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ELEMENTS OF AN EMERGING MARKETS STRATEGY FOR CANADA

Report of the Standing Committee on Foreign Affairs and International Trade

Bernard Patry, M.P.
Chair

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Subcommittee on International Trade, Trade Disputes and Investment

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THE STANDING COMMITTEE ON FOREIGN AFFAIRS AND INTERNATIONAL TRADE

has the honour to present its

FIFTEENTH REPORT

In accordance with its mandate under Standing Order 108(1), your committee established a subcommittee and assigned it the responsibility of examining the Emerging Market Trade Strategy.

The Subcommittee submitted its third report to the Committee.

Your committee adopted the report, which reads as follows:

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INTRODUCTION

Canada's prosperity is dependent on international trade and investment. Exports account for about 38% of the national gross domestic product (GDP). In addition, Canadians hold $399 billion in investment worldwide, and the value of foreign investment in Canada is nearly $358 billion.

This economic activity is largely concentrated in one market — the United States. The U.S. accounts for 85% of Canadian exports and is the source of 59% of Canadian imports. Nearly 64% of foreign investment in Canada originates in the United States.

While the U.S. market generates, and will continue to generate, economic activity and wealth creation in Canada, there is a growing recognition that Canada must look beyond its southern market. Concerns have been expressed that Canada has become too dependent on the U.S., at the expense of opportunities elsewhere in the world.

Indeed, global economic growth today is being driven not by the major industrialized countries — the United States, Japan, the UK, France and Germany, to name a few — but by rapidly emerging economic powerhouses like China, India and Brazil — countries whose size and economic potential are causing a shift in global economic power and influence.

Moreover, the nature of global economic activity itself is changing. It has moved beyond the simple concept of imports and exports. Today, trade and investment are a part of a complex network of global supply chains, specialization and niche markets involving the world's emerging economic engines. Participation in this network is critical to Canada's long-term prosperity.

Emerging markets present considerable trade and investment opportunities for Canadian businesses. However, the impact of these large, fast-growing economies will not just be on Canadians active in international markets. Countries like China are able to produce goods, in many cases, at a fraction of the cost in Canada. What does this increased competition mean for Canadian businesses at home? How will they adapt?

For all these reasons, the Government of Canada, through the Department of Foreign Affairs and International Trade (DFAIT), signalled its intention to develop an emerging markets strategy for Canada. Early in 2004, the Department began soliciting opinions and feedback from the business community in a number of key areas: its needs and intentions with respect to emerging markets; which markets it viewed as priorities; and the kind of federal government policies and promotional tools that would be most useful. Late in the year, DFAIT held a series of roundtable discussions with government, business, academic and non-governmental organizations.

The Subcommittee on International Trade, Trade Disputes and Investment was also asked by International Trade Minister Jim Peterson to contribute to the development of the Emerging Markets Strategy (EMS). To that end, we consulted with stakeholders from across the country to determine the types of services, programs and policy instruments that should be included in such a strategy. The evidence we heard covers a wide range of topics, from the need for infrastructure investment at home, to the need for more on-the-ground services at Canada's embassies and consular offices around the world. This report summarizes the views we heard over the course of our hearings.

This report is intended to be a contribution to what has already been described as an evolving process. When discussing the scope of the Subcommittee's study, Ken Sunquist (Assistant Deputy Minister, International Business and Chief Trade Commissioner, Department of International Trade Canada) suggested that there will be no final Emerging Markets Strategy document per se because of ever-changing economic and political conditions.

The main body of this report is divided into four sections. The first discusses the issue of which markets should be the primary focus of an emerging markets strategy. The second section focuses on the policy instruments at the government's disposal in promoting trade and investment ties with those priority markets. This section also includes a discussion on the need to reconcile those policy initiatives with the need to address corporate social responsibility, human rights and other related concerns. The third section of this report examines the services and programs the federal government has in place to support international business development. The final section examines Canada's domestic situation to ensure that the appropriate policies and necessary infrastructure are in place to allow Canada and Canadian businesses to pursue closer economic ties with foreign markets. It also examines the steps Canada can take to respond to the domestic challenges that competition with emerging markets can bring.

MARKETS OF OPPORTUNITY FOR CANADA

The term “emerging market” or “emerging economy” is used to describe the economy of a rapidly growing developing country. Typically, these countries are also in the process of building reliable and transparent legal and regulatory environments. Earlier examples of emerging markets that have since matured into more stable economies are Japan, South Korea, Singapore and Taiwan. Today, emerging markets can be found all across the world, notably in Asia, parts of South America and the former Soviet Union. The two countries most frequently mentioned as emerging markets are China and India. Indeed these two countries are in a class by themselves. Not only are they fast-growing emerging markets, but are the two most populous countries in the world.

Several witnesses, however, observed that the term “emerging” was not a particularly accurate description of these large countries. As Gauri Sreenvasan (Trade Policy Officer, Canadian Council for International Co-operation) remarked, the rise of powers like China, India and Brazil is evidence of a profound shift in power and politics. She suggested that it is at our peril that we focus on these economic powerhouses as merely “emerging” markets. Robert Keyes (Vice-President, International Division, Canadian Chamber of Commerce) agreed. He pointed out that, in terms of purchasing power-adjusted economic output, China, India and Brazil are the second, fourth and ninth-largest economies in the world, respectively. Canada is eleventh. Mr. Keyes suggested that these are strategic and vital markets, but not necessarily “emerging.”

While we agree with these observations, for the sake of convenience, we will continue to use the term “emerging market” in this report. As noted above, an emerging market is usually defined as a fast-growing country in the late stages of development — an accurate description of China, India and Brazil. That these are three of the largest economies in the world does not preclude the fact that they are undergoing a rapid economic transformation, it rather speaks to the significance of that transformation.

In terms of the focus of a Canadian emerging markets strategy, it was clear from the outset of our hearings that China should be Canada’s top priority. Not only did we hear this from government officials and the Trade Minister, but there was widespread agreement across businesses and associations that, while economic opportunities may exist around the world, China was in a class of its own.

Other clear priority markets are India and Brazil. These two, along with China, were specifically mentioned in the February 2004 Speech from the Throne. In addition, the recently released International Policy Statement speaks of the need for Canada to “position itself advantageously with the new economic powers like China, India and Brazil.”

