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Chair

Mr. Dan Ruimy

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● (1530)

[*English*]

The Chair (Mr. Dan Ruimy (Pitt Meadows—Maple Ridge, Lib.)): I call the meeting to order.

Welcome, everybody. Thank you very much for attending session number 16 of the Standing Committee on Industry, Science and Technology.

Today we have three guests from different organizations. From the Automotive Industries Association of Canada, we have Jean-François Champagne, *président*.

From the Canadian Association of Defence and Security Industries, we have Christyn Cianfarani. She's the president.

From the Canadian Cosmetic, Toiletry and Fragrance Association, we have Darren Praznik, president and chief executive officer. He brings with him Beta Montemayor.

As we we normally do, we'll go through each presentation and then we'll ask questions as a whole.

Why don't we start with Mr. Champagne?

You have 10 minutes.

Mr. Jean-François Champagne (President, Automotive Industries Association of Canada): Good afternoon, Mr. Chairman and committee members. Thank you for the invitation to take part in your study of the Canadian manufacturing sector. I'm very pleased to be here today on behalf of the Automotive Industries Association of Canada and its members, with more than 4,000 locations and branches across Canada.

Our association has represented the interests of Canada's automotive service and repair industry for 74 years. Our members are companies that manufacture replacement parts and manage the supporting supply chain, right down to parts stores and installers who work with the Canadian public. We do not represent companies that make or sell vehicles.

The automotive aftermarket, as it's referred to, is a $19.4 billion industry that employs approximately 400,000 people across Canada. Our segment of the industry represents approximately 50% of all employment and about half the overall value of the total auto sector.

There are over 23 million registered vehicles on the road today, and the average age of these vehicles is now just about nine years. We know that vehicles are being built better and last longer than ever before. This means our members are delivering an important service in every community across the country by keeping Canadians and their vehicles safely on the road.

Our sector is primarily made up of small to medium-sized businesses, and today our comments represent ongoing discussions with our nearly 850 members, big and small, on the topic of manufacturing.

Although at AIA we do have a diverse membership, manufacturers represent an important and complex segment of our membership. We continue to work with them to understand how and where they manufacture, their import/export behaviours, what innovation means to them, and which government programs they currently leverage to support their operations.

Last year AIA commissioned a study to look at the possible threats and opportunities to our sector brought about by the trans-Pacific partnership agreement. AIA's TPP impact analysis report was released in January of this year and helped our association understand our manufacturers' needs. This report was provided to you today in both official languages.

Overall, I'm happy to inform you that the TPP agreement is unlikely to have a great impact on the automotive aftermarket. Through this exercise, we've learned that most manufacturers of aftermarket parts have already moved their production to Asia. We have approximately 110 self-identified manufacturers in our membership, and with that, approximately 20 companies continue to manufacture on Canadian soil. That said, the remainder of our members still innovate here in Canada, and employ people in operations, marketing, finance, and sales. We have found the core manufacturing is now primarily offshore. Furthermore, the vast majority of this offshore manufacturing is ultimately brought back to Canada for branding and packaging and then sold throughout North America.

Our study also found that the volume of Canadian trade to countries other than the United States and Mexico is currently quite small. Hence, we expect little impact from the implementation of the TPP.

Of importance to this committee's study, I would add that our manufacturers will be more affected by other factors, such as technical innovation, exchange rate movements, and climate change initiatives.

With regard to technical innovation, the advancement in vehicle technology will fundamentally change how Canadians own and use vehicles, but, more importantly, it will fundamentally change how they get service and maintenance done on their vehicles. Telematics will become the new normal. The capacity of the aftermarket to access information to fix vehicles today is a direct result of the right-to-repair efforts that we waged about eight years ago. In fact, a member of this committee, Mr. Masse, was a key contributor to the ultimate access that our sector now enjoys.

Make no mistake: as vehicle technology moves in leaps and bounds, our sector is at risk of being excluded from accessing vehicle data and therefore providing consumers with little or no choice but to return to their dealership to get their vehicles serviced.

There's an enormous opportunity for innovation in vehicle telematics, without question. BlackBerry and Google are significant players in vehicle telematics and connected grid research, and so are members of AIA such as Delphi and Bosch.

● (1535)

Any efforts by government to support not only the research aspect but also to look at how vehicle data will be shared with parties other than manufacturers would be most welcome.

Before I move on, I would also like to add that innovation in the supply channel, such as Amazon's potential use of drones to deliver products, points to a near-future disrupter to our sector, thus requiring major study, preparation, and adoptions in order to survive. E-commerce is already changing how our sector's supply chain connects automotive parts with installers.

Another area of interest to AIA is the employment, recruitment, and training of the labour force within our sector. Our industry's most pressing concern is the lack of labour market information available. AIA is in the process of submitting a proposal to ESDC for funding to support a massive labour market study. Our industry will soon need to completely retrain its workforce as electric vehicles become more common and as technology evolves. Government approval of AIA's labour market study proposal would be very helpful to our manufacturing members.

The next topic I would like to speak about is product standards. Let me illustrate this issue using one key example.

On April 28, numerous voices across Canada, including AIA, called on the federal government to ban imports of products containing asbestos. In Canada there are few, if any, product standards for automotive replacement parts. Fortunately, the vast majority of players in the sector produce parts of equivalent-to-OE quality or even better without being forced to do so by any regulations. Nonetheless, we see millions of dollars worth of brake pads containing asbestos entering Canada every year. I'd like to be clear here: those brake pads are not being manufactured and produced in Canada, but simply imported. As recently announced, if the Government of Canada does move forward with its proposed ban on asbestos, this will support manufacturers and parts distributors who currently, voluntarily, choose not to produce or import asbestos-containing products.

This is only one example but it illustrates that members who choose to do the right thing are left on an uneven playing field when facing competitors who do not have minimum standards to meet.

As I noted earlier, AIA does not represent the automakers in Canada. However, I would like to state that strong OE assembly operations will still positively affect the aftermarket.

First, some of our members still supply into the OE operations, and many other AIA members may benefit from the business clusters that exist in and around those assembly plants. Continued opportunity for cross-sector engagement, such as through the Canadian Automotive Partnership Council, is imperative. AIA is also a member of the Canadian Manufacturing Coalition, so I will not spend time today going through all of the items those two groups will advocate on, but will lend AIA's support to their efforts, and I must take this opportunity to highlight that energy costs remain a constant irritant for our manufacturing members.

Lastly, I must mention that our members continue to raise concerns over patent and copyright infringement, as well as issues with counterfeit products entering Canada. This is of extreme importance to our members, and the government's leadership in combatting these issues will be essential to fostering a healthy automotive parts replacement sector that thrives on developing and building better products.

In closing, budget 2016 was a good step in the right direction. Innovation is key for our sector, although our members are not typically captured in current program funding opportunities. For example, the automotive supplier innovation program—ASIP—is reserved for OE suppliers only. To support manufacturing in the aftermarket, our members need access to smaller funding investments in the millions of dollars, not the hundreds of millions, and careful effort needs to be taken to ensure it is not difficult to navigate the red tape in applying for these programs. In many cases, our members seem to just have overlooked government programs, believing that they just won't qualify. We need to ensure that Canada's aftermarket is not an afterthought.

Thank you very much for the opportunity to speak to you today. I look forward to your questions.

Thank you.

● (1540)

The Chair: Thank you very much.

Now we will move over to Ms. Cianfarani.

Ms. Christyn Cianfarani (President, Canadian Association of Defence and Security Industries): Mr. Chair, honourable members, ladies and gentlemen, thank you for inviting me to speak to you today to give you a Canadian defence industry perspective on manufacturing.

The basic message that I would like to leave you with is that the Canadian defence industry is a vital, innovative part of Canadian manufacturing that the federal government should be paying more attention to, especially at this point in time.

In the context of a Canadian manufacturing sector that's lost, to our knowledge, at least 400,000 jobs in the past decade due to fierce offshore competition, the size of Canada's defence industry has remained relatively stable.

[*Translation*]

This points to some resiliency in the industry, which is somewhat rare in the manufacturing sector. More importantly, it shows that the defence industry can grow considerably in one generation if the federal government makes the right choices and works in partnership with it.

● (1545)

[*English*]

By this I mean the growth potential for defence manufacturing is highly sensitive to federal government actions or inaction. Federal government policies and programs, especially procurement decisions, influence heavily, if not determine outright, our sector's growth path. I don't think you can say that about any other part of Canadian manufacturing.

To begin with, I'd like to give you a few numbers from a recent Innovation, Science and Economic Development and Statistics Canada survey of the defence sector to provide a high-level picture of what our industry looks like.

Of particular relevance to your committee's work is the fact that over 60% of the Canadian defence industry is manufacturing-focused. The Canadian defence sector accounts for over 63,000 direct, indirect, and induced jobs and generates $6.7 billion in gross domestic product annually.

The sector is export-intensive, with 60% of industry revenues coming from foreign sales. I hasten to add that this strong export performance takes place in a context of a highly protected and regulated international marketplace for defence goods and services. This is one of the reasons defence goods and services are exempt from the provisions of the WTO and NAFTA and other international trade agreements.

Almost all countries protect, promote, develop, subsidize, and favour their domestic defence industries for a combination of national security, sovereignty, and economic reasons. It's a reality that we need to understand.

