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Mr. Randy Hoback

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• (1535)

[English]

The Chair (Mr. Randy Hoback (Prince Albert, CPC)): Good afternoon, colleagues. It's great to be here again today in sunny, beautiful Ottawa.

Today we have three witnesses, two this hour and one the next hour. We'll be doing some committee business in the last half hour.

In front of us today we have, from Lynch Fluid Controls, Ernie Lynch, president.

Joining us by video conference from beautiful Burnaby, British Columbia, is John Kalbfleisch, chief operating officer of Alpha Technologies Ltd.

I'll start off with you, Mr. Lynch. You have 10 minutes.

Mr. Ernie Lynch (President, Lynch Fluid Controls): Thank you, Mr. Chair and fellow members. I've been around the room and had a chance to meet some of you.

I'll start by giving you a brief history of Lynch Fluid Controls, a mix of what we do and some observations, too.

Lynch was started 27 years ago. We have approximately 100 employees and export to 57 countries. We're in the hydraulic and motion control industry and we have markets around the world. We serve plastics, medical, military, aerospace, mining, and entertainment industries. In 2014, NASA was our largest customer. We serviced vehicle-launch systems for Kennedy Space Center.

Lynch exhibits products around the world. We are in the U.S.A., France, the U.K., Germany, Latin America, and Chile.

In 2013 I began serving on the SME advisory board, and have done so with great pride.

We utilize the trade commissioner service as much as we can. We use EDC, BDC, CME, and we have now approached the CCC, which has taken great strides to help us out.

In 2014 we attempted to buy an American company and were not successful, but we did have a lot of assistance from BDC and EDC, and they were both very helpful in the process. EDC came to bat and provided financial assistance for us.

Our company has taken an active approach in utilizing the trade commissioner service, which has most recently helped us open up new markets.

The EDC recently has come to bat and helped out with backing the CME and helped to launch a new system called the Enterprise Canada Network, or ECN, not just for manufacturers but for all industries. This is a system where companies in other countries and governments in other countries can utilize access to Canadian companies and make contact with them and be able to do business with them.

Recently the government has been promoting trade with small and medium-sized enterprises and has created a Go Global program. I attended two of these sessions and spoke at one—with a little bit better dexterity than I am today. I feel that these programs need to be better attended by SMEs. The EDC people and others who have attended have asked for more time in advance of these meetings so that more eligible SMEs can attend.

My feeling is that more Canadian companies need to go and actually get on planes and get out of the country, go abroad and explore other markets. The government has done a tremendous amount to provide assistance to them, but they do need to be self-motivated. In a recent EDC commercial that was on TV, a fellow is walking through the house and there are different items that are made in different countries exhibited, but not very much is from Canada. Canada actually has a lot to offer, but we need to get out and show it.

Our company utilizes EDC receivables insurance. This has been a great help and given us lots of confidence in our ability to go abroad. We are now also making inroads with CCC, the Canadian Commercial Corporation, which we hadn't in the past. With the work that we've done with NASA in building launch systems for Kennedy Space Center, I think this is something that they are interested in and can help us out with.

It's recently come to my attention that the transportation infrastructure in Canada may not be adequate to handle increased exports. In other words, the kitchen is ready to cook the food, but we don't have the wait staff to take it out. Attention does need to be paid to that. This is coming from Transport Canada.

A recent article I read by David Suzuki draws attention to the Government of Canada being sued on several occasions by U.S. corporations for failing to comply with NAFTA regulations. Mexico is also a victim of this. The U.S.A. has not lost a case, but Canada has not made any cases against them, from what I know.

Last week the Prime Minister was at our location in Toronto, in Mississauga actually, and made a commitment of \$50 million to assist SMEs, to new exporters, and also to SMEs that are exporting but want to expand their current footprint. Additional funding is also being provided to fortify and deepen the reach of the trade commissioner service. It's unfortunate that such a great announcement is sometimes overshadowed by world events, but we can't get away from those.

I'd like to thank the trade commissioners that we have been in touch with. They've been of tremendous help in opening up markets for us. We'll be exhibiting in Germany in a few weeks. We've had the assistance of Angela Spreng in Munich, Christine Colevray, Rainer Kunau in Michigan, Maria Stihovic in the Ontario region, and Benoit Leduc. I think we will be meeting Maximilian Bossdorf from Berlin, and over the past few years we've had Ethan Bensoe, Gerald Boamah, Maria Bofil, Lauren MacLennan, Neil Robinson, Robert Tate, Heidi Wang, David Weiner, and Henry Wells in Dallas.

These are just a few names. It gives you an example of what the reach is and how many trade commissioners are out there. There are a lot of them. It's up to the individual companies to make use of them. We don't have a worldwide sales staff, but we do export to 57 countries. Our goal is 75 countries by 2018. We're going to make the most use of the trade commissioner service to accomplish this.

That's all I have to say for the moment. After the next speaker I'm available for questions.

• (1540)

The Chair: Thank you, Mr. Lynch.

We'll move on to Mr. John Kalbfleisch.

Mr. John Kalbfleisch (Chief Operating Officer, Alpha Technologies Ltd.): Thank you, Mr. Chair and honourable committee members, for letting me speak here today. My name is John Kalbfleisch. I'm chief operating officer for Alpha Technologies Limited.

Alpha Technologies is a private company. We're 40 years old. We're based in Burnaby, B.C. We provide world-leading power solutions to some key industries—telecommunications, traffic, security, smart metering, and industrial. We sell our products in Canada, the U.S., and globally. We have about 500 employees, and our revenues in 2014 were in excess of \$180 million. Last year about 25% of our sales were in Canada. The rest were in the U.S. and globally. About 70% of our sales were in the U.S. and about 5% globally.

We have experience selling goods in many different countries—in Mexico, Latin America, South America, Asia, Europe, and the Middle East. We are putting a significant focus on increasing our sales efforts in the U.S., Mexico, Latin America, and South America over the next three to five years.

In terms of trade policies that can better assist small and medium-sized enterprises to export more goods and services, Alpha would recommend the following.

I think the federal government needs to ensure that taxes paid by manufacturers and exporters allow them to be competitive on the global stage. We personally compete with very large corporations

that aren't based in North America in some instances. They have access to low labour cost regions in terms of where they produce their goods, so we need to have a global supply chain to compete with them. We have to leverage low labour cost regions for some of our key components. We also do some integration and manufacturing in Canada. In some cases we may require a manufacturer in the country in which we need to export into.

As well, Canada needs to ensure that the subsidies, R and D tax credits, and tax breaks allow Canadian manufacturers to have cost structures that are competitive.

