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## **Standing Committee on International Trade**

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**EVIDENCE**

**Tuesday, June 5, 2012**

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**Chair**

**The Honourable Rob Merrifield**



## Standing Committee on International Trade

Tuesday, June 5, 2012

• (1100)

[English]

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

I want to thank our witnesses for being here. I see we have enough members at their seats and witnesses at the end of the table, so we'll start.

We're going to continue on with the study on a comprehensive, high-level economic partnership agreement with Japan. We have with us two witnesses in the first hour and two in the second. The two in the second will be video conferenced. With us right now we have Factors Group of Nutritional Companies.

Mr. John Tak, thank you for being here.

We also have Boulanger Bassin Bed and Breakfast.

Mr. Ken Ilasz, thank you for being here. We'll start with you, Mr. Ilasz. The floor is yours. We're looking forward to your presentation.

**Mr. Ken Ilasz (Owner, Boulanger Bassin Bed and Breakfast):** I have a little introduction here.

This activity of mine with Japan began four years ago, following a holiday trip to visit friends. I learned quite quickly that one aspect of the culture in Japan is gift giving. It's intertwined in the society. For many years in my B & B I had made fruitcakes, and I brought some of these cakes to the Japanese, to my friends, and they loved them—and they did know about fruitcakes. The Japanese import approximately 60%—

**The Chair:** You never brought samples for the committee?

**Mr. Ken Ilasz:** I did, as a matter of fact.

**The Chair:** Oh.

**Voices:** Oh, oh!

**Mr. Ken Ilasz:** I did. I thought maybe I could get on that wagon there.

**A voice:** Okay. We are making headway—

**Mr. Ken Ilasz:** Yes. I'm going up in the world.

**Voices:** Oh, oh!

**Mr. Ken Ilasz:** Just to reiterate, I brought a few cakes, and even though people did know about fruitcakes—they import 60% of what they eat into the islands of Japan—most of those cakes were coming

from Germany and England. They had never tasted such a good one from Canada.

To modify this cake, which was originally a product from my great-great-grandmother, who came from Austria, I designed a fruitcake that I thought the Japanese would enjoy. I suppose I've been quite lucky, because this is really a micro-operation. I'm a one-man operator. I make 3,000 cakes a year, a third of which are sold in Japan. Another third are sold in retail outlets in the province of Quebec, and the rest I sell out of my little operation in Montreal.

I guess my interest in Japan—I'll make this quick—maybe goes back to when we were children, when my mother would collect these porcelain salt and pepper shakers with this “Occupied Japan” on it. We used to laugh; you know, we thought it was so funny, “Occupied Japan”, but that was back in the 1950s and the 1960s. Since then they've shown us what they were able to do.

Basically, the process to get there was through MAPAQ, which in Quebec is the ministry of food and fisheries. The Montreal office put me in contact with the commercial attaché in Tokyo, who I pitched to, and after opening a dossier, this commercial attaché introduced me to the people I do business with, who are food importers based in Osaka. They import mostly maple syrup, and they took on my cake about three and a half years ago.

Following our agreement, we decided to get the product approved. One of the biggest challenges in Japan is getting any item, but especially a food item, a certificate of approval. Of course the import duties are part of that process. Much depends on the custom officer's knowledge of the product.

In my case, there are more than 20 ingredients in the product. The ingredients come from every part of the world. In order to satisfy the requirements, there were all kinds of letters of guarantee that the products were not only fit for consumption but also wouldn't make people sick.

That was a lengthy process to get, not only from the distributors from whom I purchased my ingredients but also from their suppliers. This was something the Japanese were very centred on. They wanted to know exactly where everything was coming from.

I would say that another preoccupation they had, something that needed to be dealt with and that initially gave us some challenges, was their concern about freshness and the “best before” date. My product is good for two years. It doesn't have any artificial preservatives in the cake. People there couldn't understand how a cake that was two years old could be good to eat. This was also a challenge.

Now I'll turn to the variations in duty. The import duty on my product is levied at 30%. I use pure maple syrup. If I used maple sugar, the import duty levied would be 17%. If there's one gram of sugar in any of the dried fruits, the duty increases immediately to 50%. Otherwise it's 30%.

•(1105)

A 25-kilogram bag of flour from Saskatchewan, which in Montreal costs me \$19, is \$40 there, plus transport, port fees, and the overall 5% tax. So if you add up all of those things, it makes a lot better sense at this present time to keep making the cake in Canada, because it would be even more expensive to do it the way things are in Japan. I don't know if you need to know this, but I wholesale that for \$27 FOB in Montreal, and that is equal in terms of import duties. The import duties, on a percentage basis, are equal to the cost of the ingredients of my cake, so it's quite considerable. Not only do I have one or two partners, but I have quite a considerable silent partner over there.

I'll read you a couple of quotes from people who I do business with. I don't know where the quote is right now—excuse me—but I'll tell you that what I wanted to quote was from the commercial attaché who wrote to me a couple of days ago and said that a lot “depends on the custom office at airport or port”. For example, he said, for maple spread, the customs officer charged 35%. He thought it was dairy butter, but he's referring here to maple butter. Therefore, he said, the importer changed the port from Kobe to Osaka and then the import duty became 17%.

These kinds of things happen on a regular basis. In the quote from the importer, the people I do business with, they say, “In general, the duty on sweets is very high...”. His appreciation of this is that the Japanese want to protect a confectionery industry that is of very high quality. But indeed, he feels that a new deal with lower tariffs would be good for everyone involved.

In conclusion, I believe that a new deal would not only improve the flow of goods but would also aid the Japanese in attracting the foreign investment they seek. A lower tariff would perhaps entice companies to set up production there, and specifically in the affected part of the country that was ravaged by the tsunami.

In general, then, that's basically my presentation.

**The Chair:** Thank you very much for that. We appreciate you being here and sharing that, and I'm sure there will be a lot of questions that will come out of it.

We'll now move to Mr. John Tak, the vice-president of international business for the Factors Group of Nutritional Companies Inc.

The floor is yours, sir.

•(1110)

**Mr. John Tak (Vice-President, International Business, Factors Group of Nutritional Companies Inc.):** Thank you.

First of all, let me say thank you to the Government of Canada for holding these meetings and for inviting me to comment on the Canada-Japan partnership agreement.

I also thank the committee members for your hard work on these public hearings and for your valuable and admirable service to Canada and to Canadians. I really do thank you. I really appreciate your long hours and your dedication.

In opening, I'd like to give you some brief insight into my background. It's unique, of a sort. I studied business at the British Columbia Institute of Technology and then graduated from the University of British Columbia, in 1982, with a B.A. in Asian Studies and the Japanese Language. While my last name sounds Asian, it's actually Dutch. I get all the mailings from the Chinese legal association in Chinese, because many people think I'm Chinese.

Following graduation from UBC, I studied in Tokyo at Stanford University's centre for advanced Japanese and did postgraduate research in the economics department of Kyushu University, in the south of Japan. My postgraduate education in Japan was financed by a \$30,000 scholarship kindly provided by the Japanese ministry of education and the Japan Foundation.

I speak and read Japanese, and I used these skills to open and manage Magna International's first office in Tokyo. I also spent five years in Tokyo as the senior representative managing British Columbia's trade and investment office. While at Magna, our exports of Canadian-made auto parts sold to Japanese automakers increased to \$90 million. Since then, Magna has grown those exports to hundreds of millions of dollars, including expansion to other tough, competitive auto markets, such as Korea.

After Magna, I joined Mitsubishi Corporation, following their \$50 million investment in Magna.

Let me say that from that experience, Canadians can successfully export value-added, manufactured products to Japan, and we absolutely must do so to improve our economy and to create jobs. Therefore, on a personal basis, and also in my role as vice-president representing the Canada-Japan Society of British Columbia, and as the vice-president of international business for the Factors Group of Nutritional Companies, which is Canada's largest manufacturer of health supplements, I strongly encourage the Government of Canada to negotiate and sign a bilateral trade agreement with Japan.

There are many strong reasons to complete such an agreement, and I believe that there are few to argue against it.

I often look at Australia with envy. Australia shares many similarities with Canada, including an economic structure based on a wealth of natural resources. As well as a British colonial history, we share the leading international language of business: English. But Canada also benefits from our other national language: French.

Where we differ from Australia in regard to Japan is in the effort Australia puts into selling into and penetrating the Japanese market. Japan is Australia's second-largest export destination. It is number two for Australia. Australia is Japan's third-largest source of imports.

For Canada, Japan has fallen to be our fifth-largest export destination. On the other side of the ledger, Canada is only Japan's 14th-largest source of imports. The actual trade numbers are compelling. In 2011, Canada exported about \$11 billion in product to Japan, while in the same year, Australia exported over \$50 billion in product to Japan.

The math here says that we can do better. We should do better, and I believe that with an EPA, we will do better. We can do a better job in selling to the Japanese in a way they want to be sold to. If you ask a lot of Japan market experts in Canada what they think of how we sell in Japan, they will share a common view that the majority of our \$11 billion in exports to Japan were purchased from us by Canada experts in Japan. We weren't doing the selling; we were basically purchased from. We have an opportunity to increase our exports by selling—really selling—in Japan.

