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Mr. Leon Benoit

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● (1105)

[*English*]

The Chair (Mr. Leon Benoit (Vegreville—Wainwright, CPC)): I call the meeting to order.

Good morning, everyone. We're here today to examine an appointment under Standing Orders 110, 111, and 32(6): "...during a period of thirty sitting days provided pursuant to Standing Order 110", the committee "shall, if it deems it appropriate, call the so named appointee or nominee to appear before it during a period not exceeding ten sitting days." That's what we are doing here today.

It goes on to say in Standing Order 111(2) that: "The committee, if it should call an appointee or nominee to appear pursuant to section (1) of this Standing Order, shall examine the qualifications and competence of the appointee or nominee to perform the duties of the post to which he or she has been appointed or nominated."

So that's what we're here for today. And we have with us today, as you all know from the agenda sheet, Eric Siegel, who is president and chief executive officer of the Export Development Canada under the international trade responsibility, which is the responsibility of this committee.

We'll go to the questioning.

Mr. Siegel, if you would like to make a short opening statement, I'm sure you've been advised you're welcome to do that. If not, we'll go directly to questions. It's entirely up to you.

Mr. Eric Siegel (President and Chief Executive Officer, International Trade, Export Development Canada): Mr. Chairman, thank you very much. Good morning to you all. Maybe I'll just make a very brief opening statement and then go to questions.

In my 27 years now at EDC, I've been witness to many changes in our clients' needs, in the norms of our marketplace, in the expectations of customers around the world, and in our own ways of doing business. That was always the basic assumption to any discussion in global commerce, that change is inherent to it. The real difference, however, that we're experiencing today is the pace of change. Things move faster, things evolve much more quickly, new players arise. If we cannot keep pace, there are a lot more alternatives out there that probably can and will. International trade, as we know, offers Canadian business more opportunity than ever before, but there is also more and there is fiercer competition than we have ever faced before.

Throughout what is now a 60-year history of EDC—we're beginning our 61st year—EDC has been a relevant player, I'm proud to say, internationally for Canada. As a key element of the government's trade agenda, EDC has been a strong contributor to building prosperity, jobs, and growth in Canada. At the same time, none of us can take it for granted that the models, be it the products, the services, the theories, that have served us well in the past will serve us well in the future, and I include EDC in that assessment. I am committed to ensuring that we at EDC will know our clients well. If we're going to understand their needs, we're going to have to understand intimately their plans. I will ensure that we are fully engaged with Canada's investors and exporters from every industrial sector, from every corner of the country, and indeed for every size of business.

My EDC career has been focused on delivering the financing of risk management solutions that Canadian businesses really need to succeed abroad. I would say that during my tenure as president I want to ensure that through EDC the Government of Canada will have an organization that's not just efficiently delivering what's needed today, but is able to anticipate what's needed tomorrow.

Thank you. I look forward to your questions.

● (1110)

The Chair: Thank you very much.

I'll just explain to the committee that we've allocated 45 minutes for the review of the appointment. I believe Mr. Siegel has agreed to stay on for the second part of the meeting.

You have sitting at the table Stephen Poloz, who is from EDC, a senior vice-president and chief economist of corporate affairs. Stephen won't be involved in the first 45 minutes, but he will be involved in the last part of the meeting. That is just for clarification.

We'll go now directly to questioning from the official opposition side. Mr. Bains.

Hon. Navdeep Bains (Mississauga—Brampton South, Lib.): Thank you very much, Chair.

Again, congratulations, Mr. Siegel, on your appointment. It's great to see an individual join an organization and work their way up the organization. I think it says volumes about EDC. It says volumes about you and the contribution you make to the organization as well.

The appointment, I just want to confirm, was made in June 2006. Is that correct?

Mr. Eric Siegel: Actually, in June I stepped up as the interim president and acted in that capacity until the end of the year. My appointment has taken effect as of January 1, 2007.

Hon. Navdeep Bains: You were just working in an interim position before that.

Mr. Eric Siegel: Correct.

Hon. Navdeep Bains: With respect to your opening remarks, I think you hit the nail on the head in saying that Export Development Canada plays a critical role in our international trade and is a very important component of how we compete internationally.

I'll be sharing my time with my colleague Monsieur LeBlanc, who has some questions on some regional issues as well.

The question I have essentially is this. In your capacity as interim president and now being appointed to that position, going forward, what are some of the areas on which you plan to really focus?

One area that many people I've met with have a great level of concern about is small and medium-sized enterprises. They feel that EDC really hasn't necessarily catered to their needs to the extent they would have liked, and hasn't built that relationship with them. Can you elaborate a little bit on that? And going forward, what are some of the areas you plan to address in your capacity in this new appointment?

Mr. Eric Siegel: Mr. Chairman, I thank the honourable member for the question.

Let me go first to small and medium-sized enterprises, because they actually form the core of EDC's client base. In fact, more than 90% of EDC's overall customer base, which is approximately 7,000 customers, are small and medium-sized enterprises, and have been for some time.

In terms of aggregate support, last year we supported some $15 billion of insurance and financing just at the small and medium-sized level. So it is, and will continue to be, a very important component during my term of presidency.

What we have done to increase our reach, and ultimately to increase the size of the customer base, is to restructure the organization. Actually, during my interim presidency I commenced what we call an integration project, in which we were now separating the business development function from our underwriting function, and we were actually moving more people into the business development side of the business. We increased the size of our complement by over 50 people.

We have increased the number of people who are out there in the regions, actually. We have also introduced dedicated account management, not just at the large customer end but at the mid-market and at the small end of the market. So we're really increasing our overall customer interface capability.

The other aspect that we're increasing is our delivery channels through the financial institutions. Over 50% of EDC's products and services are delivered through Canadian financial institutions, or where the financial institution is actually the beneficiary of the coverage. And of course they have a tremendous reach out there to their client base. So we are working to tap that delivery channel as well as our own direct delivery channels in order to be able to reach out to more of those customers. Some of that will be a function of actually designing products specifically for each bank and/or combining that with technology to be able to reach those players more effectively.

● (1115)

Hon. Navdeep Bains: Thank you very much.

Hon. Dominic LeBlanc (Beauséjour, Lib.): Thank you, Nav.

Thank you, Mr. Siegel. Congratulations on your appointment as well.

In my time as a member of Parliament working with local businesses in my constituency in New Brunswick, I've had a chance to see first-hand some of the good people who work for Export Development Canada. The people in the regions whom I've met, without exception, have been outstanding people trying to fit what tools they have to meet the needs of clients, often in industries and in a region of the country where sometimes it's not obvious to see where they fit in. So my experience with your regional staff has been, frankly, very positive, and that's why I would like to ask a question that builds a bit on what you said a minute ago.

Often financial institutions use the products and services you're offering as comfort when they're entering into a business relationship or a transaction with some small company, for example, that exports seafood. In my part of New Brunswick, exporting shellfish and seafood is a big industry and it's fraught with complicated transactions and dependent on a whole bunch of factors that often the small-business person himself or herself can't control. That's why tools offered to them by EDC can be very valuable—in fact, even having a financial institution look at an application that they may have, be it for a line of credit, be it for export purposes.

I'm wondering if you have any specific plans to try to make EDC a visible presence in small communities and small-market economies. You talked about that a minute ago. I'm wondering if you could expand on that.

For example, in New Brunswick I think many business people don't understand the advantage, in many cases, of dealing with EDC or meeting with EDC officials to see if there are places where you could help and offer appropriate services. Are you going to aggressively look at that? They see EDC, in some cases, as an Ottawa institution that services large companies in Toronto or Montreal or out west, and they don't realize that in many cases a very complementary relationship can develop.

I'm asking you to promote that more and to give the people you have in places like New Brunswick more resources so that they can try to get more clients for your company, because I think in the end they'll benefit from a relationship. Both sides will, both EDC and the client.

Mr. Eric Siegel: Yes, you're absolutely right.

There are a couple of things. One is that EDC already enjoys—and we measured this—fairly high brand awareness. So the general awareness of EDC as it relates to trade, finance, or trade-related matters is very good. When we start to test the knowledge, particularly of the medium and smaller end, as to what the product base of EDC is and what you can do with the products, we're not as satisfied with the knowledge there. So we are going to continue to build in that area.

Now, part of that is through various forms of education, whether it's advertising or through a trade education from the Forum for International Trade Training, which is something EDC has been a strong sponsor of, which is clearly training new or burgeoning exporters on EDC products as it relates to their trade activity. I mentioned working through the banks as a very important delivery channel, not just for our products but actually for designing products that are operating on a risk-sharing basis with the banks. I mentioned as well the change we've made internally, which is not only to put more into the business development area but to become less product-siloed within the organization, but rather, to face the customer with the full array of products, so that they can see in many cases that although they're familiar with one product, actually other products could be brought to bear that would be beneficial to them.

An interesting statistic is that of EDC's customer base. Before we started the integration project, fewer than 4% used more than one EDC product. We specifically targeted these changes to increase the multi-product usage EDC has. And we're beginning to see that. We've increased that to close to 6% this year, and our target is to take that much higher. So that's also getting at that issue of knowing EDC by one product but not realizing it could do other things, things that would be very beneficial to their overall business operation.