The criteria used by DFAIT to identify China, India and Brazil as priority markets were that they are large, growing economies, regional economic centres, and increasingly causing a shift in the balance of global economic power. In addition, one could add that an emerging market for Canada is one in which Canada's economic relationship is underdeveloped given the size of the economy in question.

Using these criteria, another country qualifies as an emerging market in which Canada might wish to increase its trade and investment efforts: Russia. Piers Cumberlege (Acting Executive Director, Canada Eurasia Russia Business Association) reminded the Subcommittee that Russia is often grouped with the three countries discussed above as a cluster of emerging economic powerhouses, collectively known as the BRIC (Brazil, Russia, India and China) countries. Mr. Cumberlege argued that "we need to reinstate the 'R' in BRIC."

The challenge in choosing priority markets for an emerging markets strategy is that economic opportunities exist around the world. We heard from the Canada-Arab Business Council and a number of Canadian ambassadors about economic prospects in the Arab states. We also heard about opportunities in emerging markets in Eastern Europe and the former Soviet republics. Others felt that Canada should place more trade policy emphasis on the Association of East Asian Nation (ASEAN) countries.

Indeed, there is value to expanding the list of priority emerging market countries. We heard that even simply announcing that a certain country or region was a priority market for Canada generated business interest. Robert Blackburn (Senior Vice-President, Government and International Development Institutions, SNC-Lavalin Group Inc.) observed that increased government attention to a particular market tends to attract increased business attention. He pointed to Canada's free trade agreement with Chile and its recent focus on African development as two examples.

Testimony from government officials suggested that a delicate balance needs to be struck in choosing how wide to cast the net of an emerging markets strategy. Ken Sunquist testified that, on the one hand,

> [A]ny emerging market strategy … should not just focus on one, two, or three countries. We have to look at where the opportunities lie for Canadian companies.

But he also acknowledged that,

> [O]ne of the reasons why we're looking at a strategy is that we can't do everything everywhere. We need to focus on the markets of most interest and the most promise and on where the results will be best.

The Subcommittee agrees that in order for an emerging markets strategy to be effective, it must be focused and targeted. We believe that the Government of Canada should devote more resources to supporting trade, but acknowledge that the government does not have unlimited resources. It must choose where to target those resources in order to extract the maximum benefit for Canadians. A strategy that includes too many countries defeats the purpose of the exercise. At the same time, however, it is Canadian businesses that will be operating in the environment that an EMS creates; such a strategy must reflect businesses' priorities and not overlook destinations they consider to be important.

In our view, Canadian businesses, if given the right information and tools to succeed, will choose the markets in which they have the best chance for success. Based on their testimony, these opportunities are greatest in China, India and Brazil. However, we also believe that Russia should be included on this list. Outside of those four markets, however, witnesses amply demonstrated that they are adept at seeking out opportunities wherever they may be. The best proof of this was the eagerness with which so many witnesses recommended their own market of interest as worthy of consideration in a national policy.

As such, we draw two main conclusions in this area. First, China, India, Brazil and Russia should be the primary focus of Canada's EMS. Second, government programs should be broad enough in scope that businesses are not implicitly restricted by that focus from pursuing opportunities elsewhere, particularly in emerging markets in Asia, Eastern Europe and the Arab states. We therefore recommend:

Recommendation 1:

That, without excluding other emerging markets, the Government of Canada make China, India, Brazil, and Russia the primary focus of its Emerging Markets Strategy.

Recommendation 2:

That, in the context of Recommendation 1, the government should make every effort to inform Canadian businesses of trade and investment opportunities around the world. Government programs and policies should be flexible and responsive enough to allow businesses to pursue those opportunities, recognizing the laws of those countries and within the framework of corporate social responsibility.

FOREIGN POLICY FOR EMERGING MARKETS

> [T]he question is, almost market by market, what is needed to get in to that marketplace? — Ken Sunquist

The cornerstone of an emerging markets strategy is to remove the barriers that stand in the way of closer trade and investment ties, and to implement policies that encourage business development. The challenge, however, is that different policy instruments are needed in different countries. As such, an EMS cannot adopt a blanket approach to trade- and investment-enhancing policy tools. Rather, it has to be more focused and targeted, depending on the specific obstacles in its priority markets.

A. Securing Bilateral Agreements

1. Free Trade Agreements

Bilateral free trade agreements are the most obvious policy tool in gaining reciprocal access to emerging markets. Agreements to lower tariff- and non-tariff barriers not only open the doors for mutual exchange, but also provide an advantage for Canada over its competitors in those markets who may not enjoy the same level of access.

Canada is no stranger to bilateral and regional free trade agreements. In addition to the NAFTA, Canada has bilateral FTAs in place with Chile, Israel and Costa Rica. It is also negotiating or exploring several other agreements, including a Trade and Investment Enhancement Agreement (TIEA) with the European Union, a free trade agreement with South Korea and an economic partnership agreement with Japan. Canada has also begun — but thus far failed to conclude — free trade negotiations with the Central American Four (Guatemala, Honduras, El Salvador and Nicaragua), Singapore, and the European Free Trade Association (Switzerland, Liechtenstein, Iceland and Norway).

A number of witnesses were supportive of Canada's trade liberalization efforts. Robert Keyes considered it to be a "good strategic move" for Canada to reach out to South Korea, Japan and the EU for new types of trade and investment agreements. He believed that bilateral agreements allow the partners to zero in on specific issues more effectively than in a multilateral negotiation.

In particular, many witnesses thought that, given the slow pace of the Doha Round of World Trade Organization (WTO) negotiations, bilateral or regional agreements were all the more important as they would allow Canada to benefit from improved market access sooner. Liam McCreery (President, Canadian Agri-Food Trade Alliance), for example, argued that, even if the WTO is the "main game in town" Canada needs to increase its efforts on bilateral and regional trade deals as well. Clifford Sosnow (Partner, Blakes, Cassells & Graydon) agreed, stating that for a business which focuses on quarterly results, it is difficult to wait for the years that multilateral negotiations can take.

Some witnesses suggested that another reason to aggressively pursue bilateral agreements was the economic consequences of not doing so. When countries sign free trade agreements, they gain preferential access to one another's markets, effectively reducing access by other countries. Mr. McCreery pointed to the fact that the United States recently signed an FTA with Morocco and that as a result, U.S. grain producers now enjoys superior access (via Morocco) to the entire African continent compared to their Canadian counterparts.