I think more effort needs to be made to coordinate marketing; support activities across the federal and provincial governments and their agencies, so that our limited tax dollars are focused on creating one strong Canada brand; and making support for exporters easy to access and understand. I think the EDC has a great website. I really think their commercial campaign is adding value. We've used the EDC in our export activities, and they've helped us make some connections in foreign countries. We've also used the trade commissioner's office as well. They've been very helpful in making Alpha make connections to key customers.

I would also point out a country you could look at. I've travelled to Turkey a number of times in the past 12 months. There is an excellent website, called invest.gov.tr, that outlines all the information a foreign company would want in order to invest in Turkey. They also have a very slick brochure, a red brochure with a power button picture on the front, which was in the Turkish Airlines seat when I flew to Turkey. It gave a pretty compelling overview of the benefits of investing in Turkey and what the market's like.

I think another key thing the government might want to look at is establishing a mentorship program in Canada, where companies that are interested in exporting can be paired up with an existing Canadian enterprise that is successful at exporting. The experienced company can help guide the new enterprise through some dos and don'ts of being successful and building sales abroad.

For manufacturers, you need global supply chains so that you can have a competitive cost structure, and you also need to think about your global go-to-market strategy. Do you want to have local sales reps? Do you want to hire your own sales reps who are in-country? Do you want to use distributors? Do you want to have your own sales entity? Do you want to have a JV? These are all important decisions to think about when trying to enter a new market.

I wanted to emphasize that it is a lot of hard work to enter a new market. You have to be very determined. You have to be willing to get on a plane a lot to go and meet your end customers. Building strong relationships is key in many geographies, so it's important that you have a local presence. Your customers typically want somebody local who speaks their language, and who they can talk to if there are any problems.

We'd like to commend the government on their negotiation of the Korean and European free trade agreements. We're very supportive of the federal government negotiating global free trade agreements that will give Canadian corporations access to foreign markets on a level playing field relative to our competitors or domestic companies that are in the foreign market.

• (1545)

I think another thing that we need to address more collectively is the Canadian psyche. We're very risk-averse when it comes to global expansion. Unfortunately, Canadians don't want to conquer the world. We often see the U.S. market that has 300 million people, and if we do well in the U.S. we often stop there. Once we move outside an English-speaking market and we get to other countries where English isn't the first language, or the culture and customs are different from what we're used to, it can be quite daunting.

Access to financing is critical for Canadian companies who want to export. I think the EDC offers a lot of great things. The ability to ensure receivables is key to reduce risk for Canadian corporations. The ability to get financing for working capital is also important.

In a lot of countries the payment terms may be longer than what companies are used to getting in Canada. In southern Europe, for example, you could get payment terms of 180 days. In Asia, in some instances, you may have customers that will pay you in a year. Obviously the ability to finance your working capital is key. You often may need capital if you want to do a joint venture internationally or set up a foreign sales entity.

The other key thing for us is elimination of red tape. In particular we need access to the best and brightest people globally in terms of recruiting employees who will work for Canadian entities. We find that it can be quite challenging if we want to recruit a foreign worker who may have skills and expertise that is not available in Canada and get them to join our team in Canada. Right now we find the process cumbersome, time-consuming, and expensive.

Collectively I think we need to look at our education system and offer more courses on international business. We need to encourage more business study abroad and work internships abroad so that Canadians have a better understanding of what it takes to do business internationally.

We need a strong transportation infrastructure across Canada to allow the free movement of goods into international markets. I know for us here on the west coast the Vancouver port strike and slowdown has affected our ability to import and export goods.

Finally, I think we need government policies that promote innovation and productivity improvement in business. In order to compete on a global scale, you need to be quite innovative. You also need to have very competitive cost structures. A lot of times I think manufacturers and exporters need training on how to drive and improve productivity, how to be more innovative.

This is the end of my brief. Thank you for your time.

• (1550)

The Chair: Thank you very much.

We'll go on to our first round of questions.

Mr. Davies, you have seven minutes.

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

Thank you to both witnesses for appearing.

Mr. Lynch, I'll begin with you. You testified before the Senate committee on February 19, I understand. We've had a chance to review your testimony. You stated there that your company attempted to purchase an American company last year, and you were assisted by EDC and BDC.

Can you briefly tell the committee how those agencies helped your company and whether you have any suggestions through that experience that might help us figure out a better way to assist companies like yours?

Mr. Ernie Lynch: The company was in New York state. Once we notified EDC and BDC, both of which we have relationships with to start with, they immediately jumped into the queue and were willing to help us out.

We met with them here, and down in New York as well, to get their insight as to what could be done and what should be done, and they did assist us. Because the deal did not conclude...and this is one of the things you run into when you're trying to procure a company. It can fall through, and it did fall through, at the eleventh hour. But that's the name of the game. We'll do it again.

They were able to provide advice. They were able to connect us with the correct people, help us through the due diligence phase, and advise us on the things that we should be looking out for and being aware of, because we had not made an acquisition like that before.

What could they do better? I don't know what they could do better, but I think if they are provided with the necessary training, just like in any other business—I may speak to that a little further in the hour about actual job training—that would be very beneficial, because one of the ways for Canadian companies to expand is through acquisition rather than just getting into a market and selling incrementally.

Mr. Don Davies: In further testimony on February 19 before the Senate committee, you also mentioned that the transportation infrastructure in Canada “may not be adequate to handle future growth of exports”; those were your words. Could you elaborate for the committee your concerns with existing Canadian infrastructure and how this might specifically impact SMEs like yours seeking export opportunities? What were you thinking about there?

Mr. Ernie Lynch: It wasn't so much my thinking as evidence that had come to me in recent discussions. I'm involved with the Peel Goods Movement Task Force in the Toronto region and also with a freight commission; there's a “freight day”, for instance, that happens annually at the University of Toronto. Studies were done in the mid-2000s that have brought into visibility the fact that there may be a strain on intermodal rail and highway infrastructure that, as we increase....

The analogy I used for this was that the kitchen is ready to cook, the kitchen is cooking the food, and customers are waiting at the tables, but as that cycle increases and there are more customers coming in—this is going through free trade agreements and everything else—are we going to be able to deliver the goods?

I think Transport Canada would be able to comment further on what they feel needs to be done in those particular areas.

• (1555)

Mr. Don Davies: Thank you.

Mr. Kalbfleisch, you also testified before the Senate committee in February and stated, about Canada's trade commissioners, "It would be great if there was more of a push mentality, if the trade commissioners could understand more about the businesses and their markets and how they could be successful."

Can you elaborate on that and on what your thinking was, and give us the benefit of how you think our trade commissioner services can improve?

Mr. John Kalbfleisch: Well, I can give an example: when you show up to a meeting and they don't really know much about your company. They haven't researched or even looked you up on the website. I think if you're setting up a meeting, and you're travelling a long distance to meet with the trade commissioner, it would be good if they had a little bit of background on what you do. A bit of research would make the meeting a little more productive, so that when you go there, they might have some leads, or you can hit the ground running a little bit faster, or even have a pre-call before you get there so that they have a bit more understanding of what is going on.