● (1120)

Hon. Dominic LeBlanc: Thank you.

The Chair: Thank you, Mr. LeBlanc.

Monsieur Cardin, from the Bloc Québécois, for seven minutes.

[*Translation*]

Mr. Serge Cardin (Sherbrooke, BQ): Thank you, Mr. Chair.

Good morning. First, I want to congratulate you on your appointment. I have to say you look younger in person than in your pictures. We hope you will stay a long time at EDC, even though you have already been there for 27 years. I guess you do not intend to retire soon.

It seems EDC operates like a private sector enterprise since it charges interest and underwrites insurance policies. You have an income and you say that EDC is financially independent. So it is recovering its costs and even making a substantial profit.

What is the situation of the organization in terms of number of employees and net income? How does it stay viable without needing any contribution from government? Can you give me a snapshot of its present situation?

Mr. Eric Siegel: Mr. Chair, I want to thank the honourable member for his question. If he does not mind, it would be easier for me to answer in English.

[*English*]

The member is quite right. EDC is set up as a corporation, so we are intended to be self-funding. EDC has in fact been profitable in every one of its 61 years of operation. More recently, EDC has actually had a more significant profit. Last year it was some $1.2 billion, roughly equal to the same profit we reached in 2004. We expect a profit level somewhat comparable to that this year.

Basically, in size, EDC has a little over a thousand permanent employees, about 90% of whom are based here in Ottawa. The balance of them are spread through regional offices across the country, along with ten representatives that we have outside of the country in specific markets, such as emerging markets where Canadian activity is very important and building.

The corporation runs a series of insurance products and services, as well as financial services or lending services. It's actually the lending that generates the principal revenues of EDC. Insurance contributes to that, but it's about a 90% contribution from the lending side of the business in terms of general revenues, and about 10% comes from a variety of insurance products.

Out of those revenues, EDC not only pays its administrative expenses but sets aside all of the provisions for future operations. It sets aside a loan provision and it sets aside a claim provision, in order that in the event that we have loan losses or something against the insurance claims—which is part of the business—we draw that out of the claims and we do not have to go back to the shareholders for any equity.

The government has a paid-in equity position of just slightly less than a billion dollars. The cumulative equity now, if you take the equity paid in, retained earnings, and then you take the provisions that exist, is in excess of $8 billion against a total asset base of about $20 billion. Now, that $20 billion is basically the loan assets, and over and above that $20 billion, we have contingent liabilities that relate to all of our insurance operations. Last year those totalled about $55 billion in insurance and about $10 billion in new financing underwritten.

[*Translation*]

Mr. Serge Cardin: Does my colleague want to share my time?

Mr. Guy André (Berthier—Maskinongé, BQ): I want to follow up on what my liberal colleague said.

Companies in the manufacturing sector or in softer sectors now face a fierce competition from Asia. For example, furniture manufacturers could export more to emerging economies like China, Taiwan and India where a middle class is developing, creating new trade opportunities.

However, I think EDC is not known locally. Often, the main local organizations that companies get in touch with are Canada Economic Development and the Community Futures Development Corporations, or CFDCs, on the federal side, and the local development centres or CLDs locally.

I think you should increase awareness among businesses which are still reluctant about exporting to emerging countries. In the furniture sector, trade is essentially between Canada and the United States. We have a free trade agreement, so we are not exporting to emerging economies because we have concerns.

Perhaps EDC should play a bigger role in smaller communities through structures like the CFDCs or the CLDs in order to promote its services and to explain how they can complement services provided by the CFDCs, which also loan money to small businesses.

I feel EDC is far from my community which has an important manufacturing sector. In the Mauricie area, people feel EDC is very far. Recently, I referred to EDC a microbrewery that wanted to export. The company did not get any answer from EDC even though it met the conditions. Small and medium-sized businesses feel that EDC is very far from them.

● (1125)

[*English*]

Mr. Eric Siegel: Again, this follows on the question of how we increase the reach of EDC from what we have been able to achieve at this point. I go back to the fact that small and medium-sized enterprises are a very important part—in fact, they're in excess of 90%—of EDC's customer base. As we set our sights on increasing the size of that customer base, we're obviously looking at ways we can increase the reach and knowledge of those players.

I mentioned a number of things we were doing. Indeed, Quebec is a very important and very large part of our customer base, so we're constantly looking at how we can increase that.

In addition to some of the things I've already mentioned, I would add that we have recently brought together a national industry stakeholder panel. In this, we have 18 industry associations from across the country. Some of them are more regional by nature and some of them are cross-regional by sector. They have formed, with EDC, an industry stakeholder panel. The purpose of that is for us to be able to identify ways that, in working through those industry associations, we can actually get more effectively down to their membership, to reach players who are actually quite small or who are in many cases quite regionally based or clustered around a specific industry. We really look at the industry associations as being the first and a highly credible source of information as to where those players can get services with respect to trading activity.

EDC is also working very closely with the government in terms of investing and bringing together the government online services. Someone who is looking for information and support in terms of their trade activity can then more easily, in a one-stop type of approach, come into the government online and actually get access to all of the services, as opposed to having to go independently through a number of different channels.

You will see that EDC is a partner in the development of the virtual trade commissioner service that is operated by the Department of Foreign Affairs and International Trade. Right now, we are also a strong proponent of bringing together the government online service as a whole in a one-stop shopping arrangement.

● (1130)

[*Translation*]

The Chair: Thank you, Mr. André.

[*English*]

We'll now go to the government side, and Mr. Allison, for seven minutes.

Mr. Dean Allison (Niagara West—Glanbrook, CPC): Thank you, Chair.

Congratulations again, Mr. Siegel, on your appointment.

I understand that, as you mentioned, SMEs represent about 90% of what you guys do in terms of business. I'm an SME owner myself, so I understand the issues in terms of capital. Thank goodness I'm not trying to export anything. I can only imagine the additional challenges that come with trying to see capital...certainly looking at developing markets.

I have two questions for you. You talked a bit about what you guys are looking at doing in terms of...financing does generate a lot of the money that you engage in what you're doing. Could you just give me your thoughts in terms of your vision for the future?

You've now been an EVP for 10 years and have been with the company for 25-plus years. You talked about markets and transactions being more complicated, etc. You're going to continue, I would assume, to look at e-business and all these other kinds of things. What type of vision do you have for EDC over the next five to ten years in terms of where you are? Do you see the availability of capital for SMEs, as your largest stakeholders, as something you'll continue to try to expand? I think that would probably make sense. That's probably what you're trying to do, but how does that fit in with what your vision is going to be in relation to SMEs as well?

Mr. Eric Siegel: My vision has been for some time that EDC has to operate as a globalized type of entity, which means that EDC can't be just a sole provider of service directly. EDC has to be partnering with a number of players internationally in order to ensure that we're getting the kind of coverage we need.

My vision has also been that while EDC is really needed in all markets, both developed and developing markets, probably the sweet spot, or the area that is most mandate-rich for EDC, is what it can do in emerging markets. We have always set, and will continue to set, very strong objectives for having a disproportionate amount of our penetration, particularly relative to Canada's export profile, coming from emerging markets.

What we have also seen of late is the growing importance not just of supporting export but of actually supporting investment abroad. I think we're seeing a world in which borders mean less and will continue to mean less and less.

My colleague will speak about integrative trade and the impact that has, but it really means that we have to look at markets in terms of how Canada benefits from those markets and how we get into those markets in order to benefit, not necessarily as just an exporter to those markets but as a beneficiary of what those markets can do for our overall competitiveness. So more and more of our thrust will now be placed on helping players invest abroad and on actually supporting their affiliate in that market with the same sorts of services they could get if they were an exporter here. To do that, however, means that in some cases we have to deal with regulatory hurdles in those particular markets, so we need to partner with players on the ground.

Also key to that is the reputation that EDC has as a very credible international financial player. So included in that will be an expansion of EDC's on-the-ground presence in those markets. While we have 10 players right now who actually reside outside the country—in China, in Brazil, in India—we see that doubling in the next two to three years, and potentially growing beyond that. EDC can use its credibility to actually target the companies and the key sponsors in those particular markets who are going to have the most interest and the most to gain by developing relationships in Canada. So EDC becomes a facilitator of connections on behalf of companies of all sizes. We're doing that now.

We engage in a lot of what we call pull-strategy deployment, where we go into a particular emerging market, identify the key business players in that market, and attempt to establish a financial connection with them, provided that they will allow us to ultimately introduce Canadian capability of all sizes to them. And then, teaming up with industry associations and teaming up with our government partners and colleagues, we try to bring in actual missions and reverse missions to really draw the connections between those two countries in order to lever up Canadian capability.

Get people really invested on the ground, and really get some core capability. Then you just build upon that. You try to expand, or thicken, what you've already been able to establish there.