While most witnesses were positive about trade liberalization, some were critical of Canada's policy in this area to date. Danielle Goldfarb (Senior Policy Analyst, C.D. Howe Institute) stated that, considering the costs involved and the strain on government negotiating resources, the benefits of bilateral trade agreements were often not great enough to justify the effort. She noted that Canada has pursued FTAs with a number of small countries where the economic benefits of enhanced market access were limited.

Ms. Goldfarb suggested that, rather than spreading Canada's resources thinly in this way, the government should concentrate on negotiating comprehensive bilateral trade agreements with simple rules of origin requirements — i.e., liberal definitions determining where a product was made. Furthermore, she maintained that Canada should only seek out FTAs with large priority markets or with significant regional groupings. Only in those cases, she argued, would the benefit of free trade agreements be worth the government's investment. Robert Blackburn echoed these comments:

> Sometimes it's not entirely clear why some markets are chosen to negotiate free trade agreements. I guess I would just say that if resources are scarce, as I think they are, in the trade department, we need to make sure we focus on good existing markets and key emerging markets, and I sometimes wonder whether the list of free trade agreements being negotiated meets those criteria.

Some witnesses were outright opposed to Canada's free trade efforts. Buzz Hargrove (National President, Canadian Auto Workers Union) argued that a commitment to free trade "at all costs" was naïve and destructive. He suggested that other countries "act forcibly and strategically to protect their own interests." He pointed to U.S. actions in the Canada-U.S. softwood lumber dispute, and the low penetration of imported automobiles in the Japanese market as evidence of this fact. Mr. Hargrove suggested that instead of comprehensive FTAs, Canada should make agreements based on specific sectoral trade-offs.

Jim Stanford (Economist, Research Department, Canadian Auto Workers Union) made a similar point with regard to market access. He observed that South Korea exports $1.8 billion in automotive products to Canada and buys none in return. He suggested that this was due to a number of subtle economic, policy, non-tariff and cultural barriers — the type not addressed in free trade agreements. He suggested that when Canada negotiates trade agreements with countries like South Korea, the issue of market access should not be based on some "abstract level playing field," but rather on actual trade results.

The Subcommittee also heard that when Canada does negotiate trade agreements, businesses must be closely consulted. Robert Keyes stated that, at the end of the day, it is business that will have to abide by the terms of any agreement and operate in the environment it creates. As such, he felt that,

> [T]he business community wants a consultation process that is transparent, effective, and meaningful for the companies and business sectors affected. [There is] no substitute for direct, candid, and frequent discussion between officials negotiating agreements and developing the strategies and the businesses … Government's activities are not an end in themselves, but are a good tool to lay the groundwork for business activity.

The Subcommittee agrees that Canada needs to focus its free trade negotiations on countries which maximize the potential benefit to Canadians. For this reason, we support the recent initiative to commence negotiations with South Korea — our eighth-largest export destination and seventh-largest source of imports. All future free trade negotiations should likewise be with significant world economies or regions. We therefore recommend:

Recommendation 3:

That, without foregoing strategic opportunities elsewhere, the Government of Canada focus its future bilateral free trade negotiating efforts on large economies or regional groupings. These agreements should include open rules of origin requirements and not undermine trade liberalization efforts at the multilateral level. No such negotiations should proceed without first consulting with Canadian stakeholders, including civil society, to ensure that their needs are addressed.

The Subcommittee also heard from Annette Hester (Economist, Special Research Fellow, Centre for International Governance Innovation) who offered a warning that Canada was not taking one such potential trade negotiation seriously enough. According to Ms. Hester, Brazil is eager to negotiate a bilateral agreement with Canada. However, she believes that Canadian negotiators are not taking seriously the Brazilians' request and will thus squander an excellent opportunity to gain improved access to one of its priority emerging markets.

As noted in the Subcommittee's June 2002 report, *Strengthening Canada's Economic Links with the Americas*, Brazil is the leading member of the Southern Cone Common Market (Mercosur), a regional bloc working towards a common external tariff and the free circulation of goods, services, capital and labour across its four member countries — Brazil, Argentina, Uruguay and Paraguay. Because of the common external tariff policy, Canada cannot negotiate trade agreements with individual countries without them violating this regional agreement.

In our view, this opportunity to pursue free trade with Mercosur should not be wasted. Mercosur is home to over 220 million people and has a combined GDP of $639 billion — equivalent to the tenth-largest economy in the world.

At the same time, however, we believe that Canada should be prudent in the type of free trade agreement it is seeking, both in the case of Mercosur and more generally. In a previous report, *Strengthening Canada's Economic Links with the Americas*, the Subcommittee noted that Canada's future free trade negotiations should be guided by its past experience with NAFTA — in particular, its experience with the investor-state provisions contained in Chapter 11 of that agreement.

At the time, the Subcommittee heard several witnesses express concern that the investor-state provisions found in Chapter 11 of NAFTA could potentially compromise governments' capacity to provide public services and regulate in the public interest. The Subcommittee was — and continues to be — supportive of investment protection provisions in free trade agreements. However, we also believe that Canada should learn from its past experience with Chapter 11 and avoid including similar provisions in future trade agreements. As such, we recommend:

Recommendation 4:

That the Government of Canada vigorously pursue free trade negotiations with the Mercosur regional bloc. NAFTA type investor-state provisions should be excluded from any such agreement.

The Subcommittee was told that if Canada is to be an active proponent of trade liberalization, it must send a consistent message to that effect. As Richard Fraser (Vice-President, Corporate & Project Development, Sandwell Engineering Inc.) stated, "if we are to be welcomed in other countries in a free trade sense, we have to be open to free trade as well." According to Mr. Fraser, this means that Canada cannot expect to negotiate market access without acknowledging its own trade-restricting policies such as import quotas and marketing boards.

Other witnesses agreed that Canada must put forward a consistent message, but did not see a problem with limiting trade access in some areas. Pierre Laliberté (Senior Economist, Social & Economic Policy, Canadian Labour Congress) stated that Canada must acknowledge that the pursuit of "wall to wall" open markets is not necessarily a good idea; open markets work very well in some areas and not as well in others. Gauri Sreenivasan agreed, stating that Canada itself has areas where it is not interested in market liberalization: preservation of the supply-management system being one example. She suggested that acknowledging that all countries have such "defensive interests" would improve international co-operation and understanding.

