's super—but we have to make sure that our trading partners actually abide by the rules, so an effective mechanism for effective enforcement of trade rules is especially important.

I can talk a little bit more about what CME is doing. The market plan has helped us align our priorities and our investments to help our members and work with, not only government agencies but other industry and trade associations, like Importers Exporters Canada. Here it's helped us set priorities, and we're working very closely with our partners. I'd be glad to talk about that a little bit later.

Thank you.

•(1210)

The Chair: Thank you very much.

Now we've lost our video feed. I'm not sure if we've lost our audio feed.

The Clerk of the Committee (Mr. Paul Cardegna): We're looking for it.

The Chair: Joy, can you hear us?

I think we've lost them both.

While we're trying to hook this up, we will proceed with our question and answer, and hopefully we can get Joy on video very quickly. Once we do get that connection, we will interrupt the questioning and proceed to the testimony.

We'll start with you, Monsieur Morin. The floor is yours.

[*Translation*]

Mr. Marc-André Morin (Laurentides—Labelle, NDP): Thank you, Mr. Chair.

Mr. Myers, the goal of the GMAP plan is to increase, working alongside governments, the presence of our SMEs in the exports sector over the next five years. How much of the efforts to increase exports will SMEs fund?

[*English*]

Mr. Jayson Myers: Let me start off by saying sometimes I think we regard small exporters as multinational corporations. We expect them to be experts in regulatory management, international trade, and legal affairs in their ability to very rapidly develop new products for new markets. The problem is they don't have the capacity to do that.

There's a lot of risk involved in any form of international business. So I see a couple of strategies that small companies are undertaking. One is simply to reduce their risk. That's done by partnering with service providers and partnering with other agencies that can assist you such as the trade commissioners, EDC, CCC, and industry associations like ours.

Certainly we're seeing a lot more networking to identify what the challenges may be. This involves not only the market opportunities but talking to other people about what they did wrong or what they did right in these markets. So peer-to-peer networking for small companies is essential.

But I think above all...because sometimes we get too caught up in the problems. I see a lot of small companies that don't think about exporting because they've been told that they can't. They've been told that they have all these barriers out there, and I think the biggest concern I have, the biggest challenge facing small companies, is the issue of business leadership itself. Businesses have to incorporate an international strategy into their business planning and then be able to manage that. Yet they won't be able to do it on their own. They'll have to partner in order to do it. So that's a very general answer.

• (1215)

The Chair: Thank you. I'm going to interrupt because I do believe we have Joy back on video.

Can you hear us?

Ms. Joy Nott: Yes, I can hear you.

The Chair: Very good. I'm sorry for the technical problem but you're coming through loud and clear.

Now you'll have the floor for your presentation.

Ms. Joy Nott: Thank you.

My name is Joy Nott, and I'm the president of the Canadian Association of Importers and Exporters. Jay and I always joke about the fact that one of the most common questions I'm asked is what the difference is between I.E. Canada and CME. Probably the main difference is the fact that Jay represents manufacturers, I represent importers, and we both represent exporters.

That being said, I.E. Canada, as we're more commonly called for those of you who are not familiar with us, is about 80 years old. One of the things we focus on, unlike other trade associations, is to specialize and focus only on tariff and non-tariff trade barriers and border operations. Unlike other trade associations, including CME, that cover a wide area of advocacy issues on behalf of their members, we're very targeted and very specialized, so the GMAP plays right within our wheelhouse.

The first thing I would have to say about the GMAP overall is that we do applaud the government. All the things I heard Jay say, when I was still connected, about the fact that he's quite happy with this plan, I would echo those general sentiments. First of all, the fact that there is a plan in place. The fact that the plan has a focus to it in many different areas relative to market sectors and specific industry sectors, I think, is something that is obviously needed. You can't achieve anything without focus. So the fact that the plan is there and has a certain core focus to it is very positive and we applaud that.

All of that being said, you heard some of the things Jay had to say relative to some of the challenges out there for business overall. The fact is that supply chains—and I'm sure this isn't news to any of you—are highly complex today and involve importing, exporting, manufacturing, in ways that when I started in this industry 30 years ago, even I couldn't have possibly imagined how complex some of these supply chains would become.