Clearly partnerships are going to be a much more important part of EDC's future going forward, not just with Canadian financial institutions but with international financial players. And we have been actually engaging in some strategic secondments with players who we think will be important to know in the future. They have to know us and we have to know them so we can truly partner on a mutually beneficial basis in order for us to get greater access to some of these markets.

I would also say that while small and medium-sized enterprises will continue to be very important in our overall thrust, we also have to ensure that we have more successful transnational corporations. That means we need to take the players who are currently out there. Some of them are larger firms. From time to time there's a sense that they don't need us, but actually, they're the ones who need even more backing from us to ensure that they have a very solid footing and that they can expand. And with that, they become a draw for smaller and medium-sized players to actually come into the market, either as part of their supply chain or just because they have created the on-the-ground presence of Canada and have therefore encouraged those players to come into that market.

● (1135)

Mr. Dean Allison: Thank you.

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

Mr. Pierre Lemieux (Glengarry—Prescott—Russell, CPC): Thank you. I'm going to keep the question short, so the answer can be longer.

I was looking at some of the products and services you offer. I notice that you offer political risk insurance. That's very interesting. Could you elaborate on that? What kind of factors fall under political risk? Could you perhaps paint for us low-risk, medium-risk, and high-risk scenarios?

Mr. Eric Siegel: Political risk insurance takes two forms. It either insures the equity investment of a Canadian business abroad or it could insure the bank's participation in a foreign project for which they're comfortable with the commercial risk, but the political risk is something they're concerned about.

We insure three risks. One is the risk of expropriation, the loss due to expropriation, without getting adequate compensation from the host country. The second risk is the inability to transfer or convert earnings, be it in the form of dividends or fees, the repatriation of profits from that country back to Canada. The third is political violence that will either restrict one's ability to get access and therefore operate the investment or that damages the investment.

As I said, if you're a Canadian business and you're going to make an investment abroad, you can insure the investment against those risks. Alternatively, if you're a bank, you're could be trying to support a project.

For example, out west Agrium is building a fertilizer facility in Argentina for which EDC was a lender and a political risk insurer, a lender to help the project actually acquire the goods and services to build the project, and a political risk insurer because the banks were also lending on that project. They liked the commercial risk of the project, and it made sense to them, but in Argentina they were worried about an expropriation of the project ultimately leading to non-payment of the loans, so they asked the EDC to insure them against the political risks.

For examples of high political risk, I think Venezuela right now is certainly raising concerns, through some of its actions, that they could potentially engage in expropriation action. A bank, like Scotiabank, that is operating under a bank licence could worry about losing that licence without adequate compensation. It could be a mine that's operating there, and you're worried about the Venezuelans ultimately expropriating the mine without paying for it.

Mr. Pierre Lemieux: How do you work with the actual value of what it is you're insuring? There are the actual infrastructure and the capital, but then there are business opportunities, contacts, etc. Do you only deal with the capital investments?

Mr. Eric Siegel: Yes. We're insuring the book value. We determine in advance what the accounting guidelines would be and the jurisdiction for determining what the value of that investment is at the time it faces loss due to one of those particular risks.

● (1140)

Mr. Pierre Lemieux: Thank you.

The Chair: Thank you, Mr. Lemieux.

We'll go now to the New Democratic Party, Mr. Atamanenko, for seven minutes, please.

Mr. Alex Atamanenko (British Columbia Southern Interior, NDP): Thank you very much for being here. Once again, congratulations on your appointment.

Before we move on, you have a very extensive background with EDC that spans almost 30 years. Out of curiosity, what did you do before?

Mr. Eric Siegel: I joined EDC after completing my business degree. I'd worked before then, but I joined after my business degree.

Mr. Alex Atamanenko: Thank you.

My colleague posed a question about vision. We have some specific questions that we'll obviously be asking later on, but I would like to pursue that, if you don't mind.

I know that Mr. Poloz referred to Friedman and his flat world scenario. In this flat world scenario, with increased globalization, there are obviously many challenges. You've touched on some, but I wouldn't mind if you could elaborate on some of those. What obstacles do you foresee in the future for our country in the area of trade as we look at these challenges? For example, we want to keep Canadians employed and working, and we want to have a prosperous economy. We have the threat of global warming and the environment and the idea of a closer working integration with the North American union and WTO bilaterals in agriculture, for example.

Could you use the rest of your time to elaborate a little on some of this? I think it would be very useful for us to hear that.

Mr. Eric Siegel: My colleague will speak about integrative trade in more detail, but I think this is a phenomenon that is only going to intensify as opposed to there being a period of time before we go back to a trading environment we are more familiar with, which we tend to think about in terms of Canada and how it exports to the rest of the world. I think we've now entered into a long-term and more intensifying phase where we are part of an integrated global trade network. Our success is going to be based on how well we integrate into that and identify the key supply chains that Canada has competence to offer, and then work to both get in those chains and expand within them.

That means we need to be looking at countries not as competitors, but to see what benefit they can ultimately bring to Canada. When you look at a market like China, on the surface it represents potentially a very competitive threat. At the same time, it represents a huge opportunity for Canadian companies to work at increasing and enhancing productivity, retaining here in Canada the expertise it takes to ultimately design the product and manage our participation in the supply chain, but at the same time benefiting from economies that can be derived from greater participation of emerging markets.

So we need to engage in that as an opportunity and less as a threat. I think we're making that transition in some markets and sectors; in others it's a more difficult transition. At the same time, we need to make the transition from a focus on manufacturing to one that gives greater recognition to the services and manufacturing in the larger sense, as opposed to manufacturing in the fabrication sense of the word. At EDC we've been experiencing that for some time.

What constitutes benefit for Canada? Many export credit agencies out there—EDC's competitors—still follow a concept of determining what content is coming out of their respective countries in order to qualify goods for their support. EDC works on the basis of the benefit Canada is deriving, which is a wider network. Then we take into account things like what R and D is going into that, since that's really a benefit that is being created, and it's a high-end benefit that Canada wants to maintain. For instance, Nortel Networks no longer manufactures in this country, but it's still eligible and still draws on EDC's support by virtue of the benefit it creates through its footprint here.

More and more I see EDC focusing on understanding the footprint of the business in Canada and how it can be enhanced through greater participation in the integrative trade model, and then doing whatever it can to help those companies get into various supply chains to be able to reap that benefit.

● (1145)

Mr. Alex Atamanenko: Do we have the power to demand that research and development take place in Canada? If we provide assistance, do we have the power to have agreements on how many jobs will be created? Is that something EDC gets into?

Mr. Eric Siegel: We do get into it. In order for business to qualify for EDC support, it has to meet what we call Canadian benefit policy. So we look at the transaction from the standpoint of what benefits are going to be created here in Canada to qualify it initially for our support.

My point is only that the benefit has now moved away from merely identifying jobs created through manufacturing employment and is now extending to take into account things such as R and D or the overall administration that a company may provide to operate internationally. If they can gain a world mandate in a particular industry sector, what is the benefit that ultimately will be derived back here in Canada? In our Canadian benefit policy we will provide additional benefit to a small or medium-sized enterprise that is engaging in business, because we want to see them expand into the international marketplace.

So we do have a qualification criterion, but it has evolved in order to be more flexible in order to reflect the fact that sectors are not the same, that services are now becoming a much bigger component, that manufacturing or fabrication itself is only one component of the benefit model that Canada derives.

The Chair: Thank you, Mr. Atamanenko.

Thank you, Mr. Siegel.

The time for this part of the meeting is up. I believe Mr. Bains has a motion to bring to the committee.

Hon. Navdeep Bains: Yes, I do, Chair. Thank you very much.

I'd like to bring forward this motion: that the committee finds that Eric D. Siegel possesses the qualifications and competencies to perform the duties of the post of the president of the Export Development Corporation and that the chair report the findings to the committee of the House.

The Chair: I believe we have a seconder from the Bloc Québécois. Is that correct?

[*Translation*]

Mr. Serge Cardin: Yes.

[*English*]

The Chair: It is seconded by Mr. Cardin.

Is there unanimous consent to support this appointment?

(Motion agreed to)

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

We've kind of strayed into the second part of the meeting already, but that's fine. It certainly does test your knowledge and competency. Congratulations.

Some hon. members: Hear, hear!

The Chair: We will now continue with the second part of the meeting. We have as witness Mr. Stephen Poloz, who is senior vice-president and chief economist, corporate affairs, of Export Development Canada.

Mr. Poloz, you have an opening statement to make, I believe, before we move to questioning.

Please proceed, Mr. Poloz.

Mr. Stephen Poloz (Senior Vice-President and Chief Economist, Corporate Affairs, Export Development Canada): I do, Mr. Chairman, just a few remarks. Thank you very much. I won't duplicate what I sent in my submission, but just elaborate on a couple of things.

Thank you very much for the opportunity to talk to you this morning.

● (1150)

[*Translation*]

I will make my presentation in English, but please feel free to ask your questions in French.

[*English*]

It's very important that we understand well how international trade is changing. I'd go far enough to describe this as a new paradigm of international trade, because it just isn't the way we used to think of it.