2. Foreign Investment Protection Agreements

> [T]hose investment agreements … provide the government's assurance that when business goes into those markets, they will have the legal protections necessary to thrive… — Clifford Sosnow

For many businesses in this integrated global economy, foreign investment and participation in global supply chains has become as important as international trade. However, one of the challenges in investing in emerging markets is that, although the opportunities may be great, the risks are high as well. While countries like the U.S., Japan, or the EU have well-established, stable and predictable legal and regulatory environments, in emerging economies, these are much less secure.

Indeed, many witnesses spoke of the risks associated with investing in emerging markets. As Clifford Sosnow testified, these risks can take a variety of forms,

> For example, there are always concerns about loss of intellectual property when they invest abroad, or loss of protection of technology, or protection from unfair expropriation, or that they may be treated in a more discriminatory manner than market companies from China, Brazil, or India in terms of taxes.

However, the level of concern expressed by witnesses surrounding investment risks varied considerably from one market to the next. Few witnesses expressed specific concerns about investment protection in India and Brazil. In the case of India, Stephen Kukucha (Director, External Affairs & Government Business Development, Ballard Power Systems, Inc.) stated that the presence of a democratic history, a market-based system and a more well-developed rule of law made investment protection in that country less of a concern than in a country like China. Indeed, witnesses expressed far more concern about investment protection in China than in any other country.

One way for Canada to address investment protection concerns in China, as well as in other emerging markets, is to negotiate foreign investment protection agreements (FIPAs). FIPAs are bilateral agreements that provide a predictable investment framework for foreign investors. Usually such agreements are only needed in countries where the domestic legal and regulatory system is not well-developed.

Several witnesses, including Robert Keyes, were strongly supportive of negotiating FIPAs with emerging markets. He applauded the fact that Canada has already commenced negotiations on a FIPA with India and one with China. The agreement with India is expected to be completed by the end of 2005. No projected completion date has been set for the agreement with China.

While supportive of the idea of investment protection agreements, some witnesses expressed concern about the negotiation process. Clifford Sosnow stated that while businesses benefit from these deals, they often do not understand what exactly the Canadian government is negotiating. As such, he stated that,

> We would encourage the government and you all here today in negotiations with emerging markets to establish high-quality investment agreements in consultation with business people and other stakeholders who have an impact on the negotiations, to ensure that the standards that are negotiated promote and protect business going abroad.

The Subcommittee believes that protecting Canadian investments abroad is a vital step towards encouraging businesses to explore the opportunities in emerging markets. FIPAs are a good way of doing this. As such, we view the current negotiations with China and India as vital to the success of an emerging markets strategy. We are also pleased to note that Canada already has similar agreements in place with other key emerging markets like Thailand, Russia and several other Eastern European countries. However, we feel that more such deals should be made, and thus recommend:

Recommendation 5:

That the Government of Canada, in consultation with business, explore the need for, and negotiate, foreign investment protection agreements (FIPA) in key emerging markets.

3. Intellectual Property Protection Agreements

The Subcommittee heard that one of the greatest concerns Canadian businesses face in China is intellectual property theft. Indeed, we heard that piracy and reverse engineering in China are rampant. Stephen Kukucha told the Subcommittee that two-thirds of the world's imitation products come from China. David Wheeler (Erivan K. Haub Professor of Business and Sustainability, Schulich School of Business, York University) stated that more Canadian industrial castings are imported by the U.S. than are actually produced in Canada; the rest come from China, complete with a “made in Canada” stamp.

Mr. Wheeler suggested that not only is this damaging Canadian companies, but Canada’s trade relationship with the United States as well.

> Canada is already on the watch list of USTR [the U.S. Trade Representative] in terms of counterfeit product and fraudulently marked product. If we don't do something here to stop that at the border coming into Canada, the Americans are going to do it at the Canadian-U.S. border and it's going to catch a lot of legitimate Canadian commerce.

The Subcommittee heard that the problems of intellectual property theft in China were not due to a lack of regulation and legal structure, but rather, inadequate enforcement of existing rules. Robert Keyes stated that there are good basic laws in China, but that they are either unenforceable, or simply not enforced. He pointed to an underdeveloped judicial system as a specific weakness. Phil Hodge (Vice-President, Westport Innovations, Inc.) echoed this point, stating that intellectual property protection already exists in China; it is enforcement that is the concern.

Some witnesses felt that the issue of intellectual property, and consequently the need for investment protection, in China will diminish over time. Ken Sunquist stated that as China develops, it is growing more interested in intellectual property protection because Chinese businesses are developing technologies that they themselves are interested in protecting. Phil Hodge also thought that China has a growing vested interest in intellectual property protection, particularly in cases where Chinese companies had entered joint venture agreements with foreign businesses. However, Mr. Hodge allowed that the process might not be rapid enough to assuage the concerns of Canadian investors today.

While many witnesses spoke about intellectual property concerns, there were few recommendations as to how Canada could address this problem. Some suggested that Canada could include provisions on intellectual property as part of wider bilateral trade agreements like FTAs or FIPAs. Others thought that development programs aimed at enhancing the principle of the rule of law in China were the answer. A third suggested option was to strengthen intellectual property provisions at the multilateral level. Specifically, Canada could play a more active role in negotiating improvements to the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement. Currently, the focus of TRIPS discussions is on the issue of selling patented medicines in developing countries. However, Canada could seek strengthened provisions in other areas.

It was clear from the evidence we received that intellectual property is a major concern for Canadian businesses in certain emerging markets, and China in particular. Fear of losing intellectual property discourages Canadians from investing in emerging markets because of the potential for piracy and reverse engineering to undermine the value of their assets. Canada needs to address these concerns if it wishes to improve economic relations with China. We thus recommend:

Recommendation 6:

That in its current FIPA negotiations with China and India, and any future negotiations with other countries, the Government of Canada ensure that any final agreement contains meaningful provisions to protect Canadian intellectual property.

4. Regulatory Co-operation Agreements

> Small and medium-sized companies are faced with a hundred pounds of papers they have to fill in to get product across, so how do we reduce it to twenty pounds? — Clifford Sosnow

The Subcommittee also heard of the high cost that regulatory issues between Canada and foreign markets can exact on Canadian businesses. Dealing with regulatory hurdles in Canada and abroad can be a heavy burden, especially for small- and medium-sized enterprises (SMEs). Clifford Sosnow noted that harmonization of regulations or mutual recognition of regulations would be helpful in reducing these barriers to trade and investment, so that "when a small company satisfies Canadian regulatory standards in product packaging or labelling, that's also recognized abroad."