In context of the reality that businesses are facing every day, the one thing I would say I find is a bit lacking with the GMAP is the fact that it tends to be focused on exports, and I get why exports are important. Again alluding to Jay's earlier comments about the economy depends on exports, I get it, and our members get it. But all of that being said, supply chains in a modern company are circular in nature, they are not linear. By that I mean exporters import, importers export, there is manufacturing that happens at various stages along the way in various countries, things are partially manufactured in one country and move on, and a finished good to one particular chain partner is not a finished good at the end of the line. So one of the things we find is lacking with the GMAP is a comprehensive import strategy that directly ties itself to the GMAP.

Currently, import policy is under the jurisdiction of the Minister of Public Safety and Emergency Preparedness. Under that same portfolio you have the RCMP and you have prisons. So while Canadians and our members certainly advocate for border security and a safe Canada, and all that sort of thing, and we understand the reasoning as to why CBSA was moved to Public Safety after the events of 9/11—it all makes sense—there's a difference between border security and import policy.

Border security involves all the things people think about when they think about security. Import policy—and I don't mean to sound flip—is people sitting in cubicles at various government agencies coming up with policies that companies that do business in Canada have to deal with.

In a recent report to Minister Fast, the Minister of International Trade—in fact only last week—the small and medium-sized enterprises advisory board that Minister Fast has in place actually put forward a recommendation that border security be uncoupled from import policy and that import policy should sort of find its way closer to something like the GMAP, in fact even maybe look at going so far as moving the import policy piece of CBSA away from the Minister of Public Safety to, perhaps, the Minister of National Revenue or even to the Minister of International Trade.

What we're really advocating for is a holistic view.

• (1220)

There have been many CITT cases in the past few years. There was of course what was in the mainstream media last summer about the iPod tax, the 9948 coalition, the television sets. All of that had to do with the fact that Canada has an import policy and an import regime, and then all this good work that's happening on the GMAP is sort of focusing. Those two things are actually more closely aligned and tied to each other than I think some of this work that's being done currently really gives credit to.

Some of the holistic approaches that we're talking about are the fact that, for example, in the 2013 budget, there was a move to actually modernize the general preferential tariff regime. No one, including our members, is going to argue with the fact that China should be continuing to receive duty relief. There's no argument there. China, despite the fact that by OECD standards it might still be regarded as an emerging economy, no one in Canada, including our members, is arguing with the fact that they are a power to be reckoned with, emerging or not. No one's saying that. However, increasing duty rates on a wide, varied portfolio of products from 72 countries with an 18-month warning in advance is just too short a timeline for supply chains, with their complexity today, to recontract and retool themselves.

Then, in this last federal budget in 2014, there's a consultation on tax planning by multinational enterprises, where the government is asking, amongst other things, what are the impacts of international tax planning by multinational enterprises on others that participate in the Canadian economy.

I guess what I'm trying to say, and in conclusion, is the fact that there needs to be a holistic view of all these things. While I think that this particular GMAP goes a long way further than the previous GMAP to addressing some of those alignment issues, I think that there's a little bit more work that could be done.

With that, I'll make those my concluding remarks. Of course, I'm open to any questions.

The Chair: Sure. I appreciate that very much.

We will move to Mr. Morin to continue. You have another four minutes.

Go ahead.

[*Translation*]

Mr. Marc-André Morin: Ms. Nott, you spoke of very concrete realities. We have a good idea what reality is like for SMEs.

All my life, I have seen businesses start from nothing and grow. Often, they got their start thanks to public contracts or by meeting a need in the local economy. The first precondition to exporting is to survive.

My question is perhaps for both witnesses. Do you think there's more we can do to keep businesses healthy, so that they may eventually begin exporting?

I am not convinced that they need a hand on their shoulder guiding them. All business leaders dream of exporting their goods and succeeding. However, they must first survive the hostile environment in which their businesses were created.

Ms. Nott, could you elaborate a little on this point?

• (1225)

[*English*]

The Chair: That's for both of you, I think.

