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Chair

Mr. David Sweet

Standing Committee on Industry, Science and Technology

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•(1145)

[English]

The Chair (Mr. David Sweet (Ancaster—Dundas—Flamborough—Westdale, CPC)): Good morning, ladies and gentlemen.

[Translation]

Good morning everyone.

[English]

Welcome to the 44th meeting of the Standing Committee on Industry, Science and Technology.

We have a lot less time than what we normally have.

I want to advise the witnesses that we've reserved five minutes at the end of the meeting, and there'll be a motion to go in camera at that time. We'll vote, and then we'll deal with some committee business. I'll probably gavel the meeting about eight minutes before that time so we can clear the room, and then we'll pursue the committee business.

I'll just briefly introduce these witnesses. From Startup Canada, we have Victoria Lennox, chief executive officer, as well as Dave Waters, adviser for the Government, Industry and Academic Advisory Council. We have Kevin Spreekmeester, vice-president of global marketing for Canada Goose Inc. And as individuals: Dr. Douglas Barber, distinguished professor in residence, McMaster University; and Daniel S. Drapeau, litigator, adviser, and trademark agent, DrapeauLex Inc.

I think you've been advised by the clerk that there will be six or seven minutes for opening remarks. For those from an organization, only one person will have that time. Of course, you can share it if you want.

With the order of precedence being our agenda before us, we'll begin with Startup Canada.

Mr. Waters, will you be the one with the opening remarks?

Mr. Dave Waters (Advisor, Government, Industry and Academic Advisory Council, Startup Canada): Yes.

The Chair: Then please go ahead for a maximum of seven minutes.

Mr. Dave Waters: Thank you very much for the opportunity to speak to the committee.

Startup Canada is a new, not-for-profit organization that works to support the interests of Canada's entrepreneurs. We believe that entrepreneurs and small businesses are the backbone of the Canadian

economy and the key economic engine that drives it forward to create growth and jobs, and we want to try to accelerate that growth. To achieve this, we met with 25,000 entrepreneurs across the country from May to September of this year, and with the help of more than 250 volunteers, we conducted 30 town hall meetings and more than 100 events in every province of Canada. We listened to entrepreneurs and discussed their ambitions and their concerns. I think we heard about a good cross-section of some of the issues they had about innovation. We heard the emerging voice of quite a strong and vibrant entrepreneurial culture. They're very engaged citizens and very dedicated to economic and social progress, while at the same time wanting to contribute to their communities.

One issue they raised was the importance of ensuring fair access to government business and innovation support programs. This is the issue we'd like to discuss with the committee today: how can Canada's IP system be modified to better support innovative Canadian entrepreneurs? In this regard, I'd like to start with a few facts from the latest comprehensive data set from Stats Canada.

In 2008, the Canadian economy spent \$29.5 billion on research and development. While about 55% of this R and D was conducted by the private sector, over 45% of this R and D was conducted in the public sector. Here there are three types of publicly funded institutions that contributed to this R and D output. The provinces conducted about 1% of this R and D; the federal government conducted about 9% of this R and D; and the universities conducted a remarkable 35% of this research and development. In total, the university expenditures on R and D were about \$10.3 billion. Of course, this produces trained researchers and new knowledge that gets captured in research papers and intellectual property.

Now what's interesting, we think, is to ask this question: what's the value of the IP that is extracted from this investment of \$10.3 billion in university R and D? Fortunately, we have an answer in a report called "The State of Science and Technology in Canada, 2012", which was just released in September. The report has a very interesting display within it, on page 112 and table 7.3, which indicates that the total value of intellectual property earned by Canada's universities in 2008 was \$53.1 million. This amounts to about half of 1% of the value of the research conducted. However, the total cost for the universities to manage this intellectual property was \$51.1 million. Therefore, the net commercial value that was extracted by the universities in protecting their IP was about \$2 million, and this is in relation to a research investment of \$10.3 billion. Note that this amounts, then, to only one-fiftieth of 1% of the value of the research conducted. As a result, we need to ask ourselves if this university IP management structure is the best way to transfer the IP from publicly supported research into the hands of Canadian entrepreneurs and small business.

One alternative to this current problem might be to consider establishing an intellectual property cooperative for all publicly funded R and D conducted by federal governments, provincial governments, and universities—and note that this would amount to about 45% of all research being done in the country. The ownership of IP rights from the R and D conducted by these public institutions would be transferred to this IP cooperative in exchange for royalty payments every time the IP is used. Collectively, the IP would be owned by the contributing institutions, which would be the members of the cooperative. So entrepreneurs and businesses in general across the country could access the IP cooperative for non-exclusive licences for the combinations of IP they need in order to develop the technologies and companies that are important to them.

In addition, such an IP cooperative should also provide outreach services to entrepreneurs and small businesses, and here we suggest three of them.

The first is programs to educate entrepreneurs, students, and innovative businesses on the content of the IP portfolio being managed by the cooperative, including the technology trends that they can see emerging and also the opportunities for even newer technologies.

Secondly, we think regional community programs should be required to educate entrepreneurs about the risks and rewards of effective IP protection and some of the links entrepreneurs can get then into programs like IRAP or the National Research Council regional institutions that can help them develop and protect their intellectual property.