The Subcommittee notes that free trade agreements can include sections on regulatory co-operation to reduce business costs and remove an unnecessary barrier to trade. Another option is to negotiate mutual recognition agreements (MRAs). In an MRA, countries agree to recognize and accept one another's standards and regulations because they are deemed to be equivalent, or satisfy agreed-upon external criteria. However, these types of agreements may not be well-suited for an emerging markets strategy; standards, and enforcement of standards, are generally much higher in industrialized countries. The Subcommittee recommends:

Recommendation 7:

That the Government of Canada look for ways to reduce regulatory hurdles between Canada and emerging markets. Where enough common ground exists, and ensuring that Canadian health and safety regulations are maintained and enhanced, mutual recognition agreements should be considered.

5. Air Service Agreements

If you make it easy for people, they will come. — David Hutton

It is hard to expand Canada's economic relationship with emerging markets when it is difficult to travel to and from those countries. Expanding direct air service with countries like China, India, Brazil and Russia would improve prospects for enhanced economic co-operation.

David Hutton (Ambassador, Canadian Embassy in Kuwait) stated that a lack of regular air service between Canada and the Arab states was a major impediment to closer economic ties with that region. He observed that in June 2005, air service will be established between the United Arab Emirates and Toronto (via Brussels). While this one flight pales in comparison with the 26 weekly flights between that country and Australia, Mr. Hutton regarded this as an important step. Similarly, Robert Blackburn stated that better air linkages were needed to some African markets, notably Algeria.

The Subcommittee is pleased to note that Canada has recently concluded air service agreements with both China and India. We encourage the Canadian government to continue to move forward in this area and ensure that for any emerging market it considers to be a priority, it is as easy as possible to travel between the two countries. We recommend:

Recommendation 8:

That the Government of Canada work to maintain and enforce its completed air service agreements with China and India, and turn its attention to improving air service access to other priority emerging markets, especially Russia and Brazil.

6. Sanitary and Phytosanitary Agreements

Clyde Graham (Vice-President, Strategy and Alliances, Canadian Fertilizer Institute) observed that when countries eliminate or reduce tariffs, they sometimes look for other, less direct, ways of restricting trade. In this context, sanitary and phytosanitary concerns are often used as a pretext for protectionism. Indeed, Canadians are all too familiar with this tactic; the ongoing restrictions on beef and cattle exports to the United States are ostensibly based on Chapter 7 of NAFTA — the chapter dealing with sanitary and phytosanitary measures.

We also heard from Albert Eringfeld (General Manager, Polar Genetics Inc.) that not enough credit is given to the high health status of Canada's livestock industries and to Canada's sanitary programs in general. He believed that Canada should be more aggressive in negotiating phytosanitary certificates.

Given Canada's firsthand experience with the matter, we wholeheartedly believe that sanitary and phytosanitary concerns should not be used as an excuse for back-door market protectionism. At the same time, however, we are not interested in sacrificing food safety for market access. As such, we recommend:

Recommendation 9:

That in any bilateral or multilateral trade negotiations, the Government of Canada seek well-defined, science-based rules that allow countries to address their legitimate sanitary and phytosanitary concerns. Sanitary and phytosanitary concerns should not be used as an illegitimate non-tariff trade barrier.

7. Science and Technology Agreements

> [C]ollaboration and a free exchange of knowledge are critical to ensuring we realize our potential and find our place in today's global supply chains. — Bernard Courtois

The Subcommittee also heard of the importance of science and technology agreements in fostering co-operation with key emerging markets and in ensuring that Canada remains competitive in the global economy. Several witnesses pointed to the recent science and technology agreement between India and Canada as an excellent example of what Canada should be doing in this regard.

This agreement between Canada and India aims to eliminate duplication in research and generate collaborative linkages between the two countries. Furthermore, it is hoped that by encouraging private sector participation, the prospects for the commercialization of this research will also improve.

Yuen Pau Woo (Vice-President and Chief Economist, Asia Pacific Foundation of Canada) thought that co-operation in science and technology — including bilateral industrial research assistance and commercialization of technologies — can be an important stepping stone in promoting closer economic ties with emerging markets. He urged the Canadian government to capitalize on its agreement with India to further promote inbound investment from that country. Anthony Eyton (Head, Ottawa Chapter, Brazil-Canada Chamber of Commerce) stated that Canada should pursue similar agreements with Brazil:

> [I]n the area of science and technology — certainly applied science and technology — there is room for collaborative research efforts between

> Brazil and Canada that would engage our researchers and our companies in real, concrete projects that would have true applications in important sectors for both countries.

The Subcommittee believes that science and technology agreements have the potential, not only to spark innovation, but also to develop collaborative relationships between Canadian researchers and businesses and their counterparts in emerging markets. As such, we applaud the agreements between Canada and India and encourage the federal government to pursue similar agreements with other emerging markets. The Subcommittee recommends:

Recommendation 10:

That, following the recent example with India, the Government of Canada negotiate science and technology agreements with other significant emerging markets, beginning with China, Brazil and Russia.

To that end, Karen McBride (Vice-President, International Affairs Branch, Association of Universities and Colleges of Canada) offered two specific recommendations to the Subcommittee on steps it could take to further encourage collaboration in science and technology with emerging markets. We agree with Ms. McBride's suggestions and thus recommend:

Recommendation 11:

That the Government of Canada, while respecting the jurisdiction of the provinces, ensure that there is a systematic connection between Canadian university offices for technology transfer, and appropriate international trade officials in Canada and abroad in order to facilitate partnership opportunities for commercialization purposes. Consideration should also be given to organizing missions of university transfer officers to key countries.

Recommendation 12:

That, building on the successful experience of the 2003 Canada-India Science and Technology study on institutional linkages and academic, government and private partnerships, the federal government work with the provinces, the Association of Universities and Colleges Canada, foreign governments and other key actors to map existing linkages and complimentary research interest and strengths in countries of interest in order

to develop strategic plans of action for research co-operation between Canada and key nations. China, Russia and Brazil should be the top priority in this regard.