As a result, when Canadian defence firms compete abroad, we're up against some formidable and often unpredictable forces, and yet those export numbers tell us that our companies do very well. I would suggest to you that our export success is a measure of our industry's innovative nature and the value for money that it provides, and that it is a barometer of the high-quality goods that Canadian defence firms sell into global markets.

[*Translation*]

Another special feature of the defence market is that, nationally, there is really only one client: the Government of Canada in general, and National Defence and the Canadian Armed Forces in particular. This is not the way the ideal free market is described in economics 101, where there are many buyers and sellers.

[*English*]

The ISED-StatsCan survey found that companies in our sector pay 60% above the average manufacturing industry wage. This is explained in part because our industry is innovative. Truly innovative firms have highly qualified and well-paid people working in them. Over 30% of the occupations in our industry consist of engineers, scientists, researchers, technicians, and technologists, and another 40% of our workforce are well-paid production workers.

That gives you a high-level picture of our industry. Now let me give you a little ground truth on the sector.

The Canadian defence sector comprises about 650 small, medium, and large firms. Some are Canadian and some are foreign. It's truly a pan-Canadian industry, with pockets of industrial strength in every region of Canada.

Shipbuilding and the associated marine industry are located on both coasts. Military aircraft maintenance, repair, and overhaul services and aircraft fabrication and structures are based in Nova Scotia, Quebec, and western Canada. In Ontario there are combat vehicles and related maintenance, repair, and overhaul, as well as airborne communications, navigation, information systems, software, and electronics.

It's also worth pointing out that two-thirds of Canadian defence firms have significant commercial non-defence business operations. Furthermore, a lot of defence products and services end up generating important commercial and civil technologies with spillovers into the broader economy.

That's the essence of the sector.

Today, the opportunity of a generation stares our industry and the Government of Canada in the face. Over the next 20 years, the Canadian defence manufacturing base has the potential to grow significantly due to the planned recapitalization of the Canadian Armed Forces. Shipbuilding and the fighter jet replacement program are the two largest pieces of this puzzle, financially speaking, accounting for at least $35 billion in capital equipment.

[*Translation*]

The *Defence Acquisition Guide*, the Canadian Armed Forces' 20-year plan, lists over 200 major initiatives. This is a huge opportunity, unprecedented in fact, to leverage defence assets in order to spur growth in the defence manufacturing base in Canada.

The leveraging of defence procurement was one of the key elements of the report produced by the expert panel chaired by Tom Jenkins. I was a member of that panel.

[*English*]

But how do we execute on this opportunity? I'd suggest to you that there are two key ingredients needed to grow defence manufacturing in this country.

First, we need to recognize that Canadian prime contractors, of which there are not that many, must be considered more strategically by the government in procurement strategies for these major capital projects. Domestically based primes are the firms that do the bulk of manufacturing in our sector. They own the intellectual property, which is essential to getting the kind of innovative, sustainable manufacturing activity and high-wage employment that we all want. The kind of advanced manufacturing we're talking about here is founded on intellectual property, research and development activities, design, and testing. It also includes complex systems integration of both hardware and software.

Second, we need to find ways to incentivize intellectual property transfer from foreign primes into Canadian firms so that those Canadian companies will also be able to engage in the kind of innovative manufacturing that comes with owning and exploiting intellectual property. Procurement strategies need to do more than just drive Canadian firms into supply chains, and the value of the supply chains needs to be better defined up front. We need to recognize that because the Canadian Armed Forces buy equipment so infrequently and purchase so few units, supply chain activity that is limited only to the domestic buy will not sustain the industry, let alone grow it. At a minimum, when foreign primes win Canadian contracts, Canadian firms need to be driven into the global supply chain of those foreign primes.

But we need to think bigger and more strategically than the existing suite of fragmented programs scattered amongst two or three departments, with little coherent direction. What we really need to do is develop a made-in-Canada defence industrial policy, tailored to our unique security requirements and domestic industrial capabilities. Virtually all of our allies have something called or resembling a defence industrial policy. Canada needs alignment at the political level to drive strategic thinking into defence procurement projects, using the tools we have to achieve the outcomes we want.

The moment to fix this policy gap and grow defence manufacturing is now. The government has simultaneously launched both a defence review and an innovation agenda. These two policy reviews need to be joined up to develop a Canadian defence industrial policy to build a stronger, larger, and more innovative Canadian defence manufacturing base.

The vision is ambitious, yet it is achievable. The time to act is now. Industry is ready to work with government on this. The Canadian defence industry recommends that this committee, in its report to government on the manufacturing sector, echo our call to develop a made-in-Canada defence industrial policy tailored to Canada's unique security challenges and economic opportunities.

I'd like to thank you all once again for the opportunity to appear before your committee today.

● (1550)

The Chair: Thank you very much.

Finally, we will move to Mr. Praznik.

You have 10 minutes.

Mr. Darren Praznik (President and Chief Executive Officer, Canadian Cosmetic, Toiletry and Fragrance Association): Thank you very much, Mr. Chair, and members of the committee. I want to thank Mr. Masse, who, I understand, submitted our name as a proposed presenter here today. Mr. Masse reached out to our association last year on the plastic microbeads issue, and we were quite successful in working with him on the ban that is now being put in place.

I'm also pleased today to join Mr. Fergus. We worked very briefly together in another life, some 10 years ago, so I extend our congratulations on his election to Parliament.

As we are sitting with colleagues from the automobile industry and the defence industry, it is a little odd to be coming here from the cosmetics industry. I would like to tell you that I'm really 85 years old and I use great anti-aging products, but you wouldn't believe me. Still, use the products. I know I'm on the record.

Voices: Oh, oh!

Mr. Darren Praznik: I have a bit of a unique presentation for you today. Some of the themes my colleagues have raised also run through it.

When you look at cosmetics in Canada, we are a net importer of cosmetics and personal care products, but we are also a major manufacturer. That dichotomy presents some issues that I think many other consumer product industries have been struggling with, issues that government really has not had a focus on, though I think perhaps it's time that it did.

The reason for that dichotomy of being a major importer but also a significant exporter is rather simple. In the world of consumer products generally, in order to achieve economies of scale in production, you need to have a large volume. One of the disadvantages of Canada compared to the United States or the European Union or China is that we have 35 million people. The reality is that in the case of many products, to employ the best technology, to be able to get the economies of scale, and to have the production runs you need to be competitive, you cannot rely on just the Canadian marketplace.

Particularly for our industry, most of those facilities or manufacturing sites—I think there are 18 independent custom manufacturers, and several major brands that operate facilities in Canada—depend on getting a large enough volume through exports to be competitive. We have to understand that interest. It is in our interests, as a country larger than the Americas or Europe, to be able to move the products from those factories across borders into other jurisdictions in order to support those economies of scale. We must not only be competitive as manufacturers but must also have greater access to those markets than do our competitors in the U.S. and the European Union.

I want to focus for a moment on a very interesting area. I'm not here to ask for tariff reductions or other general policy requirements. If anything, what I'm asking you to consider is the role of regulation.

We're not talking about regulation to prevent safety. In fact, it's not about reducing standards at all. We're talking about alignment, because there are hosts of requirements.

Personal care and cosmetic products are regulated everywhere in the world. Every jurisdiction has some regulation to ensure safety, to review cosmetic ingredients as part of chemical management plans. We have those in Canada. We're regulated under the Food and Drugs Act under Health Canada, by the Environmental Protection Act under part of the Chemicals Management Plan, and by the Competition Bureau, etc. The jurisdictions we're exporting into also have their own regulatory requirements. Our difficulty comes in understanding that those safety departments are also market access departments. How they choose to regulate can make a big difference as to whether or not it's easy to move a product across the border.

Again, I'm not here to say we need a lessening of standards. Actually, it's quite the contrary. I'm saying we need an alignment of those rules. I've included some examples in the presentation.

It took us, on an international basis, over two years to get a common standard for lead contaminants of 10 parts per million, because we discovered that many Asian countries measure their ingredients as opposed to measuring the finished product that we measure in Europe, Canada, and the United States. If your regulators are measuring two different things, how do you align those standards? How do you produce for those markets?

● (1555)

Getting regulators to decide if we're going to measure inputs or finished products had to be resolved. Similarly, are we going to measure in centimetres or inches? The standard definitions that we apply to nanotechnology or any of these things become a fundamental basis of getting that alignment.

We looked at other things, including a simple thing like ingredient nomenclature. We have mandatory ingredient labelling for cosmetics virtually across the world. We use an international nomenclature language called INCI. The Americans have not accepted 57 out of some 10,000 terms that are in the INCI dictionary, one of which is water. The international word or INCI term for water is aqua. If you put aqua on your label, it's accepted everywhere except in the United States.

These little things can result in literally millions of dollars in extra cost in just trying to adjust labelling or trying to achieve common labelling, which means a common inventory management. Inventory management is really the cost for an exporter, because the United States is the only country in the world that insists on the word water, where everyone else requires aqua.

We've been trying to get the Americans to change that for more than 10 years, and it just goes nowhere. It's a simple little thing like that. Again, if someone doesn't know that aqua is water, it's not a health risk, but it adds millions of dollars in labelling costs.

There are other issues. Slight differences in labelling sunscreen warnings, for example, can make it more difficult to produce a product in Canada and export that package into the United States.