- (1150)

Thirdly, since most entrepreneurs and small businesses understand the need to sell into global markets, from the inception of their businesses, the IP cooperative—and this could be done perhaps in conjunction with the Canadian Intellectual Property Office—should provide entrepreneurs with community access to education models about the practices and risks of getting their products and services into emerging markets, in particular, China, India, and Brazil, and then also into the 11 countries of the Trans-Pacific Partnership free

trade negotiations, for which Canada has recently been accepted as a participant.

In summary, Canadian entrepreneurs are a central force in our communities in promoting economic and social growth. Providing entrepreneurs with easier access to the IP generated from publicly funded research, we think, will help them to succeed and will reinforce the important Canadian value of collaboration.

On behalf of Startup Canada, I'd like to thank the members of the committee for your consideration.

Thank you.

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

Now on to Mr. Spreekmeester, for a maximum of seven minutes, please.

Mr. Kevin Spreekmeester (Vice-President, Global Marketing, Canada Goose Inc.): Thank you, and thank you very much for hearing us today.

Canada Goose is a 53-year-old privately held Canadian company. We made a decision decades ago to manufacture all of our product here in Canada. We have rebuilt the apparel manufacturing industry to support this growth. We now sell in over 40 countries around the world, and we have, I dare say, become an iconic heritage jacket globally.

Today we face an incredible problem with counterfeiting. The way it shows itself is twofold. One is in product coming into Canada through unprotected borders, and the other is on the Internet. The way we deal with it is in many forms. First of all, we work with the IP crime unit out of the U.K., who helps us educate border patrol throughout Europe. Working with us, they seize and destroy counterfeit product, almost at a cost-neutral position. They send us notices when they find product and we pay for the destruction of it. We can't do that here in Canada because border patrol has no *ex officio* rights to seize counterfeit product, and we need that support.

On the Internet, consumers in Canada are being fooled all the time. Counterfeiters steal our images, they steal our copy, they put up what we call rogue websites that mimic our website. Consumers can then go and buy jackets at seemingly a great bargain, but the jackets are, of course, counterfeit. They're mostly made in China. The jackets that are sent here and get through our unprotected borders are filled with undesirable content. We had three jackets tested at the labs at Feather Industries Canada. Two of them had absolutely no traces of down insulation in them at all. They were filled with bird parts—anything off the factory floor. They were covered in mildew, bacteria, feces, whatever they could get their hands on, and that's what's coming into Canada.

The coyote ruff that we use on our jackets is meant to protect the face from frostbite or worse. We learned that from the people of the north, that there are really only three types of fur that you should use to protect the face. Coyote, as you know, is a pest in this country. Many provinces have a bounty on coyote. They're plentiful. The way the coyote fur works is it that it creates turbulent air in front of the face and that's what protects you from frostbite. The jackets coming in as counterfeit we've had tested, and they have anything from what has been referred to as racoon dog to German shepherd—you name it. There's no control over what's coming in on these jackets.

In short, open borders means an open season on Canadians. It means that Canadians are being sold these jackets and they're being ripped off. It causes great confusion with our retailers. Our retailers are having consumers come back and say, "This isn't a real Canada Goose jacket. Can you take it back?"—our jackets all have a lifetime warranty. The retailers are saying, "This isn't even a real Canada Goose jacket", and it's almost impossible for consumers to tell. One of the simplest steps we can take is to provide our border patrol with ex officio rights to seize and control product.

I've brought a counterfeit jacket here today, which I'd be happy to pass around, or for any of you to take home and share with your families, now that you know what's in it.

An hon. member: Give it to the Liberals.

An hon. member: We've had enough feces for one day.

Mr. Kevin Spreekmeester: You can see that it would be very difficult for anyone who doesn't know to tell the difference. For those of us who do know, the differences are evident, but now that you know what's in that jacket, I hope you can get behind us and help us create some controls at the border to protect Canadians, to help protect our brand, and stop this stuff from coming in.

Thank you very much.

• (1155)

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

Now we'll go on to Dr. Barber.

It would be prudent on my part to advise the committee that I have had extended conversations with Dr. Barber, and his information on innovation is fascinating.

I apologize that you have only seven minutes, like everybody else. Go ahead, Dr. Barber.

Dr. Douglas Barber (Distinguished Professor-in-Residence, McMaster University, As an Individual): Thank you for the opportunity to be here. It's a new experience for me.

I've been a global commercial guy all of my life, in knowledge-based commerce, and there are only three things I want to say today that have some impact or are impacted by how intellectual property is treated and handled.

The first thing I want to say is just that patents—I'm talking largely about patents, but intellectual property as well—are a legal means of providing monopoly status to the inventor or the owner of the information. In that sense, patents become a legal right to fight when infringement of that monopoly state occurs.

The thing I want to say is that the definition of what is patentable has become more and more blurred as technology moves. We don't know quite how to handle the digital world, we're not ready for the quantum world—which is coming—and the software world has caused us lots of problems. In the end what has happened is that patents are granted without proper evaluation. The understanding in the United States, where most of this kind of thing gets defined, is that they'll get tested in the courts. If there is any real value to them, it'll happen in the courts.