Joy.

Ms. Joy Nott: Sure.

Whether or not we need to be doing more for SMEs to actually help them to survive and thrive, relative to some of the statements that Jayson Myers made earlier, I think SMEs, for the most part—at least the SMEs that I'm familiar with, that I've talked to—come from one of two schools: either they're very much a global thinker and they have the leadership courage to take their companies into different markets, or they come from the opposite school, where they are very intimidated by rules and regulations that seem to be highly complex, that they don't understand. They don't necessarily have the expertise in-house or the bandwidth in-house for somebody to take these rules and regulations and dissect them and understand to what extent those rules and regulations apply to their company.

I think small companies come from one of two camps. How do you encourage them to thrive overall? I think there are just challenges right now in the global economy, period. I don't think Canada's behind any other developed country in supporting our SMEs; at least, that's not the sense that my members are giving me. I don't think they're looking for government support. I think that they're looking for, what I hear most often, is a reduction of red tape. Moving into different markets, what makes them nervous is the red tape that they're going to experience in those foreign markets. That's not something that they feel is within their control. So for some of them they find it very intimidating.

Jay.

The Chair: Jay.

Mr. Jayson Myers: Building on that, the red tape issue is important and it's not just in foreign markets. In the animal vaccine market there are companies that produce vaccines here in Canada that Health Canada is no longer giving a certificate of quality to and therefore cannot export because under the rules of Health Canada, they have to be selling that product in the Canadian market. Frankly, that's stupid. We need to do a better job of reviewing the regulatory system, making sure that we have regulations in place here in Canada that don't impede our companies as they do business internationally.

One of the biggest challenges though—and I think Joy would also agree with this—is communicating opportunities but also communicating the services and the partners that are available for small companies to work with. If you have a lot of exporters right now—I can tell you on the manufacturing side, when you take a look at the after-tax profit margin of small companies in Canada and you ask, in an eight-hour production shift, how long you have to work until you make a profit, pretty much right now you have about five and a half minutes to make the money you need to reinvest in business growth. That's one reason a lot of companies are extremely risk averse. They focus more on getting payroll out the door, and that's why they look for the biggest returns, the safest market.

If they're going to change that thinking, they need to be able to partner to reduce the risk in a way that makes sense for them. They get a bigger return and they can see the opportunity. It's all well and good to identify export opportunities or import opportunities or partnership opportunities, but often, you don't know if this is a qualified lead here. So many companies get burned because they may see the opportunity, they may rush into a huge market, but when they get there they're not too sure about the people they are dealing with. It takes a lot of time for a small company to build up a successful export business.

The Chair: That's very good. Thank you very much.

Mr. O'Toole and Mr. Cannan are sharing their time. Go ahead.

Mr. Erin O'Toole: Thank you, Mr. Chair. I'll be splitting my time with my colleague, Mr. Cannan.

Thank you both for appearing, Mr. Myers and Ms. Nott.

I wanted to focus quickly, Ms. Nott, on a line of discussion you had. Certainly you had some complimentary language about the focus and the strategic vision that the global markets action plan, GMAP, offers, but we're disappointed there weren't more specifics with respect to imports.

If we are growing relationships with other countries on a trade level, as we have been with Europe through CETA, through South Korea, through some of our bilateral discussions, and if those engagements are productive and lead to either a FIPA, a protection and promotion agreement, or an FTA, a free trade agreement, the import side is built into that as well because the relationships are reciprocal. The import members within your organization can work to promote these agreements, which will also have a strategic benefit for importers particularly, as per the comments Mr. Myers had on the global integration of supply chains.

Would you care to comment on that?

• (1230)

Ms. Joy Nott: Sure, I completely agree and understand what it is that you're saying with regard to FTAs that we're currently negotiating and the ones that we've signed. I.E. Canada has testified many times before this committee and various Senate committees to say that we support free trade overall. The difference is not the free agreement that we negotiate at an international table with an international partner such as the CETA, or Honduras that we just finished with, or Japan or India, or any of the ones that we're working on. What I'm talking about is the import policy that is applied here domestically, on the ground, by Canadian bureaucrats.