Mr. Don Davies: Again in testimony before the Senate you mentioned that your company exports predominantly to the United States. I think you mentioned that upwards of 70% of your revenue is derived from the U.S. market.

Aside from the obvious ease of accessing the U.S. due to our geographic proximity and the integrated North American market, are there any specific barriers that your company has faced in penetrating markets beyond North America?

Mr. John Kalbfleisch: One of the challenges for us is that the design requirements are a lot more stringent in North America. Typically, when we design a product, it has more specifications and it's more ruggedized, I'll say, than it would be in some of the international markets. So when we develop the product it tends to have a higher cost structure than some of the other international markets, where the requirements aren't as stringent.

Also, because of those requirements, which we're very familiar with, there's probably more competition outside the U.S. and Canada where we do not have the economies of scale to be as cost-competitive. In that instance, the way we succeed is in creating a custom product that the customer really wants, versus our competition, so we need to have a really strong relationship with the customer. For us, we have to invest in having the right sales force and the right time in the market in order to be successful.

Mr. Don Davies: Other witnesses before this committee have already mentioned that access to financing is a particular challenge for SMEs and is tied to their ability to penetrate export markets. You also stated that access to financing is critical for Canadian corporations seeking to advance trade. You spoke about different payment terms in different countries and regions of the world. For SMEs, that must be an even greater burden and risk, I think, with cashflow.

Do you believe that Canadian SMEs have—

The Chair: Your time is running out, Mr. Davies.

Mr. Don Davies: Do you have any comment or advice to give us about better financing options for SMEs?

The Chair: You have 10 seconds.

Mr. John Kalbfleisch: From my perspective, it is really, whether it's through EDC or it's making the Canadian banks have.... They are quite risk-averse in terms of doing financing for foreign sales. I think the more we can promote financing options or make financing options available, the more there will be success.

The Chair: I'm going to have to stop you there.

Mr. Gill.

Mr. Parm Gill (Brampton—Springdale, CPC): Thank you, Mr. Chair.

I want to thank both of our witnesses for appearing before the committee.

My question is for both of you. Both of you mentioned in your remarks that you had some dealings with federal government agencies such as TCS, EDC, BDC, and others. I'm curious to hear your personal experience with these agencies concerning the kind of service they were able to provide you and whether you feel that they're helping other SMEs, in this area especially of export development.

Mr. Lynch, do you want to go first?

Mr. Ernie Lynch: Sure. Further to John's comment, if we go into an interview or we begin a relationship with a new trade commissioner, we treat them as being a supplier to us or actually an employee of ours. If there has been an experience, and we haven't run into it yet, but obviously it can happen, in which a trade commissioner may not be fully versed on what the client does—in other words, what we do—for me that's not acceptable. They do need to be with it and to have researched the company.

SMEs need to be forward-thinking and proactive in selling the product or getting shelf time. It's understandable that the trade commissioner should be busy and have many clients to serve, so it's a matter of getting mindshare and getting them to do what we need them to do.

John, did you want to comment further on your experience? It didn't sound like it was a good one.

• (1600)

Mr. John Kalbfleisch: Yes.

I think it depends on the country, but I have found that the EDC has been very good in helping us coordinate meetings with trade commissioners when I have gone abroad, and it has provided a lot of support. I don't like to name names, but as I said, it's a question of being prepared and understanding what the client is looking for, so that when a company comes to meet with them, it's a more productive meeting. Then, it's ensuring that there is follow-up too. We've had in-country sales reps trying to follow up with the trade commissioner and not getting a high level of support.

So it's making sure that they're prepared for the session, and then there's follow-up.

Mr. Ernie Lynch: A number of years ago, we had been dealing with one bank for many years. They routinely change their account representatives or relationship managers, and we had a new general manager come in. They brought him around to our company, and he sat in our boardroom and said, "So, what do you do here?" We're no longer dealing with that bank.

It's that kind of feeling: that a company has to have a comfortable relationship with their suppliers. If a trade commissioner were to take that approach, "Tell me what you do here", it's not good enough. They need to be willing to research the company and to do what they can for us.

At the last meeting I attended at the Senate, I brought up the topic of KPIs, which are key performance indicators. I'm not sure that the trade commissioner service has incorporated a system in which they use KPIs. If not, I believe they should, so that there is performance matching with expectations.

Mr. Parm Gill: Thank you.

The other concern, which both of you seemed to mention during your remarks, was in the area of transportation. Can you elaborate a bit on that in terms of your personal experience or in terms of challenges that your businesses may have faced? And do you have any suggestions yourselves for how it could be improved?

Mr. John Kalbfleisch: Do you want me to go first?

Mr. Parm Gill: Sure.

Mr. John Kalbfleisch: In terms of transportation, we've had a couple of port strikes probably in the last five years in Vancouver. When we're getting probably 40% to 50% of our incoming supplies from China, any port slowdown or strike has a significant impact on our supply chain and our ability to deliver to our end customers. We have to ensure a free movement of goods; we cannot afford to have port slowdowns. There was a trucking issue last year that caused a disruption.

Actually, the entire west coast of North America is seeing quite a slowdown in freight transport through their ports. In fact, we've seen an increase in our supply chain in terms of the lead time needed to ship from China to Vancouver; it's increased by one week over the past 12 months. To me, that's unacceptable.

It's also rumoured—I've talked to people—that the productivity at Canadian ports is much less than other ports in the rest of the world. It's something that we need to look at and make sure that the flow of goods and the productivity of the port is world class.

Mr. Ernie Lynch: I'd like to make a comment on one particular facet of infrastructure, and that is the highway system. We come from a very busy part of southern Ontario. This is the Mississauga region where the 401 intersects with the 407. The 401 is going to be widened through our section of Meadowvale to 12 lanes, which we have no objection to; in fact, we're welcoming it, because it's been progressing slowly to the west. It's now as far as Mavis.

I'm going to take this opportunity to mention that over the past two years we have lobbied with the provincial government that when they widen this to 12 lanes, they are going to leave this particular flood plain where it goes through at the Credit River as a paved goat path, and just repave what they have. It's a huge dip, and for such a

critical piece of federal infrastructure to be left in the hands of the province....

I think the feds and the province need to work together to make that first-class, flat, level bridge going across, like the Romans did a thousand years ago, and allow freight to move through. It's a big problem in the GTA for gridlock, and over the 50 years that this piece will be in place, it will drain the economy by billions of dollars in wasted fuel and time.

● (1605)

The Chair: Thank you, Mr. Lynch.

Mr. MacAulay, you have five minutes. Welcome to the committee, by the way.