I just want to say that for any small enterprises—and generally speaking, enterprises in Canada are small, at least knowledge-based enterprises—the entrance fee to a fight is somewhere between \$2 million and \$5 million, and that sort of thing just blocks out their ability to take on the fight. What happens, even in the United States where they can do this, is that wisdom and justice are hard to realize, so money and power tend to dominate the decisions that get made.

Yet the U.S. is probably the most successful knowledge-based commercial country in the world. I might say, just in passing, that it has about 150,000 lawyers, which costs the United States about the equivalent of the federal government's budget, so it's not small stuff, and it's very expensive.

The second thing I want to say, which fits with that, is that Canada is a very small country when it comes to the knowledge-based economy. We have half a per cent of the world's brains. Because we have between 7% and 10% of the world's natural resources, we have an economy that is about 2% of the world's economy. So on whatever scale you talk about it, but certainly on the knowledge-based scale, we're very small. As well, for the companies that are involved in that—and that's been my life—typically less than 5% of their business is in Canada.

What that means is that intellectual property has to be protected. Intellectual property is governed by national policies and priorities, so you have to choose every country in the world that you're going to protect it in, and doing that costs somewhere between \$10,000 and \$50,000 a whack just to get your intellectual property approved and registered in those countries. Then you have to pay maintenance fees, and then on top of that you have to be prepared to fight to protect it.

Canadian companies really need to make those choices wisely, and generally speaking, it means that the ones that succeed are the ones that choose small niche businesses in the world where those big competitors aren't out there banging at you and going to take you on and file a suit. Of course, we can dominate those markets more easily.

That's about the small country and what we have to do there.

•(1200)

The third thing, and probably the most important one, is that the culture of commerce in Canada is very weak. It is poor. We are at the top in our investment in the knowledge of our people, and not matched by any other country, but when it comes to creating value from that knowledge, we're close to the bottom of the list. There is something really wrong. What is it? Well, it's about our culture, and our culture is what we believe to be important and what we believe to be true, and it doesn't have to be conscious for us to carry it on. So scientific people who are objective and evidence-based are not objective and evidence-based about these things.

Our culture is largely shaped by post-secondary learning, and the post-secondary learning environment is commerce-averse. "Customer" is a bad word, "sales" is a bad word, "commerce" is a bad word, and "profits" is a really bad word. The 18- to 25-year-olds, who are pretty easily influenced at that stage, are influenced in that kind of an environment, and I might say, I've been in that environment throughout the whole of my life, too, in one way or another.

What I don't understand is what it is that is so attractive to universities about intellectual property, because they can't use the monopoly. They don't get any money for it. The revenues they get from their patents are about \$50 million a year, and, as David has said—he knows these numbers better than I do—the costs of the tech transfer offices and things like that are probably well in excess of that \$50 million.

The other thing is, they can't possibly, and wouldn't, play in that game I was talking about: that patents are a "right to fight". They don't have the money. They're not even in a mode to fight, so they're not going to protect it. Even if they license it, they're going to be stuck with the fact that it isn't protected by the owner. What happens there is that high-tech companies in Canada can't get financed and aren't prepared to carry on their effort to reach commerce if in fact the intellectual property is owned in a post-secondary or a publicly funded institution.

That's a huge problem.

•(1205)

The Chair: Thank you, Dr. Barber. I'm sorry, your time is up.

Dr. Douglas Barber: That's the end.

The Chair: Now we'll go to Mr. Drapeau, for seven minutes.

Mr. Daniel Drapeau (Litigator, Advisor and Trade-Mark Agent, DrapeauLex Inc., As an Individual): Good morning.

First of all, thank you very much for re-inviting me to testify before you; I was before you in 2007, but more on that later.

What's great about being the last one to talk is you get to have the benefit of hearing what everybody else had to say. What I find very interesting, especially for you, about today's presentations is that people have come forward and given you the lay of the land in Canada. I'm particularly interested in Mr. Spreekmeester's putting a Canadian face to the counterfeiting problem, so it's no longer an issue of luxury brand owners from foreign countries. I'm very interested in Dr. Barber's statements about the culture in Canada, because I'll be talking about that.

With that said, here's how my testimony ties in to what you've heard so far.

I'm a sole practitioner. I just opened up my own firm. I've been working in the field of anti-counterfeiting for the last 15 years. I'm a past chair of the Intellectual Property Institute of Canada's Anti-Counterfeiting Committee. That's a bit of a mouthful. I've represented the Intellectual Property Institute of Canada in the security and prosperity partnership meetings with Canada, the U.S., and Mexico for two years.

What I'm going to talk to you about is not the Canadian landscape. What I'm going to talk to you about is the problems I see in our legislation, in our policies—problems you can do something to remedy. I can tell you that you're already in agreement with me, because the recommendations I'm going to make to you I already made to you in 2007, and you adopted all of them.

I've been given free reign on my topic today, and I intentionally chose not to go into far more interesting areas—for example, why is Canada not part of the Madrid convention, which is the treaty whereby most industrialized countries file trademarks? What do we do about patent trolls? Dr. Barber has alluded to that point, and I hope you will have questions for him and me on that also. I won't get into a very interesting topic, which is the difference or the conflict between certification marks in section 10 of the Trade-marks Act. That needs fixing up too. I'll stick to what I told you in 2007: anti-counterfeiting and what you can do to resolve it.

Just before I start, I have one word about copyright: enough. I'm not going to talk about copyright; I'm only going to talk about trademarks.

