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## **Standing Committee on International Trade**

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**EVIDENCE**

**Thursday, May 31, 2012**

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**Chair**

**The Honourable Rob Merrifield**



## Standing Committee on International Trade

Thursday, May 31, 2012

•(1100)

[English]

**The Chair (Hon. Rob Merrifield (Yellowhead, CPC)):** We would like to call the meeting to order.

We want to thank our witnesses for being here, as well as our committee members. They will be coming in shortly, all of them, but we do have enough to get started on our witnesses.

We are continuing our study on a comprehensive and high-level economic partnership agreement with Japan.

We want to thank Mr. Philip de Kemp, who's here in person from the Malting Industry Association of Canada.

Also we have by video conference, from the Canada Wood Group, Paul Newman.

Paul, can you hear me?

**Mr. Paul Newman (Executive Director, Market Access and Trade, Council of Forest Industries (COFI), Canada Wood Group):** Yes, I can. Thank you.

**The Chair:** Okay, very good.

We also have by video conference, from Canadian Honey Council, Mr. Lee Townsend, vice-chair.

Can you hear me, sir?

**Mr. Lee Townsend (Vice-Chair, Canadian Honey Council):** Yes, I can.

**The Chair:** Okay.

So communications are good. Let's move right along.

We'll yield the floor first to Mr. de Kemp.

The floor is yours, sir.

**Mr. Phil de Kemp (President, Malting Industry Association of Canada):** Thanks very much, Mr. Chairman. Good morning, ladies and gentlemen.

On behalf of the malting industry and its members, we appreciate the invitation today to highlight briefly for you the importance of an economic partnership agreement to strengthen our trading relationship with Japan.

For those of you who are unfamiliar with perhaps the significant economic contribution our industry provides to both farmers and the Canadian economy, let me first describe to you who we are, what we do, give a brief historical perspective on the evolution of our

industry, and tell you why, in our view, an economic partnership agreement with Japan is critically important to our industry, our brewing customers, and our Canadian malting barley producers in western Canada.

Canada's malting industry is comprised of four companies. They include the Canada Malting Company, which has plants located in Calgary, Thunder Bay and Montreal; Prairie Malt Limited, which is located in rural Saskatchewan in a small town called Biggar, which is approximately about one hour west of Saskatoon; Rahr Malting, which is situated in a small rural Alberta community located northeast of Red Deer in a town called Alix; and finally we have Malteurop, which is a plant located in Winnipeg.

Canada's malt industry is the second largest world exporter of malt. We are second only to the European Union. Almost two-thirds of our value-added production goes into the highly competitive export market destined to brewers in over 20 countries. We are the largest customer for Canadian malting barley and historically purchase approximately 1 million to 1.1 million metric tonnes annually from farmers via what used to be the Canadian Wheat Board. Historically, our industry accounts for almost 60% of all malting barley sold by the former Canadian Wheat Board every year.

Today approximately 70% to 75% of all barley grown in western Canada is comprised of malting barley varieties with selections and quality parameters greatly influenced by seasonal weather conditions.

In our view malting barley is a specialty crop, and it provides significant economic returns to Canadian barley farmers.

Between 1985 and 1995, we invested over \$300 million in building two new plants and greatly increased capacity at several others. We went from exporting just 40,000 tonnes of malt annually to almost 600,000 tonnes during that ten-year timeframe, and since 1995 we've kind of stuck at that number.

Just as an economic note on the domestic side as far as the supply of malt for the Canadian brewing industry is concerned, to give you quick snapshot, we buy about \$100 million worth of barley from western farmers just to supply the manufacturing of malt for the Canadian brewing market. That \$100 million translates into about \$2.5 billion in federal and provincial excise tax just on the tax on a case of beer—so just keep that as sort of a Google reminder.

Our malting members have a long and treasured trading relationship with our Japanese brewing customers. Japan is our largest overseas market and comprises approximately 25% of our entire export business. Japan looks to Canada for purchasing approximately 160,000 tonnes of malt, which is equivalent to about 200,000 tonnes of malting barley annually.

Japanese brewers are not only our customers, but in fact, some of them are also our partners. Japan continues to provide a long-term focus in Canada by investing in our producers and in our barley breeding effort programs. Quite simply, I think it's fair to say that our supply arrangements can be viewed in many ways as a partnership. They recognize our commitment to quality and customer service—our reputation is based on this foundation—and we make every effort to ensure our Japanese customers have security of supply, which is a critically important factor in our business trading relationship with them.

The Japanese brewing industry and their consumers provide significant value to the Canadian malting industry and our Canadian barley farmers. Any loss in our ability to provide a high-quality, reliable, and secure supply of malt at competitive values would be detrimental to our industry, which is currently experiencing difficult times competing and maximizing capacity utilization in today's highly competitive global marketplace.

As a partnering country, we recognize and respect the sensitivities that Japan has within its agricultural sector.

• (1105)

It is our hope that as the negotiations unfold, preferential access for Canadian malt can be made a priority and managed in such a way so as to recognize some of the domestic constraints that are currently faced by the domestic brewing industry in Japan.

Our key message to you today in terms of Canada's international trading agenda priorities is simply about three or four points.

First, Canada's export success and future prosperity is contingent upon the government's recognition and vigilance in ensuring Canadian export interests are not put at a disadvantage vis-à-vis our competing suppliers, such as the European Union, Australia, and the United States.

Second, particularly in light of the aggressive and successful bilateral trade negotiations some of these countries have had with countries such as South Korea, Thailand, and other Pacific Rim countries, these preferential trade agreements will impact on our future ability to remain competitive. In our industry environment, where margins continue to be narrowed, any competitive disadvantage puts our industry at further risk.

Third, this is quite critical and it doesn't refer only to Japan, but negotiations, particularly with South Korea, must be re-engaged and re-engaged soonest. Based on some of the information we received yesterday, that doesn't seem to be quite likely at this point.

An economic partnership between Canada and Japan is extremely critical, particularly in light of the risks associated with preferential access that may be given to competing countries if Canada is not—and I repeat, if Canada is not—included in the Trans-Pacific Partnership negotiations and Japan is allowed entry.

Finally, Japan is a highly respected and valued customer to us. It is an extremely important and critical market for our Canadian malting plants. Our malt exports drive value on all barley exports. We need to ensure that we protect and nurture our brewing partnership interest in this market.

Thank you for your time and consideration today. I look forward to any questions you may have at the end of the discussions.

**The Chair:** Thank you very much. I'm sure there will be some questions, but before that, we'll hear from Mr. Newman from the Canada Wood Group. The floor is yours, sir.

**Mr. Paul Newman:** Thank you, Mr. Chairman.

This morning I'm going to be giving some forest industry considerations regarding the economic partnership initiative with Japan.

The Canada Wood Group represents the Canadian forest industry overseas. We are, as an industry, the largest forest products exporter in the world. Canada Wood has offices in Japan, China, Korea, and Europe. We've been active in Japan since 1973, with an on-the-ground presence there for 40 years now.

I will give a very brief overview of the business history for forest products in Japan. In the 1980s, Japan became an increasingly important lumber customer for the Canadian industry. Our sales hit a high point in 2000, at two billion board feet, which was worth approximately \$1.5 billion Canadian. Since 2006, we have seen some softening in demand from Japan, and it's been fluctuating between 1.1 billion and 1.5 billion board feet per year. A very positive situation has been that the volumes have been steady during the economic downturn we've seen since 2009. The Japanese market is very valued by the Canadian forest industry. It has the highest sales realization of all customer groups we deal with around the world.

Some of the trends that are occurring in business in Japan relate to increased foreign and domestic competition. We see changing preferences going on for forest products, and it's well known that Japan has an aging population and demographics are a key issue.

Canada was involved in Japan in pioneering the two-by-four, or North American, if you will, housing method in that country. Up until this point in time, we've seen a cumulative two million starts in construction. However, related to demographics, the single family side has been falling off, and we've now seen increasing use in apartments and other applications.

In terms of the trading relationship with Japan when it comes to tariffs, the impact of tariffs is fairly muted on the trading situation for Canadian forest products. For example, tariffs for SPF lumber, our major export, currently sit at 4.8%, oriented strand board at 6%. We've estimated that the elimination of tariffs would result in savings of approximately \$30 million to \$40 million annually. Having said that the impact is relatively muted, I would agree with the previous speaker that there is a danger to Canada if Japan negotiates free trade agreements with other nations and Canadian forest products face unfavourable tariff differentials versus its competitors.

In the area of non-tariff measures, it has to be acknowledged that Japan has made positive strides in advancing the use of wood in construction in recent years. Examples of some policies include building code amendments, which have enabled performance-based approaches for building codes, and relaxation in their fire requirements. Japan also introduced a couple of acts in recent years. One is the long-life quality housing act to improve the quality of their housing. Another one is the act to promote wooden construction in public buildings, which we might call the “wood first act”, because it's very similar to legislation here in British Columbia. However, Canadian industry does have concerns with both of these acts.

The issue of greatest concern to us is the extensive promotion efforts that are being made by the Japanese government to increase the market share of domestic timber. The driver for the Japanese government is the Kyoto protocol, where they pledged to reduce their carbon emissions by 6% below 1990 levels. In promoting greater usage of their forests, Japan is hoping to recognize 3.8% of the 6% from carbon sequestration through their domestic forests.

•(1110)

Japan has been using the long-life and promotion of wooden housing acts to displace imports via preferential purchasing policies and subsidies to the domestic industry.