Mr. Siegel mentioned quite a lot of things about EDC. As I pass on to the next topic, I want to mention a couple of things that didn't come out in the discussion. Last year, in 2006, EDC facilitated $66 billion worth of transactions for Canadian companies that operate abroad, be they exports or investments, and 90% of this was with small and medium-sized enterprises. In total, 6,800 companies were helped this way.

As we touched on at the end, all those transactions must pass a Canadian benefits test for us. We have to be able to see where they will benefit Canada. We estimate that the transactions we facilitated helped to contribute 3.9% of Canada's GDP last year. That's with no fancy economist multipliers, Mr. Chairman; it's just the nuts and bolts of the transactions.

The international trade paradigm is evolving, as I described in my submission. I thought I might emphasize a couple of points by telling you a 50-year story.

The story begins in 1955 when the economies of the United States and Canada looked rather similar, at least in terms of their manufacturing sectors. Thirty per cent of the workforce in the United States was in manufacturing, and in Canada it was 26%. In the United States—let's focus on them—there were 15 million manufacturing workers in 1955, which was 30% of those working. Today 10% of the U.S. workforce is in manufacturing, and there are 14 million workers. There are fewer total workers in U.S. manufacturing today than there were 50 years ago.

What is important about this story is that those 14 million workers today are six times as productive as they were in 1955—a factor of six. This was done by embracing the integrative trade model that we talk about in the submission. Today trade is four times as important to the U.S. economy as it was in 1955, and the trade that has grown is not just exports. We don't really think of the U.S. as a big exporting nation. They are a pretty big exporting nation, but it's not really that important—not like it is to us. But the embrace of trade has two dimensions. It's not just exporting, but using trade as a tool of supply to make your company more efficient and able to do the same thing, but with fewer workers, or perhaps growing other dimensions of the business. So that has happened in spades in the United States during the last 50 years.

I tell you this story because a lot of people think, including when I made reference to Mr. Friedman's book, *The World is Flat*, that this is not that new a phenomenon. This is a trend line. If I look at the manufacturing workers in the United States, it's a straight line for 50 years.

Of course, none of us would say that the past 50 years have been bad for the U.S. economy; they've been extraordinarily good. So this is a picture of progress.

Indeed, you'll see in the newspaper tomorrow that the U.S. trade data came out for December, which gives us a full year, and in the articles I'm picking up on my BlackBerry—a great Canadian product, by the way—it says that during the Bush presidency three million manufacturing jobs have been lost, and there are people who say it's because of unfair trade. It's blamed on the trade deficit with China. On the contrary, what has happened in the U.S. during this time is that they've continued to globalize and increase their productivity. They've had a “productivity miracle”, as we call it, and in fact they've created more than eight million other jobs in the process. Approximately seven million of those jobs are in higher-paying categories than the ones lost during the manufacturing restructuring. That suggests to me that this was a pretty important success.

● (1155)

If I can go to Canada for a moment, there is a difference. We had 26% of our workforce in manufacturing in 1955—1.4 million workers—and today we have 14% of our workforce in manufacturing. It's a very similar story to the U.S. However, our productivity has risen by five times, not six times as in the U.S. Our use of trade as a tool has doubled during those 50 years, whereas it has quadrupled in the U.S. This, I think, is the most important difference between the two economies and the reason we have a productivity or competitiveness gap, which we so often discuss. That suggests to me that Canadian companies are embracing this new paradigm, but they have done so more gradually than their American counterparts. Nevertheless, we can see that is happening.

I want to briefly turn to EDC's role in this. As Mr. Siegel mentioned, we facilitate many aspects of that. Very often it's just a matter of breaking into new marketplaces. Twenty-three per cent of what we did last year was in emerging markets—something like $15 billion of new business for Canadian companies.

It also may involve investing in a foreign economy in order to set up a foreign affiliate or to have a supply chain provider that improves Canadian companies' efficiency. For instance, the pieces of our famous BlackBerry come from seven different countries. Even though the idea, the R and D, and some of the manufacturing happen in Waterloo, there are seven other countries involved in supplying the parts for this fantastic product. Indeed, last year EDC helped Canadian companies invest about $6 billion in those foreign countries in order to build those kinds of supply chains. That will have a direct contribution to our productivity.

In our corporate plan for the next five years, which has been approved at Treasury Board but will be tabled this spring, we have three pillars. First, this is connecting with our exporters and investors. That's why Mr. Siegel talked about putting more people on the ground, to make sure we are intimate with the Canadian companies' business and understand how they have to deal with this foreign competition and how to capitalize on it.

Second, we have facilitating integrative trade, which is a broader, more high-dimensional picture than traditional exporting. There's much more to it today, and we need to facilitate all the dimensions to help a company truly prosper and grow their employment here in Canada—their footprint, as we described.

Finally, there is leveraging of EDC's resources; in other words, to use our partnerships, in particular our capital, for sure, and our partnerships with financial institutions, to get even more mileage out of the things we do. Over 60% of the transactions we did last year were in partnership with commercial financial institutions.

As you can tell, we're very proud of this. But we are trying to do many other things. I'll mention a couple of them before I conclude.

One is increasing our global footprint. To give a recent success story, for instance, 15 months ago we established a representation in New Delhi. The business volume for Canadian companies in 2006 tripled compared to 2005. We're very pleased with the way that started. We of course know that there's a great deal of potential for Canadian companies in that market space.

Another example was jumping in when the need was there. As you recall, during the year the auto sector was under considerable stress, and the suppliers to the big participants in the auto sector were therefore also under stress. These of course are mostly exporters. EDC introduced new tools during that time: new insurance programs specifically aimed at that gap in the marketplace. At the time, the private marketplace was actually drying up.

Those are some examples of what we can do. I look forward to your questions about integrative trade and other things connected to that.

I will conclude with a few concrete proposals that I think might be of interest to the committee. I think the illustration from India is a good one. We have a lot of other places where there are great opportunities for Canada. I think, in general, Canada needs more feet on the ground in the world—both Foreign Affairs and International Trade people and EDC people, who are their partners. We need to facilitate that as best we can. EDC has a plan for this, but it could be much broader and more embracing. We could have an important increase in resourcing on the ground out there; other countries do.

● (1200)

With respect to foreign investment protection agreements, I mentioned that the integrative trade model is usually driven by an investment. Indeed, just to illustrate, Canada has about $460 billion worth of exports per year, but we also have over $400 billion worth of sales from our foreign affiliates that are operating abroad. So there is another Canadian economy operating out there that is just as important to Canada as its export base, and that is, of course, financial institutions, insurance companies, companies like Bombardier and Nortel—global companies.

For those companies to do that, free trade agreements would be wonderful, but they're very difficult to do. Foreign investment protection agreements are narrower, more focused, and easier to accomplish, and so it wouldn't be a bad idea, I think, to take a two-track approach as much as possible and get as much investment freedom as we can.

We need more collaboration among the provinces. Often I'm told that our branding is dispersed, as we have out in these marketplaces visits from groups from Ontario, from Quebec, and from Canada. We have everybody trying to capitalize on these new markets. That's excellent, but the brand can sometimes become a little bit fuzzy.

Another suggestion is to build industrial parks in strategic markets, in places Canadian companies could call home. They could actually lease a small place in a Canadian industrial park, let's say, somewhere in India or in China, where they would then have an atmosphere in which everybody's in the same boat. That sort of thing, I think, can work well. Other countries have tried this.

Finally, I'd like to suggest that we overinvest in our trade infrastructure. By trade infrastructure I mean a variety of things, but one of the important things would be ports, rail, and bridges—the actual physical connections that are necessary for trade. One of the things that Canada can capitalize on is its unique relationship with the United States. Canada could actually become an important trade hub for the United States. We see some evidence that this is happening, and I think it's something that we could encourage. Even if we aren't adding value to the goods as they pass through, we can earn, say, a thousand dollars per container as a service for handling that trade, and that's a good business to be in.

I'll stop there, Mr. Chairman. Thank you very much for the time. I look forward to the committee's questions.

The Chair: Thank you, Mr. Poloz.

This committee, as you know, is currently conducting a study to examine the opportunities and challenges that Canadian businesses face in various regions around the world. In particular we're interested in markets where two-way trade and investment flows with Canada may be underdeveloped and where there is good potential for growth. The committee is specifically interested in identifying and removing obstacles that stand in the way of stronger economic ties in these markets.

The question we're trying to answer as a committee is what the Government of Canada can do to help Canadian businesses take better advantage of trade and investment and other international business opportunities around the world. You have, in your presentation, focused on that, and I do appreciate that.

We'll now start the questioning on this round with Mr. Bains, from the official opposition.

Hon. Navdeep Bains: Thank you very much, Chair.

I appreciate the presentation. There are a couple of issues you mentioned that I'd like to discuss with you and get your feedback on.

The first has to do with trade and productivity. You talked specifically about the importance of emerging markets and the fact that 23% of your business is attributed to that, which translates to about $15 billion worth of trade. I think one of the most important emerging foreign markets that we need to work with is China. That has been well documented and extensively written about, and there have been many analyses along those lines.