Here's the problem I've encountered in my own practice in dealing with counterfeits. There are three issues I'm raising for your attention. I'm trying to keep it down to a small number. You have those in the summary of my testimony, which I hope has been distributed to you.

Number one, from a criminal enforcement point of view, the RCMP and crown prosecutors only act pursuant to the Copyright Act because there are criminal law dispositions within the Copyright Act. You do not have criminal dispositions in the Trade-marks Act. The criminal dispositions dealing with trademarks are in the Criminal Code, so that creates a jurisdictional problem.

Why is criminal law so important? Because counterfeiters don't play by the books. That's why you have a criminal law system as opposed to a civil law system, where both people participate in a system that recognizes that both are in good faith, or at least theoretically in good faith. When you're dealing with a criminal, you know right off the bat that he's not acting in good faith.

Number two, from a cooperation point of view, in terms of civil authorities and rights holders—this has been alluded to by Mr. Spreekmeester—why do we not have a registration system at the border in Canada as we have in European countries, as we have in the States? It doesn't cost that much, and I'm sure brand owners would willingly participate in it. We haven't even given ourselves the tools to control the trade in counterfeits.

A registration system at the border is very simple. You have a trademark registry in Canada. You have a copyright registry in Canada. You just create a registry system at the border. That way at least you give customs officials one tool to identify people who have rights.

Another problem is that there's no exchange of information between civil authorities and rights owners, so you may have actions that are undertaken on behalf of civil authorities, but rights owners won't be able to get to the information and take their own civil actions. You're depriving yourself of an important ally in the fight against counterfeits here.

● (1210)

Finally, my pet project is to tell you about the Trade-marks Act. We talk a lot about the Copyright Act. We almost never talk about the Trade-marks Act. Did you know that under the Copyright Act you have a system that's called statutory damages. Those are damages for which you don't need to prove an actual loss. It's a nominal amount fixed in the act that you get as a plaintiff when the defendant is found guilty of infringing your copyright. You don't have that equivalent under trademark law.

So in the fight against counterfeiting, depending on whether you have a copyright or whether you have a trademark, you may end up not only with a different result but also with a different evidentiary burden. Somehow, that strikes me as unfair, and this would be easy to solve by putting in statutory damages in the Trade-marks Act.

Those are all my representations. I look forward to your questions.

The Chair: Thank you very much. That was sophisticated and succinct.

Now we'll move to our questions. For our first round we'll do our usual seven minutes, and then we'll be truncated on the second round.

Over to Mr. Wallace for seven minutes.

Mr. Mike Wallace (Burlington, CPC): Thank you, Mr. Chair.

I want to thank our guests for joining us, and I apologize for being late due to voting issues.

I'm going to start with you, Dr. Barber.

Dr. Barber, just so you know, I started a company from intellectual property taken from McMaster University and created a very successful company in Burlington called Gennum.

I want to talk to you about where I left off with the last panel that was here. I think you talked about it. In my view, having an IP regime is important, but we need IP to protect. Part of the issue, which I think you clearly indicated, was that in the university system, the educational system, we produce pretty good managers, but we're not great at the entrepreneurial piece, or taking that IP—the intellectual property that's developed at university—and commercializing it. You've done it.

Since you're still at McMaster—we've heard from other universities who have different offices, different processes. Some hold on to it; some of the people who develop have control over it, not the university, and so on. Is there something from your

experience that we're not doing in Canada that is happening in other universities around the world, maybe the United States?

Could you give us any suggestions as policy-makers on what we could do to be more aggressive in that area?

● (1215)

Dr. Douglas Barber: Yes, there are a couple of things.

One of the things about some of the most famous universities in the United States, and not in all areas of business—there isn't a shoe that will fit all feet, in some respects—but in information technology and communications and so on, is that quite a number, and I know particularly of a number of cases, don't patent.

They say they teach, they write papers, and they work with their graduates out there. If their graduates are having challenges and problems, they'll work on those challenges and problems. And they'll wait for them to patent whatever information is valuable to them, because they're the ones who need to use it. They're not into this big worry about patenting in the university itself. That's not true in every area in the universities, but it is true.

The other thing is that the culture, which I talked about, is very different in different countries in the world. I'll pick the United States, because they're the biggest player and the most successful player in the knowledge-based economy.

The way they operate is that they pay their faculty for the academic year, and they expect them to get out somewhere in society for the remaining four months, or whatever it is, and get into the value exchange—get value in exchange for the value they're creating. So their university faculty members are all in commerce.

Our tenured faculty members, I often say, and not just jokingly, but seriously, have everything guaranteed 12 months of the year until four years after they're dead. They're not in commerce at all. In fact, they are averse to commerce. They don't want to be asked, “Who is your customer?” They'll hit you in the face if you ask them that question. I live in that environment.

They find it very hard to accept that some of those great universities in the United States, such as MIT... I should say that MIT is a technical institution with 10,000 students. I have compared it to U of T, with 70,000 students. U of T is 30 years older than MIT.