Hon. Lawrence MacAulay (Cardigan, Lib.): Thank you, Mr. Chair.

I want to welcome the witnesses. I'm a substitute on the committee, but export is certainly very important where I come from in Prince Edward Island.

Mr. Kalbfleisch, you mention in your presentation about taxes on small and medium-sized businesses. I'd just like you to expand more on that, and also on the problems you have in attracting the workforce. You mentioned workers and the trouble to bring qualified workers to your business. I'd like you to expand on that.

Mr. John Kalbfleisch: Sure. From my standpoint, if you look at setting up a new factory, for example, there are a lot of subsidies that are offered by a lot of countries that Canada, typically, doesn't offer when you're looking at where you're going to place a factory, which we should be aware of and understand.

In terms of R and D tax credits, I know the federal government has been looking at changing the R and D tax credits. They had a panel get together. It looked like they were slanting towards more software-based companies in terms of their approach for applying tax credits, and I think that's a mistake. They need to understand that manufacturers generate a lot of jobs in Canada. We do a lot of R and D in our company. We have 75 people in R and D. So making sure that we have a competitive R and D tax credit is critical.

I can give you an example. In Turkey, they have technology zones where you can hire engineers and they actually pay no federal income tax, so it draws a lot of key technical people wanting to work in these regions. Also, it's easy to recruit foreign workers into Turkey; they have a well-defined process that you can bring people into. I'm just referencing Turkey because I spent about a month there in the last 12 months looking at whether we should be expanding our operations there.

Those are two examples of where I think we can be more competitive from a tax perspective.

Hon. Lawrence MacAulay: Can I ask you, sir, if that could be an incentive for you to move to Turkey and do work there instead of here? Is that what you are indicating to the committee? If they have more attractive subsidies—

Mr. John Kalbfleisch: Whenever you do foreign expansion, you have to look at how you want to set up your supply chain and how you want to do development. If we were looking at expansion in the Middle East, it's a large market and we have a large install base, so we would look at not only potentially acquiring a company to set up a factory, but also adding R and D resources in that factory to support the local market.

So yes, it would be an incentive to invest in that country.

Hon. Lawrence MacAulay: It's something like the airplane construction industry...[*Inaudible—Editor*]...in Canada; at least it used to be, anyhow.

Mr. Lynch, before the meeting you mentioned to me that you were aware of the blue mussel industry in Prince Edward Island, which is very important—

Mr. Ernie Lynch: I am indeed, yes.

Hon. Lawrence MacAulay: —particularly to my area and to people I know very well. I have visited trade shows in China, for instance, and some of the products are displayed properly, but then we look at what goes on in the lobster industry. I was asking where we could find lobster. It just seems to me that we are not promoting these products properly.

If you can, I'd like you to expand on what we need to do. Is it more money, or more information? Do the companies have enough information about the countries? I suspect it's not as valuable, or valuable, to present the lobster as we like it; you have to present it as the country that is going to purchase the lobster likes it.

I'd just like you to expand in that way, if you could.

• (1610)

Mr. Ernie Lynch: As far as promoting Canadian products is concerned, there is what the government can do, but there is also what the companies can do, and I'll speak to both.

John mentioned being on a plane: it should be on Air Canada, for instance. Why not use Air Canada, when you have a person captive in a seat for however many minutes it takes to go through the safety regulations, etc., to give a commercial on products coming from Canada? It could be lobster. It could be mussels. It could be hydraulics. We'd like to see that, of course. These are the kinds of things that could build awareness of Canadian products.

On the company side, companies should be coached—and this would bring up the topic of mentorship—on how they could do something. We can get assistance in hiring export managers, as an example. In our particular case, a few years ago we wanted to focus on Latin America, so we hired a Latin America sector coordinator. She is from Ecuador, and her Spanish is perfect. She works from Toronto, travels to Chile, Mexico, or wherever we need to go, and speaks—

The Chair: I'm going to have to cut you off there, Mr. Lynch. I apologize.

Your time is done, Mr. MacAulay. I'm sorry.

We'll move on to Mr. Richards for seven minutes.

Mr. Blake Richards (Wild Rose, CPC): Thank you.

We appreciate your being here today, both of you.

I have a few questions, if we have time for them all. The first thing I wanted to ask you about is one of the things our trade minister has been.... Besides all the hard work he's been doing overseas to try to open up new markets for Canadian businesses, which has certainly been very successful, as you both know, he has also been travelling around our country to hold what he calls Go Global workshops. I don't think I heard either one of you mention them specifically in your remarks. I wonder if you know about them.

Essentially, the Go Global workshops are designed to provide information and encouragement to small and medium-sized enterprises to think about accessing new markets. Obviously, we are opening up markets, and we want to see enterprises, particularly small and medium-sized enterprises, be able to take advantage of them. I am wondering if either of you have been able to take advantage of any of those workshops or know of people who have, or if you are aware of them. What are your thoughts on those Go Global workshops and what they can offer to help businesses expand into some of the new markets that we are opening up?

Mr. Ernie Lynch: I did actually mention them in my opening remarks, although it was a bit muddled. I'll just revisit that.

There have been three in our region. I visited two and I spoke at one, on a panel. They are good events, but we need to have more notification that they are taking place. I think the stakeholders—the EDC, BDC personnel, and there's also CME—need a little bit more time to reach the people who really need to attend these events.

At the one that I did speak at, I looked around the room and there were bankers and insurance people and a lot of other types of people who were more service-oriented, but not enough exporters. They are there. We just need to dig and find them.

I think if we look at the services that are offered and companies that have not exported yet, they just need a little bit of coaching, a little bit of mentoring, to get there. The Go Global initiative is a strong one. I think it just needs a little more publicity to get the right people out to these meetings.

Mr. Blake Richards: Great. That's very good feedback and it's much appreciated. So it sounds like a good initiative that you think just needs a bit more publicity.

Mr. Ernie Lynch: Yes.

Mr. Blake Richards: That's good feedback. I appreciate that.

Mr. Kalbfleisch, I think it was you who mentioned the new agreement with the European Union and the one that just came into force with South Korea. I wonder if you could comment a little further on what kind of an impact you think those two deals—what I would call very significant and obviously groundbreaking trade deals—can mean for your companies and/or broadly the industries that you're involved and for small businesses.

I'll let you go first, Mr. Kalbfleisch, and then Mr. Lynch, perhaps you'd like to comment as well.

•(1615)

Mr. John Kalbfleisch: Sure. I think from our standpoint, obviously the European Union is a huge market. Having the ability to have your goods pass duty-free into the market is a very good outcome. We had the luxury in the telecommunications powering where we didn't have any duty applied when we were exporting from Canada already. We are selling a bit of our products in Europe right now, mostly to industrial customers, but from my standpoint it's going to make Canadian corporations more competitive. Any time we can reduce the amount of duties applied to our goods in foreign markets is key for us to export and be more cost-competitive on a global scale.