Last month Mr. Emerson visited China, and he made some remarks and observations about his trip. He indicated that we're losing ground in terms of market share of exports, and he also indicated that we're losing ground in terms of foreign direct investment, in the share that's coming to Canada in a North American context. So that was his observation. He indicated that first-hand. I want to get your feedback on how EDC could help improve that situation.

Secondly, you talked about branding. You talked about how Canada needs to brand itself internationally. I think one of the misconceptions that exist is that we're a country of natural resources, and that you can come and take our natural resources, and you can then manufacture goods from them. That's something we really have to work hard on.

Again, just this weekend, Mr. MacKay said that China needs Canada's natural resources and noted that Canada has a huge trade surplus with China.

So how do we change that paradigm? We had the Minister of Foreign Affairs talking about our natural resources. We had the Minister of International Trade talking about our eroding trade and investment. So how does EDC help fix our trade situation with China, and how do we help brand ourselves better with China, not simply as a supplier of natural resources but as a country that can also provide high-value-added goods and service?

● (1205)

The Chair: Mr. Poloz.

Mr. Stephen Poloz: Thank you very much for those two questions.

The minister is right in the sense that it does appear that other countries are having a disproportionate success with China. However, I wouldn't be quite that negative perhaps, because I do think we have to take to heart some of the lessons of my submission—for example, that trade has become triangular, that the bilateral relationship is not a good way necessarily to summarize the total relationship.

For instance, a smaller Canadian company might have a great deal of difficulty breaking into the Chinese market directly; however, it may be quite a global company by breaking into the supply chain of a major American company that is actively exporting to China. Some of our trade with the United States may actually represent global trade, because we are one of the links in the supply chain. In fact, I'm certain that is true, because we actually speak to those companies. So that's one thing to bear in mind.

I see China at the moment, of course, as the major opportunity for us, but also as an important place for us to use the integrated trade model to supply ourselves. It may be that China is one of our biggest suppliers today, as it is for the United States, for instance, a supplier of low-cost inputs to some of our products, such as this one. And then we export those things everywhere...whereas five or ten years from now China may become our biggest customer.

I would remind everyone of our experience with Japan. Back in the mid-1980s people were sending people to Japan to find out what the secret was. How was it they were taking away all of our business? That was very instructive, but by 1992 or 1993 that story had gone away, because Japan had reached its full maturity and now was one of our biggest customers as opposed to that ultra-competitive manufacturing machine. They have moved decidedly up-market. And of course they compete with us on those fronts, but it's not like it seemed back in those days.

Coming around to how EDC can help, first of all, I hope I've helped you to understand some of those numbers, but how can we actually help to develop trade? We have our feet on the ground. We have two representatives in China, one in Beijing and one in Shanghai. We expect that is going to grow over time. We of course collaborate directly with our trade commissioner colleagues from the embassies and consulates. As I said in my presentation, that's exactly how we need to grow those things. It's that face-to-face nature of the business that is very important. It isn't just people buying something over the Internet and ordering it; it's a relationship business, especially in the services end of the business, which is growing so rapidly. EDC helps in the form of facilitating. In the past year, for example, EDC did facilitate $1.3 billion worth of transactions in China. It's not insignificant, but we know, of course, there is a great deal of potential for growing that.

Turning to the branding question very briefly, I think the representation is the way to do that. I think the Canadian success stories are starting to get around. It's amazing just how widespread this one is, and when people see that as a Canadian story of a global company, that is the kind of success story.... And there are others: Husky, Nortel, Bombardier, and SNC-Lavalin. Those kinds of companies have gone global and are right in the actual trenches where the transactions occur creating that Canadian brand.

Hon. Navdeep Bains: I'm glad you mentioned Japan. I think that's an area I want to discuss going forward as well. It's a very important market to us. So is Russia, I believe.

You mentioned in your presentation that we need more people on the ground, that we need a stronger representation of Canada, and one of the ways to do that is through our consular services. We want to make sure we have that representation.

You're probably aware that at the end of next month, on March 31, there's going to be the closure of four consulate offices—two in Japan, one in Russia, and one in Italy.

I just want your thoughts. In light of the importance of Japan, and in terms of its market size, do you think that is a strategically smart thing to do, from your perspective, in terms of trade and business and so forth? Specifically, Russia also is another key emerging market. I want your thoughts on that as well, because that's something that contradicts what you said. You suggested initially that we want more people. Now the question is, is it strategically smart for us to close those consulate offices?

● (1210)

Mr. Stephen Poloz: Thank you for the question.

It's probably not appropriate for me to comment specifically on those moves. As a general proposition, although I would like to see more feet on the ground, I also would like to see them optimally allocated. Strategically we don't have limitless resources in this respect. Those kinds of decisions, to the extent that I've seen them, are driven by the business needs in the locale, and there are more demanding needs in other market spaces such as China and India— not just in China, but in specific places in China. Perhaps with respect to St. Petersburg, for instance, there was not a lot of business happening in that specific location, so the resources are better spent in another location. That's an hypothesis worth examining.

In the case of the emerging markets, if you look around the world, you see basically that emerging markets are growing on average more than twice as fast as our established markets. So yes, there is still a great opportunity for us to grow our business, let's say, in Japan. Of course there is. It's an excellent marketplace. Yet the degree of leverage or lift that you can get from an additional resource may be two or three times as great if it were, let's say, somewhere in the GCC, or in India, China, or Brazil. I think when you have limited resources, you have to look to see where the lift would be greatest. Certainly that's what we do at EDC.

Hon. Navdeep Bains: Yes, I know.

The Chair: You have about a minute left, Mr. Bains.

Hon. Navdeep Bains: I appreciate that.

With respect to infrastructure, you alluded to that in your comments as well. I think that's a very important subject matter, because Canada is a trading nation and we have to prepare ourselves if we increase trade. You indicated a two-pronged strategy, maybe not just bilateral trade but also trade in investment as well, perhaps as a step-by-step approach. In order to prepare for that additional increase in trade, we need to invest in infrastructure.

You mentioned ports and other examples. Where do you think the money should be spent? Again we're dealing with limited resources, so what would you prioritize as our number one weakness in infrastructure where we need to invest?

Mr. Stephen Poloz: Thank you.

Perhaps rather than characterizing it as a weakness, it's a potential for opportunity. I would say the top of the line for me is ports. I know we have good capacity in Halifax and Montreal. We have a tighter situation on the west coast, and for sure on the U.S. west coast. It seems to me that with the extreme tightness in the U.S. west coast, we do have a significant opportunity there that dollars spent in the Pacific gateway could have immediate payback.

I also saw a presentation last week from someone from Halifax that showed us that when we're looking at India as a market space, the distance from India to, say, Chicago is substantially reduced if one goes through Halifax and connects into the nodes that way than if one goes in the opposite direction. One saves several days worth of time and money. So we do have the solutions to offer to the world. This is another place where branding could be very helpful, because those ships can go almost anywhere they wish. We have some capacity, and I think on the west coast an opportunity, to truly develop it.

It's not just a port, though, because you have to be able to take the containers and move them to Chicago or Los Angeles or wherever that destination is in the United States. So you need the rail and the bridges or the other conduits. It's a package deal.

The Chair: Thank you.

Now we will go to Monsieur Cardin for seven minutes.

[*Translation*]

Mr. Serge Cardin: Thank you, Mr. Chair.

I would hate to create a conflict between the new president and the senior vice president of EDC, but, Mr. Poloz, I want to know why you say on the title page of your submission: “The views expressed here are those of the author, and not necessarily of Export Development Canada.”

Are there differences between your policies and those of the new president? Which of the views expressed in this document are specifically yours?

● (1215)

Mr. Stephen Poloz: This is a standard clause in the economic world. There is usually a very distinct separation between risk analysis, and particularly economic analyses, and decisions made about transactions.

We routinely use this formulation. It does not indicate that Mr. Siegel does not agree with me. As a matter of fact, I think he is in complete agreement.

Mr. Serge Cardin: So this is some kind of a precautionary measure?

Mr. Stephen Poloz: Yes.

Mr. Serge Cardin: This is normal in the insurance business.

Mr. Stephen Poloz: Yes, it is.

Mr. Serge Cardin: Since we are talking about insurance, I want to refer to the dispute you have with a company named Iron Ore. I think the case is public now. This company is suing EDC, I guess, and the case is presently before the courts. According to section 2405 of the Quebec Civil Code, an insurer cannot unilaterally end the term of an insurance policy. It seems this is exactly what EDC did and was doing for several years.

It was generally mentioned earlier that people did not know all of EDC’s services. But if the people who know them are being bullied, so to speak… This is in the area of receivables insurance. There are monthly fluctuations, so premiums vary. However, there is normally a contract with a term of one or several years in order to set the premium based on volume.

These are often open corporations for which risk assessment is possible. When EDC knows a client has receivables, how can it cut off his insurance? This puts the clients, with whom it is supposed to establish a relationship of trust, in a rather precarious situation.

Mr. Stephen Poloz: Thank you.