In terms of classifying products, in Canada we classify sunscreens as drugs or natural health products. We impose a host of drug rules. In the European Union they classify them as cosmetics with appropriate rules. This has led to a whole bunch of really unintended and unnecessary issues on moving sunscreen products across borders, again to the disadvantage of the Canadian manufacturer.

Manufacturing facilities and licensing are other areas. If you're making a therapeutic claim for a product in Canada, you're a drug. In the United States, you're an over-the-counter, OTC, product. Both jurisdictions require the inspection of your manufacturing facility.

That means Health Canada and the FDA have to come to your factory. They don't necessarily have the same inspection requirements. They don't have the same inspection schedules, and we can take you to facility after facility in Canada where they're being reinspected by two different jurisdictions with all the attendant costs of time, etc. If you're the Canadian manufacturer, you're bearing a much greater percentage of that cost in your product because you're exporting so much more.

These are the kinds of things that we believe governments have to make a priority. They have to find that alignment to make it easier for manufacturers in Canada to be able to move those products across borders.

There are a couple of other aspects that I'll flag for you in manufacturing today.

Modern manufacturing is really internationally integrated. If you're making cosmetics at a factory in Quebec and a factory in Ontario, you're moving ingredients from different jurisdictions. Sometimes it's your packaging. Perhaps it's a unique bottle or container from a different jurisdiction and you are assembling it here in Canada. You're buying your ingredients from different places, yet our consumers bureau still has a definition of “manufacturer” that is dependent not only on the last major transformation but on 51% in value, which can vary on exchange rates at any given time.

Yes, you don't have to put “made in Canada” on the product, but you do if you export it. In many supply chains a product made in Knowlton, Quebec, will get into the supply chain in the U.S. and re-emerge in western Canada, because that's the way the supply chain works. Rules of origin labelling can make it very difficult to be able to do that when, quite frankly, there's no need.

If you're that manufacturer and you're exporting 90% of your product, why would you stay in Canada if you can avoid some of that by moving across the border? These are the kinds of real unintended consequences of not thinking through our regulatory systems.

The last comment I would like to make that touches on this issue is that this is the age of the international consumer. The day when we regulated just for our country because we live here is gone. Canadians buy their sunscreen products when they're on holiday. They buy them in Canada. They can order cosmetics, sunscreens, or anything else from anywhere around the world.

● (1600)

There is no reason that regulators cannot align their regulations. Consumers are ahead of governments because they expect the product to be safe no matter where it's made. Whether they buy it Florida or Toronto or online, they expect it to be equally safe.

We would suggest to this committee that it's not just government policy to say that we need to align trade; it has to get down into the culture of our market access departments, such as Health Canada, Environment Canada, and the consumers bureau. At the end of the day, when some mid-level person in the department is talking to their colleagues at the FDA or the European Commission or in China or wherever, and they're discussing how they align regulations, they have to know that it's in the interests of Canada to have that alignment. It has to be a priority.

Thank you very much, Mr. Chair.

The Chair: Thank you very much, and the fun begins. We'll start with you, Mr. Arya, for seven minutes.

Mr. Chandra Arya (Nepean, Lib.): Thank you, Mr. Chair.

I thank all the witnesses for coming here.

Thank you, Christyn, for the excellent presentation you made. As you know, the defence and security industry is something I personally am interested in because of the potential for economic development. When Tom Jenkins submitted his Canada First defence procurement policy a few years back, if I remember correctly, he mentioned that the Canadian defence budget in the next 15 to 20 years would be bigger than the oil sands capital investment budget. That was when oil was still ruling, at $100-plus per barrel. Obviously, today the capital plans of the oil sands industry have changed, but the Canadian defence procurement budget is still there.

There are several things here. When I ran for my nomination, I made the promotion of defence and security industries in Ottawa one of my planks, because of the huge potential. As you mentioned, this sector pays 60% more in salary than comparable jobs, and these jobs will never get outsourced to China or India. Unlike the wireless and telecom booms and busts that we have seen in this city, the defence sector jobs do stay here. Especially in C4ISR—command, control, communications, computers, intelligence, surveillance, and reconnaissance—the industry has huge potential.

With regard to the U.S. defence budget, the R and D budget alone in this segment of the sector is $90 billion. Many Canadian companies don't know that Canadian companies are considered to be U.S. domestic companies for defence acquisition.

So thank you again for coming here. I just want to touch base with you on several particular points. We have discussed the industrial and technological benefits program. Can you in a few seconds throw light on how we can use ITB policy to promote innovation and a subsequent manufacturing sector here?

● (1605)

Ms. Christyn Cianfarani: The ITB policy, for those of you who may not know, was formerly known as the offset policy. Essentially it means that for every dollar we spend purchasing a defence good or service, a corresponding dollar gets spent in the economy. The challenge in the past was that the dollar wasn't directed anywhere specifically. We used a few systems, such as multipliers, to help it be directed, but the reality is that we had little influence over where that dollar was directed and what kind of job it went into.

Most recently, following 2014-15, the industrial and technological benefits program was introduced. When it was introduced, it was split into two pieces. One piece occurs prior to an acquisition being made and during the bidding phase of an acquisition. It's called the value proposition. Effectively, that is a tool to be able to direct work into certain sectors, segments, or types of work to be done in Canada. Suppliers or prime contractors are evaluated based on their ability to compete with other prime contractors. They are scored on that particular value to Canada.

The second piece of it is what I refer to as the “leftover” portion of that, the non-highly directed portion, which are the industrial and technological benefits. It's the remainder of the money. It too can be directed to certain sectors, segments, or types of things in the economy, depending on how aggressively we would like to use it.

Mr. Chandra Arya: I'm sorry to cut you off there. I have very limited time.

Ms. Christyn Cianfarani: Sure.

Mr. Chandra Arya: Regarding the made-in-Canada defence industrial policy, if you guys are working on it and if you have developed some details on it, would you be willing to share that with the committee through the clerk?

Ms. Christyn Cianfarani: Well, right now we're in the stage of still talking with government about whether or not it would support the construct of a made-in-Canada defence industrial policy, so it's very early days. I was in Vancouver and pitched that to the Minister of National Defence.

Once we get moving, the idea would be that government and industry would work together to develop this policy.

Mr. Chandra Arya: Okay.

You did mention that we have been spending quite an amount of money in different departments. DND is spending hundreds of millions on DRD, defence research and development, and in our innovation ministry we have the SADI program, but there is no connection between them. They are all almost independent.

I have talked to different ministers once or twice on how to bring the R and D investment that has been done in DRD work to the industry. Is there anything you would like to add to that?

Ms. Christyn Cianfarani: What you would do is set out from the top what strategically we want as a country. You'd be driving that into your defence procurement and also your R and D programs—so it is bigger than defence procurement—and you would connect the tool, like a value proposition tool, to your SADI program and say, "We are going to procure, on this procurement, things that we are developing under certain R and D programs."

There are ways to do it even before you get it on an actual full-blown, very large-scale procurement. There are constructs that are used in other countries, like low-rate initial procurement vehicles, whereby you could buy a few things, test them out, and actually develop to the stage where you're looking to put them on a procurement. You connect those chains together. The tools are there.

Mr. Chandra Arya: I am very glad that you also noted the Canadian-owned small-size manufacturing companies and how we have to just bring them online into the system.

You said there are about 650 small, medium, and large ones. How many do you think are in the large to medium sector there, especially the ones employing more than 250 employees?

● (1610)

Ms. Christyn Cianfarani: That's about—

The Chair: You have about 30 seconds.

Ms. Christyn Cianfarani: It represents only 20% of our membership. Now, the important thing is that, of our GDP base, those very large firms do 90% of the GDP.

Mr. Chandra Arya: Probably you are more like the aerospace industry, where the 80/20 rule is actually the 93/7 rule. I think even in the defence industry, the medium to large ones are quite good in what they are doing.

Ms. Christyn Cianfarani: That's right.

Mr. Chandra Arya: Thank you, Mr. Chair.

The Chair: Thank you very much.

We're going to go to Mr. Dreeshen.

You have seven minutes.

Mr. Earl Dreeshen (Red Deer—Mountain View, CPC): Thank you very much, Mr. Chair.

Thank you to our witnesses today.

I had the pleasure to be on the public accounts committee when we went through the full life cycles of F-35s with the particular variant that Canada was looking at. Of course, the issue there was how many years a full life takes, whether we were dealing with the defence department, the PBO, or the Auditor General.

I've had a lot of interest in this particular area, looking at the concept of procurement and how we can develop a method so that procurement can be done quickly and seamlessly. Of course, I believe the secretariat that was set up was designed to make clearer what could be taking place there.

Also, with regard to shipbuilding, I had an opportunity to see the types of spinoff industries that are tied in on both our east and west coasts, so when you talk about 650 other industries that have an opportunity to be part of this, I think that's extremely important. As we tie into innovation, I believe that's something else we should be considering.

You did mention, Ms. Cianfarani, the need for defence and innovation to work together. Could you give me some concrete examples of what you see, and perhaps some of the advantages, as we look at different possibilities as far as procurement is concerned?

Ms. Christyn Cianfarani: Thank you for the question.

I would hesitate to go into the sausage-making of exact technologies. What I can say at that sort of parent level is that we do have a significant number of innovation programs, and I understand over the course of the last few days you've heard from even Stats Canada on a number of these programs.