I'll give you some examples of that. For the domestic forest industry, there is a law under the act called the thinning promotion law, where approximately 13% of Japan's forests are being thinned, and in the process, creating a vast new source of wood fibre. The Canadian equivalent of \$13.6 billion has been allocated to that particular activity. A further \$1.5 billion has been provided or appropriated by the Japanese government for a green industry renewal activity, and this subsidizes the construction of forestry roads. It will cover up to 50% of the cost of new machinery and wood product production facilities, and it also offsets transportation costs.

For consumers, there is a policy instrument that will reduce housing loan interest rates if they utilize domestic wood products in the construction of their homes. For local governments, there are subsidies provided to builders of institutional and public structures to subsidize construction costs and offset the purchase of domestic wood products.

In many cases, this preferential purchasing is occurring at the prefectural and municipal level, which makes it difficult to counter. Also, the messaging is deliberately ambiguous. It indicates that domestic wood is required, but it doesn't completely shut the door to imported wood either.

In conclusion, having stated those significant challenges, we do think the potential for Canadian wood products remains positive in Japan. We have an excellent reputation in that country, and wood construction is well regarded. There is considerable and growing rebuilding occurring in Japan following the 2011 tsunami and earthquake disasters. We see new segments in non-residential and institutional building going on, which is helping us to diversify from the single-family segment.

Our recommendations, Mr. Chairman, with regard to this initiative would be to pursue an EPA and free trade with Japan. We would suggest that we seek tariff reductions in forest products. We would suggest that we establish bilateral mechanisms to enable technical barrier trade issues with Japan to be tabled and addressed. We also suggest that attention be drawn to Japan's preferential purchasing policies and subsidy programs.

Thank you very much for the opportunity to comment.

•(1115)

**The Chair:** Thank you very much.

We'll now move to the Canadian Honey Council. Mr. Townsend, the floor is yours.

**Mr. Lee Townsend:** Thank you, Mr. Chairman.

I would like to thank the honourable members of the committee for allowing me the opportunity to speak on behalf of the Canadian Honey Council and its members.

The potential economic partnership agreement between Canada and Japan is something we are following closely as it will impact honey exports by our members.

The Canadian Honey Council represents over 7,000 beekeepers and 600,000 honeybee colonies from across Canada. Seventy percent of Canada's colonies, as well as honey production, is located in Alberta, Saskatchewan, and Manitoba. Canada produces approximately 70 million pounds of honey each year, with 70% of this production being exported. The Canadian honeybee industry also contributes more than \$2 billion annually to the Canadian economy.

Canada exports the majority of its honey production to the U.S.A., with the Japanese marketplace being the second largest importer of Canadian honey. It is important to note that 90% of all Canadian honey being exported to Japan comes from Alberta. Since 2009 Canadian honey has been strongly promoted in Japan with great success.

This has been highly successful due to a number of reasons. Canadian honey is world renowned for its white colour, subtle taste, and second-to-none food safety standards. These factors, combined with the effective marketing strategies by our industry in Japan, have steadily increased the value of these sales from \$5.1 million dollars in 2008 to \$9.8 million dollars in 2010.

While these numbers are quite small compared to other industries exporting to Japan, they are becoming more substantial to our industry with the potential growth factor.

As Japan produces only 5% of the honey it consumes, the opportunities for Canadian honey exports to Japan are substantial. I must note that there was a slight drop in exports from Canada to Japan in 2011 due to the Tohoku earthquake and tsunami. Japan—

*[Technical difficulty—Editor]*

**The Chair:** The tsunami again. Somebody didn't like the bees.

Shall we give it a minute? Do they expect that it's going to be long?

I'm torn. We could start with questions and answers. Do you want to start with that?

**Mr. Don Davies (Vancouver Kingsway, NDP):** Why don't you just give it one minute to see if we can get him back on track?

**The Chair:** There we go, okay.

Are you back, Mr. Townsend?

**Mr. Lee Townsend:** Yes I am. The joys of technology, right?

**The Chair:** There we go, okay.

**Mr. Lee Townsend:** I guess where I left off was just saying that Japan's honey imports primarily come from China, Argentina, and Canada, in that order. One of the limiting factors for continued growth in the Japanese market is current import tariffs applied to honey from Canada. Countries such as Myanmar and Mexico—who have an FTA agreement with Japan—can export to Japan with 0% taxation, as long as they remain under the Japanese government's imposed quota limits. Countries such as China, Argentina, and Canada are subjected to a 25.5% tariff on all honey exported to Japan and have no quota limits.

Where this tax becomes quite difficult for Canadian exporters is in the fact that Canadian honey is of the highest quality, and is amongst the most expensive honey imported by Japan. While the Japanese consumer demands this honey, the Japanese packers are hesitant to expand their imports from Canada when they are already paying twice the price for Canadian honey compared to their imports from Argentina, and triple compared to imports from China.

While the removal of this tariff won't cause sales or profits to increase overnight, it will offer our producers more opportunities for expansion within the Japanese market.

I thank you for your time and consideration.

**The Chair:** We're sorry about the technology hiccup. Thank you very much for your presentation.

We will now move to Mr. Davies for seven minutes, please.

**Mr. Don Davies:** Thank you.

On behalf of the official opposition, I would like to welcome and thank all of the witnesses for taking time out of your busy lives to share your expertise with us. I would like to address some questions to all of you, if I may.

I will start with Mr. Newman. I am from British Columbia, so I am well aware of the importance of forestry and the wood industry to our country. I have heard that Japan, among other countries, is pursuing a policy of deliberately trying to add value to their exports. I think that's something that Canada should be doing.

I would like to ask you if you could give us a general idea of what percentage of our exports of wood products to Japan right now are unprocessed or barely processed wood products versus products that have more value added to them? Can you give us a general idea?

• (1120)

**Mr. Paul Newman:** That's a good question. I apologize if I don't have the specific numbers on hand. Certainly, the largest proportion of our products are manufactured. They would be saw and lumber, which is cut to specific grades, dimensions, and lengths. It is

structurally graded and stamped, and meets Japanese requirements for structural use. I mentioned projects such as oriented strand board, which is a fully manufactured product, and so on. There are also log exports off the B.C. coast here.

In the scheme of things, percentage-wise, that's quite a small proportion of the shipments that come out of this province, and the reason is that we have log export restrictions. The operators on the coast who are operating a private forest will have greater opportunity to ship to Japan.

I might just add that Japan and other countries in the Asian market have had great difficulty securing raw materials in recent years because of restrictions, not only on our own log export restrictions, but difficulties from Russia and other countries that have had measures in place to kind of restrict raw wood exports.

**Mr. Don Davies:** Mr. Newman, do you have any suggestions for ways that the federal government can develop policy that might help your industry to develop those value-added products? I keep thinking of something like lumber and the oriented strand board. Those are good products, and they are added value. Even more so, in order to get to furniture and other more highly value-added wood products, do you have any suggestions for what you would like to see the Canadian government do to assist the industry?

**Mr. Paul Newman:** That's a good question.

When I undertook to investigate this talk today, I asked some of my colleagues where they had seen impacts on trade from, say, the preferential purchasing and subsidy issues in Japan. One of the examples I was given was the loss of a 1,000 package home order. The issue of package homes is that if they come out of Canada, they typically will contain cabinetry and higher value-added wood products within the package.

Apparently what was happening, due to the requirement for domestic wood to be used, was that they were unable to meet the procurement requirements, and therefore that sale was lost and the value-added elements of that sale were lost.

The fully fitted-out home kits are an excellent way to get our value-added products into the market. As I say, with the current progression we're seeing in subsidization and domestic wood initiatives, it's going to make it more difficult to get those kits into Japan.

**Mr. Don Davies:** Thank you.

**Mr. Paul Newman:** I would urge the government, in our EPA discussions, to take on this subsidy and preferential purchasing issue because it is, I believe, contrary to WTO, and it is causing our industry problems getting its value-added elements in there.

**Mr. Don Davies:** Thank you.

Mr. de Kemp, we heard some testimony from the canola growers about some issues around GMOs and some of the difficulties that may present in increasing our trade with Japan. Are there any such issues with respect to your membership?

**Mr. Phil de Kemp:** Right now, there is no issue with GMOs. We don't accept it. As far as barley, the farmers are not interested in GMOs. Quite frankly, it's all driven by the international brewing industry, in terms of any perceived or misconceived notions about GMO products. They drive the demand, and as such it hasn't come up on the radar.

Barley is a little different from canola or corn or what have you, because there's not as much grown. So for the seed growers or for the large multinational seed companies, there's not as much incentive just yet. As I mentioned before, malting barley is a specialty crop. At this point, it's not on the radar.

• (1125)

**Mr. Don Davies:** Forgive me if you've covered this, but if you have, I'd like to expand on it. Do you see any non-tariff barriers affecting your ability to export your products to Japan?

**Mr. Phil de Kemp:** There are some very high tariffs, no question about it.

Look, I came from a dairy farm and the word "quotas" right now seems to be a dirty word around the world, or here perhaps. But everything is driven by quotas in applications in Japan, and certainly for malt. If you're over quota, the tariff is half the value of the product; it's \$250 a tonne. Generally, you don't hit that tariff level because they will allocate. Their first priority is their domestic barley producers.

If there is a way to somehow recognize that portion of what they have to purchase from their producers, but that is allocated to the rest of the exporting countries—because we make up about 40% of that market—that would be a huge win for us. I mean, that's going to drive the bus as far as additional exports to there are concerned. We're not asking them to change the quotas, just make those quotas apply to our competing countries if we're going to have an economic partnership agreement.