Mr. Blake Richards: Thank you.

Mr. Lynch, did you have anything you wanted to add on that?

Mr. Ernie Lynch: I do feel that the South Korea one will open markets for us. We already had some preliminary discussions with trade commissioners, actually, on work that we could be doing there. We're also pretty excited about Indonesia. We have a list of clients that we want to be doing business with in Indonesia.

Mr. Blake Richards: Excellent. Thank you.

There's one last thing I want to touch on with you, if either or both of you have a comment on it. Both of you have spoken quite extensively about the trade commissioner service. You're both obviously aware of the announcement last week by the Prime Minister in terms of the expansion of that.

The other thing that was announced prior to that was the export market development program. That's obviously designed to provide some matching contributions that would be non-repayable to companies that seek to export to emerging markets for the first time. The aim of the program is to reach somewhere between 500 to 1,000 exporters per year and help to cover things like market research, participation in trade fairs, business development trips, and the like.

Obviously, you both have companies that are well into exporting, but is that something that you feel, had it been available to you at the time you were starting out...in developing some new markets or maybe even some that you're looking to move into in the future? Is that something you feel would be helpful to an organization like yours, or to a new business getting started?

Mr. Ernie Lynch: Extremely helpful, I would say. We have had assistance in the past in going to exhibit at foreign trade shows, and it's not inexpensive, especially for an SME. You could spend easily \$20,000 to \$30,000 to do a show, no small potatoes for an SME. That's to take two or three people; if you want a crew of five or six people, then the costs increase. If you can get that assistance from somewhere...and I understand that it is matching, so we're not....

I'm a little concerned that, you know, as this initiative moves forward, they do need to be careful about the companies that do sign up for it, that they are actually a good risk, that they are going to produce, that they have products that actually will sell, and that they're going to the right markets with the right initiative but also with the right ability to follow up and actually ship product at the end of the day.

Mr. Blake Richards: That's fair. I appreciate that.

Mr. Kalbfleisch?

Mr. John Kalbfleisch: I would agree with what Mr. Lynch said as well, but—

The Chair: I'm sorry, John. He is out of time. We'll have to go to the next round of questions.

Ms. Liu.

Ms. Laurin Liu (Rivière-des-Mille-Îles, NDP): I have a question for Mr. Kalbfleisch.

This comes on the tail of what you said about the R and D tax credits, the SR and ED tax credits that you believe should go towards helping manufacturers. As we know, there were changes in the 2012 and 2013 budgets around the SR and ED tax credit in particular. I know from touring my riding that there are many manufacturers and many research-intensive SMEs that have looked at the SR and ED tax credit and have decided it's not for them. We know that the changes that came about in 2012 and 2013 actually reduced eligible expenditures and lowered the benefit rate on those expenditures as well.

Do you think we should look at reversing the changes that were made to SR and ED in 2012 and 2013? What would be your recommendations on those levels?

•(1620)

Mr. John Kalbfleisch: Yes, absolutely. Again, it makes Canada more attractive as an R and D base, and reducing the amount of tax credits is for us.... We spend millions of dollars on R and D. It helps us to be more successful. If we can lower our costs to develop our product, obviously that can allow us to be profitable faster. If we're profitable faster, the government is going to get income tax faster.

Ms. Laurin Liu: Do you have any major difficulties with the SR and Ed tax credit in particular? What are the major challenges? How would you suggest that we study the tax credit?

Mr. John Kalbfleisch: Obviously, just doing R and D for the sake of R and D is great, but for companies that are developing products, selling those products, and creating jobs, it is critical to our success to have competitive R and D tax credits versus our competition. We have very large multi-billion-dollar competitors. We need to be able to do research and development in a cost-competitive structure.

Ms. Laurin Liu: Thanks.

Moving on to the issue of trade commissioners, would you say that there are any countries that are underserved by trade commissioner offices? That is, are there any countries for which we don't have any offices or which are under-represented?

Mr. John Kalbfleisch: I'm probably not the best person to ask. I have only dealt with the trade commissioners in two main markets, Turkey and Brazil. I know our work associates have dealt with them in Mexico and found that they provided good service overall and have been very helpful. In the markets we've been in, the primary ones, we have found good support from them.

Ms. Laurin Liu: You mentioned in your testimony a few issues about trade commissioner offices. Are there any other recommendations or observations you can make in terms of how the Government of Canada could improve the services offered by these offices?

Mr. John Kalbfleisch: I think Mr. Lynch talked about key performance indicators and getting feedback from their customers on a regular basis saying where they can improve. We're always going to our customers on a regular basis asking how satisfied they are with Alpha Technologies and whether they would recommend Alpha Technologies to a friend.

The trade commissioners need to understand from their customers how they're valuing the services that they provide.

Ms. Laurin Liu: Thanks.

Mr. Lynch, on the topic of Go Global events, you mentioned the lack of publicity or advertising for these events. In your view, why were these events not very well attended?

Mr. Ernie Lynch: As it was put to me, it was a matter of timing. They said that if they could have had a little more time, perhaps another couple of weeks, to get the word out...because it does take time for these stakeholders to get out to visit their clients.

I just want to tag on to the previous question with respect to the way we work with trade commissioners in Germany, for instance. We're doing an exhibit there in three weeks. We've been in touch and have had a teleconference with the trade commissioners there. They in turn, the ones who are going to be attending the show, will be coming to our booth. They will be walking the show. They will be seeing other opportunities for us that we may not necessarily be seeing. Then they will be bringing customers to our booth. It's great: in addition to having five people there of our own, we have an additional four or five people who are helping out. That's a great way to go. They know the people; they're feet on the street for us. It's a big help.

Ms. Laurin Liu: That's great.

The Chair: I'm sorry; you're pretty well right at the five-minute mark.

We'll go to Mr. Shory.

Mr. Devinder Shory (Calgary Northeast, CPC): Thank you, Mr. Chair.

Thanks to the witnesses.

Mr. Lynch, I'll start with you. From your experience growing a company from a "one man in a garage" operation to a 100-employee success story—and then you talked about taking over a company in the United States as well, which this time didn't work but in future will definitely work—can you comment on Canada's tax environment and whether it incentivizes or disincentivizes the growth?

Mr. Ernie Lynch: My controller would tell you that it's disincentivizing, but I don't get too worked up about the tax side of things. It is what it is. We take advantage of SR and ED tax credits when we can. We take advantage of any facilitation that can be provided to us, but we don't cry over it. I look at it this way: if we're paying into a good economy and are running a company in a free country that provides lots of services to us, if it's going to cost money to provide those services, I'm not here to beef about it.

You may have had other witnesses come forward and say so, but I'm not one of those.