There are some 60 R and D programs, I believe, ranging from small programs or tax programs like IRAP and SR and ED to very large programs like SADI and BCIP. Those programs right now I would say are disconnected from the procurements that are going to be going on in the future or the procurements that are going on today. We know that you have to start R and D probably five or 10 years in the past in order to have it ready for landing on a procurement in the future.

The challenge is that there is no coherent connection between those programs and a procurement involving the people actively working on the files. Let's say it's mapping and charting of the Arctic, and we want to develop or incentivize that technology in Canada through the Canadian surface combatant program under the ships program. That thinking right now, to our knowledge, isn't necessarily going on, that glue, so you have this disconnect in that you might be driving that dollar-for-dollar work into something that the country might not even be interested in.

If you don't incentivize the prime or signal the prime by saying we want that exact thing, then they will give you what they want to give you. They will effectively give you the leftover that their country doesn't want. That's where we see that decoupling. You're working on R and D in Canada and you're maybe not even buying it, and secondly, you're incentivizing primes to put money into certain aspects of the Canadian economy that's not even linked to your research and development programs.

That would be one of those examples.

Mr. Earl Dreeshen: The other thing I'd like to speak about is some of the human resources that we have and the opportunities there.

Recently there was a Federal Court of Appeal ruling that determined that anyone whose name is on the Canadian Armed Forces Supplementary Reserve list was considered a public servant. That changes the dynamics as far as those individuals coming in as engineers or as technologists is concerned. We looked at the ruling and we tried to understand just what is taking place. I'm just wondering how you see this court ruling affecting Canada's long-term look into research and development as far as manufacturing is concerned.

● (1615)

Ms. Christyn Cianfarani: I think on the CBC I called it a lose, lose, lose.

It's lose for the active reservist who's looking for a job.

It's lose for the Canadian company that clearly would like to often employ previously or actively serving members for their knowledge and therefore feels there might be an impediment to employing one of those individuals because their intellectual property may be pulled back by the crown as they're serving. That is the juggernaut of the issue. As a public servant, your intellectual property during the time that you're working as a public servant is the intellectual property of the crown. That might mean that when you're working for a company, theoretically the intellectual property that you're developing for that company is now theoretically owned by the crown.

It's also a lose for Canada, because I don't think the crown wants to be clawing in intellectual property from companies. The crown isn't an expert in commercialization.

So it is a lose, lose, lose.

Mr. Earl Dreeshen: Thank you.

The other question, then, is for our other two witnesses.

There was discussion about the fact that you are moving product across the line to the U.S., and we have a *de minimis* issue having to do with parts as they go into the U.S. They've now changed it from $200 to $800, I believe, and of course Canada is still at $20. That does cause an issue. I'm wondering if either of your industries are affected by that, because I think it is something that we will need to address in the future.

Jean-François or Darren, would you comment?

Mr. Jean-François Champagne: There's no specific information I have that I could share in that regard. It's something we could maybe look at it and provide more feedback on. I wouldn't be able to comment specifically.

Mr. Darren Praznik: I'll just add that this issue is slowly coming to the attention of folks in our industry. There are a lot of changes going around in the retail scene right now. Obviously online retailing is becoming a larger segment of the retail world, and certainly in our products. I think consumers are going to create a demand for a change in that *de minimis*.

Whether we like it or not, whatever our position, it is going to be an issue that will have to be addressed. We are just starting to see it raised within our association at this point, but I wouldn't offer any specific advice today.

Mr. Earl Dreeshen: Defence, would that...? I don't assume it would deal with you.

Thank you.

The Chair: Thank you very much.

Mr. Masse, you have seven minutes.

Mr. Brian Masse (Windsor West, NDP): Mr. Champagne, with regard to the aftermarket, I'm not sure everybody understands its importance and the ingenuity that takes place in it. We all were subjected to vehicle improvements and maintenance at the dealerships. We couldn't get the economy going, actually. It would have been extremely difficult, especially since some of your members operate in rural and other types of areas where we don't even have them.

My concern is related to what your industry is doing to prepare for a step forward in innovation related to, for example, cars that drive on their own. In the past some companies have treated us differently from what's provided in the United States; hence the legislation that we worked on, and the voluntary agreement by all parties on this matter.

What's your take on that, and what do we need to do to prepare? The driverless car is a big step forward. I think the preparation needs to happen sooner rather than later for us to be competitive.

Mr. Jean-François Champagne: That's a great question. Thank you very much.

As I alluded to in my original presentation, the car as it is today is evolving. How it's going to be owned and operated is going to change dramatically. I used the term “telematics” to refer to the disrupter in what's coming.

To answer your question specifically, we have to be prepared to service vehicles properly over their whole lifespan. As I pointed out, the lifespan of vehicles is increasing. We're building better vehicles. They're lasting longer. The capacity to service these vehicles....

You alluded to rural areas. The ability to service vehicles effectively coast to coast relies on the capacity of a technician, a service provider anywhere in Canada, to properly assess the condition of the vehicle, see what needs to be repaired, and perform the proper repair so that the vehicle continues to be safe.

The dynamic that plays out today, and hence the whole right-to-repair fight we had about eight years, is to ensure that not just the people who build the car and the people who sell the car through the dealership are able to access that information. It has to be the entire aftermarket. The key here is access to information and ensuring that vehicles, as they evolve over time, continue to provide access.

Today, essentially, when you drive your vehicle into a service bay, a technician will physically connect to the vehicle to get diagnostic information, programming information, and so on. As the vehicle evolves and telematics happen, the vehicle sends information dynamically over the air. A technician is no longer required to connect directly to the vehicle to gain that information.

As that information now goes into the cloud, for lack of a better word, it gets wirelessly connected. How the data gets directed to a service provider becomes the big question. This answers our concerns. As the way the vehicles communicate changes, we want to ensure that owners of vehicles.... Also, the ownership model might change, but we want to ensure that whoever has the ownership of the vehicle will have ownership of the data generated by the vehicle and will be able to direct that information to their service provider of choice, essentially allowing Canadians to make the right choices in who they want to service their vehicle and ensuring that the people who provide the service will have the right information so that we are able to repair these vehicles safely.

Let me add one more aspect that you pointed out. Today there is a broad network of dealerships, but they do not service all Canadians in all the rural areas. The aftermarket does. We are in every community across the country. For this aftermarket to continue to repair those vehicles, access to information is key.

Our action is to be here and to educate the government that access to information is key, ownership of that data by the car owner is key, and the capacity of that car owner to direct the information to whoever they want is also key.

● (1620)

Mr. Brian Masse: I know that also improves our environment, lowers insurance costs, and keeps the economy going, because not everybody can afford a new vehicle all the time.

I want to move to Mr. Praznik right now. I'll get to defence in my next round of questioning, because I know I'm coming to a conclusion soon.

I was really surprised at the advance of the industry we have here in Canada. Your quest is to get rid of red tape. If we're able to limit those export barriers you're facing, will that guarantee or at least increase the chances for exporting the products of our manufacturing, which obviously means jobs?

Mr. Darren Praznik: I would like to say it's not so much about getting rid of red tape, but about aligning the dispensers.

Mr. Brian Masse: Oh, that's fair enough. Good. Then I can drop the red tape issue.

Mr. Darren Praznik: Yes, and I would even put this forward. There are certain issues when we import product, and I don't think we're here to talk about those today; we're here about how we can encourage exports.

Often the role of our regulators isn't so much to change what we're doing here—although we have some of that to do—as it is to work with their colleagues internationally so that when we change a regulation or change a restriction on an ingredient, we arrange to do it at the same time in the same way. We don't want to create disruption out there.

We had a recent run-in over MI/MCI. If we are going to impose a new rule on something or have a new sunscreen warning system, can we agree at least among Europe, the United States, and Canada on what it's going to be?

Doing that would allow us to move to a common label, which means a single inventory management, all of which makes it easier to export. We export a greater percentage than anyone else does, so if we can do that, it's to our advantage. However, for our regulators, the people who sit at those tables, it's not even on the agenda. It's not often in their mindset.

There needs to be a cultural change in the way we think about regulation and about how we advance our national interests.

The Chair: Do you have a final word in 10 seconds?

Mr. Brian Masse: Hurray for me.

The Chair: All right. I like how we're getting along.

Mr. Baylis, you have seven minutes.

Mr. Frank Baylis (Pierrefonds—Dollard, Lib.): I'll start off by taking Darren up on his point.

In the medical field, we call that harmonization.

● (1625)

Mr. Darren Praznik: Yes.

Mr. Frank Baylis: You're looking to have harmonization among different jurisdictions. That is ongoing in different areas of the government. Are you saying that in the cosmetics area it's not taking place, or are you saying it's not taking place in the way you'd like to see it?

Mr. Darren Praznik: We're involved with the Regulatory Cooperation Council between Canada and the U.S., which has been in place now for five or six years. It's very slow. I think if you look at the number of places we've had alignment, they're very few.

We've been involved now—

Mr. Frank Baylis: If we use you example of aqua and water, though, there's a certain reality here, which is that the Americans in general like to march to their own drum. They could easily align with everybody else, but when they have ISO rules and they make GMP rules, they persistently look not to align. We might say we're of good faith and we want to align, and obviously they could change tomorrow and call it aqua. That was your own example.

They've chosen not to do that, so what could we be doing? Should we be focusing on aligning with just Europe or Asia? Should we neglect the States? How should we deal with that?