**The Chair:** Thank you very much.

We'll now move to Mr. Keddy, seven minutes.

**Mr. Gerald Keddy (South Shore—St. Margaret's, CPC):** Thank you, Mr. Chairman.

Welcome to our witnesses.

I'll go first to Mr. de Kemp.

We were in Japan last week and one of the groups we met with was Sapporo. They use a lot of Canadian barley. They were very quick to say they use Canadian barley based on quality. I think as long as we produce the same quality of malted barley we're producing now, the market is fairly strong.

I want to be clear. We're getting in tariff-free now. If we are successful in signing this agreement with Japan, and I believe we will be, what specifically are you looking for from the malted barley industry?

**Mr. Phil de Kemp:** Two things, if I may. Sapporo is such an important customer that it has an economic relationship with the bigger prairie malt plants because it has developed a variety, PolarStar, that is now grown by producers. Their brewers spend over two months a year doing farm audits for supply chain management.

It's a supremely important customer. Sapporo, as you may or may not know, bought Sleeman Breweries in Guelph a number of years ago.

**Mr. Gerald Keddy:** Most importantly, they make excellent beer.

**Some hon. members:** Oh, oh!

**Mr. Phil de Kemp:** Absolutely.

The tariffs aren't going to be the issue. It's going to be on the quotas. We have to still spend a little bit of time on this. We have differences of opinion among the members, quite frankly, about this, about their taxation policies. I know it's a domestic policy issue. They have different categories of beer now. Full malt beer, which is a regular beer that's made with malt—like in Canada, the United States, and Europe—have different categories now, where it's microbeer or using different adjuncts, and they're taxed differently. The taxation on a regular beer was extremely high to make up for some lobbying issues from some other happoshu manufacturers.

That's changed a little bit. We still have to take a look at that, as to whether there is something that can be done there. But on the tariff side, no; on the quota side, absolutely.

**Mr. Gerald Keddy:** Thank you for that. It often breaks down to that whole non-tariff barrier that's there on the regulatory side.

Mr. Newman, you talked a little bit about quality lumber going into Japan. We certainly realize that Japan has a long history of wood-frame construction, and Canada certainly has a long history of supplying excellent material for wood-frame construction.

How much has forestry certification played in your exports to Japan?

• (1130)

**Mr. Paul Newman:** They do have strict growing requirements for forestry certification in Japan. I think Canada has stood above, a little bit, current developments with Japan, because we have such a long and solid trading relationship. They've had lots of interaction with provincial forestry authorities and groups like that. I think that over the years they've developed a confidence in our forestry management regimes here.

Early on, frankly, we were concerned as to whether or not we were going to have to really ramp up our efforts in regard to certification, but we have found that the Japanese hold our approaches in high regard, so we don't see that as an issue at this time.

**Mr. Gerald Keddy:** I do see a bit of a problem in the amount of assistance that the Japanese are giving to their forest industry. We certainly had silviculture assistance in Canada, and I think it was money well spent, quite frankly. But when you start to get into subsidizing 50% of machinery costs, that becomes a huge competitive advantage.

How would you like to see that addressed in an EPA?

**Mr. Paul Newman:** I have to admit I don't know how, in the negotiating process, one can deal with those issues, but it is definitely manifesting itself in the market. A colleague of mine who just returned from Japan was in Tohoku, the devastated region of northeast Japan, and saw a brand new sawmill, fully automated, that had been 50% paid for by government funds.

It is happening. We're seeing it not only in the sawmill industry; we're seeing it in the panel board sector as well, so I think it should be on the table. How, in a bilateral negotiation you actually address that, I can't claim to be knowledgeable, but I think it does need to be addressed, sir.

**Mr. Gerald Keddy:** I appreciate the comment, though.

I think what we do have to realize is that we actually were able to visit some of the northeast region where the tsunami and earthquake epicentre was. It's pretty daunting, quite frankly, to be in some of those areas. I think we have to appreciate the fact that Japan will need to help its forest industry to get over this absolutely horrific natural disaster. However, going from this point forward, when we're discussing an EPA, I think we have to look for fairness of the regulatory regime, openness, and a lack of tariff on wood products coming in, and those technical barriers you're talking about certainly need to be eliminated or reduced.

How much, though, on the regulatory side? You talked about that a little bit to the former questioner. How much are you seeing on the regulatory side? It's one thing to get market access; it's another thing to get beyond the building codes and all the technical barriers.

**Mr. Paul Newman:** That's right.

I apologize. I have to keep my remarks brief. Our time for speakers was reduced today.

There are issues on the building codes and standards side. Japan has a tendency to develop unique regulations and requirements when it comes to standards and requirements, and this makes it difficult for international exporters to comply with local standards and local building requirements. One example would be in the area of conformity assessment. Products used in construction, say, are assessed and deemed suitable for use. Japan typically doesn't recognize foreign certification systems or foreign certification organizations, and they usually require registration under their own system. That adds costs and complexity for foreign exporters.

Another example would be that they require expensive, and we would argue unnecessary, testing on some products, such as OSB, for emissions, such as formaldehyde. It's not that formaldehyde should not be restricted or regulated, but the information on what the emissions are from OSB is very well known. Yet they require monthly testing and monthly compliance, and it seems to be unnecessary.

We also think that Canada could argue for streamlining some of the processes Japan uses to evaluate and approve building code changes. It takes a long time if you're trying to introduce new systems and new concepts. Some form of streamlining process would be advantageous.

• (1135)

**The Chair:** Okay, thank you.

Go ahead, Mr. Easter.

**Hon. Wayne Easter (Malpeque, Lib.):** Thank you, Mr. Chair, and thanks to the witnesses.

Starting first with Mr. de Kemp, you mentioned South Korea. In fact, most of the agriculture witnesses that have come before the committee are very concerned about the lack of progress on the South Korea trade deal and the fact that we will be displaced by the Americans. You said in your comments that you were more concerned because of information you received yesterday. What would that be?

**Mr. Phil de Kemp:** We were one of the founding members of the Canadian Agri-Food Trade Alliance. We got our e-mail briefing from Kathleen, our executive director, yesterday. Obviously, if she sent it to us, it's not confidential, I would assume. It indicated that some Canadian officials just came back, and it sounded as if the South Koreans were not interested in re-engaging, as opposed to starting from scratch.

The signals are that there were probably some things that may have been advantageous to us that they want to start from square one. Obviously, we know that up to this point, it has been sensitive to the automotive industry. I think that the agriculture interests and some others were quite happy to hear from the government that Canada did want to re-engage and that the sensitivities, obviously, still are for Korea's automotive, beef, and pork.

I know that our industry, because we do export 25,000 to 40,000 tonnes, has already been on the record as saying that with the KORUS agreement and the European agreement, we'll probably be out of there in two years because of the tariff differentials. The tariff is significant.

**Hon. Wayne Easter:** That's good information for us to have. That's basically what we're hearing from the beef and pork industry as well. We're okay this year, but at the end of two years, we're in trouble. That's good information.

Mr. Newman, in your remarks and in your paper, you talked about Kyoto and the fact that, I guess, sales in Japan are driven a certain amount by the Kyoto Protocol. Can you expand on that? What do you mean, and how do we compare?

**Mr. Paul Newman:** Aside from other measures to reduce carbon emissions through energy efficiency, things like that, by undertaking to reduce their emissions by 6%, they're proposing to sequester 13 million tonnes. That's the amount of carbon they've identified in their forest.

To do that they want to harvest a large portion of their forest and then encourage new growth, which would lock up and absorb that 13 million tonnes over time. In order to facilitate that, they are essentially trying to grow the use of domestic timber to create markets that enable the removal and then the restocking of those forests to capture the carbon. That's the process they're trying to facilitate.



• (1140)

**Hon. Wayne Easter:** We've withdrawn from the Kyoto Protocol. From a government policy perspective in Canada, how are we impacted by that? What does Canada have to do to ensure that.... Is that damaging our ability to move wood products to Japan?

**Mr. Paul Newman:** I don't think it is at this time. The forestry agency is pushing this initiative in Japan. It's part of a large ministry, and they've identified some important segments of our business as targets for the development of domestic timber. We talked a little about this so-called two by four building market—North American-style, light-frame construction—they've identified that they want to build a strong bridgehead in that market. If they were successful, we'd stand to lose a significant share of the market, which we currently hold about 90% of.

**Hon. Wayne Easter:** You mentioned earlier that one of the things we had to look at was streamlining some of the processes they use in assessing our product, getting in or accommodating their laws, or whatever. Could you be a little more specific on that? That might be a recommendation we would want to put in a report in any trade agreement that we have with Japan. I would see that in part as a non-tariff trade barrier.

**Mr. Paul Newman:** They have a rigid system of codes and building requirements in Japan, and in order to introduce new technologies, typically you have to apply for what they call a ministerial approval. In Canada that might fall under the National Research Council's CCMC building materials process.

We have successfully done that in some cases, say, to do with fire-rated construction, but it's taking an inordinately long time to get those approvals through the system in Japan. It's the non-standard approaches to construction solutions that we have concerns about, and the lengthy process it takes to get them through their regulatory system. That's what I'm referring to in that point.