John may have a different view of it.

• (1625)

Mr. Devinder Shory: I'm sure that when somebody wants to establish a business, they look at all of these things in the business environment. As you said, tax is one of those components.

Mr. Ernie Lynch: It is, and funding or financial assistance from banks is also a major concern. I've heard SMEs complaining about that too. But if you have sound business practices and a good business plan, a good track record, then the banks are willing to help you out. I think that if SMEs are going to look at exporting, they should be dealing with banks that are more world banks and not just local Canadian banks. We've had better experience with banks that have presence in many countries than with the nationals that are only here and that understand Canada and have trouble just exchanging funds.

Mr. Devinder Shory: Mr. Kalbfleisch, do you want to make a comment on tax?

Mr. John Kalbfleisch: I think, being from B.C., that it would have been great if the HST had actually come through and stayed. That was a very positive initiative. Unfortunately it got bungled in the rollout, but I think it was a good initiative.

I have probably commented enough overall on taxes, but it's just a question of making sure we're competitive. We appreciate living in Canada and we understand that there are costs associated with it. It's just a question of looking overall and making sure that we're as competitive as possible. As I said, we have major competitors in Taiwan and China, and there are competitors that are based in the U. S. but that do most of their manufacturing in Mexico or other countries. We have to make sure that we're a nimble company, that we're innovative, and that we really understand our customers well. That's how we're successful.

Mr. Devinder Shory: Mr. Lynch, we have heard from some witnesses that the regulatory system in Canada is among the most thorough in the world for demanding quality, and that if a product or service can pass the test here in Canada it can pass anywhere.

From your experience with Ontario Aerospace Council and the SME advisory board with Foreign Affairs, can you comment on Canada's regulatory system compared with other countries?

The Chair: It will have to be fairly quick.

Mr. Devinder Shory: Oh, come on.

Mr. Ernie Lynch: I would not comment on Canada's regulatory system as much as I would on the ISO systems and AS9100 systems, which are self-imposed and now industry-imposed upon companies that are participating in the industry. If you're not AS9100-certified, you're not eligible to deal with companies such as Boeing or Airbus, or with NASA, or with any of the military applications. You need to be certified, and those proclamations that you make about what standards you're going to keep need to be adhered to.

Canadian products are highly regarded around the world as having high quality. I think Canadian SMEs don't realize just the high regard that we have.

The Chair: I am going to have to stop you there.

Thank you, Mr. Shory.

I'd like to thank both witnesses for taking time out of your busy schedules to be with us here today. We appreciate the information you gave us. At this point, I will release you from this meeting.

We are going to suspend for five minutes while we get out next witness lined up, and then we'll start again right away at 4:30.

Thank you very much, guys.

•(1625) _____ (Pause) _____

•(1630)

The Chair: Let's reconvene.

Our next witness, via video conference, is Rebecca Reuber, professor of strategic management at the University of Toronto, Rotman School of Management.

You have 10 minutes, and then we'll go into questions and answers. The floor is yours.

Dr. Rebecca Reuber (Professor of Strategic Management, University of Toronto, Rotman School of Management): Thank you very much.

Thank you for inviting me to talk with you today. I think what you're thinking about is really important.

I am going to put my remarks into three buckets of things. First of all, I am going to provide some background as to what I see as some of the general issues. Then I am going to talk briefly about the things that we know, as a field, about the internationalization of SMEs. Finally, I am going to identify three gaps that I see, for which I think further study is essential.

By way of background, I think it's important to recognize that internationalizing their sales and business activities is really difficult for SMEs. There are business risks associated with foreign markets, foreign exchange risks, and political risks. There is difficulty in monitoring remote operations over a distance, and there is a lack of knowledge, compared with companies that are already competing in those markets. We know that the number of SMEs in Canada that stop exporting every year is roughly equal to the number of those that start, and we know that just over half of new exporters stop exporting in the first year. I think that speaks to the difficulty of doing it well, and that has to be recognized.

Because of these risks and difficulties, internationalization is uncommon even in countries with large immigrant populations, where one would expect that information about foreign markets would be readily available. Canada is doing reasonably well. One in ten Canadian SMEs exports, but about 90% export only to the U.S., and the average export sales are only 4% of total sales. They are pretty minor exporters. In my notes, I've given numbers for the U.S., the U.K., Australia, and Germany, and they are pretty much in line. Across the board, this is something that is fairly low-activity. I don't think we can assume that all of these owners and entrepreneurs are short-sighted, uninformed, or making bad decisions. I think they are right to be wary of the risks, and I think that many of them are making very sound decisions for themselves and for their firms when they decide to stay in the domestic market, or to internationalize slowly, cautiously, and even marginally.

I think it has to be said that this is not for everybody. It's really important to be able to target programs and policies to the SMEs that have the greatest likelihood of success. A failure doesn't hurt just the SME itself; I believe it hurts the whole community, because the word gets out that this is something that is hard to do and that companies fail at. I think it can make other SMEs reluctant to try. That is the background in which I am going to situate my next remarks.

The next thing I am going to talk about is what we know. What we know well is that innovation matters. The most innovative SMEs have the most success. They are most likely to export and have the most success there. There are a number of reasons for this that I think are important to understand.

The first is that these technology-based industries tend to be global industries. There are global standards and global requirements, so there is less need to adapt their products and services for local markets. If you are making medical devices, or something that goes into a USB slot, those are global standards that everybody uses. That makes it a little bit easier to enter foreign markets.

Also, if they are innovative, Canadian SMEs can charge higher prices for their products, which buffers them from some of these risks and difficulties.

•(1635)

A third reason is that it's harder and costlier for their rivals to imitate trailblazers. If a Canadian SME is really on the forefront of innovation, it's just going to be harder for foreign rivals to catch up, which means that intellectual property protection, which is a big issue for some, becomes less of an issue because they are always moving.

So those are three economic reasons, but there are some social reasons as well. Because innovative firms tend to become known globally through things like participation in international standards organizations or through international technical conferences, that gives them recognition with foreign players just by virtue of their participating in those global forums.

It also means that potential partners and customers in foreign markets are interested in them. I think we think of the firms as being interested in the markets, or wanting to go into markets, but it's important to realize sometimes they don't have that option because the partners and customers in foreign markets aren't that interested in them. But if they are highly reputable and innovative, it can help foreign customers get the approvals and the funding they need to do their project. It means they are able to attract the very best foreign customers—a Tata, say, in India—and the very best foreign customers have standards like multinationals everywhere, which just makes it a lot less risky and easier to do business with. It also means they are great references.

So we know that well. We know that innovative firms do better in foreign markets. The issues are, how do you increase innovation, and how do you give them a space to be profiled there?