MIT had a 10% club at one stage. A faculty member who belonged to that club was really honoured. That would be a faculty member for whom the remuneration from MIT was less than 10% of his take. In Canada we would say that this would totally contaminate the academic road, because you're being driven by other dollars and other funds and things like that. But guess what? MIT does better than the U of T on nearly every academic front we can measure. U of T has had about seven Nobel Prize winners in its history. Half of them have been in the U.S. They were their graduates who went to the U.S. MIT has had something like 67. They currently have nine on the faculty, and U of T has none.

Has this contamination of the commercial world made them non-academic? Not at all. This is about the culture, you see. There's a belief about being pure, which is not true, but we can't examine it, and that's a big one for us.

Mr. Mike Wallace: I appreciate that. That's very good.

Startup Canada is trying to help entrepreneurs find intellectual property they can commercialize. Where do you get your revenue? Are you a not-for-profit organization? Whom do you represent? Where do you get your cashflow?

I liked what you had to say, but I don't know who you are.

Ms. Victoria Lennox (Chief Executive Officer, Startup Canada): I am Victoria Lennox, and thank you so much for inviting us here. This is my first time as well.

Startup Canada is a grassroots entrepreneurship. We're calling ourselves a movement. It's completely non-profit, and we're applying for charitable status right now. It's a collective of entrepreneurs from across Canada who think we can do more by supporting each other than we can by just asking for government to effect change. So we've been on a national tour over the last six months, talking to more than 25,000 entrepreneurs about what they want to see Startup Canada do. We're essentially being very entrepreneurial and we're crowd-sourcing our mandate; we're crowd-sourcing our programming. On November 27, we'll be announcing our blueprints to Startup Canada, a summation of what was discussed and what entrepreneurs are saying. We'll be announcing our action plan, what we're going to be doing next, as well a charter of what an entrepreneurial country looks like.

The way in which we fit into this is exactly what Mr. Barber is talking about, this cultural aspect of how we really start up in Canada. I've done a lot of work. My background is very strong in policy and higher education entrepreneurship, and I've looked at lot of these models across the world. I think what Canada is missing has to do with how our culture influences not only our intellectual property regime, but also the way we finance companies. It really comes down to the way we educate our students and the skill sets they're given. The huge gap you'll see between MIT—

• (1220)

The Chair: Ms. Lennox, I'm sorry, but I have to interrupt. Time is always our enemy here and we're over time.

Thank you very much. I think you got most of your answer in.

Now on to Madame LeBlanc.

[Translation]

Ms. H  l  ne LeBlanc (LaSalle—  mard, NDP): Good day. Thank you very much for your very interesting and meaningful testimony.

I have a question to ask, because there are changes. We know that the federal government contributes to research and development by way of its programs, such as the Scientific Research and Experimental Development Program, commonly known as SR&ED. This program furthers research and development in business. Recently, there were changes outlined in the current budget. We note that the tax credit will drop from 20% to 15%. Also, there will be changes made to some expenditures, such as capital expenditures.

What would the effects of this be, for instance, on the businesses that Startup Canada represents?

[English]

Mr. Dave Waters: The changes you're referring to came out of the Jenkins Panel report and what are probably the first installment of a series of other changes. The changes in the rates of the research and development tax credit have been identified as saving about \$500 million, which will be allocated from indirect support through the tax system to direct support through programs like IRAP. There's been quite a positive reaction to that. IRAP has received a doubling of its budget, another \$110 million. It has about 240 technology advisers across the country who work with small businesses, giving them advice and funding to develop their businesses. The changes in SR and ED of actually reducing it by about \$500 million and putting that money into direct—

[Translation]

Ms. H  l  ne LeBlanc: The entire amount, however, was not transferred to direct support. There is still a shortfall.

[English]

Mr. Dave Waters: My understanding is that not all of the \$500 million has been reallocated. There's one suggestion that the \$400 million for venture capital that the government is looking at would be sourced from the changes in the SR and ED tax credit system. My own sense is that changing the SR and ED tax credit system takes some time. It's an income tax provision; it doesn't have the certainty of a programmed reduction. You have to look at the demand for the SR and ED system, when those rules are put in place, and how businesses will react.

The overall sense I have is that the change from indirect support through a tax system to direct support, focused in particular on SMEs, through, for example, the IRAP program, probably will be good for the entrepreneurial community, the very small businesses that are trying to start up.

There are limits, though, that one has to be sensitive to. We need to get experience in terms of the changes that are being made. Many small firms that do research don't make money, so the tax credits are very important to them. They are conducting their research to get a product that eventually will make and develop a source of funding. Those tax credits can be very important for them, so we need to be sensitive to protect those firms.

• (1225)

[Translation]

Ms. H  l  ne LeBlanc: Mr. Spreekmeester, what would your comments be regarding the recent changes to the program? Do you use that type of federal research and development program, and the tax credits?

[English]

Mr. Kevin Spreekmeester: No, we haven't.

[Translation]

Ms. Hélène LeBlanc: You don't use them, is that correct?

[English]

Mr. Kevin Spreekmeester: That's right.

[Translation]

Ms. Hélène LeBlanc: Mr. Barber, can you comment on these changes? Do you believe that the changes to federal research and development programs are going to have an impact on various Canadian businesses and on research and development?

[English]

Dr. Douglas Barber: I have to say that I'm green in this environment and I don't know where the translation is available to me.

Ms. Hélène LeBlanc: I can repeat it in English. I can do the translation right away.