• (1115)

A free trade agreement with Japan would act as a strong catalyst. It would promote Canada and Canadian exports by removing trade impediments such as tariffs—certain tariffs do exist—and certain non-tariff impediments that do exist, and by raising the profile of Canada, and Canada in Japan.

A free trade agreement with Japan is not without risks, but they must be objectively analyzed.

The auto sector has expressed concern about liberalized trade with Japan in this sector. However, when you look at it, Japanese cars are imported into Canada at a tariff of about 6%. There is some concern that a free trade deal would reduce this tariff or eliminate it completely, and therefore, conceivably, Japanese cars would have a stronger competitive advantage in Canada. Many Japanese cars are already manufactured in Japan, but yes, removing the tariff would provide them with an advantage.

However, when we export our Canadian-made cars to Japan there is no tariff—no import tariff—and in spite of that North American automakers have hardly gained a sliver of market share there. While claims are that there are all these tariffs and non-tariff barriers, that, quite frankly, doesn't stand the test of close examination.

I pointed out earlier that Magna, when I was there, exported \$90 million worth of auto parts to the Japanese market, and other Canadian auto parts makers are also doing the same. In addition, we sell hundreds of millions of dollars into other tough markets like Korea and China.

I would also give one other example of a sign of how that market is more open for automotive sales than we might think. Look at Harley-Davidson. Harley-Davidson is selling its North American-built motorcycles in Japan. They have a large market share. Why did non-tariff import barriers not prevent Harley-Davidson from gaining the market share that they have to date? When I worked in Japan I was able to work in trade shows. I was able to go to head office meetings at Japanese corporations and operate freely in Japanese, and they appreciated that. I was able to understand how they do business there, how they want to do business there, and we were successful. We were not always successful, but we proved that we could do business there. So I think there's a real opportunity for others to do the same.

One cannot ignore the opportunity to trade with China. It is now our number one trading export destination for Canada. But I think we also have to recognize that engaging in trade with Japan is somewhat less risky than trade with China, given that Japan is more familiar with and accepting of western trade negotiating styles, contracts, and dispute resolution mechanisms such as binding international arbitration. An EPA with Japan would enhance this even further.

Along with an EPA, the Government of Canada should reopen its consulate general and trade office in Osaka, which was closed a few years ago, along with the immigration and visa office that was just closed. I realize there are cost restraints. I would encourage just a second look to see what the dynamic is there. Maybe it is worth it for our trade. If we want to go from \$11 billion to \$20 billion, how do those offices play a role? I'd really encourage taking a second look. Again, I want to do what the Australians are doing, get to \$20 billion and eventually get to \$50 billion in sales.

In negotiating the EPA, Canada should have Japan eliminate its current 12.5% duty on health supplements. Currently, companies like ours—we are the largest manufacturer of health supplements in Canada—are importing health-supplement ingredients from Japan. They pay no duties when they come in. We build them into products and when we send them to Japan for export we get slapped with a 12.5% duty on stuff that we got there for free, with no duties coming into this country. It makes absolutely no sense to have that duty. We strongly encourage you to look at that 12.5% duty and request that it be removed.

In short, I would say that I support comment to date that an EPA with Japan would offer a platform for further deepening the already well-established strategic partnership between Canada and Japan. It would be an important step into the two countries' shared aspiration to foster further regional economic integration based on market principles towards a free trade area of the Asia Pacific, which is extremely important for us, and deliver substantial economic gains for both countries, including increased economic growth, production, national wealth, and consumer welfare. Finally, it offers stable access to reliable supplies and demand of resources such as energy and other natural resources as well as food products.

• (1120)

Thank you for your time and attention.

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

We'll now move to questions and answers.

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

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

I'd like to first welcome both of our witnesses to the committee and thank them for their testimony.

On a personal note, I want to say how impressive I think both of you are in terms of the way that you've conducted yourselves and built these bridges to Japan and Canada on personal levels. It's very impressive.

Mr. Tak, if I could, I'll begin with you. We've heard a lot about non-tariff barriers. We've had some testimony at this committee about what those are, and certainly some exist, but with your experience in Japan, having done business there, studied there, and having been able to conduct your affairs there in Japanese, I'm wondering if you could explain more to us about difficulties in just doing business there—difficulties that are not non-tariff barriers but are just regular commercial issues that you think would help Canadian business understand better, appreciate better, and penetrate the Japanese market in a better manner.

**Mr. John Tak:** Yes. One thing that jumps to mind that you could call a non-tariff barrier and that you could say is a cultural barrier.... I tend to think they're more cultural barriers, but the Japanese do have, typically, a just-in-time delivery system, so it pushes back to our production system. We're saying that we have to produce more often and in smaller lots, get those lots over to Japan, have them warehoused in Japan, and allow our retail distributors there to draw off that inventory we're keeping there, constantly rotating that. This is not something that we normally do. They do it there and they do it all over the place, but it's not something that we normally do.

However, as a result of investing in it—and initially we weren't really making money—we started to make money and we were able to use the improvements in our production and inventory control in other countries. So there was actually a broader benefit from it.

So I would say that's.... Call it a business style barrier that is surmountable, but it's not easy to break into that market.

**Mr. Don Davies:** You mentioned decisions of the government in the last three years to shut down the Osaka consulate—I understand there was a commercial side at the Osaka consulate that was shut down three years ago—and the recent decision of the government to shut down the immigration office in Tokyo. I understand that things such as student visas will now have to be processed through Manila.

I'd like your opinion on what effect that may have, as viewed by the Japanese. Second, I'd like to know if you anticipate any reciprocal action by the Japanese government in Canada.

**Mr. John Tak:** Thank you. I will preface any remarks I make by saying I completely understand that when you're looking at the finances of the country you have to assess where you can cut costs, and then you have to do it across all departments. I applaud the government for doing that, but when that happens, it's hard not to avoid sometimes putting out the baby with the bathwater. Hopefully we can take a second look and say that maybe in this case, yes, this is something that is worth it because it provides us a leveraged financial benefit that is more than going to pay for the investment.

I would say that in Japan you have two huge economic areas. You have the Tokyo area, which is called the Kanto, east of the barrier—the whole mountain—and then the Kansai, which is west of the barrier, and that's the whole Osaka area. They're huge economic generating areas and they compete very strongly.

So closing the office there had a very big psychological impact, and it was broadly noticed. I would say that having the people on the ground there to help our business people and tell us what's going on there is definitely of benefit to Canada if we want to further increase our exports.

On the ramifications, well, we've closed the immigration office, and there were other trade offices that were closed. I'm hearing rumours that the Japan External Trade Organization will close its Vancouver office in the next few months. I don't think that's retaliation. I just think that everybody looks at their trading partners, and who's their most valuable and who isn't. You take all the information, you throw it into the bucket, and you make a decision. But those kinds of things—the fact that we're closing offices there—don't play well into their decision on what they do with their offices here.

• (1125)

**Mr. Don Davies:** What's becoming increasingly clear, to me anyway, is that international trade is inextricably linked to our industrial policy. So it's not just who we're trading with and on what terms, but what are we making to trade and what are we trading? That leads to decisions in Canada about, for instance, what we are incenting. What sectors do we want to grow and nurture? I'm just wondering if you could give us some sense of what Japan does as a government in terms of directing its industrial policy. Are there any lessons for us there?

**Mr. John Tak:** That question is for me?

**Mr. Don Davies:** Yes, please.

**Mr. John Tak:** I would say what other countries are doing, including China, Korea, and Japan, which are well known for using industrial policy to leverage the economy and create jobs, is not controlling business but working with business and saying, “Okay, where can we get the biggest bang for our buck given the current global situation, the regional situation, and our domestic situation?”

Japan came gangbusters out of World War II into shipbuilding, and when that matured and others started taking over, it went to Korea, and they actually had a strategy for getting out of shipbuilding and getting more into auto making. Auto making has been fantastic for Japan, and now if you talk to Japanese bureaucrats, they'll say, “We are moving out of automotive and we're going to be moving into aerospace, aircraft, and bio-life sciences.”

So they have these strategies. They talk to their main sector, business sector organizations, and they form these policies. They're not perfect, but they certainly have proven successful in Japan's economy. China does the same thing. Korea does the same thing. I think we could probably learn from something like that. Maybe we don't want to mimic it. All the work you do in developing those policies gives you a road map of what's going on in the global trade market. So the worst you can do is just have a great road map of what's going on, and the best you can do is actually adapt a policy that fits in and takes advantage of what you're finding out there.

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

We'll now move to Mr. Keddy.

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

Welcome to our witnesses. It's very interesting testimony, and quite frankly, I think we have two contrasting but interesting witnesses here.

I do want to pick up, Mr. Tak, on just a couple of points while they're fresh in my mind. I appreciate your comments and your knowledge of doing business in Japan, and importantly, certainly your knowledge of the language and of the way business actually operates and the areas in Japan in which it operates.