Just to give you an example, there are a number of Canadian companies that import what you and I, and I'm sure anybody in your family would point to on a table and say that's a pickle. It's a glass jar with a metal lid. The contents of the glass jar are clear and it's very clear what the contents of the jar are and that they are pickles. I won't go into all the excruciating details, but pickles have one rate of duty, cucumbers in brine have a different rate of duty, and it's a higher rate of duty. Our domestic bureaucrats have put a number of Canadian companies through what I'm going to call administrative discomfort, by reclassifying something that anybody on the street would say is a pickle and reclassifying it as cucumbers in brine.

That has nothing to do with the free trade agreement that we negotiate with a foreign country; that has everything to do with how we interpret our own import policy here, boots on the ground, in Canada. There needs to be some comprehensive political and senior level bureaucratic oversight over the import policies that are enacted, juxtaposed against something like the GMAP and the free trade agreements that you were referencing.

I don't know if that exactly answers your question, but that's the first example I can think of.

Mr. Erin O'Toole: It does in a way because I think it identifies two separate issues. The GMAP is certainly export led because it is part of our economic diplomacy and a strategic approach to growing new markets and which ones should take priority.

Your issue, which I did encounter prior to politics as a lawyer, as an in-house counsel for a large company, is I think the bureaucratic mindset that sometimes comes into trade. I saw it when I didn't know how many different parts a chicken would have. If you wanted to distinguish parts of chickens, or cucumbers in brine, sometimes there is a disconnect from the chain and flow of commerce when people are applying rules. I think that can be addressed almost outside of GMAP to make sure that businesses aren't impeded in this global sense.

But I'll pass the rest of my time to Mr. Cannan.

The Chair: I want to just say before, we call them bureaucrats, pickles, and now we're getting into chickens. We should focus here.

Voices: Oh, oh!

The Chair: Mr. Cannan, go ahead.

Hon. Ron Cannan: Thank you, Mr. Chair. I will try to get us out of this pickle here and move on.

Thank you very much to Ms. Nott. It's good to see you again. I had a good time in South Korea and I thank your association for your support with opening the Asian market. We look forward to continuing to expand markets.

Also to you, Mr. Myers, for being here today and also being a part of the advisory committee.

Just with my limited time, there were some comments about our needing to go faster and deeper. We hear from other people that we're going too fast. It made me want to comment on whether this is the right balance.

Also, you mentioned about communicating opportunities—is it a challenge? Mr. Fast is leading a delegation in Asia next week and we heard about the pros and cons of delegations. The trade commissioners.... What are some of the other ways that we can help as a government to communicate to your members more efficiently?

Mr. Jayson Myers: I have maybe a couple of ideas around communication. These are areas where we are actually partnering with trade commissioners, EDC, other agencies, and other trade associations.

I think we need a single window of access particularly for small companies. It would really make it easy to identify and connect with those partners that are able to help them. We talk about them navigating their way through supply chains but they need help to navigate their way through the agencies that can actually help them. That would go a long way.

In terms of the role that associations like Joy's play and ours play, we can never talk enough about both the services that are available and the opportunities that are available. We can never do enough in terms of trying to network especially smaller companies with their peers to really understand what it takes to do business in those markets. I don't think we can ever do enough to build person-to-person relationships because at the end of the day international business is not about contracts, it's about people. Unless you are able to build those personal relationships, and small companies have the time and effort and dedication to invest in building those personal relationships, it's not going to work. I was always told when you go to China you have Peking duck, but when you have noodles you really know that you're in a position where you can do business and your partner trusts you.

So those are some of the things that I think we can do. It's not just government. I have to say it's not just government itself. I think the trade associations have a huge role to play here in mobilizing companies.

We talk about innovation and the challenges in connecting researchers to companies that can use their research at the end of the day to commercialize, but we don't do enough to connect the small companies with the great technologies with those companies that are exporting and could take those technologies and commercialize them in international markets. I think that's another opportunity.

●(1235)

The Chair: Very good.

Our time has gone.

Mr. Pacetti, the floor is yours.