B. Making Progress at the WTO

Although not directly part of an emerging markets strategy, the Subcommittee received a considerable amount of testimony regarding multilateral trade negotiations at the WTO. Witnesses were virtually unanimous in their support of Canada's position that the WTO is the pillar of our international trade strategy. Witnesses who were lukewarm towards bilateral and regional FTAs were so because they felt Canada should instead concentrate its efforts at the WTO. Those who did support bilateral/regional negotiations also viewed a WTO deal as the primary objective; they believed that bilateral FTAs were only an interim step towards a multilateral deal at best or, at worst, insurance against failure at the WTO.

Witnesses brought forward a number of issues they hope will be resolved in the current round of WTO negotiations. These included: improvements to the dispute-settlement mechanism; reducing the prospect for sideswipe (i.e., those sectors affected when a country is permitted to impose retaliatory tariffs in a trade dispute); further reduction in trade-distorting agricultural subsidies; special considerations for developing countries; protecting intellectual property; and improving sanitary and phytosanitary measures. Witnesses encouraged Canada to take a leadership role in addressing these concerns.

One witness stated that Canada's interests in multilateral trade liberalization could be divided into two categories: defensive trade interests and aggressive market access interests. Gauri Sreenivasan noted that while Canada is interested in export and investment opportunities, it also has some unique policy models and institutions that it wishes to protect. Ms. Sreenivasan pointed to Canada's supply management and marketing board systems in agriculture as two examples of Canadian trade policies that are "under constant attack from powerful WTO members."

Ms. Sreenivasan stated that many farmers and international groups are interested in learning from the Canadian experience and applying those lessons to their own context. The Subcommittee believes that this represents an opportunity for Canada to build international support at the WTO for its agricultural production and marketing systems. By so doing, not only could developing countries benefit from the Canadian experience, but Canada could gain allies for its supply management system and marketing boards, making it easier to defend those practices against attack from other WTO members.

C. Foreign Investment in Canada

Canada has long recognized the importance of attracting foreign direct investment (FDI) to this country. There are significant benefits to doing so: foreign investment creates jobs and brings new technologies to Canada. This has the potential to boost productivity, leading to economic growth and prosperity.

Typically, when one considers emerging markets and investment, it is usually in the context of Canadian investment abroad. However, as emerging markets like China, India and Brazil continue their rapid ascendance, they are increasingly becoming sources of foreign investment as well. According to the United Nations Conference on Trade and Development (UNCTAD), from 1990 to 2003, outbound FDI from China has grown twice as fast as the global average. Similarly, Indian investment abroad has expanded from US$264 million in 1995 to close to US$5.1 billion in 2003. For its part, Brazil is already the largest investor of any country in Latin America and the Caribbean.

However, while Canadians are generally welcoming of FDI from most countries, the case of China has proven to be a stumbling block. China has recently expressed interest in making significant investments in the Canadian mineral and energy sectors. Since these investments would come from state-owned enterprises, this has prompted concerns within Canada about a large and powerful foreign government purchasing Canadian assets.

There are two specific issues. The first is that there is no guarantee that a foreign government-run enterprise will act in an economically efficient manner because it is not necessarily a competitive profit maximizer. A Chinese asset in Canada could be used simply to support another economic sector in China. Employment and economic activity in Canada could suffer as a result.

The second issue has to do with national interest and national security. A Chinese government-owned company in Canada could conceivably use its increased influence over the Canadian economy to extract political or economic concessions from the Canadian government.

There is a mechanism in place to ensure that all foreign investment in Canada provides a net benefit to Canadians and protects Canadian interests — the *Investment Canada Act* (ICA). The *Investment Canada Act* is intended to screen potential investments in Canada to ensure that they are beneficial. According to Industry Canada, the determination of whether or not an investment is of "net benefit" is made by the Minister who considers the following factors:

(a) the effect on the level of economic activity in Canada, on employment; on resource processing; on the utilization of parts and services produced in Canada and on exports from Canada;

(b) the degree and significance of participation by Canadians in the Canadian business or new Canadian business and in any industry or industries in Canada;

(c) the effect of the investment on productivity, industrial efficiency, technological development, product innovation and product variety in Canada;

(d) the effect of the investment on competition within any industry in Canada;

(e) the compatibility of the investment with national industrial, economic and cultural policies; and

(f) the contribution of the investment to Canada's ability to compete in world markets.

If an investment does not meet ICA conditions, or cannot be changed to comply with the Act, it can be rejected. Since the ICA was passed in 1985 there have been 11,157 foreign acquisitions of Canadian companies. Of those, 1,457 were of sufficiently high value that they triggered a review under the Act. None of these were formally rejected. However, as Frank Vermaeten (Director General, International and Intergovernmental Affairs Branch, Department of Industry) described,

> The process is one whereby we engage with the investor and identify where changes might be necessary in the investment to provide a net benefit … [I]f the investors feels they cannot satisfy the demands of the *Investment Canada Act*, they would withdraw the investment rather than go through the formal rejection process.

The Subcommittee believes that attracting foreign direct investment is a key element to ensuring the future prosperity of Canada, whether that investment comes from China or elsewhere. Moreover, in a global marketplace where competition for this capital is significant, Canada cannot afford to create the impression that FDI is unwelcome in this country. At the same time, however, policies must be in place to protect the Canadian national interest. Therefore, the Subcommittee recommends:

Recommendation 13:

That the Government of Canada conduct a formal review of the *Investment Canada Act*, to ensure that the Act is effective in delivering on its stated intent — ensuring that foreign investment in Canada serves the national interest. The *Investment Canada Act* should make certain that foreign investment maximizes the benefit to Canadians, including, but not limited to creating jobs in Canada; building the domestic capital stock; raising productivity levels; and improving research and development capacity. Any investment that is not in the Canadian national interest should be rejected.

D. Addressing the Concerns of Importers — Resisting the Urge to Impose Safeguards

> Modern trade is a two-way highway. It is about maintaining strong export and import markets. — Diane Brisebois

A common, mercantilist view of international trade is that exports benefit an economy while imports are harmful, in the sense that they represent a domestic production opportunity foregone. However, as Diane Brisebois (President and Chief Executive Officer, Retail Council of Canada) stated, much of the Canadian economy relies upon the free flow of competitively priced products into Canada; "many Canadian jobs depend on access to imports." In her view, the availability of low-priced consumer goods increase the purchasing power of Canadians, leaving more money to spend elsewhere in the Canadian economy. At the same time, producers benefit from lower-cost imports, allowing their products to be more competitive, both at home and globally.