I appreciate your comments on the visa office in Tokyo, but to be fair what the minister was doing here was replacing a system under which it takes 30 days to get a visa with an online system under which it should take 10 days to get a visa. If we can get through those hiccups, there really should be an improvement to the system, although I take your point that face-to-face contact, especially in Japan, is important.

I'd just like some clarification on your comments about the nutritional supplements coming out of Japan and then being taxed when they go back in, because it makes no sense whatsoever for us to be importing products from Japan and then paying a tax on those products when they're being shipped back into the country. I don't know if you have a specific recommendation on how to get around that. We can address the situation of those specific products in a free trade agreement.

**Mr. John Tak:** I would address them in the free trade agreement. Any part of that needs to be brought to the attention of the Department of Foreign Affairs and International Trade, the department that is responsible for negotiating tariffs. We are helping the Japanese economy by allowing these advanced health supplement ingredients, things like green tea extracts, or CoQ10. These are high quality, and they're backed by a lot of clinical trials done by the Japanese pharmaceutical industry, but they come in here tariff-free. We build them into products, and when we sell them there it's frustrating to be charged a 12.5% tariff. When we add on our warehousing costs and our distribution costs, it quickly creates a competitive disincentive.

• (1130)

**Mr. Gerald Keddy:** That brings me to my second point. There are a couple of traditional industries in Japan that I've always had a certain amount of sympathy for, as I come from the east coast of Canada and the southwestern part of Nova Scotia. We have a huge

traditional fishery. Japan still has a small whale fishery. They take a lot of international heat for that, when in reality they've been whaling for probably a millennium.

It's no different from Canadians, whether we come from Europe or whether we're indigenous to the country. I think we can get a lot of goodwill through some very tacit support for that industry and the fishery, and in return....

Are you selling omega-3 oils specifically from seal? Omega-3 oil is very high quality, very healthy. It's a great vitamin supplement that we should be marketing in Japan. If you're not, you should be.

**Mr. John Tak:** Thank you.

Your remarks are dead-on. Yes, we are. We have a variety of omega-3 oil products from salmon, krill, and seal—

**Mr. Gerald Keddy:** Good.

**Mr. John Tak:** —that we manufacture and export to Asia.

**Mr. Gerald Keddy:** I know I'm running out of time, and I do want to get to the next witness, so I'll be quick.

Mr. Ilasz, that's a great story. The entrepreneurial spirit goes to show that you can start out in very modest ways and build an industry. I'm going to try your fruitcake, but I'm telling you, we all have great-grandmothers, all right?

**Voices:** Oh, oh!

**Mr. Gerald Keddy:** The secret on the east coast is that you use lots of rum, but not so much as to overpower it.

My specific question to you, because you are facing a number of obstacles that you almost have to eliminate one at a time, but on your first visit to Japan....

I can tell you, on my first visit to Japan, the whole baking industry in Japan, the sweets, the confectioneries, they take it to a whole other level. It's like walking into a confectionery in Paris. It is absolutely incredible, very high-end, and amazing quality. You have a niche product here that should be able to fit into that marketplace extremely well.

**Mr. Ken Ilasz:** Yes, I was fortunate on this trade mission that I participated in three years ago to have the support of the partner I work with. The mission was part of the federal government. We'd had a show in the embassy in Tokyo, and then we went to Osaka and I was able to get a substantial order from a very highly respected department store called Takashimaya. They gave me my first good-sized order, which gave me instant credibility over there. This is a store that's existed for more than 100 years, and they don't buy anything just because it looks good.

That opened the doors for me, and from there it's just been....

**Mr. Gerald Keddy:** Good for you.

**The Chair:** I want to thank you.

**Mr. Ken Ilasz:** I do have one thing to add.

**The Chair:** Sure, very quickly.

**Mr. Ken Ilasz:** It's my understanding that the consulate was closed in Osaka, but one was opened in Nagoya. The reason for that I was told is that the commercial activity in Nagoya and area is much more vibrant than in the Kansai area, which in the food business, according to the people I work with, is a depressed area. As our witness says, there are two main economic regions of the country, both with about 33 million consumers and one is working really well and the other is not working very well. This is one reason they went over to Nagoya.

• (1135)

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

Now we'll welcome Mr. Eyking to the committee. We also want to welcome back Mr. Côté, and Madame Pécelet. I think they're just visiting.

Go ahead, Mr. Eyking, the floor is yours for seven minutes.

**Hon. Mark Eyking (Sydney—Victoria, Lib.):** Thank you, Mr. Chair.

I was on this committee 12 years ago, and it still seems—

**The Chair:** So much has changed.

**Hon. Mark Eyking:** The chair has changed a bit, but.... Anyway, it's good to be back.

Thank you, witnesses, for coming. I have a few questions.

Ken, my first couple questions are to you. One is with regard to this sugar duty that the Japanese have. Is that because the Australians—I know they produce a lot of sugar cane—have a better deal and the Americans have a better deal with sugar products? Or it's just that we're not ...?

**Mr. Ken Ilasz:** I don't have the answer to that, quite frankly.

**Hon. Mark Eyking:** So maybe everybody has to pay that duty.

**Mr. Ken Ilasz:** I think they do.

**Hon. Mark Eyking:** I don't think Japan is a big producer of sugar.

**Mr. Ken Ilasz:** No. Well, 60% of what they eat, they import.

I really don't know why they do that, quite frankly.

**Hon. Mark Eyking:** I have a couple of other questions. When you're dealing with some of these countries, yes, food safety is a big issue. Is there a move afoot, or is there a kind of protocol where...?

We have the CFIA here, the inspection agency. A lot of people complain about them, but at the end of the day, they have a job to do: to keep our food safe. Is there any collaboration with the same counterpart in Japan, where they have a stamp of approval that maybe the Japanese government could recognize? Is there any move afoot, or is that happening?

**Mr. Ken Ilasz:** Yes, actually; there is a form that you can have attached to your export, which is CFIA approved. You bring all your science. My cake has thousands of dollars of science behind it to guarantee that people won't get sick. That form then goes along with the shipment. The freight porters deal with the customs and they sort of make that happen.

**Hon. Mark Eyking:** It sort of helps to have that approval, then.

**Mr. Ken Ilasz:** Yes.

I think in the food business a lot of these questions could be asked of the brokers who actually negotiate the deals with customs. In my experience, at least, the importer lets the broker do all the negotiating. They're Japanese; they like to keep it—

**Hon. Mark Eyking:** Confined, yes.

**Mr. Ken Ilasz:** They like the familiarity.

Another thing I learned quite quickly was that they don't like to deal with lawyers. I've never had any legal agreement. I've never signed anything. It's always been done on word of mouth. I've been paid on time.

It's a whole different approach to doing business. A lot of it is done on a handshake and on your word.

**Hon. Mark Eyking:** My next question is on something that I think Mr. Keddy kind of alluded to. We are fortunate, with a northern climate, to have a lot of healthy berries with good antioxidants—blueberries and various berries. Japanese is a senior population and very health conscious. It just seems like a fit there, with our fish products and our berries.

Are we getting enough education to our food producers here? We've so relied upon the Americans over the years. Is there an attitude shift we should be making, whether our sizes should be smaller, or different ingredients? You have a substantial business, but I mean, all these products we sell to the States....

Should we be looking at those niche markets and training our food producers to be looking at these markets in a different way, to be looking at value-added?

**Mr. Ken Ilasz:** It's beginning, actually. In Saskatchewan, for example, there is a berry that has been grown, the haskap berry, which initially came from Hokkaido. This summer will be the first mechanical cultivation of this berry. I hope to acquire 50 pounds of it once dried, and incorporate that into a new cake.

The Japanese have been eating this berry for maybe 100 years. They use it mostly for toppings, and they attribute it to longevity. In terms of antioxidants, it's like way above—

• (1140)

**Hon. Mark Eyking:** And we can grow that here.

**Mr. Ken Ilasz:** We grow it in Saskatchewan now.

**Hon. Mark Eyking:** Good.

**Mr. Ken Ilasz:** It's beginning in Nova Scotia as well, but they're about five years behind the people in Saskatchewan.

**Hon. Mark Eyking:** But it would be key to get value-added in there, right?

**Mr. Ken Ilasz:** Yes, absolutely, as opposed to...

I believe the Japanese are involved in the research in Saskatoon.



**Hon. Mark Eyking:** My last question is to both of you, I guess. Recently, in *The Economist*, they stated that economic growth is not necessarily going to be in Europe and North America over the next 10 to 20 years. It's going to be in the emerging economies—the BRIC countries—and Asia, to a certain extent. That being said, if we're going to expand our economy, we have to go into those areas.

We can get into whether we should have more embassies or not more embassies. I think that's important. You mentioned your agent. It's key to have not just lawyers and embassies on the ground, but people who know the business.

We've had horror stories out of Canada of people who have done business in Russia and have been ripped off, or even in China. Sometimes that's part of doing business, but in certain areas, it's the whole culture and knowing how to get in there for the long haul.