**Hon. Wayne Easter:** Okay, I'm going to run out of time.

**The Chair:** You are out of time, but I'll allow a very tight question from you.

**Hon. Wayne Easter:** Mr. Townsend, you said we're at a disadvantage with Argentina and China in terms of twice and three times, respectively, the—

**The Chair:** I'm not going to allow it, if you're going to extend your question.

**Hon. Wayne Easter:** You're not?

**The Chair:** Not if you're going to extend it.

**Hon. Wayne Easter:** I'm not. I'm just asking a question.

**The Chair:** Okay, a very quick answer.

**Hon. Wayne Easter:** Mr. Townsend, you said we're at a disadvantage with Argentina and China on movement of honey into Japan. Can you expand on that just a bit? I need a quick answer, the chair is getting impatient.

**Mr. Lee Townsend:** I'll answer very quickly. The reason we're at a disadvantage against China and Argentina entering Japan is the fact of the price difference, and the fact that Canadian honey can be blended with cheaper Chinese and Argentinian honey so that 25.5% tariff we currently face—China and Argentina also face it—doesn't

persuade the Japanese buyers to look at high-end honey as much as they do the lower-end honey.

So it's a common trait in North America as well to take high-price honey, blend it with low-price honey, and sell it for comparable prices. That's where I was coming from about the disadvantage.

**The Chair:** Thank you.

Mr. Shory, the floor is yours.

**Mr. Devinder Shory (Calgary Northeast, CPC):** Thank you, Mr. Chair, and my thanks to the witnesses for coming here.

We have a long-term, complementary trade relationship with Japan that has been working very well. In our committee, we heard that once the EPA is signed between Canada and Japan, it will definitely increase trade opportunities for food products. Mr. de Kemp, you made a comment that the Japanese are not only consumers but also our partners. Mr. Townsend, you said that 90% of the honey consumed in Japan is delivered from my home province of Alberta.

I have two questions, and I'd like each of you to comment. First, how do you see the opportunities being expanded when you are already there and trade is working very well? Second, we all know about our potential membership in TPP. Should we abandon this EPA and wait for our TPP membership outcome?

• (1145)

**Mr. Phil de Kemp:** We have partnerships right now with Japanese brewers like Sapporo, with whom we're developing a barley variety for their exclusive use. We have a couple of different companies—Rahr Malting and Prairie Malt—participating in that. They spend an awful lot of time, effort, and money developing certain variations that offer a branding opportunity for them back in their own country.

The opportunity for additional exports, by the time we start to talk to negotiators, will have a lot to do with quotas. Their barley producers first have to take 90,000 to 100,000 tonnes of their own domestic market. Whatever's left gets allocated between us, the Belgians, the French, and perhaps others. Without telling tales out of school about the negotiating authority, there might be a way to tell them not to allocate 40% of that 100,000 tonnes to us if they really value our product, but rather to work it out with some of the countries they don't have an EPA with. That will drive a significant amount of business to them, particularly because of the capacity issues we have now in Calgary and Saskatoon.

The TPP is absolutely huge as a defensive measure to use if we aren't accepted into the partnership. If Canada wasn't and Japan was, all bets would be off in a lot of agricultural commodities. I think some members here have heard this from us, as well as from beef, pork, and canola producers. It's great that we have this with Japan right now. We are about exporting our product and expanding into the growth markets of the Pacific Rim. TPP would be absolutely huge for our industry. If there's a way to do both, great.

**Mr. Devinder Shory:** Mr. Newman.

**Mr. Paul Newman:** Yes.

**Mr. Devinder Shory:** Can you make a comment?

**Mr. Paul Newman:** I would agree that it's a good defensive approach to pursue an EPA in case Canada is not successful in joining the TPP initiative.

**Mr. Devinder Shory:** Do you think that this EPA would offer your industry any expanded opportunities?

**Mr. Paul Newman:** We're pursuing expansion now. We're dealing with significant underlying trends in Japan, like demographics. I think some success in areas like preferential purchasing could safeguard some of our markets. I think this would probably be the biggest advantage.

**Mr. Devinder Shory:** What about you, Mr. Townsend?

**Mr. Lee Townsend:** Well, in regard to the EPA or TPP discussion, I fully agree with the previous two speakers and their comments. That directly relates to our industry as well.

But regarding the potential growth for our product in Japan, the disaster that occurred last year in Japan really brought honey to the forefront, as it is a non-perishable food product. There are a lot of opportunities there for Canadian honey because of its high quality.

The value-added industry in Japan is amazing. I've been there numerous times, and I've never seen honey packaged here or anywhere else in the world, as I have seen it there. They like our honeys because of the colour, the taste, and the food safety standards. It fits in perfectly with their wedding products and with their value-added products.

Those are two aspects where we can easily see double the growth for the next five to 10 years on our product over there.

• (1150)

**The Chair:** Thank you very much.

Madame Papillon.

**Mme Annick Papillon (Québec, NPD):** Thank you very much.

[Translation]

My first question is to the Canadian Honey Council. Mr. Townsend, I want to know if some of your beekeeper members are from Quebec. Do they export to Japan?

[English]

**Mr. Lee Townsend:** Yes, there are. We do have members located in Quebec, and there is some Quebec honey exported to Japan. The reason that most of the honey exported to Japan comes from Alberta is the fact that 40% of the honey produced in Canada comes from Alberta. Most of the registered producers with the Canadian Food

Inspection Agency are in Alberta as well, and that's required to be able to export out of Canada.

That's the reason most of the honey going to Japan is from Alberta, but there is some honey from Quebec going to Japan.

[Translation]

**Ms. Annick Papillon:** Are there any economic issues related to transportation that affect eastern producers more than western producers? Are there advantages or disadvantages?

[English]

**Mr. Lee Townsend:** I would say there are definite disadvantages to being in eastern Canada, just for the transportation costs. My understanding is that ocean freight from eastern Canada to Tokyo, compared to western Canada to Tokyo, is close to double the cost. There's definitely an economic disadvantage.

[Translation]

**Ms. Annick Papillon:** Thank you.

Do you have any concerns about our standards? Japanese regulation is becoming tighter while ours is sometimes getting weaker. Do you have concerns about

[English]

sanitary things, and...

**Mr. Lee Townsend:** Actually, I have no concerns about that at all. Our industry took the initiative to increase the standards in Japan for our product because we found that the Japanese buyers were very hesitant in relaying to us what they would like to see, whether it be testing protocols or our traceability standards.

We told them what the best we could offer them was, and we've worked together to increase that standard. While the standards in Canada definitely are lower than they are in Japan, there are producers who are equipped to meet the standards in Japan. More and more producers in Canada are seeing that, so they are almost being forced to meet those same standards to remain competitive.

[Translation]

**Ms. Annick Papillon:** Are Quebec producers doing well on traceability standards?

[English]

**Mr. Lee Townsend:** It's definitely a struggle for provinces such as Quebec, Ontario, British Columbia, and the Maritimes, because they are generally smaller producers. They don't have the finances available to meet some of the standards of these other countries. They're a much smaller base, but the ones who are exporting are meeting the same standards that we are out west.

[Translation]

**Ms. Annick Papillon:** Okay.

I have another question. It is well known that bee numbers are decreasing due to environmental issues. Will this affect bee colonies? Does that concern you? Could it seriously affect your production?

[English]

**Mr. Lee Townsend:** Well, from 2006 to 2011, our industry faced the worst wintering losses it has had in its history, ranging from 35% loss to 90% winter loss. But it's very hard to find an unhappy beekeeper this year. We've probably had our best wintering ever.

Due to that, we're looking forward to the potential of even more growth in Japan. You are correct in saying that with our wintering losses being pretty bad, like they were the last six years, it has made it difficult for us to meet the requirements for Japan for the quantity of honey required. But this year is a bad year to ask that, because everybody is pretty happy.

• (1155)

[Translation]

**Ms. Annick Papillon:** Fine. Thank you.

[English]

**The Chair:** Thank you.

Mr. Shipley, the remaining time is yours.

**Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC):** Thank you very much.

I just want to follow up. Actually, I think it's a good year to ask about the honey business because those are natural occurrences in the weather.

But I want to go back also to one of the comments that you had, and I know you touched on it, where they sometimes have to pay two to three times because of tariffs and other things, which we understand now, for their honey from Argentina and Chile because of the competition, and they blend it.

We don't have that opportunity, then, to be in that same league with them, to be able to blend the honey. Or is it that we send the high-quality honey to them, and they use that as the top end of the honey that they blend to sell? How does that work? Having two to three times the cost is difficult.

**Mr. Lee Townsend:** Yes, it's very much so.

It's partly our fault, I would say. The reason our honey is so expensive there is because of the quality of the honey and the fact that honey from Canada has been known to be the best in the world. The only honey that currently goes into Japan that's more expensive than Canadian honey is manuka honey from New Zealand, but there's a very small quantity of that heading there.

But it's common all over the world. They'll take the high-end honey from countries like Canada and pay a large amount of money for it, and then buy the cheap honey from all these other countries—underdeveloped countries or countries like China, Argentina, that don't have the same standards or quality as we do—and they blend them together to bring their costs down.

That's where those comments were coming from.

**Mr. Bev Shipley:** Okay.

I would never ever want to suggest that we would not continue to provide the best honey, because everything that we've heard from witnesses across the board here, in terms of the EPA with Japan, is that they prefer quality. And they are, in many cases, prepared to pay a premium to have that. I think you've illustrated that also.

Mr. Newman, I want to go back because we always have the discussion about how important it is to make sure the TPP, the Trans-Pacific Partnership, gets addressed. We also recognize the significance of it being Japan, which I think we will be successful at. There are always a couple of things with the TPP. You may get in or you may not, but the other part of it is this: will it ever get completed?