Buzz Hargrove questioned the veracity of this argument, particularly the view of China as a source of low-value imports. He stated that imports from China and other emerging economies are growing rapidly all across the value-added spectrum. He suggested that, in fact, China is "reinforcing Canada's backward regression as a hewer of wood and a drawer of water."

Ms. Brisebois and her colleague Darrel Pearson (Partner, Gottlieb & Pearson), suggested that in the face of global competition, and in particular from low-cost producers like China, Canada will be tempted to impose emergency safeguard measures against foreign imports to protect domestic producers unable to compete.

A safeguard is an emergency measure that a country can take if it is suddenly faced with an unexpected surge in imports of a certain product — a surge which threatens to seriously injure the domestic industry. If a country finds evidence that such a surge is taking place, it can apply at the WTO to impose tariff barriers to temporarily shelter the domestic industry.

Ms. Brisebois and Mr. Pearson pointed to the February 2005 decision by the Canadian International Trade Tribunal (CITT) to commence a safeguard inquiry into the import of bicycles and bicycle frames as a recent example of what was, in their view, an unwarranted use of safeguards. The Retail Council of Canada is concerned that as competition from China and other low-cost producers increases, this inappropriate use of emergency safeguards will also rise.

The Subcommittee believes that there is a legitimate use for safeguards — as an emergency action to be taken when a surge in imports threatens to harm an industry, including the loss of jobs. Given the concerns raised by the Retail Council of Canada, we also believe that these safeguards should be used sparingly and that Canada should resist the temptation to apply them spuriously. Canadian industries must be able to adapt to the global economy in order to thrive in it. When given the chance, they do so. At the same time, however, given the growth in imports from low-cost producers like China, we anticipate that the demands on the CITT will grow in the future. We thus recommend:

Recommendation 14:

That the Government of Canada ensure that the Canadian International Trade Tribunal has the necessary resources to conduct safeguard investigations and that the government use import safeguards as per WTO rules.

E. Education Services and Intellectual Exchanges

> Th[is] is a long-term building stone for having influence and effect, not today and maybe not even five years from now, but twenty and thirty years down the road, as these people take positions in their country both in the building of democracy and in the corporations. — Dwain Lingenfelter

The Subcommittee heard much evidence on the value of, and opportunities for, the Canadian education services sector in emerging markets, particularly in Asia. Based on the testimony we received, the opportunities for the sector, both in terms of providing education abroad, as well as the benefits of attracting foreign students to Canada are considerable. However, it is the use of education services as a policy tool in an emerging markets strategy that we wish to discuss.

At first glance, it might appear that the provision of education services is an unusual policy tool for an emerging markets strategy. However, witnesses provided the Subcommittee with compelling reasons why it is indeed a valuable one.

First, education services are a long term investment in future trade linkages. As Gardiner Wilson (Director, Public Policy and Research, Canadian Education Centre Network) testified, international students in Canadian classrooms today, when they return home, create the potential trade partners of tomorrow. Foreign students learn about Canada and meet Canadians during their stay in this country. When they return home, they retain this knowledge and experience, as well as the personal contacts they made.

As well, education services provide a useful promotional tool for Canada abroad. Mr. Wilson told the Subcommittee how, through its overseas offices, the Canadian Education Centre Network (CECN) markets and promotes Canada as a study destination and in so doing, creates awareness about Canada. In addition, the CECN has established English- and French-language schools overseas which, in teaching those languages, profile Canada and Canadian education.

Intellectual exchanges — whether attracting high-quality foreign students or promoting academic exchanges and collaboration — can also provide considerable benefit by helping forge what Karen McBride termed “knowledge-based relationships.” Ms. McBride stated that, at the university level, Canada already has 3,100 formal active relationships worldwide, including many in China, India and Brazil. These are the types of relationships that can be built on and expanded by science and technology agreements, as discussed above. According to Ms. McBride, these types of relationships were critical to Canada’s future economic success:

> A major challenge from a foreign policy perspective is therefore maximizing the benefits of the globalization of knowledge through Canada's economic competitiveness and social development. In our view meeting this challenge requires that we foster sophisticated knowledge-based relationships with nations.

Yuen Pau Woo agreed, stating that, with the right incentives, there is potential for Canada to harness Indian software and engineering talent, for example, in the same manner as Silicon Valley was able to do. He added that this is all the more true given the increasingly stringent student visa requirements in the United States.

Finally, education services create goodwill towards Canada. Roderick Bell (Ambassador, Canadian Embassy in Saudi Arabia) recounted an anecdote about a world-famous team of Saudi Arabian doctors, every member of which had been trained at the University of Toronto, “The head of the team came up to me and said, ‘I can't tell you how much I owe Canada and the University of Toronto’.”

According to Mr. Bell, Canada does not make enough use of this international goodwill to help further expand its economic and political relations with other countries.

The Subcommittee agrees that education services, research collaboration, and attracting top-quality foreign students can pay long-term dividends for the Canadian economy. These create awareness about, and engender goodwill towards, Canada, and promote the exchange of ideas and information — the lifeblood of innovation, technological advancement and productivity growth.

Witnesses offered the Subcommittee a number of excellent recommendations to help use education services to better effect in promoting economic ties with emerging markets. Gardiner Wilson suggested that what was needed was not a new policy instrument, but merely for the federal government to follow through on its promises. Specifically, he cited the 2002 Speech from the Throne, in which the government stated its intention to, "position Canada as a destination of choice for talented foreign students and skilled workers by more aggressively selecting and recruiting through universities and in key embassies abroad."

Karen McBride offered a similar recommendation, adding that Canada should use international scholarships as a means to that end. She suggested that the United Kingdom and Australia could provide useful models in this regard. We agree and thus recommend:

Recommendation 15:

That, in accordance with the commitment made in the September 2002 Speech from the Throne, the Government of Canada, in partnership with the provinces and universities, "position Canada as a destination of choice for talented foreign students and skilled workers by more aggressively selecting and recruiting through universities and in key embassies abroad." To that end, the government should follow the examples of the United Kingdom and Australia, which offer prestigious scholarships to foreign students.