I was talking about the federal program for research and development, and the recent change to the SR and ED program, where the rate went from 20% to 15%, and also that the capital costs won't be an eligibility for the company. What impact do you think it will have on research and development by company, large or small?

Dr. Douglas Barber: I think it probably won't make a lot of difference, because it's relatively trivial. My experience of the tax credit has been that you're always unsure about whether you have the tax credit or not, so you operate as though you don't, and when it comes, it's a windfall. So it isn't a stimulus.

In the case of the direct funding—I've been on the board of IRAP—industry does about \$15 billion worth of R and D, which is low for a country like Canada, and IRAP had about \$80 million. Even doubling that really doesn't get us into the mode.

Ms. Hélène LeBlanc: So it's difficult to predict if you're going to get the tax credit or not—for most businesses.

Dr. Douglas Barber: That's the big problem of the SR and ED, the uncertainty.

Ms. Hélène LeBlanc: Thank you very much.

[Translation]

My comments are once again for the representatives of Startup Canada.

Many young companies—often startup companies—will not manage to grow from being small businesses to medium ones. They may have a good idea, intellectual property, and suddenly a buyer from outside of Canada will turn up to buy these startups, with a lot of money. In that way, offshore buyers will get hold of intellectual property and perhaps even move the business outside of Canada.

Would you say that is an accurate statement? How can we reduce the number of these cases or prevent that type of situation?

[English]

Mr. Dave Waters: One of the challenges is that there's a lot of anecdotal evidence supporting the issue you're raising—of small firms being created, starting up, and just not having the capability, and usually it's a shortage of financing, to be able to carry them on to a bigger stage, and therefore selling out perhaps a little too early,

with their intellectual property going offshore, where it is then commercialized and perhaps the products sold back to Canada. There is a lot of anecdotal evidence to confirm that. However, we really don't have a lot of good data that I'm aware of that would permit a chance to really examine this in more detail and to understand the dynamics a little bit better.

Now, one of the things I have noticed recently in terms of StatsCan data, which looks at university research and development, is that it seemed to indicate that more than 50% of the licences that are offered by university tech transfer offices actually go to offshore companies. To me, if that is accurate, then that could indicate a very significant leakage in our system of trying to develop intellectual property in Canada from publicly funded research. We should be trying to maximize those opportunities.

Those, again, are the kinds of issues we need to explore I think with more rigour, as opposed to the anecdotal evidence, but certainly the anecdotal evidence would suggest....

• (1230)

The Chair: Thank you, Mr. Waters.

The time ended with Startup again.

Now it's over to Mr. McColeman for seven minutes.

Mr. Phil McColeman (Brant, CPC): Thank you to the witnesses.

This has been some of the most refreshing testimony I have heard at any committee I've been at, in terms of moving forward on the issues on the ground. It was described as the “landscape”. I would interpret it as actually what's happening on the ground in the world out there.

The first question, Mr. Spreekmeester, is on the Internet entry piece. We heard about the unprotected border, but do you have anything more, such as your recommendations or things that are happening within your industry on the illegal entry of these products over the Internet?

Mr. Kevin Spreekmeester: Yes, it's a slow-moving process.

I work as well as co-chair on the task force on counterfeiting of the Outdoor Industry Association in the United States, and they've taken a much more aggressive approach on the Internet than we have. It's littered with land mines because of first amendment rights and things like that.

It would be helpful if we had greater participation by financial institutions to get to the accounts of counterfeiters through PayPal, Visa, or MasterCard, where we could immediately stop the flow of cash to the counterfeiters as soon as we recognize counterfeit websites or rogue websites.

A lot of this is funding organized crime and terrorist activities. We know that. It's used for money laundering, and yet there seems to be a reluctance to put policy in place that would help take it down. We see that as a harder road to hoe.

Mr. Phil McColeman: I appreciate hearing that.

Dr. Barber, on your comments about the culture and it being weak in our country, I just want to underscore that. I studied for an undergraduate degree in Canada and then I went to an American university for my graduate work. I can tell you the cultural difference is night and day in terms of the way U.S. colleges and universities.... I travelled a bit in the States to some other institutions.

Having said that, I want your comments on the way they have shaped their culture through the connection of graduates. My sense is that people who graduate from American universities become very loyal to their alma mater. They go back and fund programs, and they intersect with current students and faculty members in a joint forward motion together.

Can you comment on your observations about how Canada stacks up in that regard?

Dr. Douglas Barber: Yes. Let me start first by saying that in the prosperity of nations, Canada sits about thirteenth. We used to be in the top five; we're now down that low. The Americans remain in the top three all the time. All the other countries that have moved above us in the prosperity of nations are countries typically with a population of less than the province of Ontario. So you don't have to be big to be good. This year Singapore is number one, and I've known the Singapore scene for some time. The big characteristic of these smaller countries is that they actually have a synergy and a collaboration that goes on among government, academia, and industry all the time. They work together; they know they're working together and that they can't win without working together.

The thing that amazes me is that the Americans work together too, and I think it's somewhat for the reason I talked of earlier. When you talk about the universities relying on their alumni, yes, they do. A place like Berkeley will tell you that the amount of money they get on licences is trivial. They can get \$100 million from a graduate any time. How is it that they do that? It's because they keep themselves open to their graduates. They've known them for this whole time; they keep connected, so it's a synergy. It's not just what the graduates do; it's what the faculty does to stay there and say, "Can we help you? Is there some way we can help you in your work?"

