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**EVIDENCE**

**Tuesday, May 28, 2013**

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**Chair**

**Mr. David Sweet**



## Standing Committee on Industry, Science and Technology

Tuesday, May 28, 2013

• (1640)

[English]

**The Chair (Mr. David Sweet (Ancaster—Dundas—Flamborough—Westdale, CPC)):** Ladies and gentlemen, *bonjour à tous*.

Welcome to the 72nd meeting of the Standing Committee on Industry, Science and Technology. I know that some of our members aren't here yet, but I want to get moving because we have a limited amount of time.

I think you all have your agenda in front of you. I don't want to offend the witnesses, but rather than introduce you, I'll just leave that to our members. I'm going to follow this agenda for the opening remarks.

I would ask all of our witnesses to be as brief as possible. I understand that you already have prepared remarks, but if you could carve them down a bit, that way we'll try to get in as many questions as possible afterwards.

We'll begin right now with Mr. Geist, the Canada research chair in Internet and e-commerce law at the University of Ottawa.

Please begin, Mr. Geist.

**Dr. Michael Geist (Canada Research Chair, Internet and E-commerce Law, University of Ottawa, As an Individual):** Thank you, Mr. Chair.

Good afternoon. As you heard, my name is Michael Geist. I'm a law professor at the University of Ottawa, where I hold the Canada research chair in Internet and e-commerce law, but I appear before this committee today in a personal capacity, representing only my own views.

I appreciate the invitation. I'm certainly supportive of the committee's study on the issue of SME adoption of digital technologies.

As the committee has already heard, Canada fares relatively poorly in some areas when compared with peer countries. For example, you heard from Shopify's Harley Finkelstein on the lower e-commerce adoption rates by Canadian firms as compared to those in the U.S. There are many other studies that point to the same concerns. A 2011 CEFRIO study on Canadian SME ICT adoption found that mobile device usage was relatively low; moreover, many of the online collaborative tools—application sharing, web sharing, video conferencing—are only used by a small minority of Canadian SMEs.

The Canadian Chamber of Commerce's 2010 study on SME use of e-business solutions arrived at similar conclusions. Moreover, it pointed to Canada's declining rank, whether in the World Economic Forum's global competitiveness index, the OECD's broadband ranking, or *The Economist's* e-readiness ranking.

Of course, I suggest that the committee is well aware of these shortcomings, as your May 2012 report, "E-commerce in Canada", cited similar statistics and studies and took note of the performance of Canadian SMEs.

So we have a problem, and while I'm pleased that the committee is looking at this, you'll forgive me if there is a sense of déjà vu about this discussion. This committee is currently also studying broadband and Internet access across Canada, has completed a study on the IP regime in Canada and, as I've just noted, also completed a study on e-commerce. As you know, you're not alone. The Canadian Heritage committee has completed a study on the entertainment software industry in Canada. The Access to Information, Privacy and Ethics committee completed a study on privacy and social media. The Justice and Human Rights committee has studied cyber-bullying. The Senate committee on Transport and Communications last year released a study on the wireless sector.

My point is that our problems with the digital economy, including SME digital technology adoption, are not the result of a lack of study. Many of these issues have been studied intensively for years. At least part of the problem lies in Canada's lack of a cohesive, forward-looking digital economy strategy. That failure is plainly hurting all aspects of our digital economy. It creates business uncertainty, it undermines consumer adoption of e-commerce, harms innovation, and sends an unmistakable signal that this is simply not a policy priority.

For an SME, the effects of Canada's digital economy strategy failure—something I've often termed as Canada's "Penske file"—can be found everywhere. Let me give three quick examples.

The failure to craft a cohesive strategy to ensure a competitive broadband and wireless market means higher costs and less choice for business and consumers alike. High data rates have often meant that the adoption of mobile solutions have been costlier in Canada than elsewhere, which hurts the business case for ICT investment. Further, when Canadian businesses travel to other countries to explore new opportunities, they face some of the highest roaming fees in the world.

Second, on the regulatory front, the digital economy strategy failure has meant that important legislation has stalled, creating legal uncertainty. For example, an SME considering an electronic marketing campaign will want to know what is permitted under Canadian law. I think that this government rightly passed anti-spam legislation in 2010, but the regulation-making process has dragged on for years, meaning that the law has still not taken effect. As a result, there is uncertainty about what is permitted, uncertainty about what will be permitted, and tailoring an e-marketing strategy is difficult.

Third, and somewhat similarly, Canadians want all businesses, including SMEs, to take security and privacy seriously. Making investment in these areas means factoring these issues into account. Yet with Bill C-12, the privacy reform bill languishing in the House of Commons, and, with all respect, inaccurate criticisms of a private member's bill on security breach disclosure requirements, the message, quite frankly, to SMEs is that the Privacy Commissioner may be concerned with the state of privacy law, but it is not a priority.

Now we could talk about, and I hope we do have the chance to talk about, what a digital economy strategy incorporating SME digital technology adoption might look like, including some of the legislative reforms, educational initiatives, skills training, as well as commitments to increase competition and ensure access for all. But my starting point is simply to say that without a broad-based digital economy strategy that weaves together these various issues, we should not be surprised by the lagging performance by Canadian SMEs. Indeed, we've practically scripted it.