I'm just wondering about your comments. The U.S. has set fairly significant conditions for countries to be a part of it. Do you believe that the U.S. can actually meet the levels of their own conditions?

**Mr. Paul Newman:** It's a good question. They have been formidable traders. In Japan, though, Canada has been very successful at dealing with its foreign counterparts, including the U.S. So we welcome U.S. competition in that market.

**Mr. Bev Shipley:** I wonder if Mr. de Kemp might have a comment.

**Mr. Phil de Kemp:** From an agricultural perspective, and having been involved in working in two WTO negotiations over the last 25 years, I would be very surprised if the U.S. is going to be able to walk the talk. You take a look at rice; you take a look at cotton. Let's see where it goes from there.

**Mr. Bev Shipley:** I think that's often the situation.

I guess I'm done.

**The Chair:** Yes.

Thank you very much to the witnesses. You've been very valuable as far as your presentations are concerned, and the questions and the answers were very thorough and succinct. I appreciate that very much.

With that, we will suspend and set the table for the next hour of testimony.

Thank you very much, and we'll suspend.

• (1155)

(Pause)

• (1200)

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

We have our witnesses with us and we have our committee members. If they would take their seats, it would be appreciated.

We have, as an individual, Mr. Raymond Loo; and from the Canadian Vehicle Manufacturers' Association, Mr. Mark Nantais.

Thank you very much for being here.

Mr. Loo, we'll yield the floor to you first. The floor is yours, sir.

**Mr. Raymond Loo (As an Individual):** Thank you, Mr. Chairman, and ladies and gentlemen, for the opportunity to come here today.

**Hon. Wayne Easter:** Mr. Chair, I would like to interrupt for a minute. Raymond had asked me earlier if it would be possible to distribute it. His presentation is only in English. I know there's a rule, but if there's unanimous consent it could be distributed.

**The Chair:** Only if you get unanimous consent....

No, I don't see it.

Go ahead, Mr. Loo, the floor is yours.

**Mr. Raymond Loo:** I'll give you just a short history first of what my experiences are in Japan. I'm an organic farmer from P.E.I., and I've been involved in many farm organizations in P.E.I. for the last number of years trying to figure out ways of making it more profitable on the farm, but it seems like we have to start finding new markets, new opportunities.

In 2005, I decided that I probably should try to see if I could start doing some export business on my own and see if I could just make an example for other farmers. Actually I didn't really plan to become a businessman. But sometimes it feels daunting to try to start a business like that without.... It always seems you need to have a large corporation or you need to have a lot of assistance. So what I did was I actually looked at P.E.I. and what our opportunities are. We have Anne of Green Gables. We have red soil. We have good agriculture land. Where might that be marketable? I thought, probably Japan.

So I went down to Wayne Easter's office and got his book on foreign embassies. I was pretty green. I didn't know you had to dial 001 to make an international phone call when I started all this.

**An hon. member:** Neither did Wayne by the way.

**Mr. Raymond Loo:** I just phoned the embassy in Tokyo and asked to talk to somebody who might be interested in buying organic products or products from Prince Edward Island. The guy at the embassy said, what's your company profile and what's your product list? And I said, I don't have a company profile, I'm a farmer, and I don't have a product list because I want to go over with a blank piece of paper, see what someone wants to buy, and then see if we can grow it. So the guy said, businessmen in Japan are very busy, when you get more information, call me back. That was the end of that.

But I'm stubborn so I phoned the consulate in Osaka, which has since been closed but at the time it was there. The guy there was just as confused but much more polite, and he set me up with three business names I could contact. So I just bought a plane ticket and flew to Japan. I spent 10 days in a Buddhist temple actually. There was a woman who had volunteered at our farm who said she'd put me up. I met three different businesses there. We're now doing business with them, and I ended up meeting a partner. One of the guys has since become my partner, and he's working full time selling P.E.I. products in P.E.I.

What we've done is we started out.... He asked me if we could grow black currants. As an island that's famous for potatoes, most people didn't know what black currants were. I came back and scratched my head for a little while before I decided I wanted to try that. We now have about 60 acres of organic black currants growing in P.E.I. I think we have the largest block in Canada for sure. We started off selling jams to Japan. We sold about \$20,000 worth of jam with the first shipment of stuff. Last year, we were up to about

\$1 million worth of identity-preserved canola, buckwheat, organic soya beans, dried dandelion roots. A lot of people think dandelions are weeds, but we can sell them over as a tea, for making teas. We're one of the only dandelion farmers now.

A fellow phoned me up in June and said, can you grow dandelions in P.E.I.? I looked out and the whole island is yellow, so I said, if I can find seed.

My son, when I was weeding the dandelions one day, said, don't tell too many people you have weed in the dandelions. They'll think you're weirder than just being an organic farmer. I'm now selling dried dandelions to Japan. I have a partnership with a company there. The owner has been back and forth to P.E.I. a couple of times, and the tsunami actually has given us a big opportunity to sell a lot more because people are scared of the Fukushima power plant radiation damage. I've been back and forth to Japan for the last eight years.

The market in Japan is a very developed market. It requires really high-quality products. There's very little room for error. We found that out having made some errors. We've attended the Foodex trade show in Japan for the last five years. We feel that the market in Japan is very important for other reasons besides just direct sales. It also gives us the opportunity to penetrate other markets that watch Japan and see it as the toughest market in the world to get into. It gives us an opportunity to look at Korea and other markets.

Like I said, we started work with some companies in central Japan. One of the things that is causing us a problem is that we need to have equivalency with the Japanese agriculture standards from an organic perspective. We also sell conventional. I don't want to make it sound like we're just selling organic products. There's a lot of conventional products going as well. The United States with the national organic program has equivalency with the Japanese standards and we don't. So an American farmer can pay \$50, and they can have equivalency. They can put JAS on their product. It cost me last year about \$1,800 to do the same thing and an awful lot of paperwork. So it's a huge disadvantage, especially if you're a small producer, to try and ship into the Japanese market. So that's one of the top things.

•(1205)

There needs to be a close relationship between the embassy staff in Tokyo and the agriculture trade staff in Japan. We've experienced some poor communication in the past so that we've shown up at functions at the embassy and almost been turned out because there was somehow a miscommunication. I had my buyers with me, and it didn't work out very well.

We need to see our government working closely with the Japanese government to try to reduce the tariffs on cold-pressed canola oil and other food products, recognizing of course that Japan is not going to do something that's going to adversely impact its own producers. We see that as one of the things that's stopping us from really expanding that market.

I think the Canadian pavilion at trade shows should be more interested in actually promoting trade and not just filling booths. Our experience is that they really want to fill the booths. When we took some buyers in there this summer, I actually got kicked out from underneath the Canadian flag because we didn't have a booth this year—we did the four previous years—and they sent us out to a restaurant. We weren't using anybody else's space—it was empty—but because we weren't there, we had to leave, and that was really embarrassing when we had the buyers there.

One of the things we have to do is a lot of residue testing, pesticide residue testing and GMO residue testing. It's very expensive to have that done in Canada so we have to send all of our samples to Japan and have them tested there, because they can do it much less expensively than we can have it done here. We feel that's a disadvantage as well because it's time-consuming, and there's always room for error if you have poor communications of some sort, which can cause problems.

I'm just quickly covering some of the issues, and I'm hoping that we can cover more in the questions.

One thing I will say is that Japan is known as the toughest market to penetrate, but once you're in there, they're absolutely.... Once you shake hands on a deal, it's been our experience that they're very good about paying and they're as good as their word. It's a really good country to be dealing with.

•(1210)

**The Chair:** Thank you very much. Thank you for your testimony. I'm sure it's going to promote a lot of questions.

Now we have, from the Canadian Vehicle Manufacturers' Association, Mr. Nantais.

The floor is yours.

**Mr. Mark Nantais (President, Canadian Vehicle Manufacturers' Association):** Thank you very much, Mr. Chairman, and good afternoon, members of the committee.

The Canadian Vehicle Manufacturers' Association has had over 85 years of national experience representing Canada's leading manufacturers and distributors of heavy and light duty vehicles in Canada.

Each of our members has different business interests and strategies. I'm happy to speak to you with respect to common

concerns and viewpoints, but will also advise you if certain subject areas are better suited to be answered by those companies, I'll certainly provide you with the appropriate references and contacts.

As of today, CVMA member companies include Chrysler Canada Inc.; Ford Motor Company of Canada, Limited; General Motors of Canada Limited; and Navistar Canada, Inc.

For today's presentation I thought I'd give you a bit of a perspective on Canada's automotive industry, the closed nature of Japan's automotive market, and the challenges of trying to access the Japanese vehicle market.

Last year our members accounted for 70% of all domestic vehicle production and 47% of vehicle sales in Canada. Approximately 85% of those vehicles are exported, mostly to our primary market in the United States. In addition, CVMA member companies export Canadian-built vehicles to more than 50 countries around the world, and that number actually is growing.

CVMA members recognize the mutual benefits of a well-structured free trade agreement and support the enhancement of Canada's economic interests through expanding and opening new global markets. We are committed to free trade and are engaged constructively with the Department of Foreign Affairs and International Trade to work towards the best possible outcomes, recognizing the important role that auto manufacturing plays in our economy across the country.

Last year the auto industry produced vehicles and parts worth \$69 billion, which accounted for 12% of Canada's manufacturing GDP. The auto industry was the second largest exporter, accounting for 12% of Canada's total exports, valued at \$53 billion at the end of 2011.