Hon. Ron Cannan: There is a hand up. I think she wants to say something.

The Chair: Joy, did you have a quick response?

Ms. Joy Nott: I was just going to say very quickly that something CME is actually championing right now is something called ECN, the enterprise Canada network. It's a website with the idea that small companies and large companies are going to be able to go to this website and find potential partners in foreign settings. So I won't say any more than that, but there are ways of communicating that I think we need to explore more.

The Chair: Thank you very much.

Hon. Ron Cannan: What was the name of that again?

Ms. Joy Nott: The enterprise Canada network, ECN, and CME is actually championing it.

The Chair: Very good.

Mr. Pacetti.

Mr. Massimo Pacetti: Thank you, Mr. Chair. Thank you to the witnesses for coming forward.

I have one quick question for Mr. Myers.

Correct me if I am wrong. In the beginning of your presentation you spoke about different things that need to be done in terms of business investment. You want to grow investment and capacity building. Were you advocating for the government to invest in these areas directly or indirectly? Did I understand you correctly?

Mr. Jayson Myers: I think more to align policy and programs to support.... If we're focusing on international business development, and I am only thinking from the point of view of, say, a small exporter looking for new customers in new markets, they are going to have to really customize a new product for that marketplace, which means probably investing more in research and development, and certainly more in new technology, more in a new process there. So it's not necessarily that—

Mr. Massimo Pacetti: So how do you see the government's role in that?

Mr. Jayson Myers: I think there's a need for better alignment. We have a number of programs that are out there: NRC's IRAP for example, the work that FedDev is doing, which is excellent. FedDev is investing in productivity improvements on the part of small businesses in southern Ontario, if those productivity improvements or product improvements are tied to export development. I think that's the type of alignment we need. We need to see that more from the agencies like NRC.

Mr. Massimo Pacetti: What I'm seeing with small and medium-sized companies trying to get to the next level is that some will be missing investment in just human resources because they don't have the capacity.

• (1240)

Mr. Jayson Myers: Definitely.

Mr. Massimo Pacetti: So the owner will take the initiative to get into the market and then not be able to have the time or resource—it could be anywhere, like I said, time or even money—and move on to the next step. Or it could be that you have a dynamic salesman who's able to acquire all these sales, but then doesn't have the support, or the support team is there but there's no finishing afterwards.

Mr. Jayson Myers: Right.

Mr. Massimo Pacetti: So there are different areas. I didn't even think about the research and development. Some companies are able to do the research and development and then not be able to bring it to market, whereas you have others that are able to bring their product to market, but then not be able to innovate. There's no one solution that can help companies.

Mr. Jayson Myers: No, there's not, and there's no silver bullet either here. There's nothing that any government can do to assure the success of a company that, from a business point of view, doesn't have the right business model, doesn't have the right product, or at the end of the day doesn't have the capacity.

It does come down to business strategy, and I think the most important thing here is aligning the services that are there behind this notion of, if companies are going to grow in Canada, it's probably not going to be in the domestic market itself, with one exception. I think that's the resource, the infrastructure, and the oil and gas projects across the country that provide a certain segment of industry with a tremendous platform to take new technologies and new products globally.

But at the end of the day that international development has to be very important. It's not just the federal government. It's also the need for the provincial governments, other agencies, and industry associations like ourselves to align better.

Mr. Massimo Pacetti: I want to get a question in to Ms. Nott.

You were talking, Ms. Nott, about border security versus import policy. When we're looking at Canada and the EU, I believe it was a lady from UPS who said that if we're going to sign a free trade agreement with the EU, perhaps have a fast-track line for the goods or the services that are coming through. Would that be one of the solutions? If we're going to prioritize a certain market, we can't have the goods being held up for days, weeks, and months or else there's no advantage to having a free trade agreement, and the flow of goods meaning both ways. For a company like UPS, containers have to be leaving full one way and coming back full the other way for it to be rentable.

Ms. Joy Nott: I'm not exactly sure what your question is, but would it help the overall situation that I was talking about before, an import policy? There are two aspects to trade. There is the aspect of trade that is the actual physical movement of goods. That's the box at the border, the box on trucks and airplanes that we think about. The other aspect of it is the actual policy that I was talking about.