I think I will let my president answer this question.

[*English*]

Mr. Eric Siegel: Obviously I can't comment on the specific case; that's a matter before the court. But let me explain that EDC credits insurance. We provide receivables insurance. We're not the only provider of receivables insurance; in fact, there is a private market, and there are a number of private market players that provide this same product. The same principles apply to EDC as to the private market, that is, we provide a coverage for exporters against receivables that they wish to incur with foreign buyers. They have to approach EDC as they would have to approach the private market, and they actually have to get an approval for their ability to ship against a foreign buyer.

From time to time the risks will change, and the insurer will notify the insured if there is a change in risk that affects the price under which they're prepared to provide receivables insurance on a going forward basis—not retroactively—or if they're no longer in a position to provide that coverage.

You'll appreciate that in the private market they are not only providing that insurance, they are actually calling upon the reinsurance market to provide a great deal of capacity, and the reinsurance market is prepared to do it on the basis of the program's being structured in that way.

So EDC's coverage is no different from the private market's. This is a product that has been offered for many years, and this is the basic convention on which it's provided in order that the insured understands what coverage they are getting, and the insurer is able to provide adequate risk coverage.

Now, at the same time, Mr. Poloz indicated a situation that we faced in the automotive sector, where that type of coverage would not provide the type of protection that suppliers to the automotive sector might need. For instance, there was a risk that General Motors might file for bankruptcy, and we had suppliers who were under contract to provide goods and services or parts to GM for, say, a period of a year. If there were to be a filing by General Motors, they would find themselves in a situation whereby they had goods that had already been shipped for which they were not going to be paid, and in fact might have had to continue to provide goods, notwithstanding the bankruptcy. They wanted to seek out coverage for that.

At that point, conventional reinsurance would have.... The private market was doing exactly what it would do. When the risk got to a point where it was prohibitive, they were saying they were not going to insure new sales into General Motors. Anything that had been insured under the existing policy continued to be insured until one had been paid, or if not paid, one would be able to claim under the insurance.

EDC stepped up and provided a whole different insurance policy in order to cover the new risk and provided, in a sense, a non-cancellable period of coverage for a period of time until the disposition of General Motors was better known. Ultimately, when the filing risk went down with General Motors, parties returned to the conventional receivables insurance.

● (1220)

[*Translation*]

Mr. Serge Cardin: Do you generally have a reference period? Do you analyze risk on a monthly, weekly or daily basis, in order to determine when risk goes over an acceptable limit and when it is time to resort to insurance?

According to section 2405 of the Quebec Civil Code, you cannot unilaterally change the terms of an insurance policy. If you are dealing with a Quebec client, which legal provisions apply?

I also want to know on what period you are basing your risk assessment. How often can you change your insurance terms?

[*English*]

Mr. Eric Siegel: First, do we provide it for a term? We do. When an individual takes out a receivables insurance policy with us, they then approach EDC and identify particular buyers that they wish to ship against. EDC then provides an approval up to a certain limit that they can ship to that player.

If there is a change in the risk, it is the obligation of EDC to then approach the insured and advise them that there is a change. If on a going forward basis it affects either the premium or ultimately the level of coverage, then the insured is aware that future sales are now subject to change in terms of the insurance coverage. But we cannot change retroactively that which has already been shipped and insured under that period.

You also made reference to the civil code. I'm not a lawyer, but obviously the question is whether that really applies to credits insurance or whether that is a factor more applicable to property and casualty insurance. Clearly the concept of taking out an insurance policy, under property and casualty, for a defined term and the inability of the insurer to change that within the defined term....

Credits insurance is a very different product, though. Credits insurance is based on a series of continued declarations on ongoing shipments for which the insurer is constantly monitoring the risks and constantly advising if there is a change in those risks. So if the risks deteriorate, the insurer can reduce its coverage on a going forward basis—as I say, not affecting it on a retroactive basis.

[*Translation*]

The Chair: Thank you, Monsieur Cardin.

[*English*]

We'll go now to the government side.

Mr. Menzies, seven minutes.

Mr. Ted Menzies (Macleod, CPC): Thank you, Mr. Chair.

Congratulations to you, Mr. Siegel. I don't imagine our support was necessary, but I am glad we were able to show it.

Thank you, Mr. Poloz, for your presentation. I enjoyed reading the piece you had provided to us in advance. It's always nice to get these in advance, so thank you for that.

I want to pick up on your comments about per capita productivity increasing sixfold in the U.S. and fivefold in Canada. That's an interesting dynamic, and we've heard different explanations from different witnesses for what's causing that. You referred to it as a paradigm shift.

Is this just part of the fact that Canadian companies, in fact companies worldwide, are exporting more services than merchandise?

And I guess taking that as a premise, how is EDC changing to adapt to that?

● (1225)

Mr. Stephen Poloz: Thank you.

To back up a little, the story really doesn't distinguish between goods or services, but what it envisions is that the process of taking an idea and ending up with a sale, whether that sale be of a service or a good, usually involves a sequence of activities, some of which could be thought of as services and others that involve merchandise in one form or another. We usually think of the ideal model as being a vertically integrated firm that has just the right combination of things in-house, and from basement to top floor everything happens and they earn a nice cheque from somebody abroad. That's the traditional export model.

What is happening in this world of better communications, lower trade barriers, and better logistics providers is the ability to take that model and disintegrate the firm, and take the pieces, whether they be service or production pieces, and locate them globally wherever they make the most sense to the company. With that disintegration of the company, what you need then is international trade to tie it all back together again so that you can actually do the export trade.

You need to do trade twice, as a supply process and then as a final sale process. What that means is the productivity improvement that the company enjoys depends on the distributed model. If you're unwilling to take this slice and move it to India, let's say, for some reason or another, you don't pick up those extra few percentage points of productivity improvement domestically.

If it's a low productivity task that we're talking about, if you move it to another country, it just disappears from Canada's statistics. Therefore, you get the so-called productivity miracle that the U.S. has enjoyed, and you can argue that although, of course, there are people who do that low-productivity task, their jobs are at risk from that reallocation globally.

The improved purchasing power and the extra income that is generated generates jobs in many other sectors. The biggest one in Canada has been in the construction sector, as the higher incomes have generated a much bigger demand for housing, bigger and better houses and additions and all that. So there's been a lot of construction work.

That's why we have record low unemployment even though this is going on, because people are transferring into other sectors of the economy that are expanding as a result of this underneath phenomenon. That's why it's important to keep in mind that it's a 50-year story and not one that just began a couple of years ago. We've been coping with it year after year for two generations.

Mr. Ted Menzies: I have many more questions, but I would like my colleague Mr. Lemieux to have an opportunity.

The Chair: Mr. Lemieux, go ahead, please.

Mr. Pierre Lemieux: Thanks, Mr. Poloz. I enjoyed reviewing what you had submitted to us as well.

I have a couple of questions, actually, on the models that you're presenting, particularly the one that you have of a company looking outward and integrating its imports to help it build a product that it may eventually export.

One of the questions I have is this. From your point of view, which technology market sectors in Canada seem to be transforming themselves, or basically taking advantage of this business model you're proposing?

Secondly, what is the ratio—you might not be able to quantify it, but you might be able to comment on it—between companies that are transforming themselves to take advantage of this model and new startups that are immediately starting into this new model. I think of something like textiles. They have a very hard time transforming into the model. It's a whole sector of the economy that's affected. But there are new businesses, in fact, that spring up and they just immediately take advantage of what you're talking about.

Would you comment on those two questions, please?

● (1230)

Mr. Stephen Poloz: Thank you. Those are both good questions, and they do allow me to finish what I forgot to say to Mr. Menzies.

Mr. Pierre Lemieux: I'm glad to help.

Mr. Stephen Poloz: Excellent.

The end of your question before was what is EDC doing to deal with this transformation that is in services as opposed to merchandising, and this connects directly to your question as well. We have never drawn that distinction per se. Many of the companies we work with are service providers, like engineering companies. The very big foreign operators are the best example. The same kinds of products and services that we offer to companies that produce goods are there for companies that do services. But there are things that they use more, such as contract insurance or bonding services. An engineering company may have to post a bond to guarantee they'll be done the job by a certain date. We'll insure that bond for them against wrongful call, and it reduces the draw on their capital at the banks. That's the way we work with their institutions.

What sectors are really taking advantage of integrative trade? Probably the answer won't surprise you. They are companies in the advanced technology business, the telecom business, the aerospace business. When I talked before about trade penetration, or the importance of trade to the next dollar of GDP, 15 years ago 38¢ out of every dollar earned in the world depended on international trade. Today it's almost 60¢ out of every dollar. It's a 50% increase in the importance of trade, and it's because of this growth in what I call the supply trade, the trade that happens before the job is done.

If you look at it as a company, how deeply does trade penetrate the business model, there are companies in these sectors that look like Hong Kong. They import stuff by the tonne and export stuff by the tonne, and it all adds up to far more than the actual size of their company. It's because they need massive amounts of inputs, they're adding their value to it, they're doing something to it, and out go those same massives, but with the additional value added. That contribution to GDP is just that nexus of what they add on the way by. So we'll see, routinely, companies in the AT sector with trade penetration of 150%. Their revenues might be 100%, but they trade 150%, exports and imports.