Over 40,000 Canadians work in auto assembly plants. Each one of those jobs generates nine other spinoff jobs. This is the highest ratio of any other manufacturing sector. In total, 112,000 Canadians are directly employed in the Canadian auto industry. Indirectly, the auto sector accounts for over 400,000 jobs.

Obviously, the manufacturing industry is essential to Canada's overall economy, but it is even more critical to Ontario's economy where the auto industry accounts for 22% of the province's manufacturing GDP. As a result, the federal government's international trade strategy must ensure that growth opportunities for all sectors are accrued, and that includes the automotive sector.

Since the signing of the 1965 Auto Pact, Canada's auto industry has been built around free trade, including the subsequent U.S. FTA, and ultimately, NAFTA itself. NAFTA has actually been a tremendous benefit for Canada's auto industry, not to mention many other industries.

After nearly 50 years of carefully executed and irreversible policy decisions, Canadian auto production is geared to support an integrated North American market providing larger economies of scale to offer the best products at the most competitive prices for consumers. Trade agreements must recognize the high levels of North American integration, designed to maximize efficiency and investment opportunities.

When this is taken into account, CVMA members generally support well-structured free trade agreements with countries that demonstrate commercially meaningful, open market access. Last year with sales of about five million vehicles, Japan ranked as the third largest vehicle market in the world, behind China and the United States. By comparison, 1.6 million vehicles were sold in Canada in 2011.

Unfortunately, in the case of Japan, a decade of import history confirms a lack of significant penetration by foreign automakers, and objectively demonstrates that Japan's auto market is not an open one. Despite the fact there is zero duty on finished vehicles imported into Japan, over 95% of the vehicles sold in Japan are being produced domestically.

The graph the clerk was kind enough to distribute to you earlier demonstrates the situation quite clearly when you look at the penetration level of imports into Japan of less than 4%.

Despite applying no duty whatsoever to imported vehicles, Japan ranks last of all the OECD countries in terms of market access for imported vehicles. This is entirely inconsistent with market trends observed in developed economies around the world.

The average market penetration of imported vehicles across the OECD, as you will see in that graph, is 54%. That's 13 times more than that of Japan.

In Canada's case, Canada is one of the most open markets in the world with just 19% of vehicles sold in Canada actually being produced in Canada. Over 80% of the vehicles sold in Canada are built elsewhere.

•(1215)

Twenty-five per cent of the vehicles sold in Canada are built outside of NAFTA, notwithstanding Canada's 6.1% duty. Forty-five per cent of the vehicles sold in Canada are built in the United States. Ten per cent of the vehicles sold are built in Mexico.

So while the Japanese market consumes about five million vehicles a year, Japan actually produces double that number, and policies are clearly directed to ways to find homes for those vehicles elsewhere in terms of export opportunities. The closed nature of Japan's auto market did not happen by accident but was deliberately created by active public policy tools. It has been the subject of intense scrutiny since the 1960s, including a number of different bilateral U.S. initiatives in the 1980s and 1990s that attempted to open the automotive market in Japan. Unfortunately, not one of those resulted in any meaningful improvements.

In general terms, Japanese non-tariff barriers include a largely unique set of auto standards and regulations, an opaque rule-making process, and a certification regime that remains difficult and costly. I'll give you one example.

For instance, although Japan has made progress in harmonizing some of its auto regulations with the European regulations, significant differences remain, and Japan continues to opportunistically adopt new and unique regulations. The prevailing stance of regulatory unpredictability makes it extremely difficult to ascertain, for business planning purposes, whether a product will be commercially viable in Japan's automotive market.

Certification for sale in Japan is also very costly—usually millions of dollars per new vehicle—essentially limiting sales of most foreign automobiles to fewer than 2,000 units per year under a streamlined small-volume approval process, but Japan has sought to limit consumer demand for even the smaller number of vehicles imported through the small-volume approval process. Again I have an example. Vehicles sold under the small-volume approval process were initially excluded from the eligibility of the cash for clunkers program, a government stimulus program. Under international pressure, Japan subsequently relented, but only allowed a small number of imported vehicles to qualify.

Before starting negotiations, Japan must show a commitment to opening its market that results in a significant increase in imports at levels comparable to those of other OECD countries. Discussions with Japan must comprehend the significant challenges that I've identified. Without doing so, an economic partnership agreement would not be beneficial to all sectors and may in fact prove to be detrimental to Canada's auto industry.

Mr. Chairman, I'll stop there. I'll certainly be glad to address any questions the committee may have. Thank you.

**The Chair:** Certainly, and thank you very much for that.

We will now move to questions and answers. We have Mr. Davies first, for seven minutes.

The floor is yours.

**Mr. Don Davies:** Thank you, Mr. Chairman.

I thank both witnesses for being here today.

Mr. Loo, I wanted to address a few questions to you. Judging by your testimony, it seems to me that the service you received from the Canadian embassy and consulates in terms of assisting you with market development or business assistance in Japan was, to put it charitably, below expectations. Would you agree with that?

**Mr. Raymond Loo:** Certainly the first phone call I made to the embassy in Tokyo was unhelpful, and probably more than that, even discouraging. The consul and the people who are working in the field in the small offices have been excellent. They have been really good to work with. As for the embassy itself, I've been there probably four times, and I must say that I never came away with a warm feeling.

**Mr. Don Davies:** For the second call, I believe your words were that it was just as confusing, but more polite.

**Mr. Raymond Loo:** Yes, much more polite. He was confused, too, because he wasn't used to just a farmer phoning up wanting to sell something on a blank sheet of paper—I wanted to find out what the market wanted and grow it. I've been growing stuff for years and waiting for the phone to ring, so now I want the phone to ring first.

The staff in Charlottetown at the agriculture office have been great, the federal guys, and certainly the regional people in Japan have been great. The embassy.... It's just that I think I'm too small for them to feel that they can work with me.

•(1220)

**Mr. Don Davies:** Well, I wanted to commend you on your initiative, your diligence, and your entrepreneurial spirit. I think that really speaks well of you. I'm glad you succeeded. I think there might be a lesson here for us—to bolster our assistance to Canadian businesses of all types.

Sir, I'd like to say that you're not too small. You're exactly the kind of person that we want developing business in other jurisdictions.

I want to turn to Mr. Nantais. Is it fair to say that your organization does not favour a free trade deal or an economic cooperation agreement with Japan at this time?

**Mr. Mark Nantais:** Well, it's fair to the extent that, for all the reasons I've mentioned, it would be very difficult to proceed on that basis.

**Mr. Don Davies:** If we did sign one, has your organization done any kind of rough projections as to what effect that would have on domestic production of Canadian vehicles and jobs in this country?

**Mr. Mark Nantais:** We have done some work—limited work, I might add—in terms of what it would mean as a cost advantage, for instance, on vehicles imported from Japan. It would be in the range of roughly \$1,300 per vehicle. And that, particularly in the small market segment, would be something that would really be very difficult to compete with.

When you look at the trade numbers as they presently exist, roughly 200,000 vehicles now come into Canada from Japan each year, and that's with the 6.1% tariff. So we would suggest that the tariff is not an impediment to bringing vehicles into Canada.

On top of that, the two Japanese makers who produce in Canada actually produce numbers such that the percentages are essentially... what they build in Canada, they sell in Canada or North America. That's primarily the reason why they came here.

For the moment, that's kind of where we're at on that particular issue.

**Mr. Don Davies:** What I'm trying to get a handle on is that if you're concerned about this deal, it must be because you think there will be negative effects on your members. I'm trying to get a handle on what specifically you think would be those negative effects with respect to your industry.

**Mr. Mark Nantais:** Of course any vehicles that are sold from elsewhere are vehicles that are displaced sales, if you will, for the domestic industry. That includes the other manufacturers that build here as well.

From that standpoint, there's potential negative impact. As I said, the Canadian market is already the most open market in the world. While there may be other sectors that take a very offensive approach to this, we're suggesting that the same opportunities may not exist, and may actually be detrimental to our industry here. When we have lost sales, then that potentially could actually impact the assembly of vehicles in Canada and the number of vehicles we actually produce, which would have a longer-term impact in terms of employment.

**Mr. Don Davies:** Okay.

I met yesterday with some representatives from General Motors in Canada. They mentioned two specific non-tariff barriers. If I have them right, one was the preferential handling process, PHP, and the second one was something called TDS—I'm sorry, I didn't get that acronym.

Do you share their perspective that these are non-tariff barriers?

**Mr. Mark Nantais:** Absolutely.

**Mr. Don Davies:** Can you give us a brief description of how those operate?

**Mr. Mark Nantais:** I have a brief description with me, which I can leave with you, if you like.

**Mr. Don Davies:** Sure.

**Mr. Mark Nantais:** There is full agreement that those represent non-tariff barriers to trade. Those acronyms relate to the different programs for certifying vehicles. They become, depending on which way you look at it, either progressively more stringent or progressively less stringent and flexible.

Nonetheless, those are certification regimes that represent a unique requirement for Japan, and therefore represent a non-tariff barrier. There is absolute agreement on that, yes.

**Mr. Don Davies:** If the 6.1% tariff currently in place on Japanese-produced vehicles is removed, do you see any possibility that this will result in greater production of vehicles in Japan to be exported here?

**Mr. Mark Nantais:** Japan is in an interesting state—the industry is in an interesting state—as we speak. Right now their overall market is trending downward. They have a considerable amount of overcapacity, and therefore the government feels, I think, compelled to continue with its slate of policies and the policy environment that it has developed in a manner that is trying to retain that production there.