It's not always necessarily CBSA and cucumbers and brine versus pickles. Sometimes it can be other government agencies as well. Sticking with the food analogy, just think for a moment that Health Canada insists, for example, that in Canada, for any baking product

that has flour in it, it needs to be fortified flour, and it's fortified with a number of different vitamins and minerals. Yet in the EU, for example, to use yours, it's actually forbidden to fortify flour.

So it's not that I envision a lot of baked bread or anything else transiting the ocean between Europe and Canada. I think it would be a bit stale by the time it got here. But for processed foods and anything that contains flour, right now we have a sort of in-house baked in—pardon the pun—trade barrier, where the fact that in Canada, if you're going to produce goods, even if you mean to produce them for the EU market, you can't have unfortified flour being used in a food process— [*Technical difficulty—Editor*]

Hon. Ron Cannan: The flour industry cut her off.

The Chair: I think we've lost her again, but your time has gone.

Mr. Massimo Pacetti: Surprise, surprise.

The Chair: You were a little over.

So we'll now move to Mr. Shory and we'll try to reconnect.

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

Thank you to the witnesses.

Mr. Myers, before I get to your specific comments on some questions, I want to give you an opportunity to respond to what the C.D. Howe Institute said on the role of the private sector. You may want to make a comment on that. I mean, what is holding back the private sector from coming up with the role that it should be contributing?

• (1245)

Mr. Jayson Myers: I'm not as pessimistic as some people who do the analysis and the economics are because I do see a lot of investment in new products, and there's the fact that our exports are back at pre-recessionary levels. It has taken a long time to get there, but it's not as if we've dropped off the board.

Are there challenges? Yes, there are, but another thing we really need to do—and John Curtis did a superb job of trying to put together an economic framework for analysis behind this, behind the global markets action plan—is to have a much better way of measuring international business activity, because if you can't measure something, you can't improve it.

For example, a few years ago I went to Chengdu, Sichuan, where I had an opportunity to meet the head of the industry association there, who told me that the biggest-selling foreign car in Chengdu was a Canadian car, Chrysler, out of Brampton. That surprised me because I came back—I had a very nice dinner because of that—and looked at our statistics. How many Canadian cars do you think we export to China, according to Statistics Canada? None, and the reason is that they're distributed through the United States.

If we can't measure our trade, imports or exports, I can guarantee we don't have a very clear idea of services trade. What I see on the part of a number of companies that perhaps might have adopted an export strategy a few years ago is that now they're adopting a much more direct investment strategy. Last year, the sales of Canadian affiliates in foreign markets actually exceeded our exports.

So we are seeing those investments. We are seeing an awful lot of international business, but we're not necessarily seeing that here, from a Canadian base. I think that's important to recognize in terms of the support and the trade policy we are pursuing here on the part of government, as well as the business strategy about how to enter new markets.

Mr. Devinder Shory: Thank you.

Mr. Myers, you were a member of the advisory board for GMAP. In that capacity, could you tell us what kind of consultation you had with our government on the direction of the plan? Also, what kinds of key suggestions did you make, and did you feel that those suggestions and the suggestions of your peers were taken on board?

Mr. Jayson Myers: I think there were four meetings over a period of a year. The first meeting was really to scope out the exercise: what it was all about and what the objectives were, setting the framework for the analysis there. Between the meetings, we were actively engaged with other associations in surveying exporters. I know that there were a number of face-to-face meetings that we were able to put together for officials and for the minister to feed into. This was not just a group of people sitting around a table thinking about what they should do. It was a very extensive consultation, particularly with small businesses right across the country.

As well, from my point of view, I wanted to get across the idea that there isn't an overall view in terms of picking priorities. We can look at new growth markets, but what we really need is a strategy for the United States. The United States is our major market. Europe is another major market with, at that time, a possibility of a huge trade deal. We need a strategy for Europe and that strategy is going to be different from the strategy for the United States, and I think that was something I did see reflected in the priorities there.