The service sector as well—I mentioned engineering firms. We have many engineering firms that have set up offices abroad, who are thereby creating global models both of supplying and providing. So they'll have a project, and some of the work will be done in more than one office around the world, in different time zones perhaps, and indeed the actual delivery is then face to face.

I should mention financial services: a very big exporter and a big contributor to the numbers I mentioned before, which are foreign affiliate sales. A Manulife Financial or Sun Life, for example, has big operations out there. They've made these investments, and they provide those services directly, face to face, and of course the cheque ends up finding its way back to head office and generates income back here.

You have companies that are transforming to become global. In many cases it's do that or shrink, because their competitor is doing so. If you're in a highly competitive business such as a telecom equipment provider, there are all kinds of providers, so you have to be on the cutting edge. If they're doing it with a global model, they can provide a telephone handset for $100, and yours is $200. If the BlackBerry were $600, fewer of us would have them, that's for sure. It's that global model that allows the cost to be as low as it can be.

But you're right, for the companies confronted by this change, such as those in the textile business, it's a very big thing to transform yourself, but it is the kind of thing EDC has helped companies to do. Often it means they'll say, for example, “I'm making this garment. I need to cut my costs. I know somebody, and I can take advantage and buy this little factory in India to cut my costs on some of the pieces of this garment. That way I can preserve jobs here and I create jobs there, and I've got a model that works. I can meet my cost point.” And EDC will help them with that investment, help them with that restructuring.

Of course, in the end, what we hope is that the company still has its footprint in Canada. In fact, that's part of the requirement. The risk is that if we weren't able to do that, the footprint might disappear because they just restructure totally, and it goes.

● (1235)

So I don't have a convenient metric for you.

Mr. Pierre Lemieux: No, it's just more your impressions.

On the textile side, I've seen that even in my riding, where a textile company was making low-end textiles at one point and they couldn't compete, but they just reoriented their company and now they make more complicated products—still textiles, but they're making safety textiles, fire-retardant textiles that are used by other companies to make firefighting suits, and that type of thing. So they simply found a niche through some trial and effort on their part. So it is definitely a possibility.

The Chair: Thank you, Mr. Lemieux, your time is up.

Mr. Atamanenko.

Mr. Alex Atamanenko: Thank you.

You mentioned, Mr. Poloz, the disintegration. I would like to pursue that a little bit. Is this a logical outcome? Is it unavoidable, or can incentives be given to Canadian companies not to disintegrate and to offshore? Is this workable? I've read also that Canada actually is in many aspects an advantageous place to invest, that because of our social policies and national health care, it costs less to build a car in Canada than in the United States, for example.

I'm wondering, is this a road that we can't turn back on? Is it basically a *fait accompli* or can we do something to try to mitigate this and to provide some incentives to retain more control over the jobs in Canada?

Mr. Stephen Poloz: I do think it is both logical and unavoidable that if we were to try to develop incentives to keep our companies whole here in Canada, that incentive would need to grow every year. It would be without limit, in effect, and it would prevent us from actually capitalizing on the growth in the world economy. I do think that wouldn't be a very good use of our resources. Rather, I would see much more benefit to leaning with the wind as opposed to against it. That is to help companies to make these kinds of transformations faster and more easily so that they do assure their Canadian footprint and indeed grow it.

If we look to lessons in the United States, there are companies that have disappeared. For example, in the state of Massachusetts, which used to be a very big shoe manufacturing area of the United States, there are hardly any left now in terms of shoes. But one that is still there is New Balance, which is an athletic shoe, and they were the ones who were most aggressively global. They were the ones who built their own factory in China. So 60% of the pieces now come from China, a big container every day, but they've kept the final assembly and the finish. And of course the really expensive jobs, such as the design, the engineering, the marketing, the accountancy, etc.—all the good jobs—are still there, and in fact they are a bigger operation today than they were back when they were actually manufacturing the shoes in totality there.

So this model is a model for growth, but it is also a model for transformation. There will inevitably be people, as there have been over the past 50 years...and during the 100 years before that, people moved from the farm into manufacturing, and now they need to gradually move into higher-end manufacturing or design, or the other services that go with this, that are marketable globally. If we can aid that transition, it would be a better place for us to put our resources and, in particular, help those who are caught on the short end. So if, for example, a textile firm is unable to transform itself and then some of those workers become unemployed, where we can put the resources to lean with the wind is to help them with that transition into new gainful employment, not to try to somehow keep the company existing, because it will become increasingly unsustainable over time.

Mr. Alex Atamanenko: It's possible then to present the New Balance model to a company that, let's say, wants to shut down everything and get some help to go and invest in another country. It's possible to talk and say, look.... And is it possible to not only talk but to put some pressure and some conditions on companies, after having looked at the scenario, to say, this is a model that can work and why can't we keep 30% of your jobs or your business here? Has this been done? Are you considering it for the future?

● (1240)

Mr. Stephen Poloz: In principle, that's exactly what happens. I just want to caution that it's not a cookie cutter approach or something that works every time. But most Canadian companies, when they are feeling those kinds of preventive pressures, are looking for a way to reorient themselves, as the member described. So they may need some sort of access to financial capital domestically or financial capital abroad, which is something that EDC is well equipped to help them with. Either way, that combination then allows them to redesign themselves and take advantage of the true skill sets they already have and to continue to make use of those.

The example we heard before was an excellent one. It isn't always possible. So the notion of putting pressure on, I think, isn't quite the one I would look for. It's more a question of making sure that the ability to take advantage of these programs is made clear so people know they have room to manoeuvre, that they have room to adjust. And for us, it would be to have the Canadian benefits always in mind. So we're looking for a solution that helps Canada at the same time, of course, as it helps the company. Those are the same thing, fundamentally.

So I believe we have many of the tools we need. We occasionally are restricted when a company needs some assistance, say, to re-equip itself or to upgrade its equipment. When that would be to, say, help it expand its export markets, that's fundamentally a domestic transaction. And we need to work more often with our domestic partners, either EDC or the chartered banks, to help get those things done.

But you're absolutely right. I just think it can't be something we can predict or force.

Mr. Alex Atamanenko: My second question has to do with agriculture. Normally I sit on the agriculture committee, and I think I can speak for all my colleagues, regardless of our political leanings or the debates we have. I think we all are adamant that we would like to see the primary producers survive and the family farm survive, and with that, our rural communities. I'm wondering whether the EDC has, or is contemplating, a role somehow in this process specifically.

I know the Americans are very aggressive in bilateral agreements these days. We may not have been as aggressive. It may not fall within your framework. But do either of you gentlemen have any thoughts on this issue?

Mr. Stephen Poloz: We, of course, are major participants in Canada's agricultural economy. They're one of the biggest users of our insurance product, which Mr. Siegel was talking about before. There is considerable global reach out there. It's very big business, and it's been one of the faster-growing ends of our export community over the past year or so. So it's a very good story.

It has its problems, as you know, which are, if you like, trade policy related. And you're right, there are some significant unlevel parts of the agricultural playing field in the world. It's certainly not EDC's role to do anything about that; it's rather to facilitate, given those things.

The other aspect of this is that if those companies need domestic financial support or intermediation, which they often do, then they have the FCC, Farm Credit Canada, which is designed expressly for that. So they do have resources to tap into if it's a domestic issue. And if it's a foreign issue, then EDC is there to facilitate the trade.

Trade policy in agriculture is extremely difficult. It's one of the reasons free trade agreements are so elusive. And it's one of the reasons, in my concluding remarks at the beginning, I suggested that we should focus on foreign investment protection agreements, because they're simpler. They will truly help companies that need to get out there and capitalize on a growing world economy to lean with the wind. It may take us much longer to finally reach a good conclusion on liberalizing trade because of the agricultural barriers. They are the biggest ones, traditionally.

● (1245)

The Chair: Thank you, Mr. Atamanenko. Your time is up.

Now we go to the official opposition and Mr. Maloney, for five minutes.

Mr. John Maloney (Welland, Lib.): I'll talk about the global footprint, if I could.

You indicated that you have 1,000 employees, 10 of whom are offshore. That's only 1%. It's also perhaps an oversimplification, because obviously there's support staff to assist them.

But the effect of these individuals is exemplified by your experience in New Delhi, where in one year the services were tripled. You have two in China: Beijing and Shanghai. I would estimate that you could probably use all 10 in China.

Do you have targets to increase the number of offshore individuals? How well do they work with our consulates and embassies? Do they share space? Do they meet regularly? Is there overlap? And can things be done to improve those relationships?

Mr. Stephen Poloz: To begin, I want to emphasize that this is part of a process that starts with that face-to-face meeting, perhaps in a faraway land. The people at head office do most of the work of the actual completion of those things. And we spend a great deal of time out in the marketplace as a staff when the transactions come to light.