I look forward to your questions.

•(1645)

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

Now we go to the Business Development Bank of Canada and John Connell, vice-president of strategic relations and planning, and Mary Anita Bezeau, assistant vice-president of ICT solutions.

I take it that one of you will give opening remarks.

Mr. Connell, please go ahead.

**Mr. John Connell (Vice-President, Strategic Relations and Planning, Business Development Bank of Canada):** Thank you, Mr. Chairman.

Thank you for inviting us here today.

First, I'd like to congratulate the standing committee for having chosen to study the adoption of digital technologies by Canadian SMEs.

The BDC appeared before the committee during your study of e-commerce last year, and I'd like to summarize three key points from our testimony.

First, reversing Canada's stubborn productivity gap can be achieved through efforts to increase business innovation; second, business practices rooted in applications of digital technologies will help foster innovation; and third, while Canadian SMEs are applying digital technologies in the workplace today, opportunities abound to do more.

BDC is the only bank in Canada exclusively dedicated to entrepreneurs. Our legislative mandate directs us to provide financial and management services that fill out or complete services available from commercial financial institutions, giving particular consideration to the needs of SMEs.

An important statistic to keep in mind is that 87% of all companies in Canada have fewer than 20 employees. Chances are that very few of them, if any, will have IT departments. That's why I believe this committee recommended last year that BDC make ICTs a strategic focus.

We heard you loud and clear. Anita and I are here today to tell you what we've done and what we're seeing in the marketplace, plus share some insights from our experience thus far.

BDC uses a variety of ways to help entrepreneurs identify their needs and determine how to help them. It starts with awareness. We have, on [bdc.ca](http://bdc.ca), a special section called Smart Tech. Smart Tech contains two free e-books: one on how using technology can help the bottom line, and the other on how to use social media. Smart Tech also contains information on technology financing and a free website assessment tool, so entrepreneurs can start improving their website.

BDC can arrange for an Internet specialist to ensure that a firm's website is performing the way it should or for a consultant to develop an Internet strategy customized to a company's unique needs. Of course, we also offer financing, with flexible and easy-to-access loans for investments in hardware, software, and business methods such as social media and Internet marketing.

Interest in and use of these offerings have been stronger than expected. Since we launched Smart Tech 18 months ago, we have had almost 220,000 visitors. The two e-books have been downloaded over 10,000 times. We've done over 35,000 online web assessments, around 900 ICT assessments, and over 300 consulting mandates.

Lending has been brisk. We've been averaging about 130 ICT loans per month, and we've given close to 1,800 loans since launching the program in fall 2011.

What are entrepreneurs buying? The top three sellers are hardware, software, and services, and the top three sectors are business services, retail, and manufacturing.

It's important to keep in mind the scale of BDC's efforts. We're reaching only a small percentage of Canada's population of entrepreneurs, but have nonetheless gained a broad perspective on client needs and behaviours.

First, we see a great appetite for ICT solutions, but an insufficient or disparate supply. Most sellers pursue large companies, and it's easier to make a few big sales than a few small ones. We see very few vendor-neutral sellers and advisers. By this I mean that most sellers and advisers are selling a particular product or service. Their pressing commercial interest is to have the entrepreneur buy their product or service, so they analyze and advise in that direction, and entrepreneurs can become skeptical of the value of their advice.

Many businesses want ICT problems to be solved for them. Most people, understandably, like simplicity, and they don't have a great understanding of technology. Some entrepreneurs are more risk-averse than others, and no one has much time. So three barriers to greater ICT take-up are complexity, risk aversion, and shortage of time.

We've also noticed that most entrepreneurs have to learn that they need internal resources to properly manage their ICT needs. It takes time and skilled employees to manage a website and IT systems. When the consultant leaves, the work begins for the entrepreneur.

Finally, we see that BDC employees have been, in a way, creating demand. In many cases, the first conversation the entrepreneur has about the benefits of investing in ICT is the one he or she has with us. The good news, from our experience, is that these conversations generate an interest and concrete actions on the part of the entrepreneur.

I trust you'll find that description helpful. Anita and I would be pleased to answer any questions you have in the Q and A session.

Thank you.

• (1650)

**The Chair:** Thank you very much, Mr. Connell.

Now we move by video conference to the group from the Toronto Association of Business Improvement: John Kiru, president, and Lionel Miskin, vice-president. With them is Dafna Strauss, a consultant with Connect Consulting Solutions.

One person is going to do the opening remarks. Is that correct?

**Mr. John Kiru (President, Toronto Association of Business Improvement Areas):** That is correct.

Thank you, Mr. Chairman, for the opportunity.

I am just wondering whether you received the package that we can follow or whether that has not reached your table as yet.

**The Chair:** Yes, we have the package. It has been distributed, Mr. Kiru.

**Mr. John Kiru:** Thank you. So I'll dispense with most of the background on TABIA, but it's noteworthy that we are an umbrella organization representing 74 business improvement areas in the city

of Toronto, with a membership of 35,000 businesses and property owners.