Mr. Devinder Shory: Mr. Myers, or maybe both of you can answer this question. This GMAP breaks up the opportunity markets for Canadian businesses into three groups: emerging markets with broad Canadian interest, emerging markets with specific opportunities for Canadian businesses, and established markets with broad Canadian interest.

Could you give a summary of what kind of potential we see in each type of market for Canadian businesses?

•(1250)

The Chair: We'll start with Ms. Nott.

Ms. Joy Nott: I think out of those three markets the one that is the most attractive, at least from the feedback from my members, is the established markets that we already have with the broad interest across all industry sectors. Of course, the second most popular, or the one that people seem to be seeing as having the most opportunity, are very specific industry sectors and emerging markets that are very focused on a specific industry sector. I have a large set of members who deal with military and other controlled goods. They're looking at very specific opportunities that exist in some emerging countries

where the rest of my members may look at that same country and not really see a lot of opportunity.

It all depends on who you're talking to, at least from our perspective. I'd like to focus on the smaller and medium-sized members that we have because that's where our opportunities really lie. They're focused almost exclusively, in my experience, on the established markets we already know. I think it plays to a lot of the things that both Jay and I have been saying, everything from leadership's hesitation to go into new markets and being risk averse for a whole bunch of different reasons. I know that Europe and the CETA overall is being seen as the next big opportunity despite the fact that the European Union has economic challenges at the moment. It's still seen as the largest opportunity out there.

The Chair: Thank you.

I'm going to go with the other questioners because your time is exhausted and I think we were going to hear about the same thing.

Madam Liu.

Ms. Laurin Liu: Thanks for your time.

Mr. Myers, you were obviously very closely involved in the elaboration of GMAP and you're notably a member of the consultation committee. As you know, GMAP includes an objective to increase export presence of Canada's SMEs in the emerging markets from 29% to 50% by 2018, so in the next five years.

In the first hour of questioning Mr. Curtis expressed a little bit of skepticism about that, although he wouldn't venture further. As part of the consultation committee could you speak to how this goal was determined and what concrete actions will be taken to achieve this goal?

Mr. Jayson Myers: That's a good question.

I think there was a sense that in any strategy you needed to set a stretch goal or an aspirational goal. So, it's a target. That's very much what we were looking at here, recognizing that there may be various ways of getting there either through direct exports or through indirect exports by building up a presence through supply chains, or in some cases, a direct presence in these markets.

Ms. Laurin Liu: Essentially, you're hoping that will rise to meet the challenge. Is that what you're saying?

Mr. Jayson Myers: If you don't set a really good aspirational challenge, you don't create the burning platform for the alignment or for business itself.

We were talking before about a small company's business leadership stepping up. I hope, and this was a part of the thinking here, that GMAP itself presents a target and a goal for businesses themselves.

Ms. Laurin Liu: I have another question for you, Mr. Myers, concerning the goals of GMAP. One of the goals was to attract talent to address Canada's labour shortages.

As a member of the consultation committee can you speak to whether there are any representatives from the Canadian labour sector on the committee?

Mr. Jayson Myers: I don't think there were.

The representation was mainly from the export side or the businesses that were actually doing the business. That's really what the strategy was aimed at, recognizing the need that all businesses have to be able to move people from location to location whether that's coming into Canada or going outside of Canada.

•(1255)

Ms. Laurin Liu: Thanks.

Before I run out of time I would like to turn my question to Ms. Nott.

The GMAP speaks to the Canadian trade commissioner service and it's something you are obviously very familiar with. It's a network of professionals from Foreign Affairs, Trade and Development Canada, working in embassies, high commissions, and consulates and regional offices, to support the growth of Canadian companies internationally.

In your opinion, is the current geographical distribution of TCS offices aligned with the current or anticipated Canadian business interests? Do you have any recommendations as to how we could improve the network?

Ms. Joy Nott: As far as where the trade commissioner service offices currently are globally, I think they are aligned. I think the more pressing issue relative to the trade commissioner service is the fact that—and I'm pretty well known for saying this—it's Canada's best kept secret. The number of SMEs I have talked to that have never heard of the trade commissioner service, misunderstand what it is, and/or think they themselves are not big enough or important enough to use it, to me is problematic. I think a better job needs to be done in communicating what the trade commissioner service is, and who is eligible to use the services, because I think there are too many SMEs that think they're not big enough, not important enough, and would never get the appropriate amount of attention.