I don't think the removal of the tariff is going to result in any new production from Japan—or elsewhere, for that matter—into Canada. I think the companies that are here are producing some significant volumes. I think they will continue, however, to import a good number of vehicles that perhaps they feel aren't...that they'd rather have in production in Japan as opposed to here.

So I don't see a movement back to Japan, but I do see a continuation of trying to preserve what they have and keep importing or exporting vehicles, as the case may be, to elsewhere, given the overcapacity situation that does exist.

•(1225)

**Mr. Don Davies:** Just quickly, Mr. Nantais, I want to ask about R and D support for your industry. Are there any policies the federal government could adopt that would help your industry to be more competitive? I'm thinking more of supporting R and D or any other kinds of policies that you would find helpful for your members.

**Mr. Mark Nantais:** Absolutely there are. The Government of Canada made some very difficult decisions through the recessionary period that were very beneficial to Canada's auto industry, not just the two companies that received support but generally speaking overall.

There were times where there were investments.... The automotive innovation fund, for instance, was an investment fund to help attract new investment into Canada. That's something we need to continue. We need to replenish that program or create a new program, because the reality is that every economy out there generally has or wants an automotive industry, and they go to great lengths to expand it with a policy regime or new investment incentives to make sure it happens.

Mexico has done a tremendous job. The State of Tennessee has done a tremendous job, where there's one-window access to all government programs. They clear out all the red tape, but they also put a broad range of incentives on the table. If we want to compete with those jurisdictions, we need to have some programs that are at least comparable, that keep us in a position that the decision-makers, wherever they may be—Detroit, Stuttgart, or Japan—see this as a viable place to either create new investment or expand what we have.

We have 18 new investment decisions coming. Six of those have to be over the next three years, so the decision time for new investment is now. There is a great number of things that both the federal government and the Province of Ontario can do—because most of that industry resides in Ontario—in a coordinated fashion that could contribute to a very positive business case for new investment.

**The Chair:** Thank you very much.

Mr. Keddy.

**Mr. Gerald Keddy:** Thank you, Mr. Chairman.

Welcome to our witnesses.

I'm sharing my time with Mr. Holder so I'll try to be fairly brief here. But I do want to say to Mr. Loo, welcome. It was an interesting discussion and it's great to see Wayne finally bring us an interesting witness. It really is. You have to give him a little twist every once in awhile. When we started talking about the translation, we usually have to translate for Wayne and sometimes for myself, from the east coast, but I think you were okay.

You found a market niche. That's really what happened here. You developed that market niche yourself. I appreciate some of the difficulties you say you've incurred, but I do have to say, in defence of embassy staff and our trade commissioners, that I have found these folks to be some of the best people in the world to deal with. They're extremely helpful 99.9% of the time, though I'm sure there can be some hitches in that.

But what I'm seeing from your success story is that you found your market, you realized Japan has some unique requirements and you met those, specifically pesticide and GMO testing. If you have to do it in Japan, it's the cost of doing business, so you have to work that into your profit margins and you found a way to do it.

Is it more than phytosanitary restrictions, or are there some other regulatory issues there?

**Mr. Raymond Loo:** No. I don't want to be too hard on the embassy staff. The individuals and certainly the trade officers scattered around Japan have been great. It's only that it was discouraging at first.

The biggest issue was that we did get caught one time with a residue. It was allowable but it was something we didn't know about—it was simply a seed treatment on the canola—and it showed up the next year in the seed. We had to explain that one, but we could and we carried on.

Some of the issues I found were issues around the way business is done in Japan. It is very different from the way business is done here, and you have an awful lot of information going back and forth all the time, flow charts, all that kind of stuff. It was a pretty steep learning curve for me, and it was quite a job convincing all the other farmers to keep all the proper paperwork and all that stuff that goes along with it.

I'm not sure. I can't blame government for this one. It's really hard to get farmers together for meetings. It's really hard to get people in to try to.... Certainly most of the farmers in P.E.I. that I'm dealing with, before we started this, had no idea of the kinds of things you have to do to take a product directly to market, particularly in Japan.

I was in Dubai a couple of years ago. I was invited over there to try to sell some potatoes. In the process, the guy found out we were selling jam in Japan, and he said that if we could sell it in Japan he was interested in buying it there too, because they use that as being such a tough and picky market as far as labelling and all that sort of stuff goes.

What I do and have done in the past, when I don't know who to contact, is to phone one of my people who work at the Department of Agriculture to get him or her to track down who I should be talking to, because it is a bit hard to track down who you need to talk with sometimes to find out about importing, what the tariff might be on something we're trying to bring in. And if there are tariffs, we have to find out what's shipping out and how to have all the proper paperwork done.

It's working. As I say, at the trade shows and so on, sometimes the really big companies have staff and knowledge that the little fellows don't have. We don't necessarily know the proper way to do it.

• (1230)

**Mr. Gerald Keddy:** I appreciate that.

**The Chair:** Mr. Holder.

**Mr. Ed Holder (London West, CPC):** Thanks, Chair. I would like to thank our guests for attending today.

Mr. Loo, you are a great storyteller. You remind me of my Cape Breton mother in more ways than you want to know.

I would like to direct my questions to Mr. Nantais. I'm sorry for my limited time.

Mr. Nantais, are the Japanese companies members of your association today?



**Mr. Mark Nantais:** No. We have a looser relationship with the actual vehicle manufacturers—Toyota and Honda—which are different from Toyota and Honda Canada. They are separate entities.

**Mr. Ed Holder:** Okay. Is there any move to make them more formally a part of your membership?

**Mr. Mark Nantais:** How do I answer that question?

There is not at this time.

**Mr. Ed Holder:** Do you want them in your membership?

**Mr. Mark Nantais:** I think the discussions we have around the table now about manufacturing issues in Canada are such that I don't know if they need to be a member. We come to agreement on a lot of issues, and we agree on actions to take to solve a lot of issues.

**Mr. Ed Holder:** See, here's what's interesting. We are at the front end of a potential agreement with Japan.

I think, gentlemen, you have a very unique opportunity being here today, because we haven't signed anything yet. The input that you give us can actually be very helpful. I would even say, particularly Mr. Nantais, if there is anything specific that you think should be considered on a non-tariff basis—because you said tariffs aren't the issue, and we don't have any tariffs exporting to Japan, and have small, if I might say 6%-odd is small, tariffs to import from Japan—now would be the time. Through your association, you could forward that to our clerk to give us some specific ideas. This really is a unique opportunity.

I hope you will embrace this as an opportunity. It's critical for the sake of the industry. It's part of the reason our federal government made some significant investments in the Detroit Three. Certainly, two of the three took advantage of it in the worldwide recession so we could have a manufacturing industry in this country. I think you would agree there was a significant investment from the Canadian taxpayer in those particular auto manufacturers.

**Mr. Mark Nantais:** Absolutely.

**Mr. Ed Holder:** With that, my question comes back to this. Knowing that Toyota and Honda have made significant expansions and growth in southern Ontario—you have already indicated that they seem to match, and whatever they produce here, they sell here—it's not so much what they export from Japan into Canada, but what goes beyond that.

Here's my question. European manufacturers seem to have some success in Japan at having products that the Japanese want to buy. Can you please tell me then why Canada isn't doing that? Why aren't our Canadian manufacturers developing the kinds of products that the Japanese might want to buy, if you think that's the issue?

**Mr. Mark Nantais:** I think it's all a matter of what you deem to be success. I think you will find when you speak to the European manufacturers who have been able to sell some vehicles into Japan, that it's still at volumes much lower than those for any other OECD country. I'm not sure we would be deemed to be successful, but they have sold a greater number of vehicles. Those vehicles, however, generally tend to be the premium vehicles with much higher margins, and there is a tolerance, if you will, in terms of their consumers paying more for those vehicles. As a result of that, they have a greater ability to absorb the significant cost related to, for instance, the earlier question about certification of vehicles. It could

be millions of dollars per vehicle. They are in a little bit of a unique situation.

In terms of the traditional North American automobile manufacturers, they have been putting vehicles into that market for many years; however, only in very small volumes. I don't think you can say the Japanese don't necessarily want those vehicles, nor could you say there's not a commitment to selling to that market. When I will look at it from the other end of the telescope, then, if they are committed and still send in small volumes, they must be committed. Otherwise, they would just move out of that market, which Hyundai recently did. There was an article this week that said that they were pulling out of that market.

Under the old policy environment that prevails, people are basically saying you must work within that environment. It's very difficult to raise any numbers of any vehicles unless you are a premium manufacturer. And even for those there are far fewer than for any other OECD country.

● (1235)

**The Chair:** Thank you very much.

Mr. Easter, the floor is yours.

**Hon. Wayne Easter:** Thank you.

Thank you to both witnesses.

Raymond, congratulations on being stubborn. Otherwise you wouldn't be in that Japan market. That's for sure.

There are a couple issues coming out of your remarks that could make a difference. You talked about how the Americans have equivalency on organic standards, and we don't. That would make a fairly substantial difference, whether it's an organic producer in Prince Edward Island or in Ontario. What has to be done there to do that?

**Mr. Raymond Loo:** Well, the Canadian government has equivalency with the national organic program in the States now. Also, we have equivalency in Europe, in the EU, but we don't have it with Japan. I'm not sure at what stage it is; it seems to be taking longer. Of course, the first one that was looked at was the United States, and the second was EU, but Japan is a significant market for us. It is definitely working in the favour of the Americans to have equivalency, and we don't. The faster we can possibly get that through, the better.