Mr. Darren Praznik: You ask a broad question which I've thought about a lot, because we're very engaged in this issue. We really have to be smart diplomats, and we have to be using things like our trade agreements with Europe and the RCC process with the United States. The TPP, whether you're for or against it, contains a provision for alignment. It's one of the first trade agreements to do so.

We Canadians have to be smart about moving other jurisdictions to commonality. The people we send to these tables for these discussions generally do not have that in their experience. It's not their agenda and it's not their skill set.

Mr. Frank Baylis: I have a quick question. You're an export-driven market and you want to export to, say, Asia, Europe, the United States, and you want to sell in Canada. Is Canada imposing specific extra needs on you which, if you took them away, would alleviate things for the rest of the markets? Is Canada also staying apart, or are they mostly open to alignment?

Mr. Darren Praznik: Canada's been very good about it. I think we're a well-regulated industry. There are always little things that can get in the way of import—there are a couple of issues we're working on now—but generally speaking, we've done a pretty good job.

There are a few issues around product classification. In fact, we do such a good job that I've included a list of 70-some countries that ask for a certificate of free sale that we issue, saying that these products could be freely sold in Canada, which they require for exports—

Mr. Frank Baylis: They call it country of origin.

Mr. Darren Praznik: Yes.

There are a few issues, but generally we have a pretty good system.

Mr. Frank Baylis: So we're not the actual problem. You'd like to see our people taking a leadership role when they go out into the world and say, “Look, can we can all talk and work towards alignment?”

Mr. Darren Praznik: Absolutely, and it's probably more in our interest—

Mr. Frank Baylis: —because we're exporters. I understand.

Mr. Darren Praznik: Right. You got it.

Mr. Frank Baylis: Okay.

I'm going to bring that over to Mr. Champagne, then, because he also talked about regulations, but in a slightly different way.

If I understood correctly, your concern with regulations is not with the export aspect but the import aspect. We have better, stricter, and higher standards here, as you pointed out in your example of brakes with asbestos, yet we're subject to competition that our regulators don't deal with.

Could you elaborate on that?

Mr. Jean-François Champagne: In fact, there are no product standards for aftermarket parts in Canada. If we build a car in Canada, Transport Canada has a set of requirements as to how this car would be produced, but once they're actually sold and on the road, there aren't specific product standards that would apply to the manufacturing or the importing of aftermarket parts.

That's the analogy of the analysis of the brake pad with asbestos in it: it becomes something that the industry has to do on its own in making sure that we do the right thing—

Mr. Frank Baylis: You would like the government to step in and start looking to regulate—

Mr. Jean-François Champagne: That's right.

Mr. Frank Baylis: —or apply existing regulations to the aftermarket.

Mr. Jean-François Champagne: Essentially, the existing sets of regulations apply to finished vehicles. They would not apply specifically to the parts themselves, so it would have to be a new set of standards that would apply to the parts themselves.

Mr. Frank Baylis: You mean using regulations to protect our quality manufacturers, whatever way we choose to do that.

Mr. Jean-François Champagne: That's correct.

Mr. Frank Baylis: If they choose to be at a higher level, then we've got to protect them, versus....

Mr. Jean-François Champagne: That's right. The example of specific products such as asbestos is a great example of low-hanging fruit. They're very easy to address to ensure that we get good-quality products that are not harmful.

Mr. Frank Baylis: Okay.

I'm going to change lines now. Very quickly from all three of you, is research important or not important to your specific industries? Do the R and D programs we have help or not?

We can start with Christyn. Very quickly, how critical is research in your particular industry?

● (1630)

Ms. Christyn Cianfarani: It's absolutely critical, especially if we're at the front end and pushing things through into procurements and major platforms, given that we keep our equipment in defence for 40 years. In the innovation chain, research and development programs—the strategic aerospace and defence initiative being one of them, and BCIP being one of them—are absolutely critical. We're talking big research dollars that have to go into making this kind of equipment. If we're not doing it, we're certainly not going to be world class, as we are today.

Mr. Frank Baylis: You're happy with the research part. You just want to make sure, if we're researching something, that we're going to actually procure it.

Ms. Christyn Cianfarani: I want to get it connected. We have the commercialization gap in this country, right? I think we all know that. We've got the dead zone after we create something. We don't know how to get it to market. We want to connect up to get it to market.

Mr. Frank Baylis: Okay.

Darren, in your business, which is much higher volume, is research as important, or not really?

Mr. Darren Praznik: Absolutely. The lifeblood of our industry, quite frankly, is innovative new products. Probably one of the world's best colour labs for colour cosmetics is located in Toronto, and it produces for a world marketplace. It's a little-known fact, but it's true.

What we have found is that because our products are not often protected by specific patents, etc.—they're general ingredients in development—last year some of the regulatory changes that Health Canada brought in around drug information number approvals and posting them, even before there was a product on the marketplace, created some issues about exposing confidential business information out in the marketplace to competitors. It put at risk that lab and that company in doing their business in Canada. We worked with Health Canada to come up with a solution, but it wasn't even thought about when the original underlying policy was created.

Yes, research is important, and sometimes how we apply rules is critical.

The Chair: Thank you very much.

Mr. Frank Baylis: Can we hear from Mr. Champagne for a minute?

The Chair: Can you do it in five or 10 seconds?

Mr. Jean-François Champagne: It is important to our sector. R and D is important, obviously. The pace at which cars evolve today is accelerating, so the rate of development in the capacity to build good aftermarket parts is also increasing. In short, yes, it is.

The Chair: Thank you very much.

Mr. Kitchen, you have five minutes.

Mr. Robert Kitchen (Souris—Moose Mountain, CPC): Thank you very much, Mr. Chair.

Thank you, all three of you, for coming here and educating me quite a bit. I'm new to this committee for today, so I have a few questions.

I come from Saskatchewan, the southeast corner, and my riding is about 43,000 square kilometres. We do an awful lot of exporting. I export everything. I export coal, I export potash, I export canola, flax, etc. These sorts of things are what I do.

I also come from a background as a regulator. A number of you mentioned the TPP, and I'm wondering if you could expand on that to me.

Mr. Champagne, you said you don't feel that the TPP would affect your industry a great deal. In southern Saskatchewan we definitely have a lot of service industries involved in automotive sales. Can you expand on that for me?

Mr. Jean-François Champagne: Sure. Thank you.

Essentially, when we did our research around TPP, the 20 or more of our members who manufacture in Canada today highlighted the fact that most or some of their manufacturing is already done through partnership in Asia, non-inclusive of the countries involved with TPP but in China, and that the export portion of their product to countries outside of the U.S. or Mexico is relatively small, so the impact of the TPP is limited.

By the same token, their biggest concern, the capacity to continue to produce in Canada, was much more linked to wide variations on the exchange rate, which creates a lot of uncertainty in their capacity to continue to manufacture in Canada. There was also the advancement of technology. In any case, faced with the small variations we'd see as a result of the TPP, they felt, in conclusion, that we're in pretty much a neutral position in that regard.

Mr. Robert Kitchen: Okay.

Mr. Praznik, you too mentioned a bit about the TPP. I'm wondering if you could expand on that.

Mr. Darren Praznik: There's a provision in the TPP that calls for its participants to align their regulations to facilitate trade. For us that was just a huge plus. It's one of the first trade agreements in the world to include that provision. From our perspective, we welcome it. We see it as a great advance in the kind of work that we believe needs to be done internationally. That is a component we support very much.

● (1635)

Mr. Robert Kitchen: Great.

Are there any comments on your part? In Saskatchewan, we do have one or two defence industry—

Ms. Christyn Cianfarani: You do. You have Meggitt, I believe.

Mr. Robert Kitchen: Correct. They obviously are dealing with that aspect, and building, and providing some very good work, which is good to see, and they are exporting. Do you have any comments? You mentioned that a lot of it is not necessarily protected as much.

Ms. Christyn Cianfarani: Well, for certain. Defence is managed in the sense that it falls outside of the trade agreements, but that's a great subtlety. If you're in Saskatchewan and you want to be doing aircraft structures, components, and effectively "aftermarket" aircraft work, let's call it, then you'd be concerned about making sure that the prime contractors are providing intellectual property in Canada so that you don't lose that capability in Saskatchewan.

Do you know what I mean? It's kind of like the dealership model. We don't want to have to go back to the OEMs to be able to service the aircraft for the Canadian Armed Forces. The same principle would occur if you didn't transfer the intellectual property into the country. We've made that mistake on some of our fleets already.

Mr. Robert Kitchen: Thank you.

How much more time do I have?

The Chair: You have 50 seconds.

Mr. Robert Kitchen: Okay.

I have a lot of cattle ranchers in my riding, so we've dealt with COOL. The issues we've had to deal with include country-of-origin labelling for beef products. You mentioned that a little bit as well.

Mr. Darren Praznik: In Canada the Competition Bureau has, for the made-in-Canada designation, the last major or significant transformation and a 51% value. I think in agriculture, for "manufactured in Canada" or "made in Canada", it's the last transformation.

The reality for many manufacturers is that given the value of the ingredients and the exchange rates, there are times when it's hard to make the 51%, but it's clear that the product is manufactured in Canada. It's really time we revisited some of that to represent the realities of manufacturing today. You're sourcing so many of the inputs from around the world that, with exchange rates, is the 51% value really of benefit?

Mr. Robert Kitchen: Thank you.

The Chair: Thank you very much.

We'll hop over to you, Mr. Longfield. You have five minutes.