So what we're talking about, the people on the ground—the 10—are true business development folks who are keeping contact with strategic foreign buyers and facilitating visits for Canadian companies when they are there. They work hand in hand with the trade commissioners in the consulates or the embassies or high commissions. In fact, their offices are normally right beside them. We co-locate. So there is a very cohesive relationship there.

We have a plan for expanding this. We're starting to get good payoff from those things. We have, if you like, a kind of machine going in terms of how we do these things, and so we expect that will rise steadily over the next few years. But it is expensive, so we research very carefully and look for the outlook of those markets and what we are actually going to be able to do for Canadian companies before we do it, so we're not just going everywhere, but we're being strategic about it, and it will go up.

Also, as Mr. Siegel was saying, under his leadership our whole delivery system has changed to one that is fully integrated. So if the front-end person is there representing a sector, they're talking to the right person, and they have stacked up behind them all the key people who can fulfill the demands like that. It's not a compartmentalized model, but a fully integrated one.

Perhaps my colleague would like to add something.

Mr. Eric Siegel: I'd just like to add one thing.

The concept of EDC having representatives abroad is a fairly new concept, so we're still in the early stages of it, but EDC has certain restrictions under its act. EDC does not have the power to have an office outside Canada. It's something we would love to see changed, and potentially it should be. That means EDC can have a representative, but that representative is attached to the Canadian embassy, works within the Canadian embassy, and can't be outside the chancellery.

For one, there are restrictions as to where that can happen, and there are also restrictions in certain markets in terms of who EDC can employ. If we go into China, there are restrictions in terms of finding people who have a minimum number of years of citizenship in Canada, who will meet certain security requirements, etc. It's not easy for EDC to hire locally within those markets, which is often ideal in those situations when you're trying to penetrate with local players. There are certain restrictions under which EDC currently operates.

The other point I'd like to emphasize is that EDC is not in this alone. Obviously the biggest presence is the Trade Commissioner Service, and EDC is there to work alongside the Trade Commissioner Service, so the real footprint of Canada is much broader than just EDC. As Mr. Poloz said, because the EDC person is attached to the Canadian embassy, he's working intimately with the trade commissioners and their locally engaged players to achieve our objectives in those markets.

● (1250)

Mr. John Maloney: Thank you, Mr. Siegel.

Mr. Temelkovski is going to share my time, whatever is left.

The Chair: Mr. Temelkovski, just a very short question, and a quick answer, please.

Mr. Lui Temelkovski (Oak Ridges—Markham, Lib.): I have a very short, direct question as well.

You mentioned there are some barriers among provinces when you're looking at assisting outside Canada. Maybe you can help us deal with that a little bit more?

Mr. Eric Siegel: They are not so much barriers. I think the comment was made that when we're talking about going into markets, we want to increase the image of Canada and the branding of Canada, and each province has its own objectives as well. Sometimes in a market the observation is that, to be honest, we may have diluted the Canadian brand at times by having a series of provincial visits but not having as much focus in terms of Canada as a market.

I've recently come back from India, for instance, and we've obviously had provincial visits to India, as the minister is proposing to be in India next month. At the same time, I observe a market like Australia, where they come in as one market, and in one sector alone—the mining sector—they had over 100 people mobilized in India to concentrate on the mining sector, independent of the states and the fact that various states have different levels of mining activity within Australia.

So the image can be a very powerful image, and I think at times we have to focus on that, particularly in markets where we're trying to establish and initiate Canadian activity where it may not be very established at this point.

The Chair: Thank you.

Monsieur André, for about four minutes.

We're going to try to get in two more questioners.

[*Translation*]

Mr. Guy André: I think Canada is somewhat dependent on the United States because of its huge exports to this country. So the United States have a major political influence in Canada. This may explain why we do not have more bilateral agreements with other countries.

Last week, we met with representatives of the European Free Trade Association. In the present context of economic globalization, small countries like Iceland, Norway or Switzerland – also Quebec, if it were a sovereign country – can easily be part of this market. Why isn't Canada signing more bilateral agreements? I think it would be one way to diversify our export markets which are too heavily concentrated in the United States and to provide more security to our industries. We are now used to export to the United States. It is easier in many respects.

In terms of the knowledge economy, I would like to know if you have any comments on intellectual property. Ideas, manufacturing and design are one thing, but intellectual property is not necessarily protected. China easily copies our products. We find it difficult to protect our manufacturing processes and our designs.

Mr. Stephen Poloz: Thank you.

If you do not mind, I will answer in English. It will be clearer.

[*English*]

Many would say that we are too dependent on the United States. More than 80% of our trade is with the United States.

I mentioned before that our trade has become triangular. Much of our trade growth has been with globalized U.S. companies, and in that sense we are tapping into the global economy, albeit indirectly. So the 83% number probably is wrong, as a guide. It's probably much lower than that.

For example, our services trade is much more diversified globally. Our foreign affiliates operating out there are more like 50% United States, and 50% the rest of the world. It's the same thing with services trade. You can see there's something different going on when you measure it that way. So if we are sending goods to the United States that end up going to China or India...well, we don't know that from the statistics, but we presume there's a lot of it that we'd miss.

We are perhaps more global than we look. Certainly there is no need to incent companies to go global, because as I said before, the emerging markets are growing at two or three times the pace of their traditional markets. So there is a great deal of benefit to going global.

EDC is very active in that. Just to put out the big numbers, about 60% to 65% of what EDC does is in the United States, even though more than 80% of what Canadian companies want to do is in the United States. So you can see that EDC is much more focused on taking those opportunities out into the world.

What prevents Canada from being more diversified? I think it may be more a case of there being some obvious advantages to focusing on the relationship that is so good with the United States. And of course the U.S. is itself the biggest, most diversified economy in the world already. So in terms of diversification, there is a lot already there.

As for intellectual property, very briefly, Mr. Chairman, this comes up quite a lot. Canadian companies say, "I'm a little worried about going into China, because I'm worried about my intellectual property. I'm worried about going into Eastern Europe; I'm worried about intellectual property." That's a real worry. But I would just say that every company in the world faces those same challenges. Canadian companies aren't uniquely challenged by this. Somehow our American counterparts have managed to get over that. They've been very aggressive investors in China despite those intellectual property challenges.

I also think it's improving with time. The actual business ethic and the ability to work there are on an upward track. It's far different from what it was five or ten years ago, so I'm quite encouraged about the way that is evolving.

● (1255)

The Chair: *Merci, monsieur André.*

Now we'll go to Mr. Cannan for a few short questions. But can we dispose of a motion here quickly before then?

The motion is that the committee approve a budget of $20,000 for a study of Canada's trade policy. So it's just the routine budget for this committee.

(Motion agreed to)

The Chair: Thank you.

Mr. Cannan, go ahead. You have maybe three minutes.

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

Thanks, gentlemen.

Congratulations, Mr. Siegel, on your appointment.

Since we're down to the last couple of minutes here, I'll just summarize. The purpose of the committee in having you as witnesses, and the other panels of witnesses over the last several meetings, is that we're trying to develop some direction in which Canada should be heading in our foreign policy. The bottom line is that we know companies have to adapt or perish, as you've indicated, and one of the ways to be successful is to specialize. Our government put $591 million into the Pacific gateway. Our ports are important. We're putting tens of millions of dollars into the border crossings for the movement of goods and services. I'm thinking, from your comments, that we need to specialize.

What would you recommend our committee focus on to help Canada be more competitive and successful in our trading policy? You know that we have to prioritize, so where should we start first?

Mr. Stephen Poloz: If I had to pick a favourite to specialize in, it would be this: the business model I've described is evolving in such a way that it's face-to-face business. One needs a presence in Saudi Arabia in order to take advantage of the great growth possibility. One needs a presence in China to take advantage of this. It is that presence and the ability to have an ongoing conversation that creates the business.

For that, we need more feet on the ground, and we particularly need more feet on the ground from our International Trade people. I'm sure you could increase the trade commissioners by 50%. That would make an enormous difference to this picture, because of the numerous meetings they must try to orchestrate. They're just run off their feet, and we see this directly when we visit them. We organize events with them, and we get more people in the room. We participate in these things; they are the kinds of resources that make those things actually happen. A Canadian company has a body when they show up in town to take them to the right meetings, see the right people, and get a transaction done.

My second one is FIPA, the foreign investment protection and promotion agreements, because once you get there.... When people look at the benefits from NAFTA, the biggest one came from the investment protection side, because then people in the automotive business could invest in Mexico without concern that they would be treated differently from any other company. It was the bit of extra assurance that makes an important difference: that their government has negotiated something with the other country making them equal. That would be the big facilitator.

● (1300)

The Chair: Thank you, Mr. Cannan.

Thank you very much, Mr. Poloz, for coming today, and for your presentation and your answers.

Mr. Siegel, congratulations again for your appointment, and for getting such ready support for that appointment from this committee.

Thank you very much, gentlemen. I look forward to seeing you in the future.

On Thursday we have the Conference Board of Canada for their second appearance. That should be very interesting.

The meeting is adjourned.

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