As was rightly noted by the speaker before me, 87% of the jobs created in this country are in fact among companies with 20 employees or less. That is what most of our membership represents. Mom and pop neighbourhood retail, commercial retail, whatever you want to call it, those are our members from across the city.

Retail, as we all know, is extremely reactive. If you really want to know how the economy is doing, look to retail. That's where people curb their spending first. I think it's very important to note also that the traditional main street retail has to be distinguished from some of the commerce that takes place out there. Effectively 67 cents out of every dollar spent in the locally owned store stays in the community. That 67 cents gets the economic spin-off that continues to support community initiatives, while only 47 cents of dollars spent in national chains and the large retail actually stays in the country, let alone in the community. So almost half actually leaves the country.

That's where part of the disconnect is, because as the economy is moving to where it is, it's becoming very obvious that e-commerce and new technologies are becoming significantly more important to what's happening out there. The one thing that we need to say on behalf of small neighbourhood business is that every time an auto plant closes and 400 jobs are lost on the line, all three levels of government—with due respect—throw money, technology, and policy at that issue to try to keep those jobs in place.

I can tell you from our experience and the experience of our brethren across the country that we lose hundreds of jobs a week on the main streets and neighbourhoods and downtowns across this country, and yet we seem to be that forgotten sector. So not only are there challenges from multinationals on traditional main streets, but we are also facing challenges of not really being recognized as the key components that we are of the economy.

A recent survey by Prosper Mobile Insights found that consumers are using smart phone technologies to their advantage, sometimes right there in the shopping stores. Forty to sixty percent of them price products while they're in the store with their iPhone technology, and 60% of them have actually left to purchase it elsewhere. So this technology is prominent. We are big users of it. We in Canada are highly engaged online. The average hours per visitor spent in Canada is 43 hours per week versus 23.1 hours worldwide. So we are actively engaged.

The other comment to make is that e-commerce spending has gone up. There was a 10% increase from 2011 to 2012 in the total expenditures using e-commerce. The number of transactions has actually gone up 17% in one year. That's more than a trend: it is a reality.

According to Statistics Canada, more than 80% of the Canadian population is online. It is no longer a young man's game; everybody out there has got the ability and the potential. As such, 20% of entrepreneurs admit that keeping up to date with technology is their number one challenge. So one in five people out there trying to make a living in the small business sector is finding that to be their challenge.

Merchant online and social media strategy can result in market growth and greater profitability. So we absolutely need to look at assisting this sector in meeting those needs. Only 39% of the entrepreneurs surveyed say that they use social media to promote their business. Only four out of ten—out of those 98% of people who employ jobs out there—are actually using that.

The technology keeps on moving forward. I only need to show the example of Amazon. We all know who Amazon is. Currently they capture one-third of online shopping, amounting to some \$48 billion of revenue last year. The indications are that in the next decade—by the end of this coming decade—Amazon will in fact surpass Walmart as the world's largest retailer at \$600 billion annually.

• (1655)

What's important, and what I don't think we can dismiss, is jobs. Jobs are a direct link. Just as an example of the importance of supporting our traditional main streets and small business in this country: for \$1 million in sales, for Amazon or any of the e-commerce-based shopping networks out there, it takes one person to be employed to generate \$1 million in sales. In the big box stores, which you may recognize as Walmart or Target or any of the big box retailers out there, it takes five people to generate \$5 million in sales. As for the independents, the small neighbourhood retailers that are out there in many of the towns you guys come from—you know the people I'm talking about—it takes eight people to generate \$1 million in sales. A direct link to employment is very, very important.

Just as a quick follow-up, according a recent Royal Bank of Canada report, only 46% of Canadian small businesses have dedicated websites. Less than half of those, about 22% of Canadian small businesses, sell their products and services through their website. So one in five people out there is actually at the stage where they can sell this. The most important thing is that 38% of those who sell via website generate over 25% of their revenue through online sales, with two in 10, some 22%, generating more than 50% of their annual revenue nowadays through their websites. It's becoming a very important component in retailing and the survival of many small businesses out there. The businesses that are the generators of a significant number of jobs, whether for young Canadians or new Canadians who come here to invest their life savings in opening a businesses here, these are the people who need the assistance that we're hoping this committee, in some of its directions, will generate.

Mr. Chairman, I will leave it at that for now and look forward to receiving any questions.

**The Chair:** Thank very much, Mr. Kiru.

We'll now move to our other teleconference witness, Leonard Waverman, who is the dean of DeGroot School of Business. It happens to be within the riding I represent.

Please go ahead with your opening remarks.

**Dr. Leonard Waverman (Dean, DeGroot School of Business, McMaster University, As an Individual):** I hope that's not the reason I was invited here, Sir.

**Voices:** Oh, oh!

**Dr. Leonard Waverman:** Thank you.

On April 30, Scott Smith of the Canadian Chamber of Commerce, in appearing before this committee, referred to my research that ranks countries in terms of useful connectivity. Briefly, my research emphasizes that the services, skills, and applications required to turn pipes and conduits into useful connectivity are what produce jobs and productivity. I'm going to talk briefly about that, then talk about the new databases now available at StatsCan that will allow us to look more deeply into the productivity dilemma. Lastly, I'll just throw out an idea about an untapped resource, the business schools across this country.