What should we be doing more? Sometimes our embassy is too closed-door. We're just sitting in these embassies. Should we be educating our young people in our universities on how to deal with these emerging economies? Should we be starting in Carleton and these places, getting young people engaged and knowing that this is the opportunity and that you have to learn the culture and get in there?

**The Chair:** It's a very long, broad question, and I want to leave a little time for the answer.

**Hon. Mark Eyking:** Thanks, Chair.

**Mr. Ken Ilasz:** In my experience, the people I've dealt with have mostly been with the Quebec delegation. The people who work there are Japanese. They are provincial employees. They work for the Government of Quebec. They speak French. They speak English. They speak Japanese.

The service I received I could not, as a small businessman, afford to pay for. I have nothing negative to say and actually no recommendations to make on how they could improve it. I find that the service is A1.

**Mr. John Tak:** Your comments are very insightful. You see a lot of young Canadians going over to Japan or Korea. They'll get a job teaching English, and they'll be learning the language. Then they come back, and they want to get a job, and nobody wants to hire them. They want to know whether you are marketer, a seller, or an accountant.

A message needs to get out, through the university process, that when they're studying these languages, they need to learn the language but also get a skill that goes with it. When they go over to that country to learn that language, they should affiliate themselves with a company or an internship program or something, because Canadian employers go blank when you come back. They want to know what your skills are. You can say that you speak Japanese. That's not doing something; that's just speaking.

That would be my point.

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

Mr. Hiebert, you have seven minutes.

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

I appreciate your both being here. I have a couple of questions for Mr. Ilasz, and then for Mr. Tak on the trade side.

I'll give you all my questions, Mr. Ilasz, and then maybe you can answer them as we go.

I'm curious, first of all, about how you got on the trade mission. It sounds as if that was a pivotal point in terms of your getting into this country.

Second of all, I want to ask about the duty. You said that it's 17%. It depends on whether it's maple sugar versus maple syrup. Is that 17% on the \$27 cake?

**Mr. Ken Ilasz:** Yes.

**Mr. Russ Hiebert:** Okay.

Also, your importer had to change locations to get a better duty. It moved from 30% to 17%, depending on where they imported the product from. That concerns me.

**Mr. Ken Ilasz:** Yes.

**Mr. Russ Hiebert:** I want to know that our CBSA officers have the same information and the same education and that they would treat things equally. I would love you to elaborate on how that could happen, when you had obviously provided a product list of ingredients.

● (1145)

**Mr. Ken Ilasz:** It actually didn't happen to me. I was quoting from the commercial attaché who gave me this example of things that need to be improved in a future free trade agreement.

**Mr. Russ Hiebert:** Let's just launch off on that one then. What you're telling us is that the importer was bringing this product in.

**Mr. Ken Ilasz:** Yes.

**Mr. Russ Hiebert:** You listed the ingredients. At one customs office, they said....

**Mr. Ken Ilasz:** It was in Kobe.

It was maple butter.

**Mr. Russ Hiebert:** Was it a Japanese officer?

**Mr. Ken Ilasz:** Yes, and the Japanese officer thought it was dairy butter.

**Mr. Russ Hiebert:** Was it a language issue? Was it an education problem?

**Mr. Ken Ilasz:** I think it was an educational issue, because the people importing it spoke Japanese. The go-betweens, the freight forwarders, the brokers, were all Japanese.

So it's not a question of a language issue. It's a question of knowing the products and that the customs officers are knowledgeable about what is coming into the country.

**Mr. Russ Hiebert:** Wouldn't there be a list of ingredients that would indicate what's in the product? Would it be fairly straightforward?

**Mr. Ken Ilasz:** You would think so.

**Mr. John Tak:** There are lists, but sometimes there are unique ingredients. So they look at their list and they go, "Oh, this isn't on my list". So they ask, "Okay, what's in here?" and then they look around on their list. It does confuse them sometimes.

**Mr. Russ Hiebert:** Trying to find something comparable. Okay.

**Mr. Ken Ilasz:** Our first attempt to get into the country was denied, because at one point the officer felt it would be impossible.... He asked my partner why he wanted to bring in a cake that was two years old. So he closed the books and we had to start from scratch again. It took us another nine months to reapply.

**Mr. Russ Hiebert:** Another question I have is on this issue of dealing on a handshake. Do you not have a contract with your—

**Mr. Ken Ilasz:** No, I have no contract. It's all verbal.

**Mr. Russ Hiebert:** There is nothing that outlines when you need to get the product there, how often you need to send it, and so on.

**Mr. Ken Ilasz:** We work with e-mail. The ingredients are aged prior to making the cake, so for the next shipment, which is in September, I need to start that process on July 1. Next week I'll have our allotment for September. It will be, say, 700 cakes. Then I'll go and buy the ingredients, cut them up and prepare them, and soak them in alcohol.

**Mr. Russ Hiebert:** Mr. Tak, is this your experience as well, that the Japanese are not keen to have contracts?

**Mr. John Tak:** There are different sectors, and from what I see in this sector that's what's happening. But no, all our business is with contracts, with purchase orders that lay out everything.

**Mr. Russ Hiebert:** Arbitration processes...?

**Mr. John Tak:** Well, if it's going to be a distribution agreement, then yes, we'll have that all laid out, or single purchases. It depends what it is.

**Mr. Russ Hiebert:** Conflict resolution...?

**Mr. John Tak:** Yes, it's all laid out.

**Mr. Russ Hiebert:** Okay.

Shifting to the comments that were made about non-tariff barriers and your suggestion that they don't really exist, or perhaps, they're more cultural, we've had a couple of witnesses before us tell us that the Japanese have non-tariff barriers in the form of preferential handling, regulatory unpredictability, costly certification, small-volume approval processes—all these non-tariff barriers—that make it very risky and expensive to export to Japan.

Can you elaborate on your comments, because it really contradicts the other testimony we've received?

**Mr. John Tak:** Right, and I hope I didn't say there are no non-tariff barriers. I hope I said there are fewer than people may think.

Yes, in certain cases there are non-tariff barriers where the procedures are more complex and can be interpreted to be preventing imports, unless you look around and ask whether everybody else has to go through those procedures domestically. Are they only being set up to prevent foreign goods from coming in, or is that how the Japanese do business? In many cases it's how they do business.

To me, a non-tariff barrier is something that's being used to prevent imports from getting in and to protect domestic suppliers,

and that other domestic suppliers aren't being required to do. You have to be very careful to analyze that and understand it. But in some cases, yes, there are blatant non-tariff barriers. I'm not saying they don't exist, but they're not—

• (1150)

**Mr. Russ Hiebert:** Have you found in your industry, in the natural health products industry, that there are domestic competitors that have more flexibility or fewer restrictions than you face?

**Mr. John Tak:** We're not finding that, other than this import tariff that we're having to pay that raises the cost of our product.

As a matter of fact, we have beaten out a couple of American competitors by going into the health authorities and registering our own products. We've hired a consultant. We have registered our products, so when we start selling them to a pharmacy or a distributor somewhere, it's very hard for them to get rid of us because we've actually registered the product, and if they go to the American company, they don't know how to do it.

It's a complex registration process, but it's the same for all Japanese. It's simply that you need to take the time, so we did. We said, "Okay, let's hire somebody. Let's figure it out, and let's do our own registrations". Now we are actually getting into stores, because we can go now and say, "Oh, don't worry, we have registered this. All you have to do is buy it. We have inventory here. We have it in the country. It's the same as if you were buying from a Japanese company." That's what the retailers want. They don't want complications.

**The Chair:** I want to thank you very much, Mr. Tak and Mr. Ilasz, for the great testimony and great questions. I believe you've helped our committee get a better grasp of a situation, a potential, that is there for an economic partnership agreement with Japan.

With that we'll suspend and set up for our teleconference in our next segment.

Perhaps we'll be able to try some of Mr. Ilasz's—

**Mr. Ken Ilasz:** There you go.

**The Chair:** He has us actually intrigued with what kind of a product he's selling. With that we'll suspend.

• (1150)

\_\_\_\_\_ (Pause) \_\_\_\_\_

• (1155)

**The Chair:** I would ask members to take their seats and we'll call the meeting back to order.

We'll start our second hour of presenters as well as questions and answers. With us, I believe, both by video conference, we have from the Government of British Columbia, Dana Hayden, deputy minister from the Ministry of Jobs, Tourism, and Innovation.

Dana can you hear us?

**Ms. Dana Hayden (Deputy Minister, Ministry of Jobs, Tourism and Innovation, Government of British Columbia):** Yes, I can hear you, thank you.

**The Chair:** Perfect, we just wanted to test that.

We also have, from the Grain Farmers of Ontario, Henry Van Ankum. Can you hear us, Henry?

**Mr. Henry Van Ankum (Chair, Grain Farmers of Ontario):** Yes, I can hear you.

**The Chair:** Very Good. Our communications are up and you also have with you, Erin Fletcher, manager of public affairs. We can't see her, but nonetheless we know she's in the room.