Mr. Lloyd Longfield (Guelph, Lib.): Thank you, Mr. Chair.

Thank you all for coming. It's such a pleasure, as a member of Parliament, to have experts like you folks come before us with the range of industries that you represent and the range of people across Canada who work in your industries.

I want to touch on the people, on the creative and entrepreneurial citizens, and what we can do in your industries to try to move things forward. I want to start with Monsieur Champagne.

I'm picturing your sector as a supply chain sector. You're in warehousing and all of the things around logistics. You mentioned in your presentation a labour market study. I'm wondering whether you're tying in to colleges and universities—I'm thinking of Ryerson University and its Magnet program—or whether there's something we can put into our report in terms of a need and a solution that you've identified and that we could bring forward.

Mr. Jean-François Champagne: On the labour market information front, we're definitely working with various stakeholders. A good example is the creation of some good partnerships with the Automotive Business School of Canada in Barrie. It's a great collaborative effort between the institution and industries in making sure that we're educating and bringing people into the sector. It speaks to the bigger issue of how that is evolving, as technology impacts the sector and changes the skill set required for the future. Obviously, the driver behind our presentation is to build upon the project, to build the labour market information project. We're really hoping it will expand our capacity to get a better understanding—

Mr. Lloyd Longfield: Perfect. Thank you. I think you've hit on the need.

I want to ask about banning asbestos. We have a brake pad manufacturer in Guelph who is manufacturing the only Canadian-made brake pads, and they are asbestos free. We can't touch that.

I'd love to talk about J1939 automotive standard for communications and whether we could open up that standard. However, that is for another day. I wish we had more time.

On defence, Christyn, you mentioned the Jenkins report. People have mentioned the Jenkins report to me several times in the last two weeks. Back in October 2011, it was brought forward.

Is it alive? Is it dusty? Is it something that could benefit your industry, or should we be maybe resurrecting it, or is it already in process?

● (1640)

Ms. Christyn Cianfarani: I'm alive. I was an expert on it.

Mr. Lloyd Longfield: I know you were.

Ms. Christyn Cianfarani: You're talking to a live human being who worked on it.

Mr. Lloyd Longfield: I was talking to someone named Nobina, whom you might know as well.

Ms. Christyn Cianfarani: Parts of it are alive. There are many concepts within the Jenkins panel report, everything from better leveraging defence procurements to building the tools to do it, which we have done.

Mr. Lloyd Longfield: Should we include that in our study?

Ms. Christyn Cianfarani: I think you should, yes. There are things that are not complete that were talked about in the Jenkins report.

Mr. Lloyd Longfield: Could you provide us any ideas for the study? If you sent us a copy of the report, saying it is about innovation in Canada, something that we're studying five years later, that would be very helpful.

I have limited time, and I'm just touching on this. I'm sorry, but I'm going at high speed.

I'm very interested in the cosmetics industry, as my buddies here have told me how important the industry is in Canada. We can't know everything, but I'm building my knowledge of your industry as well.

We do have some nanotechnology being developed in Guelph, taking nanoparticles from corn to make face creams, hand creams, and sunblocking agents, and the University of British Columbia is also using nanotechnology, but the start-ups are having trouble breaking into your industry. Do you have any advice that we could put into the report that, “If you're developing nanotechnology particles...”? Finish the sentence on how we can get into the industry.

Mr. Beta Montemayor (Director, Environmental Science and Regulation, Canadian Cosmetic, Toiletry and Fragrance Association): I think nanotechnology is one of those things that is still very cutting-edge in terms of where they are at. There's a lot of uncertainty associated with those materials.

I think the first thing we have to do is to better educate the public about what these materials are; what their safety profile is; what we do as industry to ensure that these products are safe, although innovative; and that industry is able to deliver innovative efficacy and create a difference as these innovative products move forward.

As with anything, it's really important to make sure that the consumer understands that these products are regulated, that they are well studied, that they have risk assessments done to ensure that they're safe, that they can be used safely, and that they do not present a risk to Canadians.

Mr. Lloyd Longfield: Again, it is leading-edge, breakthrough technology. Beautiful.

Thank you, Mr. Chair.

Mr. Beta Montemayor: Absolutely.

The Chair: Mr. Lobb, you have five minutes.

Mr. Ben Lobb (Huron—Bruce, CPC): My first question is for Christyn.

With the military and the Jenkins report, does the committee need to report back on any barriers to doing business with military and military procurement? Are there any improvements or suggestions we could make?

When we look at some of the newer technologies involved—software, hardware, technology, or whatever it is—a company in Ottawa, Waterloo, or wherever might just say, “You know what? It's just too much of a burden for us to deal with this; we'll just stick with non-military businesses.”

Ms. Christyn Cianfarani: As you know, the industry is heavily regulated, so the challenge is always creating a product that will be able to meet the regulations as it goes to market. Traditionally, those products have been components. We do a lot of that. We don't do a lot of platforms from the buildup. That means that we're usually part of a supply chain of a larger firm that does have regulations and will send it out to market. So the caution is always providing an enabling environment.

It's within companies, so it's a bit of a challenge for government to become involved, but it needs to provide whatever kind of environment is possible to increase the ability of small to medium-sized businesses to be able to get accreditations like security clearances expeditiously, to be able to get through international traffic in arms regulations expeditiously, and through the export control regime. Those are the regimes in place that are the traditional barriers.

Mr. Ben Lobb: Another one is obviously the large shipbuilding contract for the combatant and Arctic offshore patrol vessels. We'll see how it turns out in the end, but we want this to be a success so that it employs Canadians and we have Canadian businesses leading the charge here.

Where I'm from, Bruce Power is a large nuclear plant. Although the jobs are not exactly similar, a lot of the positions for boilermakers, welders, etc., are in high demand and are hard to fill. When the oil and gas sector picks up, they're going to be needing the same kind of workers. How do we ensure that in 2020, or whatever year it is, we have enough qualified people to do the jobs? This is going to be a huge issue for Irving and others. How do we do this?

● (1645)

Ms. Christyn Cianfarani: I can't offer an opinion on how Irving is managing skills training to be able to manage its workforce.

Mr. Ben Lobb: Not Irving, but is the pool of people in general—the colleges and universities—engaged?

Ms. Christyn Cianfarani: To my knowledge, they are engaged. It depends on the nature of the work. If you look at the Canadian surface combatant program, we will do the manual labour on the exterior of the build, but there is significant value for the country in skills and training and research and development activities, systems engineering, and combat systems, in the second wave. Right now you've got a wave of people who are going to build the ship and you're going to have a second wave, which I would argue is the area where we should be significantly focusing to position ourselves, because that's the area where intellectual property will or could reside in Canada.

We need to be looking at whether or not we've got universities on board to collaborate in what I would call the "guts" of the ship, where we have foreign design houses being directed to provide work to Canadian companies that will be working on the components within the ship and integrating them. That is where the future exportability will come from as we evolve this. That's where you get the two for one, which is in the inside of the ship as opposed to being on the outside. That is where I would put the effort in the skills and training.

Mr. Ben Lobb: My last question is on the next generation of fighter jets. There are obviously always going to be debates among different members about whether we need fighter jets or not. What are we going to do? We're on the ground floor with the F-35. We had worked it so that Canadian manufacturers shared in the beginning of this program. Regardless of how that goes beyond today, what do we need to do to make sure that we have some manufacturing in this country for whatever jet is approved?

The Chair: We're out of time, but if you are very quick, you could take 10 seconds to respond.

Ms. Christyn Cianfarani: The one thing we need to ensure is that we have an intellectual property transfer on whatever fighter aircraft we get. That's what we had on the CF-18s in the past. No matter who supplies the platform, if we don't have any intellectual property transfer for the future, we will be left out of the 40 years' worth of tail-end work on that aircraft.

The Chair: Mr. Jowhari, you have five minutes.

Mr. Majid Jowhari (Richmond Hill, Lib.): Given five minutes, I'm going to focus my questions on the automotive sector and defence. I send my apology to Mr. Praznik.

I'm going to start with defence.

Madam Cianfarani, you mentioned two things that stood out for me. You identified a commercialization gap, and also two key ingredients that are needed to support innovation. This dovetails with the question that was just asked. You specifically said that you want Canadian prime contractors to be given priority. You also said you want IP transfers from the foreign primes into our primes.

Can you merge the two and find a way out for us?

Ms. Christyn Cianfarani: There's a subtlety there, because a foreign prime most likely may not transfer the entire set of intellectual property into another Canadian competitor, because that's their crown jewel. We will have to find a mechanism, and usually that's by buying data rights. The crown would have to purchase it to make that happen.

Nevertheless, as I mentioned, on any usual platforms you would incentivize those prime contractors to do that. We would do it nowadays by using our value proposition construct. We would say, "You could lose a competition, company X, company Y, prime contractor. You are going to be in a fair fight, one for one, and one of you is potentially going to transfer work into a Canadian entity." That's how you might win. It really is a point system scoring that will incentivize that happening in a competitive environment.

The other thing you could do is to look really long term. Canada is buying a number of pieces of equipment from a certain country, perhaps. If there is a certain strategic country we want to buy from, you would start doing a government-to-government deal where you would start to say, "We want this type of job and this type, and this type of job in Canada, and we will end up purchasing that platform as long as we are assured that we will be getting that type of job over the long term sustainably in Canada and the intellectual property rights that make it happen." When you get those rights, you want to be able to allow for the re-export of any foreground intellectual property. Basically, we create something in Canada so that the prime gives us the intellectual property, we create something in Canada in a Canadian variant, and we can export that to the rest of the world. You may sometimes hear it called a "world product mandate". That is the motherlode, if you will, of intellectual property transfer. It is entirely possible to make it happen.