It's again a synergistic environment that we don't have. I sit in a university where many people don't know what's happened to their graduates.

• (1235)

Mr. Phil McColeman: Thank you for that.

Last, I'll go to our entrepreneurial group.

Mr. Waters, is there an intersection with what you're doing with post-secondary education institutions in Canada?

Mr. Dave Waters: Can I ask for a clarification, please?

Mr. Phil McColeman: You're obviously out talking to entrepreneurs in the development stages, I would say, of your enterprise as it is. Are you also talking to post-secondary institutions in terms of some of their outreach and some of the things they're doing?

Ms. Victoria Lennox: We are. We just piloted a program with ACOA across New Brunswick. Essentially, we've developed university enterprise models assessing the quality of entrepreneur-

ship on campus at universities and colleges across the province, based on best practices across the world.

Just to echo Mr. Barber's comments, it comes at the institutional level. It's having industry, entrepreneurs, and alumni involved with policy, and entrepreneurs in residence bringing them back into the community. It's about programming within the institution. I think what we often forget, and what American universities have that I don't think a lot of Canadian ones have—maybe St. Francis Xavier, the University of Toronto a bit more, and the University of Waterloo a bit more—is a sense of community culture among the students themselves. They have the student clubs that create that sense of fellowship.

What Startup Canada is going to be investing in across the country is cultivating that student enterprise on campuses across higher education. It will be connecting entrepreneurial communities, investors, and entrepreneurs with institutions.

It's a really difficult one to tackle. It comes at the institutional level. How are these higher education institutions incentivized? But it is also how we empower, inspire, and engage young people in their own education through experiential learning opportunities. It's trusting them with their own education.

I see a big role for Startup Canada in this area moving forward. This project we did with ACOA and the New Brunswick Business Council, which is a council made up of the top entrepreneurs in the province, will really set the tone for the work we can do in terms of creating almost a competitive climate for institutions across Canada so that they increase their ambitions to be more entrepreneurial. It will also increase awareness among young people that they should consider the entrepreneurial capacity of universities when choosing where to go.

The Chair: Thanks, Ms. Lennox.

Now we'll go on to Mr. Regan, for seven minutes.

Hon. Geoff Regan (Halifax West, Lib.): Thank you very much, Mr. Chairman.

I want to thank Mr. McColeman for asking a question that allowed Ms. Lennox to talk about the great St. Francis Xavier University.

I just wish that my X-Ring wasn't being resized right now. I'll get it back tomorrow, as a matter of fact.

An hon. member: Not all the grads are successful.

Hon. Geoff Regan: Not all the grads are successful. Thank you, Mike. Order, Mr. Chairman.

Voices: Oh, oh!

Hon. Geoff Regan: Dr. Barber, on the question of university culture, I almost want to ask why you are here. Is there something you think the Government of Canada can do that we, as parliamentarians, can have an influence on, that can change the cultural challenge you've referred to?

In a sense, you have been trying to change it and haven't succeeded at a direct level. How can we do it?

Dr. Douglas Barber: I'm here because I care about Canada. I don't like the fact that we're slipping in our prosperity and that with all the knowledge we have we're not able to create value we can trade.

Hon. Geoff Regan: I think we all share that.

Dr. Douglas Barber: What can we do? There is a big cultural factor where the federal government plays a role. Look at the public funding that goes into the universities. I was the chair of the board of governors. I was on the finance committee of McMaster for probably 14 years. They didn't use GAAP, so I had difficulty reading the financials some of the time, but there was no doubt about where the money came from.

The interesting thing is that in the provinces that have responsibility for education, for every two dollars they put into the operating funds of universities for education, the federal government puts in a dollar for research. I want to say, and I'll say it bluntly, that I believe that emphasis.... It's scientific research. Even in SSHRC, the Social Sciences and Humanities Research Council, people are measured on objective, evidence-based research, not on subjective, experiential-based research. So experiential learning has almost gone out of the post-secondary learning environment. It's all objective and evidence-based.

All I'm saying is that if you put a dollar in for every two dollars from the provinces, and it's for scientific learning, you can't say that you're not affecting the learning environment. You are.

•(1240)

Hon. Geoff Regan: Are you saying that instead of that, the federal government should be funding co-op? Am I misunderstanding what you mean by experiential?

Dr. Douglas Barber: I have to tell you that we are a long way... we are all enculturated in the Canadian culture—even at the university you come from—and what that means is, if we start talking about experiential learning, we don't know what we're talking about yet. All we know is that we need to move.

Hon. Geoff Regan: Sorry. I'd just like to clarify what you mean by experiential learning. I mentioned co-op in the sense of people going out and working in the private sector. Is that the kind of experiential learning or connection to it that you're speaking of?

Dr. Douglas Barber: It is if you're in the university, and I've been associated with Waterloo as well. Waterloo is different because of co-op learning and because it has gone out to the employers—you've got to educate the employers too. It's told the employers that when they engage a co-op student, they have to know they're participating in the student's development, and they won't win out with the university if they just have the student sweeping the floors or something like that; they need to put students into situations.

Hon. Geoff Regan: I've been hearing about Waterloo's co-op program from my wife for 20 years, so I appreciate it. Believe me, it's a great program.