In our study, connectivity is usually understood to be the copper fibre, wires, network computers, mobile phones, and base stations. It is much more than that. That kind of physical infrastructure has to be expanded to include the complementary assets that economists talk about—the software skills, the applications embodied in people that are required to turn those assets into productivity enhancement.

Basically, Canada's gaps are not in infrastructure. There is a problem with SMEs in rural areas, but otherwise all major OECD economies have very high access to and penetration of fixed and mobile broadband. The studies that we rely upon, such as the OECD, remind me of the story about the drunk who's scrambling under a lightpost looking for his keys when a passerby says, "Can I help you? Where did you lose your keys?" And the drunk says, "Well, about a mile from here". The passerby says "Why are you looking here?" and the drunk says, "Because there's light". So, with a lot of these rankings, including my own, we're basically scrambling for data and measuring the obvious.

The reasons there are gaps in take up are not the obvious. For example, what we do when looking at business infrastructure, beside the obvious on the uptake of mobile and broadband, is to include the use of new data protocols such as ethernet and IP virtual private networks. We look at fixed and mobile enterprise lines. We look at cloud computing services as a percentage of business turnover. We look at corporate data services spending. What we're trying to do in my research is basically expand beyond the obvious and look at those sources of applications and services that are necessary for the take up of these services.

Statistics Canada has unveiled a new, very large database thanks to the use now of tax data. It took years to be able to use tax data because of the identity issues involved. A lot of the kinds of assets we want to measure can be written off, so tax data give us firm data and much better measures of the assets and services that firms are actually using.

The studies that will be used in the next few years will allow us to examine the unfortunate productivity gap. There's a new paper that came out today from Stats Canada by John Baldwin, who tries to look at some of the missing data that we don't have a good handle on. His analysis in the data available today suggests that the productivity gap between us and the U.S. is even larger than we had thought.

I have an idea. Business schools are all across the country. I've been a dean at DeGroote for four months. I was dean at the Haskayne School of Business in Calgary for five years. We have a tremendous network of business schools across the country. It's an untapped resource to enable us to help all users, especially SMEs, with applications and services. It's really the applications that are missing. When we're looking at Canadian data—and Michael talked about this—our kids are with it, but the managers in Canada don't seem to be. SMEs, of course, have the great problems that were just discussed, which is that there are economies of scale to using these.

● (1700)

So without talking to any of my fellow deans, I would propose that we're everywhere in the country and that together we can provide a network, in combination with the Conference Board and the Canadian Federation of Independent Business and these other organizations, that would be a complete source. I think Michael would agree. If you look at some of the data on what people think of CEOs, do they trust them? No. Do they trust politicians? I'm sorry, they don't trust them either. They do trust professors, and I think with the advantages we have in universities, we can provide a willing arm to help.

I'm pleased to answer any questions as we move forward.

● (1705)

**The Chair:** Thank you very much, Mr. Waverman.

I just want to assure you that the reason you were invited to committee was your credentials.

We'll move on to our first questioner now. We'll have time for one round, and we'll have to keep it very tight as well.

We have Mr. Braid for seven minutes.

**Mr. Peter Braid (Kitchener—Waterloo, CPC):** Thank you, Mr. Chair.

Thank you to our witnesses for being here this afternoon. Our apologies for starting a little late. Thank you for contributing to our study.

Professor Geist, I'll start with a question for you.

One of the areas that you said Canada was lagging—which I was surprised and want some clarification about—is mobile phone use. I thought I heard you say that. Could you speak to that, and does it include smart phones?

**Dr. Michael Geist:** The reference I made came from a CEFRIO study that looked at SME use of mobile devices. I agree with you that certainly we're seeing growing uptake on the consumer side, but their 2011 study found that SME usage was low.

**Mr. Peter Braid:** Okay. But the consumer side is going up?

**Dr. Michael Geist:** Well, it has been going up, although, as you know, there has been a great deal of concern about the state of the wireless marketplace in Canada—which we could get into—whether the level of competition, consumer pricing, and the like.

**Mr. Peter Braid:** Thank you for that clarification.

Mr. Connell, from the BDC, I'd just like some clarification.

You were speaking about a lending program and that lending has been brisk to SMEs. Is the lending program Smart Tech? Could you just clarify that?

**Mr. John Connell:** I'll ask my colleague to answer that.

**Ms. Mary Anita Bezeau (Assistant Vice-President, ICT Solutions, Business Development Bank of Canada):** Smart Tech is an awareness vehicle that we use with BDC. It's basically an element on our website that's related to awareness. The lending vehicle is something different; it's essentially specialized loans for the purchase of technology.

**Mr. Peter Braid:** Is that under a special BDC program?

**Ms. Mary Anita Bezeau:** Yes.

**Mr. Peter Braid:** Could you elaborate on that, please?

**Ms. Mary Anita Bezeau:** Yes, certainly.

At BDC, since we launched our ICT initiative at BDC, we have had a technology loan that has more favourable terms and conditions than our traditional loan, due to the unsecured nature of these kinds of loans. We've done 1,800 of these technology loans since the launch of the program, and we've found that more than a half of them have been for less than \$150,000. So they're loans to small businesses to help them purchase technology—software, equipment, technology services—and help them become either more productive or to grow their business.