● (1650)

Mr. Majid Jowhari: Quickly touch on the commercialization gap.

Ms. Christyn Cianfarani: We've got a commercialization gap in the country. I think we know that. Usually we get to about TRL 6 and the whole thing falls apart, meaning that it's very hard to get it to market. It's even harder in defence to get it market because of your—

Mr. Majid Jowhari: So what can we do as a government?

Ms. Christyn Cianfarani: You're going to need to create a construct that bridges TRLs 6 to 9 and actually provides a landing pad for these types of programs. That means we have to get around the idea that someone who has produced something will inevitably be in an advantaged situation in a procurement. This is what, in our world, causes great consternation: when we feel as though in an open, fair, and transparent competition that if someone who has developed something is then targeted for a particular procurement, somehow this isn't a fair procurement.

We are going to have to get around that. We do have tools to do that. Most countries will do things like apply national security exemptions. They will apply Canadian content policy rules. They will apply things like our value proposition construct.

Mr. Majid Jowhari: Sorry, I'm going to cut you short because I want to go out to Mr. Champagne.

Can I ask you to send your recommendations to the clerk so we can include them in the report?

Ms. Christyn Cianfarani: Of course. I'd be happy to do that.

Mr. Majid Jowhari: Mr. Champagne, I'm going to take you out of the box.

Has the aftermarket auto parts manufacturer considered getting involved in innovation and design in emerging markets, where they can actually include their parts in the manufacture of other automobiles in those emerging markets, and as such, is able to open up a market aside from the Canadian market?

That's really out of the box.

The Chair: You have about 10 seconds.

Mr. Majid Jowhari: Oh, don't worry.

Mr. Jean-François Champagne: I'll make this quick.

We try to silo the aftermarket from original manufacturer supply, when in fact many of those manufacturers that do supply the aftermarket are also directly supplying the original automaker. To answer your question, some of them, the larger manufacturers such as Bosch, are already doing something like that—not specifically for the aftermarket, but corporately those organizations are already doing things like that.

Mr. Majid Jowhari: Do you think there's an opportunity—

The Chair: Mr. Masse, you have two minutes.

Mr. Brian Masse: I'll move to defence. I wish there were more time to get other topics in here, but very quickly, with regard to the United States, they have a defence procurement strategy that's very significant and allows for preferential buying and so forth. In fact, when we buy U.S. product, they can kick us in line if they want, if they so choose.

On the Canadian side here, though, if Canada were to invest in research and development in a very assertive style, say, for example, with the companies you represent, would there be a commonality or do you think there would be an interest in doing some high-level sharing of that research and development with our colleges and universities?

● (1655)

Ms. Christyn Cianfarani: Right now, there are a number of programs that our sector takes advantage of, which are actually collaborative programs. The strategic aerospace and defence initiative, for example, mandates, or has a sort of desire that you create a plan in order to be able to engage universities and polytechnics in your actual development, so I would say the short answer is yes, absolutely. We can't do it without them.

Mr. Brian Masse: Excellent.

Mr. Praznik, really quickly, when Buy America came into place, then-Congress representative Oberstar—he has since passed away—argued with me that we should look at doing a buy Canada act to try to at least exert some pressure against that. He represented Minnesota, so he understood the connections between our two countries.

When the U.S. says “water” versus “aqua”, why can't we just require them to use aqua when importing to Canada?

Mr. Darren Praznik: It gets more complicated in the use of those rules, but at the end of the day, you're involving products that come from Europe and the United States being shipped into other parts of the world, and that is the only place where we have an outlier, so getting into a war with them is not the best thing; it's to continue to make this an issue.

Mr. Brian Masse: Thank you very much.

The Chair: Time is up. That was two minutes, but you do have another round coming, so you're good.

Mr. Brian Masse: Okay, thanks, Mr. Chair.

The Chair: Readjusting for time, we're going back to round number two.

Mr. Longfield, you have four minutes.

Mr. Lloyd Longfield: Thanks, Mr. generous Chair.

I'm going to come back to J1939, the automotive controller area network standard. In southern Saskatchewan and Manitoba, there are places where people are tapping into the network on a vehicle and they're using auto parts to build spray equipment for fields or they're making rail equipment. There are two parts to my question. You have a retirement wave happening among the mechanics and the people working on vehicles and there is also a gap involving people coming into the industry who don't necessarily understand the level of technology they are stepping into. So with regard to training people, let's say people with high school or college, on J1939, is there a movement afoot on that or is there something we could introduce through our manufacturing strategy to make a standard like that applicable across Canada, across the industry?

Mr. Jean-François Champagne: For sure, if an organization like ours were finding it challenging to be able to properly engage a wide variety of trade schools and polytechnics that offer various types of programs that feed into the automotive sector overall and into the aftermarket in particular, then with regard to your question, I think there is an opportunity to create a better synergy between industry and the education sector and to ensure that the training that is provided to people in those trade schools and polytechnics is better aligned with industry.

As to whether or not there is a set of standards, such as the one you mentioned or others, that relate to the sector, there may be a way to do this, but this is something to be discussed with other stakeholders as part of that. To answer, I would say yes, that there is an opportunity for that.

Mr. Lloyd Longfield: So there's an opportunity for sure, then.

Mr. Praznik, you mentioned market access as being a problem in trying to coordinate between Health Canada, the FDA, and the consumers bureau. Is it a thorn or is it something that's in process? Is it something that we need to highlight?

Mr. Darren Praznik: That's a very good question. I think the problem is a systemic cultural one. Those departments in Canada—Environment Canada, Health Canada, and the consumers bureau—are regulatory departments. Their prime mandate is the protection of Canadians in their respective areas. What they don't often appreciate is that they're also market access departments, and that the rules they write determine how products get on the market. They don't think in those terms.

Culturally, they have to think that it's a dual mandate, and use their influence with other regulators to get change around the world. It's hard to imagine, but when you sit with them, you get no sense that they have a role to play in the economy. That dual role has to be thought about.

● (1700)

Mr. Lloyd Longfield: Thank you. My time is ticking down here.

We have a pillar, on page 110 of our budget, that talks about a supportive business environment for commercialization and growth. Could you see that as something we'd maybe want to invest some time and money on?

Mr. Darren Praznik: Absolutely.

Mr. Lloyd Longfield: Perfect. Thank you.

Finally, in my less than 30 seconds, with regard to the 200 projects, you mentioned a 20-year procurement. We're about to start a defence review process. Are you aware of the defence review process, and would you be participating in that?

Ms. Christyn Cianfarani: Yes. I have already participated in the process, at the Vancouver inaugural round table.

Mr. Lloyd Longfield: Nice. That's good to hear.

The Chair: Mr. Dreeshen, you have four minutes.

Mr. Earl Dreeshen: I had the opportunity this morning to meet with Tom Jenkins, as he was part of the first innovation awards from the Governor General at Rideau Hall. It's interesting to know the kind of work that he and the committee have put together. On that, I'd like to talk about "Leveraging Defence Procurement Through Key Industrial Capabilities".

Last week we spoke with the aerospace industry, so we're getting an idea of some of their concerns and issues. Could you perhaps let us know what will be some of the metrics used to determine the success features that you'll see for the KIC implementation?

Ms. Christyn Cianfarani: The idea was that if you were leveraging defence procurement, you'd be able to grow the defence industrial base by I believe 40% over a 10-year period of time. That was one of the metrics that was set by ISED. A second metric was that we would be able to grow the exports by 40% over a 10-year period of time as well.

Those are two metrics that are supposed to be used on the sector. That was one of the reasons why we worked with ISED and StatsCan to set the base-building for the statistics that we would then measure.

Mr. Earl Dreeshen: Do you have any other requirements in order to make sure you're able to continue on that path with the 40% increases and so on? Is there anything else government could put together to make this become a little bit smoother?

Ms. Christyn Cianfarani: As I said, those are two very high-level metrics. I think if we want to get more strategic about it, we would start looking below the hood, so to speak, at certain sectors, or certain parts of the sectors, or certain niches with them, and start to drive metrics.

For example, as Mr. Arya said, C4ISR is a growing area. It will be growing with the cyber and digital era. If you wanted to set a metric to today, for the 28% of the community, for example, who work within the C4ISR sector, if you wanted to grow that, then you'd set a very specific target on each particular part of the sector.

Mr. Earl Dreeshen: Is there a difference between what Canada and other countries are doing? I know that's part of the report, but I'm wondering whether there are more similarities than differences. How do you see that?

Ms. Christyn Cianfarani: At the top level, Canada is an outlier, and not in a good way. As I mentioned, we don't have a defence industrial policy that's in any way even semi-documented. Most, if not all, G7 nations do. There are some really good examples. The British have a great one. The Australians, in a country our size, have another one. I think we are definitely an outlier in that way.

We also are an outlier in the way in which we do not aggressively use our procurement tools, which are multiple in the tool box, to strategically choose and incentivize certain sectors of our economy. They all dovetail together.

The Chair: Mr. Masse, you have four minutes.