• (1200)

**Mr. Henry Van Ankum:** Yes, she is.

**The Chair:** Henry, we'll start with your presentation first. The floor is yours, sir.

**Mr. Henry Van Ankum:** Good morning. Thank you, Chair, members of the committee, and staff, for providing Grain Farmers of Ontario the opportunity to speak about the opportunities for Canada's farmers that will be gained through greater trade with Japan.

I am Henry Van Ankum, a farmer from Alma, Ontario, and the chairman of Grain Farmers of Ontario—a farm organization representing the 28,000 corn, soybean, and wheat farmers from Windsor to Cornwall, and as far north as Thunder Bay. Our members produce over nine million tonnes of grain on five million acres. Our production generates \$2.5 billion in farm gate receipts, results in over \$9 billion in economic output, and over 40,000 Canadian jobs.

In the Canadian context, Ontario is the largest agriculture province, with \$9.3 billion in sales. In grain production, we are the third largest producing province after Alberta and Saskatchewan. Ontario exports grain to many regions of the world, with soybeans being our largest export crop. For more information, please refer to the pages of the handout you've been provided with.

As you can see by the map on the third page, Japan is our second largest market for soybeans after the EU. However, quantities can be deceiving when it comes to soybeans. There are distinct value-added differences between Europe and Japan when it comes to market needs, and Japan is a significantly higher value market on a per tonne basis for Canada.

In Ontario, farmers produce two types of soybeans: crush beans and food grade soybeans. Soybeans for the crush market are processed domestically into two products: soybean meal to feed livestock, and soybean oil for food products like cooking oil and industrial products such as lubricants, paint additives, and biodiesel.

These high-yielding soybeans are produced in high quantities across the province, require less on-farm management than food grade soybeans, and are sold at world market prices. These crush beans, as we call them, are the majority of our exports to the EU.

The food grade soybeans produced in Canada set us apart from the rest of the world in the eyes of the Japanese. Food grade soybeans are exported as a whole bean, typically in containers or bags, and are used for popular Japanese foods such as tofu, miso, and natto.

Canada's 350,000 tonnes of soybeans sold into Japan in 2011 represents an approximate 38% share of the Japanese food grade market. Soybean exports to Japan return over \$200 million annually to the Canadian economy.

Canadian soybeans are known to be the highest quality in the world because of the care our farmers take to produce them, and guarantee their quality and consistency. Japanese buyers are particular, and our value chain has adopted a management protocol called the Canadian identity preserved recognition system, or CIPRS, created by the Canadian Grain Commission to communicate our quality commitment to our buyers. Canadian farmers are paid a premium to meet all of the expectations for crop management, segregation, and end-quality, as outlined in a buyer's contract.

Typical farm protocols, in a food grade soybean contract for Japan, will include the use of certified seed, mapping of fields to identify the location of the soybeans for the buyer to inspect at any time during the length of the contract, tracking of all product applications, clean equipment, and a GM-negative sample taken at the elevator upon delivery.

When trade missions visit Japan, or the Japanese tour Canadian farms, it is the soybean handling protocols that are of greatest interest to Japanese buyers. On the last mission to Japan in February of this year, we learned the Japanese food companies are very happy with the quality and consistency of the Canadian soybeans they are receiving.

As I said, Japan imported 350,000 tonnes of Canadian soybeans in 2011. This is a number which has steadily grown since 1965, when the first shipment of Canadian soybeans was sent. The majority of the Canadian soybeans sold to Japan are from Ontario and Quebec, while production in Manitoba is steadily growing also.

Other major exporting regions of food grade soybeans to Japan are Argentina and Brazil. The U.S. is the largest exporter of soybeans to Japan. However, 85% of these exports are for the lower value crush market. U.S. food grade exports to Japan are declining due to an increase in the preference for Canadian soybeans by Japanese buyers.

• (1205)

Another opportunity for Canadian farmers is in natto bean production, smaller soybeans that are used for a traditional fermented dish. Japanese processors are interested in switching from using Chinese beans to Canadian suppliers. Over the past seven years, the Japanese have steadily increased their use of Canadian beans over Chinese imports. The reason is the consistently high quality of Canadian natto beans we are able to deliver year after year in contrast to the inconsistent quality of the Chinese natto beans.

The last chart in the package illustrates the growth of the soybean industry in Canada over the last 10 years, especially with respect to export markets. Both yield and acreage have increased over this timeframe. Soybean yields have increased from an average of 32 bushels an acre in 1981 to over 45 bushels an acre in 2010. The acreage of soybeans in Ontario has also increased over this time period from 680,000 acres in 1981 to 2.4 million acres last year. This chart illustrates quite well the ongoing need for international market development.

Japan is a significant market for our farmers and one that returns high premiums to the farm gate. There are few trade barriers today between Japan and Canada, and our organization encourages participation in both a free trade agreement and the Trans-Pacific Partnership agreement to ensure there are no barriers imposed in the future. We are pleased with the efforts to increase trade with Japan additionally because it will provide a positive opportunity for other Canadian commodities, namely pork and beef, where we can increase our opportunities for feed sales here in Canada.

In the future, we encourage the Canadian government to pursue trade agreements with other Asian countries as well as Japan, including China, Thailand, Taiwan, Vietnam, and South Korea, where there is significant export growth potential. South Korea especially has very high tariffs on soybeans.

In closing, I thank you for the opportunity to speak with you today. A free trade agreement has the potential to increase exports of Canadian agricultural goods, both soybeans and livestock, to Japan, which is good news for Ontario's farmers. An increase in the demand for Ontario's higher value production will result in job creation and the growth of our economy.

I will do my best to answer any questions you may have.

**The Chair:** Very good.

Thank you very much.

We'll now move to Dana Hayden's presentation. The floor is yours, madam.

**Ms. Dana Hayden:** Thank you very much, Mr. Chairman.

I am Dana Hayden, the deputy minister of the Ministry of Jobs, Tourism and Innovation in the Government of British Columbia. It is certainly my pleasure to be here on behalf of the B.C. government to speak with you on the topic of the Canada-Japan economic partnership agreement. I would like to provide the province's perspective on these negotiations, a little bit about our interests, and of course, answer any questions you have.

I also have with me today Don White and Janna Jessee, whom I may call upon from time to time to help answer your questions.

The province appreciates the opportunity to appear before the committee. We are very pleased to see the committee is taking on this important study. B.C. is also very pleased that Canada is engaging in the Asia-Pacific free trade negotiations. For a trade and investment-dependent country like Canada, we need to keep up with other countries that have already concluded free trade negotiations with Asian partners. However, Canada doesn't yet have any formal bilateral free trade agreements with Asian countries, and it's absolutely essential that Canada sign-off and implement one in Asia.

As you know, British Columbia is Canada's Pacific province. B.C.'s jobs plan, our economic strategy, is called "Canada Starts Here". There is a reason for that. British Columbia is the entry point for most imports from Asia and most exports to Asia. We believe British Columbia represents a huge opportunity for Canada as a whole in terms of trade negotiations and agreements with the Asia Pacific.

We also have long and exceptionally strong ties with Japan that extend well beyond our economic interests, though they include them. We share strong cultural ties. The Japanese-Canadian community in B.C. stands at 41,000, based on 2006 census data. Almost half of Canada's population of Japanese ethnic origin lives in B.C., which is more than any other province. These cultural ties are strengthened by students who come to study in B.C. from Japan. In 2009-10, there were 11,100 Japanese students who attended B.C. schools and institutions, and they contributed approximately \$160 million to the B.C. economy.

Japan is British Columbia's largest market in Asia and for international visitor entries as well. In 2010, more than 127,000 people arrived in B.C. from Japan, which is about 54% of all Japanese visitors to Canada. Of those, 105,427 visitors stayed overnight in British Columbia at least one night, and spent an estimated \$125 million. From a cultural, tourism, and education perspective, Japan is a very important market for B.C.

In terms of goods, Japan is our third largest export market behind the U.S. and China, with 14% of British Columbia's goods and exports shipped to Japan. B.C. is the largest exporter to Japan amongst the provinces and territories. In fact, B.C. exports to Japan represented 44% of the Canadian total. The importance of B.C.'s relationship with Japan was reinforced by our premier's recent mission to Japan, which yielded 25 business deals and partnership agreements, valued at more than \$500 million.

It is because of these ties and the potential for them to be even greater that the province has been pressing the federal government for many years to seek closer economic relations with Japan.

Canada as a whole stands to benefit enormously from a free trade agreement with Japan, with a potential increase in GDP of an estimated \$3.8 billion U.S. to \$9 billion U.S. It is unclear how this will translate at the regional-provincial level, but it does suggest that British Columbia has a great deal to gain. That is certainly our perspective on a trade agreement with Japan.

B.C. already has good trade relations with Japan. I have given you an example of the value of the exports and the cultural connections we have with Japan, but there are a number of ways that a free trade agreement with Japan could improve market access for B.C. producers of goods and services.