**Mr. Peter Braid:** When was the program launched?

**Ms. Mary Anita Bezeau:** It was launched a year ago, in November.

**Mr. Peter Braid:** Great.

How do we, or you, help SMEs become aware of this program?

**Ms. Mary Anita Bezeau:** There are two mechanisms primarily.

We have our front-line account managers, who are lending officers throughout the country. We have roughly 400 account managers who are meeting every day with small businesses. So they would introduce these loans to SMEs in this way.

In addition, we use Smart Tech as a vehicle. We're using social media and other means to promote Smart Tech, and then entrepreneurs can learn more about our financing and consulting services that way.

**Mr. Peter Braid:** Great.

Why do you think demand for this lending program has been brisk, as you describe?

**Ms. Mary Anita Bezeau:** I think there is a need that is not being serviced in other ways, the need for financing related to technology. So there's been a gap for this kind of financing, particularly on the low end.

**Mr. Peter Braid:** Great.

In your presentation you indicated that the barriers to increased adoption of digital technology amongst SMEs are threefold: complexity, risk aversion, and shortage of time. How do you know that? Have you surveyed SMEs? What has led to that conclusion?

• (1710)

**Ms. Mary Anita Bezeau:** This is based on our engagements with clients, our experience with the clients that work with BDC. If I start with the 300 consulting engagements that we've done, for the most part they tell us they don't know where to start and are not comfortable with a lot of the language related to technology adoption. So it's an aversion to not knowing where to start or when, and not being entirely sure how to do it.

In many cases they have other conflicting priorities.

**Mr. Peter Braid:** Great. Thank you very much.

Was any concern expressed about the regulatory environment through any of these consultations?

**Ms. Mary Anita Bezeau:** Not that I could comment on.

**Mr. Peter Braid:** All right.

Mr. Kiru from TABIA, in your slide presentation you indicated that "40% to 60% revealed that they priced products while inside the store and then left to purchase elsewhere."

How are people purchasing in this case and what does this say about changing human or consumer behaviour?

**Mr. John Kiru:** What they're purchasing and how they're purchasing is effectively "showrooming". That is the terminology commonly used, where people like Amazon encourage you to go to a retail brick and mortar store, try on that shirt or piece of equipment and then effectively scan the bar code. They will provide even a further discount than the best possible price you can find online. That's the way people are purchasing; it is becoming a showrooming option out there.

They're finding that it's not just main street that's facing this. That's why a lot of the multinationals have gotten into the e-commerce world. Most of them have a site where you can go shopping, etc.

You're absolutely right that the technology has offered great opportunities and advantages to shopping on your own time. Take a look at Seoul, Korea, where you can stand at a subway station and on the wall immediately behind you is a supermarket aisle made up just of a photograph that you scan with your phone to make a purchase. You literally scan Coca-Cola and order six Cokes and any of the other supermarket initiatives, then you cash that purchase out through your phone and that material is delivered to you the next day, or sometimes even the same day. It's that convenience, the importance of personal time where people will do this stuff while waiting for that new train, that's all coming down the road.

Once you've got the technology and once you've got the—

**The Chair:** Thank you, Mr. Kiru. That's all the time we have.

**Mr. Peter Braid:** I had one final great question.

**The Chair:** I'm sorry, but that's all the time we have.

Mr. Harris now, for seven minutes....

**Mr. Dan Harris (Scarborough Southwest, NDP):** I'm sure I won't get to ask all of my great questions either. I'll be sharing my time with Monsieur Lapointe.

Thank you for coming today.

Mr. Geist, you mentioned that there have been many studies done. I think I detected some frustration in your voice, that perhaps there has been too much study and not enough action.

Do you believe there is currently enough data collected to actually develop a digital economy strategy?

**Dr. Michael Geist:** Absolutely. All I mentioned were the committee-based reports. I didn't mention the fact that the government itself launched a full digital economy consultation with the public and got large numbers of responses from the business community, the public, NGOs, and others back in 2010.

Of course, the Office of the Privacy Commission has launched studies on these issues. The CRTC has held hearings. I really don't think we're talking about a lack of data right now. In fact, we're practically the last major economy that hasn't set out a clearly defined digital economy strategy.

What that means is that on issue after issue after issue, years go by and you start seeing the consequences. Let's take, for example, the wireless sector where, without a broad-based digital economy strategy, we're now facing real concerns with respect to the level of competitiveness. The new entrants that came into the marketplace are now being bought up. We've got a forthcoming spectrum auction with real questions about how all of that fits into the broader picture.

Unless you're creating some sort of clear vision about where it is you want to go and ensure that your policies are there so there's regulatory certainty for business and so that we've got clear initiatives leading us to a particular goal, you're going to end up floundering or, as we're hearing, even worse, declining relative to many of our competitor, peer countries.

• (1715)

**Mr. Dan Harris:** That was very good because you answered my next question, which is whether it's about a lack of planning and vision. I think you addressed that.