Moving on from that, though, I think there are three important gaps in our knowledge beyond the issue of innovation. Number one is what about small to medium-size firms in multi-domestic industries? These are global industries, but there are lots of industries where local adaptation, local tastes and preferences and conditions, matter. We know a lot less about that. We know it takes a lot more time to learn about what adaptations in marketing, products, and services are required. Because what the customers want is country by country, that means the learning is country by country. We know there can be high investment costs to both adapt products and to provide a local presence. That's a whole area we don't know a lot about.

A second area we don't know a lot about is how we can stop Canadian SMEs from suffering from what's been called the "liability of outsidership"? We know that business networks are important for the transmission of information and tacit knowledge. We know that local partners are required in some countries to do business and are certainly desirable in others. But we tend to think of entering a foreign market as a one-time decision, when really it's a decision to position yourself in that market, and how do you do that? It's a much longer-term proposition that takes years rather than months.

Finally, going along with that is how to signal trustworthiness and commitment. I talked to one SME owner, and he said when he went to a market in South America, he got impatient, because people didn't want to pay attention to him. They'd had four or five Canadian SMEs showing up, starting, and then backing off because things were a lot more difficult and time-consuming than they thought it would be. So how do we stop behaviour like that?

My last point about the gap is what's the role of the Internet in all of this? It seems a no-brainer and totally obvious that the Internet should facilitate the internationalization of SMEs, but there are some reasons to believe that it can actually over the long term constrain growth. Doing business online can let SMEs do business in foreign markets without actually going to those foreign markets, so they don't meet people there, they don't develop business networks. They might miss opportunities to develop partnerships and to understand local preferences and conditions. So they may sell some there, but that may really limit their capacity to grow those markets.

• (1640)

Internet-based internationalization tends to be quite scattershot and ad hoc while orders come in, and again, that can limit the firm's actually building and becoming established in the market and hinder long-term ability to grow those sales and to grow in the market.

I'll leave my remarks there. Thank you for letting me start with those. I'm happy to take any questions you may have.

The Chair: That was perfect timing. It was pretty well 10 minutes right on the nose. Thank you for doing that.

Monsieur Morin, you have the floor.

[Translation]

Mr. Marc-André Morin (Laurentides—Labelle, NDP): Good afternoon, Mrs. Reuber.

Mrs. Rebecca Reuber: Good afternoon.

Mr. Marc-André Morin: In your opinion, how important are targeted statistics in understanding our markets and the foreign markets for our exports?

[English]

Dr. Rebecca Reuber: Sorry, I'm not sure.... Do you mean to set targets?

Mr. Marc-André Morin: Yes. To set the right targets, we have to know what the situation is in those countries, such as India, where the standard of living is evolving very fast and new markets are opening and new possibilities arising. We need to have the right comprehension.

Or sometimes it's cultural or it's inherent in the structure of those countries, as with business in Japan, let's say. In the food industry, Japan is strongly integrated. You get the same large corporations in shipbuilding, heavy equipment, transportation, and sometimes they are grain importers and they own supermarkets.

Do you think we have enough information available for our corporations on market conditions—all of that information?

Dr. Rebecca Reuber: I don't think we understand enough about the process and about how long it takes. It's one thing to set targets for what we want as outcome, but in order to understand the outcome we have to be able to understand what it takes to get it. I think that international comparisons of similar firms and of firms that are doing it well can provide some of those benchmarks.

Does that answer your question?

• (1645)

Mr. Marc-André Morin: Yes.

On the other side of the coin, do you think our government agencies have enough information about our own enterprises, such as having reliable statistics to identify those with potential and actually even knowing who is already exporting and details like those? To me it seems that nothing is very reliable.

Dr. Rebecca Reuber: I think they have fantastic information about outcomes, so who is doing what.... It tends to be old. I think data from 2011 is what we're looking at now, so it tends to be old. I think there's not detailed data. Most of it doesn't have any information, say, about the owners or the entrepreneurs, which I think is absolutely crucial. A lot of the data doesn't follow firms; it doesn't highlight, as you said, high-potential firms that might be able to take it a step up.

Mr. Marc-André Morin: Yes. I think if you don't know who you're talking to, you can't know whether what you're saying to them will mean something.

Dr. Rebecca Reuber: Yes.

Mr. Marc-André Morin: I have a last question, if I have time.

The Chair: You have just under three minutes.

Mr. Marc-André Morin: Okay.

Our goal is to increase from 11,000 to 21,000 enterprises exporting to emerging markets. Is it realistic? What do you think could be done to get such a result?

Dr. Rebecca Reuber: I think that's a stretch goal, as they call it. I did a recent study for the Conference Board on emerging markets. Emerging markets are really difficult, in particular because you need a local presence and local partners.

There are some things that can be done. My understanding is that in Quebec there is an organization that's a kind of mentorship organization, the QG100 that helps small firms. It's larger firms helping small firms.

In order to reach those goals, we'll need more study of ways to predict which firms to focus on. I don't think you can reach those goals by focusing on everybody, because some firms clearly should not be exporting and certainly shouldn't be exporting to emerging markets. We need some idea of who to pinpoint.

Mr. Marc-André Morin: Do you think we are like prisoners of traditional export markets in the type of exporting that we've been doing forever and that we seem to want to push over and over again?

Dr. Rebecca Reuber: Well, we do; our exports seem very embedded in the United States. When their economy is doing well, that's great, but when their economy stagnates, it's not so great. We may be missing out on opportunities. I definitely would agree with that.

I think there needs to be thought around conditions for the firms that are going to be most successful, in order to help them. There are many factors, which might be personal factors on the part of the owners or on the part of the firm.

•(1650)

The Chair: Okay.

Ms. Grewal.

Mrs. Nina Grewal (Fleetwood—Port Kells, CPC): Thank you, Chair.

Ms. Reuber, thank you for taking time out of your busy schedule to come and share your thoughts with us today.

In your opinion, why should Canadian small and medium-sized businesses be targeting emerging and frontier markets?

Dr. Rebecca Reuber: Well, I think they offer enormous growth possibilities. Some of the firms that I talked with in this Conference Board study had such things as telecommunications technology or auto parts technology or water purification technology. There's a huge demand for those in emerging markets, and so they are able to capitalize on it and to grow by going into those markets.

Mrs. Nina Grewal: I have often argued that new Canadians and recent immigrants are a valuable resource for Canadian businesses seeking to expand their reach into international markets, as they can provide important kinds of insight into those markets and into the customs, which may differ greatly from those in Canada.

In your opinion, how important is inside knowledge of foreign markets, and how can this information be gained?

Dr. Rebecca Reuber: I think it's hugely important, and I think our recent immigrants are a huge resource in that respect. When you look at the business schools right now, we have lots of students from other countries coming and getting business education. Their knowledge

of the Canadian economy and of their home economy is huge, and hugely valuable.