The province is particularly hopeful that a free trade agreement would reduce the number of non-tariff barriers that affect products such as wood building materials, beef, and tree fruits.

• (1210)

A free trade agreement would significantly reduce or eliminate remaining tariffs, including those applied against a wide range of forest, seafood, and agrifood products. It would improve market access for service providers by, for example, removing restrictions on air services and removing commercial presence requirements. A free trade agreement would improve access to procurement opportunities beyond the access currently enjoyed through the agreement on government procurement.

We also are very interested in LNG exports to Japan, and it was a priority of our premier on her recent mission there. We believe that a free trade agreement with Japan would provide British Columbia and other provinces, such as Alberta or Saskatchewan, with natural gas resources with the opportunity for increased investment in our provinces because Japan is very interested in LNG imports to supplant their nuclear capability after their earthquake and tsunami challenges of last year.

The Province of B.C. is initiating broad consultations and we're doing our own analysis to determine where to focus our efforts as negotiations get under way. The examples I've given you are top of mind for us, but as we proceed with discussions with our own stakeholder groups in British Columbia, I'm sure we'll be able to identify more.

While we don't yet know the shape that the negotiations will take, B.C. is looking forward to being a full and active participant in the negotiations. We have greatly appreciated the federal approach to the CETA, the Canada-European negotiations, where the provinces were in the room during negotiations, and we'd like to see this sort of a model continue.

I'd like to thank you very much for this opportunity. I would be happy to answer, or try to answer, any questions that you might have.

**The Chair:** Thank you very much, both of you.

We'll now move to the question and answer part of the meeting.

We'll start with Mr. Davies, for seven minutes.

• (1215)

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

Thanks to both witnesses for taking time to share your opinions with us today.

Ms. Hayden, I'm from British Columbia and so I'm going to address some questions to you. There has been some modelling done at the federal level about what the benefits may be of an economic partnership agreement with Japan. Has the Government of British Columbia conducted any analysis on the costs and benefits of an EPA between Canada and Japan for the province of British Columbia?

**Ms. Dana Hayden:** We have not yet undertaken that work. We intend to do it. It will be informed by the consultations we are undertaking with a number of stakeholder groups in British

Columbia so that we are better informed when we do that modelling, but we haven't yet done modelling.

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

I appreciate that some of your remarks are, as you put it, top of mind at this point. You've identified some sectors or industries in British Columbia that you feel may benefit from this agreement.

Are there any sectors or industries in British Columbia that the government feels might be negatively impacted by an EPA between Canada and Japan?

**Ms. Dana Hayden:** I guess it depends on the consultations we have within British Columbia and what we hear from our stakeholder groups. To choose one example, during the Canada-European trade negotiations, the issue of procurement has been one that has been sensitive to a number of particular municipalities in British Columbia. So, depending on the framework of the agreement with Japan, we obviously would like to see access to their procurement market, but it would depend on levels. I use that as an example.

As I said, we have not yet been able to undertake the consultations we need with our stakeholder groups in B.C., so I wouldn't preclude somebody coming up with some other area of sensitivity, from their perspective.

**Mr. Don Davies:** Okay. We heard testimony about Japan pursuing a policy of adding value to its exports. I think it may be common ground among people in this room that Canada should be doing likewise.

We are aware that British Columbia exports raw logs to various jurisdictions, which raises the question of whether we can do a better job of encouraging the adding of value to our exports. Does the Government of B.C. have a strategy to try to encourage the adding of value to our raw or barely processed resources before we export?

**Ms. Dana Hayden:** In British Columbia, there are two types of log export controls. There are federal log export controls on privately held land, which is a fairly minor component of B.C., probably less than 1% of land.

From provincial crown land, which is about 94% of crown land, we have an export policy that requires any exporters to do two things. First, they have to advertise, at a market rate, any logs they propose to export before the logs are approved for export. There's one exception, which I'll go into in a minute.

The second thing that log exporters are required to do is pay what is called a fee in lieu of processing. A fee is charged to exporters to ensure that there is a disincentive, if you will, to exporting logs prior to their being processed.

**Mr. Don Davies:** Can I just interrupt, Ms. Hayden? Can you give us an idea of how many raw logs are being exported? Sorry to interrupt you for that, but maybe you could put it in context.

**Ms. Dana Hayden:** I don't have the exact numbers in front of me.

I know the amount of logs has increased in the last couple of years, primarily because of high prices in Asia. So there is interest, obviously, in Asia, and frankly, a little bit into the U.S. for logs.

There is one exception we do have. I did say there was an exception to having to advertise, and that is, there are a couple of areas on the north coast of British Columbia where the province has, through order in council, identified a geographic area from which log exports can take place. That's primarily based on the fact that there are no processing facilities in those areas. Even if we wanted to have them processed in B.C.—and we would prefer the logs were processed in B.C.—to the extent there are no processing facilities, there is considerable employment that is created through the harvesting and development of forest areas that would otherwise not be realized.

So in certain instances the government will identify geographic zones where there are not processing facilities, where, in fact, the primary economic activity might be logging.

• (1220)

**Mr. Don Davies:** You mentioned the LNG issue. Has the Government of British Columbia come out with their public policy on their position on the Enbridge pipeline? If so, can you tell us what that pipeline position is?

**Ms. Dana Hayden:** British Columbia has not yet done so.

**Mr. Don Davies:** Okay.

If I could, I also want to talk a little bit about the grain industry.

Mr. Van Ankum, is there an issue with GMO products in Japan? If so, can you explain a little bit about how that might play into our negotiations with Japan?

**Mr. Henry Van Ankum:** Well, essentially almost all of our exports to Japan are of the non-GM variety. That's their preference as far as the food grade uses are concerned.

We are able to provide them, through our segregation system and a series of protocols, guaranteed, identity-preserved, non-GMO soybeans for food uses there.

**Mr. Don Davies:** Okay.

Ms. Hayden, it's back to you just quickly.

Premier Clark and the opposition leader, Adrian Dix, both came out recently asking the federal government not to include IP patent extensions for pharmaceutical companies in the CETA negotiations, because it will conceivably add about \$3 billion to the cost of Canadians' prescription medicines. Are there any concerns you have about negotiations with Japan that might be of similar ilk?

**Ms. Dana Hayden:** We haven't yet been able to canvass our stakeholders to see if there's a similar concern with respect to Japan, so I can't actually provide you with a perspective one way or the other on that.

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

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

Mr. Cannan, for seven minutes the floor is yours.

**Mr. Ron Cannan (Kelowna—Lake Country, CPC):** Thank you, Mr. Chair, and thanks to our witnesses.

First to Ms. Hayden, it's great, as a fellow British Columbian—there are four of us on the trade committee—to have the privilege of representing Kelowna—Lake Country, with MLAs Norm Letnick

and Ben Stewart, and the Minister of Forests, Steve Thomson. I know the issue of raw logs is something near and dear to Steve as well. We've chatted about that.

With regard to the cultural ties, the City of Kelowna has a sister city in Kasugai, like many cities across Canada that have partnered with cities in Japan. As you mentioned, the educational opportunities are great for both the colleges, and UBCO and UBC in the lower mainland.

As for tourism, Minister Bell is doing a fantastic job within the ministry in creating jobs, tourism, and innovation.

The premier just came back from a trip to Asia. Were you with her or part of the delegation?

**Ms. Dana Hayden:** I was not on this one. I went with her to China and India in the fall, but I was not able to attend her recent trade mission to Japan, Korea, and the Philippines.

**Mr. Ron Cannan:** Do you have some feedback or a response as to how that trip went?

**Ms. Dana Hayden:** I think it was a successful trip. There were a number of good business connections made on both of the trade missions. Our premier had with her delegations of business stakeholders from, for example, the natural gas, or LNG sector, the mining sector, the forestry sector, seafoods, and international education in particular. We see Japan and Korea as two very important markets, with lots of opportunities for us in each of those areas.

I mentioned some of the concerns we have with respect to tariff or non-tariff barriers in those markets that prevent us from achieving our full potential in terms of our trade relationship with the country. During her mission to Japan and Korea, there were a number of agreements that were signed, and a number of important connections that were made. As on most of these missions, a premier or a senior minister attending—or the Prime Minister, for that matter—can open doors for businesses to be able to get them access to individuals who they might not otherwise be able to get access to. I know that the business community in B.C. was very appreciative of the opportunity to participate.

With Japan, of course, it's very much a relationship approach in terms of building relationships before there is a business-to-business connection and actual commerce flowing back and forth. So I think it was extremely important for the premier early on in her position to establish that relationship with Japan. Certainly the consul general and others who we speak to have indicated that the mission was very successful from that perspective as well.

• (1225)

**Mr. Ron Cannan:** That's fantastic.

One quick question before I go over to our friends with the Grain Growers. Rob Howard is another MLA who's been working on the air services agreement. I agree with Asia-Pacific gateway and the "Canada starts here" strategy of the B.C. government. Could you maybe elaborate a little bit more on the concerns about the air services agreement?