I'm very happy with the Business Development Bank of Canada. You hear about the Smart Tech program, and you heard what was being said because we do know that Canadian businesses are only spending about 68% of what their American competitors are on ICT.

I hope that you've also had a chance to look at the CFIB's surveys of its own members, because they've done extensive research on that as well.

Unfortunately I'm going to have to pass my time to Monsieur Lapointe. It goes fast when you only have seven minutes.

Thank you, to the other witnesses, for being here.

[Translation]

**Mr. François Lapointe (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, NDP):** Thank you.



You said that only one in five retailers were really involved in e-commerce. You also talked about the fact that people can go to a store, scan the bar code and get the same item at a much lower price. What can be done to support the efforts of brick-and-mortar retailers, which pay for commercial spaces and wages?

What kinds of initiatives can the government implement and support to help people join the IT movement instead of being sunk by the changes? That's important for the vitality of our downtown areas, among other things.

[English]

**Mr. John Kiru:** I think the most important thing is to remember that small business people are very stubborn. But we need to drag them into the 21st century, kicking and dragging, if we have to.

The first thing is an acknowledgement that there is an issue that small businesses need to address. If they are to survive on main street, they need to address this issue. Support: provide for education and training. I think a number of the other speakers have said the same thing. We need to acknowledge this and provide a mechanism to show these business people in our neighbourhoods that doing business in the traditional way is no longer the norm.

I can envision a business where the front third is the traditional hangers and shelves, where we go in. But you walk into the back half of that business and there are people stuffing boxes in bags, and at 4:30 the UPS truck shows up to pick that up. It has to be a combination of brick and mortar and e-commerce with new technology.

It's acknowledging that. It's doing a study the way they did in the U.K. Prime Minister Cameron over there retained the services of Mary Portas to retake the state of high streets.

I think the time has come to determine what the state of the main street is in Canada. I think we will all be shocked with what we find in all of our communities. This is not Toronto-centric, it's small-town Ontario, small-town Quebec. We are seeing a shift, and that shift needs to be addressed through education and training.

[Translation]

**Mr. François Lapointe:** So you think it would be very important to conduct a study of high streets and provide small businesses with training on new technologies. We hope that will also encourage your people to increase the amount of business they do online in order to stay afloat. That will also necessarily increase the number of credit card transactions.

The Retail Council of Canada is one of the many groups claiming that the fees imposed on merchants are too high.

Could that be an impediment? Could that make us consider implementing regulations to ensure that credit card fees are not too onerous for merchants?

[English]

**Mr. John Kiru:** I think that's a discussion, in my opinion, for another topic.

But absolutely. Anywhere where you can reduce costs, whether it's taxes, whether it's fees, including supplier fees, which the banks effectively are...absolutely. Visa, MasterCard, all those fees are

significant when your margins continue to diminish. So absolutely, that is a component within the structure.

[Translation]

**Mr. François Lapointe:** Mr. Kiru, I will use some of your comments to formulate a question for Mr. Connell.

There is a projet that is more or less in line what Mr. Kiru is asking for. Ireland currently has a dedicated fund for the development of e-commerce. It is mainly aimed at small businesses and microbusinesses.

Do we have a true counterpart when it comes to investments and results?

• (1720)

[English]

**The Chair:** A brief response.

**Mr. John Connell:** I would say that some of the initiatives we have at BDC do target that particular group, with the level of loans that we've talked about—those below \$150,000—and some of the very small consulting mandates that we have. So the BDC overall has allocated about \$200 million for our ICT initiative and we'll continue to deliver that.

**The Chair:** Thank you very much, Mr. Connell and Mr. Lapointe.

**Mr. Dan Harris:** Mr. Chair, very quickly, I'd like to make the standard reminder that because we have very little time with the witnesses, if there's anything they're not able to share, they provide it to the committee in writing. I think they have a lot to share, which they won't get to today.

**The Chair:** Please provide it to the clerk and he'll make sure it's in both official languages.

Thank you, Mr. Harris.

Mr. McColeman, for seven minutes.

**Mr. Phil McColeman (Brant, CPC):** Thank you, Chair, and thank you to the witnesses for coming. I'm interested in pursuing with Mr. Waverman the idea of the business schools across Canada being an untapped resource.

I'll perhaps leave it to you to give us a sense of how an SME, a small business in particular... Typically these are businesses with a small number of employees, and the owner-operators are consumed with a lot of priorities in their daytime. As we heard from the BDC, there's often just not enough time to go into these areas, but which may be fatal for them in the end because they didn't go into them. But they really are consumed with other priorities.

I'm interested in a larger conceptual picture of how you see this resource, the untapped resource you mentioned, of the business schools and how that would actually advance their uptake of digital technology.

**Dr. Leonard Waverman:** Sure. Thank you.

There was a study done by the U.K. Federation of Small Businesses in late 2011. They asked their members if they would use mobile broadband, and 33% said never, 25% asked what it was, 20% said they use it now, and the others said they'd think about it. They didn't have a good understanding of what it did.

So if you look at the business schools, in our case, the Ron Joyce Centre in Burlington, where there are just dozens of SMEs around us, you will realize that's true for campuses across Canada, for the business schools and the community colleges.