I don't think there are a lot of roadblocks, in terms of us using something that's not allowed. It's really a matter of government-to-government work to push this through.

**Hon. Wayne Easter:** Is that equivalency through Agriculture and Agri-Food Canada, or is it through Trade, or what? Do you know?

**Mr. Raymond Loo:** It's through the Canadian organic regime regulatory standards. Agriculture Canada, I guess, is looking after it, but it is a government-to-government paper that has to be done.

Even though I have national organic certification on my farm and the United States has national organic equivalency with JAS, I can't go that route. It goes country of origin, so it's government to government that has to make the agreement. It is a significant restrictor for us.

**Hon. Wayne Easter:** Mr. Chair, I wonder whether research could look into that a little, through the Library of Parliament. We need to know what we should recommend in that area. Or, I can write a letter to the Library.

The second area you talked about that would make a difference is residue testing. I understand it's being done in Japan. If we did it here, how complicated is it? Secondly, if we were to do the residue testing in say, Canada, at any lab, would it be recognized in Japan, in your opinion?

**Mr. Raymond Loo:** The GMO testing that we do is done in the United States. There are labs in the United States that are recognized in Japan. We have to send the sample. It goes, I think, to Alabama, or somewhere there, to get that tested.

With the other, it would depend. What they would do, I think, would be to ask what process is being used. They would want to make sure our process is the same as their process.

It's the same thing with protein testing. Our protein test is almost always 2% higher than the protein testing system they use in Japan. Once we know that, then we can always know that if ours is 44%, they're going to say it's 42%.

As long as it is done with some kind of standard, and they can follow the whole system, I think we could do it.

It seems that Canada isn't doing nearly as much pesticide residue testing as they are in Japan. I made a bunch of inquiries, and people say there's not enough demand so nobody's going to bother setting it up.

I don't know. I think if we're going to expand the market in Japan, the demand will increase as well.

• (1240)

**Hon. Wayne Easter:** Thanks.

I've heard first-hand on the embassy issue and the booth at the trade expo, and I would say to committee members that embassy staff do a good job. But I can tell you, if you have a couple of Japanese buyers with you, the Canadian pavilion, with its Canadian flag, being empty.... You've had a booth for four years in a row. If you take your buyers to an empty table and you get kicked out, it isn't great for sales.

All I'm saying, Gerald, is that a little common sense goes a long way. On the other hand, the embassy staff do good work. That's all I'm saying.

On the automotive side, Mark, you talked about Japan having quite a number of what you called "active public policy tools", which hamper the ability of us to move vehicles to Japan.

Is there anything that can be done? If there's a trade agreement, an EPA with Japan, it may not be a huge advantage to the Canadian auto industry in the way it is at the moment, but is there anything that can be done to accommodate that concern, from your perspective?

What would we have to see in an agreement with Japan to get around these active public policy tools that they're using to keep us out of the market?

**Mr. Mark Nantais:** These active public policy tools are a broad range of things. It's not just vehicle standards. It's also zoning laws and things like that, so it's difficult to establish your dealer network and your parts network. We have a situation in Japan where they're not even willing to acknowledge that they have a problem. In fact, they're countering these suggestions that they have a policy problem that really distorts the automotive market. That in itself suggests that you would have a very difficult time trying to bring about change.

What we need is major change in a short period of time, but also the political will to make sure that the change is effected. This is the problem, whether it's Japan, or Korea, or even the EU. Standards in the EU, for instance, are less stringent than ours, so is the certification regime. There has to be an acknowledgment, first, that there is a problem. Second, they have to make major changes in a short period of time to demonstrate their willingness to open up their market. This is going to be the biggest challenge associated with this discussion.

The United States, through the 1980s and 1990s, made four different attempts through agreements with Japan to remove this policy environment, which has tended to distort the automotive market. They put the agreements in place, but nothing really happened. We have a long-standing history of no action here. So I'm not sure I'd have a recommendation for you, Mr. Easter.

**The Chair:** Thank you.

Mr. Cannan, the floor is yours.

**Mr. Ron Cannan (Kelowna—Lake Country, CPC):** Thank you, Mr. Chair and witnesses. I'll share my time with Mr. Hiebert.

I wanted to compliment you, Mr. Loo, for your patience and perseverance. A lot of people wouldn't have continued. That's a true entrepreneurial spirit and a fighting farmer. Do you have any other association members you've been able to collaborate with to strengthen your movement as you continue to grow your connection with Japan?

**Mr. Raymond Loo:** We have about 10 farmers who are growing black currants. There are 11 or 12 farmers growing canola. There are another six farmers growing buckwheat, and we have a couple of farmers growing soybeans, different farmers. So there are a whole bunch of different farmers working.

We have a guy at the provincial department of agriculture who's working with the different farmers to facilitate communication back and forth to Japan. I have a partner in Japan who's sending e-mails and phone calls back and forth constantly. We don't have a formal co-operative. We're working cooperatively without a co-op name. Each individual farmer sells a portion of his crop, or whatever, to us.

**Mr. Ron Cannan:** I think it's important to share the learning pains that you've gone through, so that others don't have to go through them. That's important in P.E.I. and across Canada. So you're concentrating on the island.

• (1245)

**Mr. Raymond Loo:** We're primarily on the island. I was not expecting a whole bunch of farmers to come wanting me to sell stuff. I was hoping they'd come to find out how they could start doing things. What ended up happening was people phoned up and asked if I could sell some of their stuff. It's difficult, but it's also an interesting challenge. I think a lot of people could do a lot more individual marketing.

**Mr. Ron Cannan:** Thank you again for your entrepreneurial spirit. You're keeping Canada's name alive and well across the world, especially in Japan.

With respect to the auto industry, I agree that when we enter into these EPAs and trade agreements we have to have growth opportunities for all sectors. Mr. Fast has been clear that he won't sign any trade agreement that isn't in the best interests of all Canadians. We want to make sure it's a level playing field. If the agreement removes the cost of the approval process and shows a commitment to open the market for Japan, would that be something your association would be amenable to? What would that look like from your perspective?

**Mr. Mark Nantais:** Certainly we're amenable to discussion, which is why we've been having ongoing and very constructive discussions with the actual negotiation team in the consultations that have been going on. We have to start with getting rid of the non-tariff barriers, for one. We have to also remember, however, that there's a number of policies in place, for instance, that apply to domestic vehicles themselves, which force, basically, sales of the super mini-size types of vehicles. They get preferential treatment in taxation. They get special parking permits. So even domestically there are things in place that force the market or skew the market into that small segment area. These are all the things that, again, detract from your ability to enter that market.

Clearly, we need to talk about how we get rid of the non-tariff barriers of trade, we need to talk about even some of their own domestic policies that skew the market, and we need to talk about, for instance, the other policies that prevent the extension of the dealership network, the parts supply network, etc.

So there's a number of things that would have to be done. I guess I have to look to the history, though. In the four times that the United States tried to rectify this matter, the initial response was positive, but soon thereafter other non-tariff barriers or policies came up that actually detracted.... In some cases, penetration of the market prior to those agreements being put in place was greater than after they were put into place.

So we have a real problem here with the historical record of their performance. We, still, in terms of OECD countries, are at the bottom of the heap, and with only 4% of their domestic market being able to be accessed by any country outside of Japan.

**Mr. Ron Cannan:** That's a fair comment. On the issue of parking spaces, local governments make those exemptions. It doesn't matter where the car's manufactured. They allow Smart cars to park for free in the City of Kelowna, for example, so it doesn't matter where the car's manufactured.

Thank you.

I'll pass the floor to Mr. Hiebert.

**The Chair:** Mr. Hiebert, you have two very short minutes.

**Mr. Russ Hiebert (South Surrey—White Rock—Cloverdale, CPC):** My questions were similar to those of Mr. Cannan.

I'm astonished, by looking at this graph, that Japan's been able to keep competition out so effectively for so many years, when they've been able to penetrate so effectively everywhere else.

Does Japan have any free trade agreements that erode their ability to keep these competitors out?

**Mr. Mark Nantais:** Not that I'm aware of....

**Mr. Russ Hiebert:** So this would be the first, with Canada?

**Mr. Mark Nantais:** I don't know. I can't say whether it would be the first, but I'm just not aware of any.

**Mr. Russ Hiebert:** Do you think they'd be amenable to allowing Canadian domestic manufacturers into their market in exchange for a free trade agreement?

**Mr. Mark Nantais:** I think they're presently of the view that they have no tariff in place and that they are an open market. Therein lies the issue. That's their belief, and yet no vehicle manufacturer from any OECD country in the world has been able to penetrate their market. I guess I have to wonder what the answer to that is.

They have been very adept at doing this. It actually started after the Second World War, where virtually, obviously, no U.S. investment was allowed into the country. And then through a number of years thereafter, as they built up their auto industry, as more and more of these policies came to the fore, more and more of those policies protected the domestic market. It became that much more difficult to access that market over time, and despite those efforts of the United States to get in there, they have not been successful.

I think there would have to be some very significant discussions here about what their commitment would be to remove all of these barriers. Thus far, when you look at these previous attempts to open the market, they have not been successful. So it would be very interesting to see what their response would be to that.

• (1250)

**The Chair:** Okay, thank you very much.

And thank you very much, Mr. Loo and Mr. Nantais, for coming in.

We are going to suspend for just a short minute, as we go in camera to discuss committee business. So we'll suspend and pick it up after that.

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*[Proceedings continue in camera]*







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