**Ms. Dana Hayden:** Certainly. In terms of air services, we very much would like to see an opening of the opportunity for more air traffic back and forth between Canada and Japan.

Rob Howard—if you've had an opportunity to speak to him—and certainly British Columbia would like an open skies kind of policy in B.C. I think our approach at this point is to take a look at key markets where we want to improve the flow of tourism, the flow of business people, access, and try to focus on those key markets. We would like greater air access with Japan. We think that our opportunities with respect to the export of goods and business people going back and forth are there to support greater traffic.

There is another example, not related to Japan, but to India. There are no direct flights from Vancouver to India, which creates a huge barrier in terms of our ability to increase business activity and tourism activity from that market. We do have direct flights to Japan from Vancouver, but certainly, increasing the frequency of those, opening up the ability to have greater access, lesser tariffs, lesser fees, and more open air trade would be extremely valuable to B.C.

**Mr. Ron Cannan:** Thank you very much.

I just have one minute left, and Henry or Erin, I appreciate your input as well. You said there's potential in your industry for increase in market share with this EPA with Japan. Have you, within your industry, any estimate as far as being able to quantify what that potential upside is of the agreement?

**Ms. Erin Fletcher (Manager, Public Affairs and Communication, Grain Farmers of Ontario):** That would be essentially taking market share from the Chinese, increasing the market share that we have on the natto bean market. That would be taking it away from the Chinese, and also taking away market share from Brazil and Argentina. Right now we have 38% of the food grain market, so there's another 62% to go after.

**Mr. Ron Cannan:** Right, go for it, girl.

**Ms. Erin Fletcher:** It would be about the same value.

**Mr. Ron Cannan:** Just to clarify, what's your biggest impediment, then, and what can we do, as a government, with this agreement to help you go for that 60% that's still on the table?

**Ms. Erin Fletcher:** Promotion and assistance with our trade missions is probably the biggest way you can help us at this point.

**Mr. Ron Cannan:** Thank you very much. I appreciate that.

**The Chair:** Very good, so we have 38% of the market, so 68%... or 62% wrong, if we can get that right.

Mr. Easter, go ahead.

**Hon. Wayne Easter (Malpeque, Lib.):** You can add, Mr. Chairman.

Thank you, folks, for your presentations.

Just starting with the grain industry first, Henry, you did mention at the beginning that these are non-GMO beans. Is there also export of regular soybeans from Ontario into Japan?

**Mr. Henry Van Ankum:** I don't believe there are significant exports of the GM variety at this time. They may use some for their own domestic feed industry, for soybean meal, but the bulk of our exports are the non-GM variety for food-grade purposes.

•(1230)

**Hon. Wayne Easter:** The reason I ask is because we in Prince Edward Island export non-GM canola into Japan. I know the Japanese come over and they inspect the fields. I think you mentioned that in terms of your presentation. One of the worries is that if a GM product is anywhere near those fields, then you're not going to get that product to market.

Do you see any risks there, or what needs to be done either at the provincial or federal level to ensure that export of the non-GMO crop is not put at risk?

**Mr. Henry Van Ankum:** This is an area where we really shine in Ontario, and it is that we have experienced growers who have developed a very strong set of protocols that are very specifically followed. This enables us to certify and deliver non-GM beans and all those beans pass a non-GM test before they are exported.

I think we have a very strong set of protocols in place that could be reinforced by government, but that enables us to guarantee delivery of non-GMs to this market.

**Hon. Wayne Easter:** It isn't the folks who are producing the non-GMOs who I worry about, it's their neighbours. I look at it from the province of Prince Edward Island's perspective where we don't have a huge land base, and it is increasingly a problem to keep the distances of separation between crops.

You have a protocol established in Ontario. Would it be possible for you to forward that to us?

**Mr. Henry Van Ankum:** Yes, absolutely, we could forward that to you. We have a set of grower protocols called CIPRS, which I referred to. Those have enabled us to certify non-GM content in these shipments, and I think we have a great track record with it and we can continue to do so.

We've been able to coexist—GM and non-GM—in this arrangement.

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

You're opening up a new market for a smaller bean. What did you say it was in? I didn't catch it at the time.

**Mr. Henry Van Ankum:** Yes, there is some potential for a specialty bean called a natto bean. It's a very small soybean that is used for a special, almost a snack food-type purpose in Japan. So we have some potential there to displace more Chinese production in that natto bean area.

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

Turning to Ms. Hayden, you talked about the partnership, the last trade mission of the premier to Japan where some number of partnership agreements were signed. Are there any implications from a trade agreement on those partnership agreements?

**Ms. Dana Hayden:** I think the agreements would hold, but we certainly see opportunities for a greater number of agreements or greater value of exports in both goods and services, if we were able to have a trade agreement with Japan. As I said at the beginning, there are a number of tariff and non-tariff barriers that currently create barriers for B.C. exports into Japan.

To give you a couple of examples, on the goods side, we believe there's a market in Japan for B.C.—and Alberta and Saskatchewan, for that matter—beef. Currently, the beef has to be younger than, I believe, 21 months—

**Hon. Wayne Easter:** Yes, it's 21.

**Ms. Dana Hayden:** —for Japan. We think we have a great opportunity there.

There are tree fruits and berries that British Columbia exports, but there are concerns and barriers in Japan that there might be the presence of a pathogen on the fruit, the codling moth, despite the fact that the moth is not known to attack these species. These are things like Canadian apples and cherries. We believe there would be a very important market for B.C. exports of apples and cherries.

On the forest products side, there are tariff barriers. We believe, for example, that our exports of lumber or manufactured wood products absolutely could increase for B.C. if some of those tariffs and non-tariff barriers were reduced. One of the things B.C. has done over the last two years since the tsunami is donated wood products and funds to construct facilities for schools and health care centres in the tsunami region in northern Japan. We've been trading forest products with Japan since the 1940s or 1950s, so we have had a good relationship. We believe there's a huge opportunity for B.C. and Canadian lumber and manufactured wood products in the post-tsunami building phase.

Japan just also introduced a wood first act, something which British Columbia did a couple of years ago. It is a statement of intent through law to utilize wood products in the construction of buildings. Certainly historically in Japan wood was used extensively, but in this last century, concrete and steel have taken over a lot of wood. They've just passed a wood first act that commits them to utilizing a far greater amount of wood products. We'd certainly like those to be Canadian wood products instead of Chinese wood products, or New Zealand or Australian wood products, or for that matter, United States wood products. We believe there are opportunities to increase exports for a number of products.

We also believe on the services side that there are huge opportunities in British Columbia. For example, in the technology sector, the international education sector, and the tourism sector, we have an opportunity to increase the services flow in the provision of services from British Columbia into Japan. There's certainly an interest in that market in what we have to offer, but there are barriers that prevent us from realizing the extent of those opportunities, which we would like to see eliminated through an agreement.

• (1235)

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

We'll now move to Mr. Shipley for seven minutes.

**Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC):** Thank you, Mr. Chair, and I thank the witnesses for being here.

I'll start off my questions with Henry and Erin. Thank you so much for being part of this discussion regarding our EPA with Japan.

I think we're outnumbered by British Columbia members on this board. You've heard about beef, and of course, in Ontario and out west we have great beef. One of the things we find in Canada, and

this is the serious part, is that we produce quality products. To you, Ms. Hayden, and to the folks in Ontario, that's what Canada is known for. I think we, as parliamentarians, sometimes overlook that we have great producers and manufacturers in Canada. We are known for quality.

The other part of it is that we're known for keeping our word. The words "relationship approach" have come up.

Erin and Henry, I'm wondering, in terms of non-trade tariff barriers, have you experienced those? Sometimes there are political trade barriers. In terms of political barriers, once you have an agreement with Japan, is it one that you can take on their word, and they stand by what their agreement says?

**Mr. Henry Van Ankum:** Yes, thank you for your question, Mr. Shipley.

Certainly the Japanese, once an arrangement is struck with them, have held true to their word.

A big part of doing business with Japan is relationship-building. Over the years, representing the interests of producers in Ontario, we have worked hard to develop strong relationships with the Japanese. I think we can build on that and continue to grow that.

You're bang on. We have an excellent reputation for quality.

• (1240)

**Mr. Bev Shipley:** The issue of GMOs comes up an awful lot at agriculture committee, and clearly at international trade as we're dealing with countries. Some of them will accept and use GMOs yet still require a separation, and some actually haven't adopted GMOs. Yet we want to open up those markets for the producers in Canada that will meet those markets.

I think you said, Henry, that in Ontario, you're able to separate those. I've grown both on my farm without incident.

When you go into a country like Japan, with non-GMOs, what is the low-level presence? How is that established? Because there really isn't an international standard out there.

**Mr. Henry Van Ankum:** You're correct. There is no international standard at this time. A non-GMO product must be 100% non-GMO. This is possible within our infrastructure system. That's why Ontario has been able to deliver into these non-GMO markets. The nature of our infrastructure allows us the opportunity for careful segregation. However, looking into the future, if we could consider the development of some kind of international standard that would allow for a very small percentage of GMO content within non-GMOs, this would make the system more efficient, and it would make it a little more attainable on some of these shipments.