What we need is a program that is localized, because we all have different local conditions, but at the same time uniform, so that there is the same message, data, and understanding being given. I think we could organize ourselves. We're open 24/7. We can do this evenings and weekends, and be that source, that resource where these firms can come. We can work with the chambers of commerce and the business development agencies. They're everywhere. They've certainly been set up in Ontario, in Quebec, and elsewhere, and with them we could work out a program that would be national.

The technology is the same, so there is some sameness that has to be done, but at the same time, local businesses vary in what they're doing. So I think having something that is somewhat uniform on the technology side but slanted towards who is around your neighbourhood would be very useful. As I said, we're open 24/7 so we could be a very good medium for raising this awareness. The U.K. is a much smaller country with a much higher population density, and there you can see that they don't know what mobile broadband is.

**Mr. Phil McColeman:** Do peer-to-peer business organizations play a role in this, in terms of the networking you're talking about?

**Dr. Leonard Waverman:** They certainly do, but when I look at where our campuses are situated around the country, and when I think about what we do as business schools and as leaders, and how we're engaged with our communities, I think we can be another avenue, a trusted kind of avenue. These organizations are also trusted, but think of where all these campuses are. They are across the nation, and they're not just in large urban areas; they're also in rural areas.

So we can play a role in delivery, and we do. We are educators. That is our business and we're good at it and good at research. So I think if we could combine that and have a targeted approach that is uniform in some way, we can add a lot to the mix.

• (1725)

**Mr. Phil McColeman:** Having some experience, though, with my own alma mater as a governor, and also as part of our work here in Ottawa with the post-secondary caucus going around the country trying to get business schools and other academia oriented to such a program, I think it's safe to say that there would be some barriers to this, perhaps within the existing confines of the higher level of institutions.

Do you see that?

**Dr. Leonard Waverman:** Well, we have something called the Canadian Federation of Business School Deans; we all meet and have an organization in Montreal that we all deal with, and there is a secretariat. At that level, it's doable: we all have contact and have the secretariat, and we can plan these things—we meet.

It's an exciting idea. We all have executive education programs. We compete a lot, as well. I think one of the problems is that we do compete. But we can also deliver, simultaneously, similar programs that are targeted to the neighbourhoods we are engaged in.

**Mr. Phil McColeman:** I really like the direction that you've suggested here. I think it's a very good and creative use of resources.

You mention also in your comments that the opening up of data from Stats Canada has led to much better measures than you've previously had. Is that being now reflected in the white papers and other academic documents that are being produced and in studies that are being done, in terms of what that new, opened-up data is able to present?

**Dr. Leonard Waverman:** Not as yet; these are very large micro-data sets, at the individual firm level, and it's going to require some time for researchers to use those very large data sets to tease out what the results are.

But they do give us far better measures. We didn't have very good measures, especially at the firm level, of software and of other... what we call intangible assets—capitalized labour—in designing IT systems, which we now have from tax files. It has taken years to work out the protocols whereby researchers can access these files without any way of understanding who or what that firm is.

I think that over the next year you'll see these coming out. As I said, this new paper came out from Stats Can today looking at intangibles; it's by John Baldwin. He said that it does not solve the problem of why we have this productivity gap.

We have to look at the firm level. The national level simply doesn't work. We have to get into the underpinnings of what this dilemma is and the use of ICT in Canadian businesses, both small and large. The data suggest that the multinationals do a much better job of integrating ICT and getting productivity enhancements into domestic firms, and we don't know what the reasons are.

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

Thank you, Mr. McColeman.

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

**Hon. Geoff Regan (Halifax West, Lib.):** Thank you, Mr. Chair, and thank you to the witnesses for being here and for your patience today with us.

Professor Geist, you said that cheaper broadband would help to enable the digital economy. When you look at what is happening in the wireless sector, with Rogers looking to buy Shaw's broadband, with Telus looking to buy Mobilicity, and with Wind putting up its hands and saying “help”, what policies do you think would help provide cheaper broadband in Canada? And do you think that the spectrum auction set up for this fall will help or hinder?

**Dr. Michael Geist:** I think we have to be honest at this point in time. The efforts from several years ago have been a failure. It's quite clear that the new entrants upon whom a lot of hope for a greater competitive environment in the wireless sector rested are, by and large, indeed throwing up their hands. Notwithstanding some modest decline in pricing, we find ourselves, as the Minister himself said, at best middle-average. I don't think that's good enough.

In terms of the kinds of things that we can do going ahead, I think we ought to remove foreign investment regulations altogether. We've seen that for some of the companies in the sector, but not all. Frankly, I think we ought to remove it not just on the telecom side but on the broadcast side as well, because if you're going to allow a new entrant to truly compete aggressively, it has to be able to provide some of the same kinds of bundles that we see the existing incumbents able to provide, and that means opening the door on the broadcast side too.

I think we need to open the door to what are known as MVNOs—mobile virtual network operators—and create that as a regulated space so that they ride on the same network as the existing players, but do so in a regulated manner. We already have that with respect to broadband into the home, as I'm sure many here know. Some of the controversies over things like usage-based billing are part of that regulated environment.