Mr. Brian Masse: Mr. Champagne, 3-D printing is emerging potentially as a self-supply line for some products. How is that affecting or potentially could affect your aftermarket providers?

Mr. Jean-François Champagne: It's early, it's evolving, it's clearly something we would need to research more, but it's clearly going to influence the supply chain.

I'd like to tie it back to product standards and ensuring that as the method by which we produce parts changes or evolves, all the way down to printing your own part at home, obviously we have some framework that ensures the quality of the parts that we put in vehicles.

It clearly is going to change the supply chain. It's evolving. At this point there isn't a lot of core research available, but we're monitoring it to ensure that our members will be prepared to respond to that change.

● (1705)

Mr. Brian Masse: That's excellent.

I'll go across the board here with regard to SR and ED tax credits. Give us one good thing and one thing you'd like to have fixed in that regard. It really depends on whom you talk to. I know that narrows the scope rather well, but I think it's important.

My second question is about extending the duration of the capitalized cost reduction and perhaps advancing it from 30% to 50% as a tool. It's one of the tax credits that has clearly been in favour of Canadians for the purchase and development of machinery equipment and processing, which is very difficult to move and send to China.

Mr. Champagne, I'll start with you.

Mr. Jean-François Champagne: I'm not sure I can express an opinion.

We have to look at that from the perspective of our manufacturers based in Canada who export. Of our a membership base of about 150 people, about 20 of them are core manufacturers in Canada and we will need to see how that impacts them and we may want to follow up with them on that.

Mr. Brian Masse: That's fine and it's fair, but I'm interested in that because, depending on whom you talk to, they'll give you a different opinion on SR and ED.

Ms. Christyn Cianfarani: I have had either the great fortune or misfortune of having had this as part of my job for about six or seven years. One of the single biggest impediments to it is the variations among the technical reviewers about what the experimentation really is. You probably heard from the Aerospace Industries Association that production innovation is a major future concern of theirs. It's very rarely appreciated from a technical reviewer perspective in the granting of the SR and ED tax credits.

Those are two areas.

To your second point around the extension of the capitalized cost reduction, anyone who works in manufacturing has been advocating for quite a long time that this should be extended and increased. I would not go against that philosophy.

Mr. Brian Masse: In our first manufacturing report in 2002, this committee recommended that extension. I'd love to see it at 10 years, with a minimum of five years. It allows predictability, because the two-year decision-making has already been done.

Ms. Christyn Cianfarani: That's right. Also the capital costs are escalating in a lot of them. If you really want significant capital cost expenditure in major R and D, you have to increase the volume and the amortization time frame.

The Chair: The time's up.

Mr. Darren Praznik: We'll get back with some information, but generally anything that encourages....

The Chair: We're trying to make it through this.

Mr. Baylis, you have four minutes.

Mr. Frank Baylis: It would be appreciated if each of you could submit to us in writing the SWOT analysis for your industries: the strengths, the weaknesses, the opportunities, and the threats. Could you also tell us the one or two things the federal government might do to help in that area.

Do clusters exist in your industries, and if so, do incubators or accelerators exist in them? Normally we think of incubators or accelerators with clean tech, internet, IT, med tech, or certain types of businesses.

So, do incubators or accelerators have a role in your industries and do cluster exist or play a role? We'll start with Darren.

● (1710)

Mr. Darren Praznik: They do not in the conventional sense, which is probably what you're getting at. Given the nature of our industry, we tend to find that there are several places in the country where you will get a cluster of manufacturing, usually because personal care products are generally a relatively small industry compared to many—but the suppliers of our ingredients and raw materials, and the distribution network that we ship into, have to be relatively close. There will be several places where we tend to have those clusters of our companies, and when we do, they enhance other business around them.

Mr. Frank Baylis: Is anybody doing R and D in these small companies, out of an incubator or an accelerator, and coming up with something, or is that not the norm? For example, my company supported something in Waterloo, in which these guys are going to use a marker to see if the sunscreens'.... I don't know if you heard of that or not.

Mr. Darren Praznik: No.

Innovation takes place everywhere. In Canada we've had a lot of work done particularly around colours. You might wonder what innovation there could be in colours. When you're in the fashion and beauty industry, you are coming out with new colours seasonally on a regular basis to be where the market wants to be. There's some good work done on the creative side. As I said, in Toronto, there's a world-class colour lab. There's also work on the creative side around marketing in various clusters, including Montreal.

Mr. Frank Baylis: Okay. Thank you.

I'll pass it over to Mr. Champagne.

Mr. Jean-François Champagne: I guess the short answer is—

Ms. Christyn Cianfarani: Don't use up all the time.

Voices: Oh, oh!

Mr. Jean-François Champagne: I guess, in short, there are clusters, obviously, around the original manufacturer. When we see original manufacturers building factories, that creates an ecosystem, and the aftermarket, as an extension, also benefits from that. So the first answer is, yes, we do that.

From an innovation perspective, though, also to echo, it happens pretty much anywhere our members are based out of. We have asked our members about the evolution of innovation hubs, as an example, and it doesn't appear that the core of our members, at this point in time anyway, understand those innovation hubs very well and or have really engaged in leveraging them for innovation.

Mr. Frank Baylis: Okay.

Ms. Christyn Cianfarani: If you read my notes, we absolutely have clusters. I call them ecosystems, but it's the same principle. There's a cluster in southern Ontario around combat vehicles, aerospace and airframe components in Montreal, and simulation and training in Montreal, as well as shipbuilding on the east and west coasts. In fact I would say that a cluster model is absolutely essential in defence. You will often find either collaborative models for research and development or incubators and accelerators used in those cluster models. You'll find in the Montreal community—

Mr. Frank Baylis: Quebec has that—

Ms. Christyn Cianfarani: — CRIAQ, which is effectively a program that puts universities together with the aerospace community.

Mr. Frank Baylis: Now in that instance—

The Chair: Thank you very much for playing today.

Voices: Oh, oh!

The Chair: Mr. Lobb, you have three minutes.

Mr. Ben Lobb: Just to go back to Christyn again, I wonder if we can take a look at one procurement project. The Aurora has had quite an interesting time. Again, it's been extended out for many years, with many of its parts being replaced. The Boeing P-8, I think, is what you'd looked at replacing it with, and it was deemed to be too expensive. These things come up and they do perhaps go over budget, or more than what DND had budgeted, and that gets into the media and is politicized, and then it's shelved. In the future, when we're wanting a surveillance aircraft, whether it's a P-8 or some other innovation, how do we go about it? It seems to me that the way it's going is probably not working out so great.

Ms. Christyn Cianfarani: I guess I'd ask you to clarify the question. Are you referring to the establishment or requirements to come up with the capability or...?

Mr. Ben Lobb: After we've determined what is required and we go out, how do we form a relationship, whether it's with Boeing or Lockheed or whatever, to establish a craft, whether it's manned or unmanned, to be the craft for the next 30 years? What is currently happening doesn't seem to work, and it's over budget. How do we make sure, if we're going to have a new craft to, say, replace the Aurora, that we do so, that Canada's involved, that we get the industrial benefits out of it, and that we somehow deliver it on budget?

Ms. Christyn Cianfarani: I'd hesitate to comment on any particular platform whatsoever.

● (1715)

Mr. Ben Lobb: I'll just boil it down to a pretty basic thing. If you want to do business with the government, and we want to buy military aircraft, but every single craft you go to procure is double what the estimated costs are going to be, we can never purchase any new craft. That's the situation we're in. Yes, we want to update Canada's military aircraft, but we can't do so when every single one we go to buy either can't be built or it's twice the price. That's what it boils down to, in my estimation, and that's what's happening.

Ms. Christyn Cianfarani: Can I ask what your question might be?

Mr. Ben Lobb: My question is, how do we work with industry so it isn't always double the price?

Ms. Christyn Cianfarani: You need to incentivize industry. First of all, I think we would say that the procurement situation is challenged in terms of making cost estimates. I won't get into that, but I do believe that David Perry has done some significant work on cost estimating. You have some cost estimators in the defence realm who talk about parabolic estimation, etc., and I do believe that some of the PBO reports have probably covered the issues with cost estimating. If you park the idea that perhaps sometimes we don't have a good feel for what our estimate is and, secondly, that we may not understand how our requirements are driving certain Canadian customizations of that aircraft and, therefore, that there's the potential inability for industry to be able to even deliver what we are asking for, that is a second perturbance in this whole chain of issues before you even get to negotiating with the contractor.

Then I would say that when you negotiate with the contractor, clearly we have to be setting up the contracts so that we are, first, incentivizing them and, hence, the new kind of point system to get what we want, and second, that we want to make sure, to be honest, that if there are liquidated damages in these contracts for non-delivery on performance, non-delivery on industrial benefits, or non-delivery on schedule and time, we would enforce these. I do believe one of our challenges is that because we buy aircraft in so few iterations, for such a long period of time, and it takes us such a long time to get to that situation, we often have a generalized concern about backtracking on a particular procurement.

The Chair: Thank you very much.

Ms. Christyn Cianfarani: You're welcome.

The Chair: That's going to be it.

I'd like to thank all of our guests for coming today. You provided us with very good information.

We are going to break for two minutes. I do have one housekeeping matter to take care of. We'll take two minutes, we'll break, and then we'll get back in and take care of our housekeeping.

Thank you very much, guys. That was great.

[*Proceedings continue in camera*]