**Mr. Bev Shipley:** Thank you very much.

Regarding the natto beans and the production, I know that in Ontario, that's a market that has grown. Are there the same sorts of requirements, in terms of quality and standards that have to be met, for the natto beans as there are for the IP beans or the non-GMOs?



**Mr. Henry Van Ankum:** Yes, it's my understanding that there are the same quality expectations for the nattos. Appearance is a key part of that. They have to have a bright, clear colour and be free of any contamination or debris. But these are the same quality expectations we've been able to deliver in the IP soybean market also.

**Mr. Bev Shipley:** I'll just trip back a bit.

You talked about the 38%, which leaves 62% of the market that we, as a competitive nation, have an opportunity to work on. How have you been able to garner the 38%? Have you been the ones, as a commodity organization, that have had to do the marketing?

We heard earlier from some other witnesses that they've had some Canadian-Japanese people who have come and bought their product. They really haven't marketed their product to the Japanese yet. Have you been able to market to the Japanese on your own, or is it basically that same sort of scenario, where there's been a relationship with Canadian-Japanese entrepreneurs or processors who have come and bought Canadian product?

**Mr. Henry Van Ankum:** We have worked very hard at that relationship-building over the years. We have invested a significant amount of grower dollars in building that relationship. It's private industry that makes the contracts, but we have certainly worked hard. We've also received some assistance in that area over the years through the government trade channels, which we've appreciated. But we have worked very hard on building those relationships also.

**Mr. Bev Shipley:** Okay.

I think my time is up. I didn't get a chance to talk to Ms. Hayden, but maybe another time.

Thank you.

**The Chair:** Thank you, Mr. Shipley.

Now we'll move to Mr. Sandhu, for five minutes, second round.

**Mr. Jasbir Sandhu (Surrey North, NDP):** Thank you to both of the witnesses.

I'm from British Columbia, so I will talk to Ms. Hayden about some of the issues that are very important to the coastal communities.

Over the years we've had issues with mad cow disease, where we've seen, overnight, the beef industry, cattle industry, devastated in regard to shipping their goods out to Korea and Japan and other parts of the world.

Being from British Columbia, the coastal communities, we have many communities along the coast that depend on fishing, and also other seafood products that we export to South Asian countries. Lately, we've had issues around sea lice in farmed salmon.

Ms. Hayden, could you maybe tell us what impact that would have, considering that we've heard in the committee here that the Japanese expect very high-quality products? If that sea lice somehow gets into our commercial wild salmon or other seafood products, what impact would that have on our ability to trade those goods with Japan?

• (1245)

**Ms. Dana Hayden:** I'm not sure exactly what the impact would be. The issue with sea lice is that it is purported to present a risk to other seafood living in the general area of fish farms where there may be sea lice. Once the fish are processed, I don't think there is an issue with the sea lice in terms of an export product. The barriers that we see in front of us now for seafood exports to Japan are primarily tariff-based. For example, there's a tariff of 3.5% on salmon and tariffs on frozen fish from Canada range from 2% to 6%. So right now we see the issues as primarily tariff-based.

We export a fairly broad range of seafood products from British Columbia that British Columbians aren't actually a huge fan of. Sea urchins, sea cucumbers, these are fish and seafood products that are quite popular in Japan and less popular in Canada, simply because of our culinary preferences. Our belief at this point in time, without the extensive consultations that we might have had with stakeholders in B.C., is that the issues are primarily tariff-based on the seafood side.

**Mr. Jasbir Sandhu:** We've heard over the last month or so from various groups that we have a large trade deficit in regard to us shipping raw materials or semi-processed materials, whereas Japan is shipping us manufactured goods. Would you see that trade deficit in manufactured goods increase or decrease with the agreement that's being negotiated?

**Ms. Dana Hayden:** Whether or not a trade agreement would increase manufacturing capability in British Columbia would depend entirely on the nature of the product and the competitive conditions in Japan versus Canada. It's quite difficult. I don't know how quite to answer your question, if you're talking about all products. Is there a particular product that you're thinking of?

**Mr. Jasbir Sandhu:** Would you say that it also depends on government policy in regard to either shrinking that deficit or expanding it? We heard earlier today that Japan, China, South Korea have a very succinct industrial policy with regard to having more manufactured goods leaving their country than they import. Would government policy have an impact on what kinds of products we ship out to those countries?

**Ms. Dana Hayden:** Certainly, if governments chose, for example, to invest capital or invest operating dollars in operations to assist the competitiveness of those operations in their home country, that could obviously create a different sort of balance in terms of the competitive situation. The Government of British Columbia over some years, since 2001, has had a policy of not subsidizing businesses, not picking winners and losers, not doing that.

I would say generally, however, reducing tariffs in a market where we are trying to export improves the competitiveness of the domestic industry and would allow for greater value-added production in British Columbia or Canada. Reducing tariffs reduces the cost framework within which any producer is operating, therefore it would give them a better opportunity to increase the value-added product in their home province or country.

• (1250)

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

Now we want to welcome Mr. Menegakis to the committee.

The floor is yours for five minutes.

**Mr. Costas Menegakis (Richmond Hill, CPC):** Thank you, Mr. Chair.

I thank our witnesses for appearing before us today. I certainly found their testimony, as well as the responses to the questions so far, very informative.

Ms. Hayden, I'd like to start with you. You gave us a few very interesting statistics. You mentioned that 50% of Japanese Canadians live in British Columbia, and I think you mentioned that about 50% of Japanese visitors to Canada spend their time in beautiful British Columbia.

But I was really struck with your comments that were supportive of expanding our trade with Asian countries. You mentioned China, Japan, Taiwan, and South Korea, amongst others. Also, it was particularly interesting to hear that the premier's recent visit to Japan yielded 25 agreements totalling business in excess of half a billion dollars.

I guess what I'd like to add is that on a very recent visit of our Prime Minister to China—and I had the privilege of being on that delegation—to add to the 25 agreements that were signed in Japan, 23 agreements were signed in China, overseen by our Prime Minister and the Minister of International Trade, Ed Fast, totalling some \$3 billion in GDP to Canada. So it is abundantly obvious that for Canada our trading with the Asian market is a big potential plus for us.

I'm just wondering if you've done an analysis of or have a handle on perhaps a dollar figure of what it would mean for British Columbia should an economic trade agreement be signed with Japan.

**Ms. Dana Hayden:** We have not done any modelling provincially to allow us to come to such a number. We do intend to do that analysis now that Canada has announced its intention to advance the negotiations. I don't have a particular B.C.-specific benefit number. We've looked at the federal government's analysis. We know in general what the benefit is for Canada, as described.

We do think, though, that British Columbia, as Canada's gateway to Asia, is very interested in the Asian economies generally, so we're very interested in India, in China, in Japan, and in South Korea, to name four primary ones. While we haven't done the economic analysis with respect to an agreement with Japan per se, we are very interested in the Government of Canada establishing trade agreements in Asia, because we think that by waiting as long as we have to enter into negotiations with Asian countries, we have lost an advantage that the U.S. and other countries have obtained.

Often, the first agreement signed, or the first relationship, gives a competitive advantage to those other countries that we feel we have been losing ground to, so notwithstanding the fact that we haven't done an economic analysis specific to Japan, we're very interested in the India trade negotiations. We're very interested in Japan. We'd very much like to see Canada enter into negotiations with China because of the strategic importance of any one of those agreements in terms of advancing Canada's opportunities in the Asia-Pacific region.

**Mr. Costas Menegakis:** Thank you.

As you might know, along those lines, we did sign an historic agreement, a foreign investment promotion and protection agreement, or FIPA, with China in February, so I think the willingness on behalf of the Asian countries to do business with Canada is certainly there, and they've demonstrated that repeatedly.

**Ms. Dana Hayden:** I think so.

• (1255)

**Mr. Costas Menegakis:** But I want to commend you and the good province of British Columbia for the leadership role you are playing in helping us promote Canada abroad, specifically to Asia.

How is my time, Mr. Chairman?

**The Chair:** I think you're pretty well there.

**Mr. Costas Menegakis:** We're there? Thank you very much.

Thank you, Ms. Hayden.

**Ms. Dana Hayden:** Thank you very much.

**The Chair:** On behalf of the committee, I certainly want to thank all three of you for being here, Mr. Van Ankum, Erin Fletcher, and Ms. Hayden, and for your testimony. It has been of great value. I certainly appreciate you taking the time to be with us.

With that, normally we would suspend the meeting and go in camera to deal with a quick little budget on the Colombia agreement. The agreement has already been.... We've already agreed to do this. It's a very standard budget, so I'd just ask for a quick motion on that and we'll make it happen.

I see that Mr. Shipley has moved it. All in favour?

(Motion agreed to)

**The Chair:** Again, thank you very much for your testimony.

**Ms. Dana Hayden:** Thank you very much.

**The Chair:** The meeting is adjourned.







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