On another communications issue relative to the GMAP overall, I think GMAP, to Jay's point, will hopefully be something that spurs SME leadership in Canada to go global. But I think we have the same issue with the GMAP. When I say GMAP, most SME leaders I've spoken to think I'm talking about a GPS. They don't know what I'm talking about.

The Chair: Thank you very much.

Mr. Hiebert.

Mr. Russ Hiebert: It's lost in translation, I guess.

Mr. Myers, you opened your remarks by commenting about the history of exporting in Canada, and commented that we lost 20,000 exporters in the 2000s because of foreign exchange rates. Mr. Curtis also commented on the impact of the risks associated with foreign exchange for small and medium-sized enterprise. I'm wondering if

the government can do anything more to help these SMEs address the exchange risks that exist in the world today.

Mr. Jayson Myers: That's a good question.

To some extent it's not just the exchange rate. I think this is where Joy's expertise is really useful. It's also that small Canadian companies, whether they're importers or exporters, usually take on the border risk as well, so I think apart from overall sound economic and fiscal policies, which are extremely important, there are agencies like EDC, for example, that play, I think, a crucial role in being able to offset some of the financial risk around exchange rate volatility. Other financial institutions do as well.

But what we're seeing on the part of companies doing business internationally.... The exchange rate risk itself, plus the downsizing of customer demand in the U.S. market, may be one reason Canadian companies are not exporting, and maybe have turned to the domestic market, to the resource and infrastructure projects here in Canada, which for many of them offer a far better rate of return on their investments and their sales than trying to continue to do business in the United States. That may be one of the reasons we've seen the number of exporters and the number of our exports to the U.S. decline.

But clearly better border policy.... Two years ago, Statistics Canada did a survey looking at the impact of tighter border measures on Canadian exports and imports. They found on both sides that about 10% or 12% of companies had stopped doing business with the United States solely because of the problems at the border, so clearly we need to do something there.

We have seen a lot of companies try to offset some of this risk by balancing their exports and imports and by taking on, at a time of a high dollar, more U.S.-denominated debt, expanding their capacity across the Canada-U.S. border, or internationally.

Services that enable them to make these decisions and to flexibly change their business organization are important. That again is where some of the regulatory problems come in, because they can be a real sticking point in being able to get that flexibility.

•(1300)

Mr. Russ Hiebert: I'd like to hear Ms. Nott answering the same question about exchange rates. As well, do you have any comments about the initiative between Canada and the U.S. to thin the border? It was announced several years ago by the Prime Minister. I believe you were at the announcement, Mr. Myers.

Ms. Nott?

Ms. Joy Nott: I would echo everything that Jay just said and provide you with one example.

There's a Canadian company that for over 50 years imported musical instruments from Asia, primarily China, into Canada and had their North American distribution hub based just outside of Toronto, in Scarborough. Given some bad experiences and some other factors that played into it, currently—I think the decision has already been made—they're looking at taking that distribution hub and moving it to the United States.

I think a lot of progress has been made with regard to thinning the border between Canada and the United States. We can't control the sense, at times, of what I'll call U.S. patriotism. We go through ebbs and flows of Americans being what I'll call tolerant of imports and then other times when they become less tolerant of imports, even from Canada. I think it's that uncertainty that has led to so many Canadian companies, even small companies, which at one time

might have used Canada as their distribution hub focal point, now having their goods manufactured outside of Canada and shipping them directly to the United States and setting up distribution hubs in the United States, and when need be, exporting from the United States up to Canada to feed the “domestic market”.

The Chair: You're absolutely right on that. In fact you've probably opened up another discussion that the committee should look at some time in the future. But, nonetheless, I certainly want to thank you for being with us. Your presentation on this subject has been very valuable.

We also want to thank the committee for their excellent questions.

With that, our time is gone, so we will adjourn.

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