Dr. Douglas Barber: Let me just mention one more thing that you may not know about. I talk about this around McMaster. I think the greatest experiment that has happened in the world happened in McMaster. It's called the McMaster University Medical Centre, the hospital and the medical school there. Why is it different? To start out in that medical school, you didn't have to have pre-med; you had

to have a degree. You didn't have to have good marks in the degree, but you had to demonstrate that you were interested in people and interested in helping people, that your life had already demonstrated that.

Hon. Geoff Regan: I know. Dr. John Ramanaukas was my doctor at one time. He was a graduate of McMaster. His background was geology. I met his wife in law school, so I'm familiar with that.

I'd like to go on, if I may. I only have seven minutes. My time is almost over, so if you don't mind.... Sorry.

Dr. Douglas Barber: I'm sorry. I just want to say there were no courses, no examinations, and you got an M.D. in three years. Very different from anywhere else, very experiential—

Hon. Geoff Regan: Absolutely.

Dr. Douglas Barber: —because you're in the hospital right away.

Hon. Geoff Regan: Thank you.

Mr. Drapeau—and I think Mr. Spreekmeester might be interested in this also—let me ask you about what you think the practical process ought to be at the border. With the number and nature and variety of goods that cross the border, I'm trying to picture what it would be like and what a border guard would do—how long it would take, and how a border guard would assess it when looking at a number of items in the back of a truck crossing the border or coming in on a ship.

How would border guards assess that? How do you think that ought to work?

•(1245)

Mr. Daniel Drapeau: First of all, thank you for your question. I was starting to despair that none of you would ask me any questions.

Listen, it's an ongoing process. I've actually talked to people at the World Customs Organization in Belgium about this. First, you've got to start with—and I'm sorry, the word in English escapes me—*un système de repérage*. You have to impart the knowledge to the customs officials: watch out, there's Canada Goose. Some of them may not even know that Canada Goose exists. I hope that's not the case, but...

The reason I'm telling you this is that I've coordinated training sessions with customs officials for certain brand owners, the only reason being to raise custom officials' awareness on a given brand. The problem is this is all done on an ad hoc basis. If you have an established system where you have, first, a registry system where the brands that are interested in having counterfeits of their brands patrolled...they register with that system. Then what you have to do is empower customs officials to seize counterfeit merchandise, not because there's a false declaration on the statement to bring in the merchandise, but because the merchandise is counterfeit in and of itself. Right now, they don't even have that power.

Then you have to get into a process of detaining the merchandise, because you have to respect due process. What if the merchandise isn't counterfeit? What if it's grey goods? You have to get into a process of detaining.

I think it would go over the six minutes you're allotted to speak with me to talk about that.

Finally, Mr. Spreekmeester raised a point that is very important, a question that has been raised in a number of fora, including the World Customs Organization, and Union des Fabricants, in France, which is the mother organization of a lot of brands. What do you do with destruction? Who pays for destruction? When do you destroy? Their reflection is getting to be so advanced that they're now considering how to destroy so that it's green. In Canada we don't even know that destruction exists.

The Chair: Mr. Drapeau, I need to interrupt. I gave a full minute and a half extra for two reasons: one, Mr. Regan was fretting about his time; and two, you hadn't had any questions. That's as merciful as I can get without being in big trouble with the rest of my committee on my accountability for time.

An hon. member: Too late.

Voices: Oh, oh!

The Chair: You see how tough it is for me?

We're going to go in camera and transition soon, but first we'll go to two questioners. I wanted to try to squeeze in two three-minute questioners, but if we try to do that, we'll be in trouble. I think it's better that we pause right—

Hon. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC): He's saying that he wants to have a discussion about how we even transition.

The Chair: You need to officially present your motion, of course, and then I know where another motion is going to come from.

We'll consider that your motion is presented, Mr. Regan.

Mr. Harris.

Mr. Dan Harris (Scarborough Southwest, NDP): This motion has been presented, but what other motions are there that could be presented today?

The Chair: Well, anybody who has given notice within 48 hours could present a motion. However, we did make special time at the end of the committee to be able to do this.

Mr. Carmichael.

Mr. John Carmichael (Don Valley West, CPC): I have a point of order.

We've allotted time. Out of respect for our witness, why don't we bring an end to the first session, and then we can get at this other piece right away?

The Chair: Yes, thank you.

Hon. Geoff Regan: I would like more time with the witnesses, but I understand if we can't.

The Chair: I think that's evaporating. I know that Mr. Regan has moved his motion and I know there's a motion to go in camera. We'll take a vote on that.

All those in favour of going in—

Mr. Dan Harris: Perhaps if the witnesses have anything else to share, they could share it with the clerk.

The Chair: Yes, we could do that, Mr. Harris.

All those in favour of going in camera?

(Motion agreed to)

The Chair: Before I gavel to go in camera, I want to thank the witnesses very much on behalf of the committee. You heard Mr. Harris mention that if there's anything else you haven't been able to present to the committee today, anything you'd like to make sure is on record so that we can consider it as evidence when we do our report, please submit it in writing to the clerk and we'll be glad to give it the same weight as your spoken testimony.

Thank you very much. We're going to pause and go in camera.

[Proceedings continue in camera]

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