Another source is perhaps family businesses. There are many families that span countries, and lots of family businesses that divide up into generations and that also provide a way to internationalize.

I think our students are increasingly seeing the world as borderless, so those of us teaching in business schools are trying to say, "Don't start by thinking about the Canadian market". The problem with it is that you get what has been known as domestic inertia. You set your whole company up to serve the local area, and then it's a huge adjustment to do something else; whereas, if we can get people to set up their company from the get-go to serve foreign markets, then, even if they don't do so right away, it's in the plan, and they're hiring people who are adept at it, and it's much easier for them to start selling internationally.

We have a very small domestic market. Look at what it takes to be, say, a games and toy producer in the U.S. and one in Canada. You have to export four times as much in Canada to be successful as you do in the U.S., because their market is so much better. Many firms there have the luxury of just selling at home, whereas that is much harder for Canadian firms.

Mrs. Nina Grewal: Mr. Chair, do I have some more time left?

The Chair: You have about three minutes.

Mrs. Nina Grewal: I would like to pass the rest of my time to Mr. Allen.

The Chair: Go ahead.

Mr. Mike Allen (Tobique—Mactaquac, CPC): Thank you, Chair.

Professor Reuber, I'd like to ask you a question on some of the things that we don't know, and then maybe.... Well, I'll start with the ones that we know and then go perhaps to the ones we don't know, if we move quickly.

You talked about technology and consistent global standards, and some of the types of things that we're exporting fall well into global standards. Then you talked about our having as many stoppers as we have starters in any given year on the export side.

Do you see the stoppers as being the ones who are exporting more things that are perhaps not consistent with global standards; as just trying it once and saying, "We can't make it in that market"? Can you differentiate that?

•(1655)

Dr. Rebecca Reuber: Do you know what? I don't think we have data on that. I think it's an absolutely critical question: Why do firms stop? What differentiates the ones that, when the going gets tough, keep at it? Is it funding? What is the difference?

It's a good question, but I don't have the answer.

Mr. Mike Allen: My next question, because I only have a minute left, is this. The Chamber of Commerce last week, based on the announcement the Prime Minister made, said, or Perrin Beatty said, "This is a big deal. By helping entrepreneurs manage the costs of international expansion and by strengthening our trade offices in priority countries, we'll be making a real difference on the ground."

Do you see that as one area to deal with one of those gaps you talked about before—in terms of local taste preferences and understanding the countries we're in—by making those investments?

Dr. Rebecca Reuber: The entrepreneurs I talk to who do business in foreign markets talk very highly of the trade people associated with our embassies and consulates, but I think because the nuances of each company are different and what they're selling is different, it's unrealistic for them to have detailed knowledge. They can make introductions, but they're not going to guarantee that this is going to be a great partner with me, because there's so much more that has to go on.

So I think certainly it's useful, but it's not sufficient.

Mr. Mike Allen: Hopefully investment to beef that up will help some.

Thank you, Mr. Chair.

The Chair: You have 20 seconds, if you want to use them, Mr. Allen.

All right, Mr. MacAulay, the floor is yours.

Hon. Lawrence MacAulay: Thank you very much, Mr. Chair.

Professor, thank you very much for your presentation.

It's interesting, as you indicated, that you need the person, more or less, along with the Internet, if you find the market; that's if I understand you correctly. I come from Prince Edward Island. We sell the blue mussel. I don't know if you've ever eaten it, but we produce a lot of blue mussel. That seems to have been successful worldwide. It basically goes all over the world. We have probably the best lobster in the world, and we cannot seem to find the proper market for that.

You just look at what takes place...and it was interesting to hear what you were saying about the Internet. I attended a trade show in Shanghai, and what you.... It wasn't presented properly. What needs to be done here? These are quite small businesses that are doing this exporting. What kind of help can the government give these small businesses? They survive, and they sell the product. But looking at the product that comes from other parts of the world, such as Australia, in my opinion and the opinion of a lot of people it's not the quality that we produce and it gets a lot more money.

I would just like you to expand on what we would need to do. I don't believe it's all the government's responsibility, either; I think it's business, too, but we need the information. For example, there were some products there that were displayed the way that the people in Shanghai would want them. The lobster was not. Could you expand on that?

Dr. Rebecca Reuber: I completely agree. I think that's huge. If you have a product or service, how to put it into a foreign market so that it's appealing there is big.

I don't know whether the producers can band together and find somebody who's based in, for instance, Shanghai—agents are always difficult, I know—or someone who's conversant with both cultures and have them do it on perhaps an industry basis.

Hon. Lawrence MacAulay: I think it follows on the line that you need the human touch along with finding the market.

Dr. Rebecca Reuber: Yes. Actually, it sounds like you need to find ways to educate the market. I completely agree that Canadian lobster is way better than that of any of the other markets, but you have to think about how you are going to educate a market that doesn't know that, right?

Conceptually, it's not that much different from educating a market that you need an iPhone or that you need a smartphone. Everybody lived just fine without one, and suddenly we had to educate people that this was necessary. They are all living without this product now, so there has to be a concerted and detailed effort to differentiate it and position it into, say, their New Year's or various things they are doing.

Does that make sense?

• (1700)

Hon. Lawrence MacAulay: It sure does. I could be wrong, but possibly the major corporate sectors are not so involved in the lobster industry as they are in other areas of the fishing industry. As I said earlier, I believe you have to have the entrepreneur involved, not just the government, to know how to do this. I think that's something we are missing.

I also think that sometimes we relax, both government and industry, because of the American dollar. Now it has changed in our favour again, and if we get more for the lobster, I would hope that we don't go back to the American market again. Do you believe that we depend entirely too much on it? Looking at what's available in Asia, it is an emerging market beyond. If we could sell our product and indicate that to the population, or a very small segment of the population, we wouldn't even be able to supply the market, at any price. I think sometimes we depend too much on the Americans. They are great neighbours to have, and great consumers, but Asia is also big.

Dr. Rebecca Reuber: I agree; I mean, the other thing you might do for the lobster is look at other industries that want in. For example, icewine: that goes not bad with lobster—

Hon. Lawrence MacAulay: I agree with you.

Dr. Rebecca Reuber: —and I know that the wine producers are all wanting to get into it. Perhaps there could be a food, or food and beverage, consortium that works on trying to adapt foreign tastes.

The Chair: I'm going to have to stop you there. All this talk about lobster and wine is getting me hungry.

Hon. Lawrence MacAulay: They're getting hungry here, Professor.

Thank you very much.

The Chair: Thank you, Professor, for your time. We appreciate your time here this afternoon. We appreciate your taking the time out of your schedule to help us with our study.

Dr. Rebecca Reuber: Thank you for having me. I appreciate it.

The Chair: Colleagues, we're now going in camera.

[*Proceedings continue in camera*]

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