I think we need to be looking at a regulated environment on the wireless side too, and frankly if the CRTC isn't aggressive enough with its consumer protection package, we need to recognize on a number of issues, whether roaming fees, length of contract and the like, that until we have a fully competitive environment, there needs to be some regulatory type of solutions. Lots of other countries that are open, free markets have done the same and recognize that you basically have two choices to ensure that you have a robust, competitive environment: either have competition or have some amount of regulation until you get there. We're not there, and we need to find some solutions to get there.

• (1730)

**Hon. Geoff Regan:** Previously and again today you compared the lack of a digital strategy to the infamous “Penske file”—and you don't look at all like George Costanza, by the way. You've also said, “If part of your economic strategy doesn't include a digital economy strategy, then I'd say you don't have an economic strategy”.

What in your view are the consequences for the Canadian economy from the fact we've fallen behind?

**Dr. Michael Geist:** We just talked about it in the wireless context, but we could talk about it from a regulatory uncertainty perspective on privacy and electronic marketing, as I mentioned with respect to spam. We could talk about it with respect to the innovation policy. Indeed, we had a report that came out just last week that found that there, Canada continues to fall further and further behind.

I think in a range of different areas where we see other countries that have identified this as a priority—and it's not to say it's a one-size-fits-all, that every solution for every country is precisely the same.... I don't think it is. But at the same time, with all candour, I don't think this is rocket science either. If we look at what many other countries have done in trying to prioritize these issues, they've talked about what kind of connectivity do you want to have, what

sort of market framework do you have to get to that level of connectivity, what sort of messaging do you send to the business community so that if there is regulatory uncertainty, there is adequate consumer protection and the kinds of incentives that we need to get to the point that we're talking about.

I hear these concerns about main street businesses suffering at the hands of Amazon, and I have to say that a digital economy strategy looks at that and sees opportunity, not risk. It sees the opportunity for those same businesses to sell to a global market. Part of the problem is that we haven't established, I don't think, the kinds of policies and frameworks so that the main street looks at these issues and doesn't see threats from Amazon, but opportunities to take their products and services and sell to a market that extends well beyond their local community, which offers up some tremendous opportunities.

**Hon. Geoff Regan:** You referred to previous testimony before the committee, and I would just add that it's nice for all of us to know that somebody is paying attention, by the way. Somebody out there is watching, but as you look at that past testimony, do you see any trends that would help point us in the right direction in terms of drafting our report?

**Dr. Michael Geist:** You have heard some great things. When you look at companies like Shopify, which is a largely unknown success story here in Canada—and frankly here in Ottawa as well—you will see that they are doing some really great things.

I think you have heard some very interesting and encouraging things here today as well, but if there's one take-away—once again from my perspective—it's the extent to which the committee can again raise the alarm bells to say that you've looked at this now in a number of different ways, whether on broadband access or SMEs or e-commerce adoption, and that you've been hearing some of the same kinds of things. It's not just because you invite some of the same people on multiple occasions; it's people from a number of sectors who are raising the same kind of concerns.

The government needs to move forward on this. It's not a partisan issue. Clearly it's an issue that is of concern to people from across the country who are, at this stage, rather puzzled as to why we've been unable to get over the hump of just talking about the issues rather than performing.

**Hon. Geoff Regan:** Thank you.

Dean Waverman, I would like to ask you about Canada's ranking in your connectivity reports. Several years ago we ranked as high as fourth; by 2011 we had fallen to eighth, and I believe you have said that “...Canada has substantial work to do before achieving an ideal score in connectivity.”

Can you expand on that comment for the committee and explain to us why connectivity is so important? If you have any recommendations, we would very much like to hear them—albeit in a very short time, unfortunately.

• (1735)

**Dr. Leonard Waverman:** Thank you. I'm glad somebody read it.

Canada was never as high as fourth on the connectivity scorecard. I think it's always ranged between sixth and eighth, which it was in 2011, out of 25 advanced economies.

It ranks very well in a number of areas such as business infrastructure and public sector usage and skills. It does lag somewhat on the consumer side, but I think we're looking at the business side, which is the driver of productivity and economic growth.

Where we're lagging, which I think has been picked up in other testimony before you, is in these applications. Shopify is a great example of a firm that builds an application in Canada. But the puzzling numbers for us arise when you look at modern or virtual private networks, for example, ethernet. There is simply less of that in Canada than in the U.S. or the Nordic countries. Compared to other countries such as the U.K., France, and Germany, we do very well in our extent and use of broadband.

The Nordic countries have one great advantage over us: they are small and we have these vast distances. So I think it's much more

difficult for us to have that kind of advanced technology compared to Finland, for example.

Our gap with the U.S. is something that we will have to work on in the data. I think the ICT gap that has been identified to your committee is one of the puzzles and explanatory vehicles of the whole productivity gap. It could be something at the managerial level.

**The Chair:** Thank you, Mr. Waverman and Mr. Regan.

To the witnesses, we regret that you have such a short time here because of the votes. As Mr. Harris said, if you have anything else that you couldn't address in your opening remarks or by answering questions, please submit it to the clerk, and we'll make sure that it becomes part of our study.

The meeting is adjourned.

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