Issuing scholarships and promoting Canada as a study destination for foreign students will do little good if those students are unable to obtain student visas to come to Canada. The government has recently taken the positive step of allowing foreign students more freedom to work in Canada during the tenure of their stay. However, the Subcommittee heard that high visa refusal rates — 70% in India, for example — not only discourage students from applying to Canada, but also render futile the marketing efforts of Canadian universities looking to attract top students. We thus recommend:

Recommendation 16:

That the Government of Canada examine ways to improve the visa acceptance rates of foreign students looking to study in Canada.

Gardiner Wilson also suggested that Canada needs better coordination at the government level. He stated that international education interests are spread across half a dozen departments and that the intended split of the Department of Foreign Affairs and International Trade (DFAIT) in two was not helping the matter. This speaks to the need for Canada to employ a coordinated, whole-of-government approach to its Emerging Markets Strategy and to its approach to the global economy in general. This issue will be discussed further below.

F. Trade and Corporate Social Responsibility

An emerging markets strategy cannot be pursued in isolation from other government policies. Trade and investment take place in the context of other social interactions and must therefore take into account issues such as the environment and human rights. Jean-Louis Roy (President, Rights and Democracy) stated that, in his view, there was no conflict between the objectives of human rights and trade and investment. As witnesses told the Subcommittee, trade and investment can have both positive and negative effects on a community or a country. Alex Neve (Secretary General, Amnesty International Canada) remarked:

> Trade can be a force for promoting and strengthening the protection of fundamental human rights. Sustainable trade and investment can help to secure greater enjoyment of key economic and social rights, for instance, such as the rights to a livelihood, the right to food or the right to safe work of one's own choice. Business leaders can also use their influence with governments to press for the protection of central rights, such as women's equality, the protection against torture, or freedom of expression.
>
> Trade can also be a force that undermines or even leads to direct violations of those rights. Poorly trained security officers guarding company premises might kill or injure trespassers or protestors. Royalties from mining or petroleum projects might be used by governments to buy arms, fight wars, and commit human rights violations.

The Subcommitee heard that there is a limited window of opportunity in which for countries like Canada to clearly define and institutionalize human rights responsibilities for international actors. Jean-Louis Roy suggested that the emerging markets of today will be the dominant markets of tomorrow. He argued that as these countries become more powerful and more influential, our ability to engage them on human rights issues will diminish.

The challenge for Canada is to help ensure that Canadian companies working in emerging markets help strengthen fundamental human rights in countries that have human-rights records and rules that are below Canadian standards. Such an approach recognizes the difficulty in doing business in countries with poor human rights records, such as China.

Jean-Louis Roy argued that human rights concerns should be included in all of Canada’s international trade and investment activities with emerging markets. However, the government’s current approach has been to encourage companies to adopt voluntary codes of conduct to deal with issues of “corporate social responsibility”; i.e., human rights, labour rights and environmental protection. There is no consistent, government-wide policy for the promotion and protection of these rights by Canadian firms working abroad, nor are there any binding regulations or legislation in this area.

While witnesses generally agreed that Canadian emerging market and human rights/environmental protection policies should not be traded off against each other, there were differing points of view on how this should be achieved and the extent to which the government integrates concern for human rights with trade promotion. Some witnesses called for greater regulation and others supported the status quo of voluntary corporate social responsibility (CSR) codes.

Proponents of voluntary codes stressed the importance of bad publicity on issues such as child labour in enforcing Canadian social mores on firms working abroad. As well, they noted that most Canadian companies act responsibly in their offshore dealings. Ken Sunquist told us that most Canadian companies are careful in deciding which foreign companies they do business with, and to make sure “how they're dealing with them is based on Canadian values.” According to Mr. Sunquist, Canadian policy does not trade human rights against export and investment promotion, noting that Canada’s trade officers are trained in dealing with corporate social responsibility (CSR) issues:

> Our officers are expected, in face-to-face briefings with Canadian business clients, to talk about the local situation. Obviously, in some countries it's relatively clean, and in some countries it's not, to the same extent. We have to tell companies that they can't do what they think they should do, for example, in a certain market, because it's against the laws of Canada, and that's it. And you can be prosecuted in Canada for those things.

Canada has made some tentative steps toward requiring that Canadian companies act responsibly when investing or trading abroad. Export Development Canada (EDC), upon which many Canadian companies depend for export financing, is required to conduct an environmental assessment of its project-related activities (though these assessments are not required to be made public), and has policies that identify CSR risks. In a recent report, the Auditor General commented favourably on EDC’s environmental assessment framework and its implementation.

EDC also told the Subcommittee that, in its insurance policy coverage, it has the ability to deny liability and to negate policy coverage if it becomes aware of any corrupt activity or bribery.

The threat of negative publicity on its own does not ensure that all Canadian companies act responsibly abroad; of the cases of questionable foreign conduct by Canadian companies cited by witnesses, Talisman Energy's involvement in Sudan is the most famous. Several witnesses also asserted that the federal government has failed to address human rights and corporate accountability issues comprehensively in Canada's international economic relations. As well, according to Mr. Neve, "the means to ensure that Canadian businesses operate responsibly when it comes to human rights are still weak and are not binding."

Other witnesses remarked that voluntary codes are insufficient to defend and promote human rights and environmental protection and are often dismissed by companies as so many "fine, eloquent words," lacking enforcement. Gauri Sreenivasan told the Subcommittee that "there is very strong Canadian public demand for increased regulatory standards to ensure that Canadian corporate investors are not contributing, either through labour practices, through displacement — through many means — to human rights violations abroad."

Mr. Neve suggested a useful three-part framework that would ensure that companies avoid direct involvement in human-rights abuses; avoid indirect contribution to such abuses; and advocate for human rights reform. Avoiding direct involvement in human rights abuses would involve, for example, ensuring that foreign workers' human rights are not violated and ensuring that company security forces do not commit human rights violations in defence of company property, a very real problem in the resource and extractive industry. Avoiding indirect human rights abuses would involve careful vetting of subcontractors and suppliers.

Finally, on a positive note, Canadian firms can use their influence to be human rights leaders: "Companies have channels of influence that ensure a means to press human rights concerns with arms of government that do not ordinarily hear it: mining officials, tax collectors, trade ministers. The value of those officials hearing about human rights from respected companies whose presence in the country is very much desired cannot be underestimated."

For example, Pierre Laliberté remarked that Canadian companies have an opportunity to promote workers' rights in China. While Chinese workers are denied the right to organize — the only legal union in China is affiliated with the Chinese Communist Party and, thus, with the government — under Chinese legislation "companies operating in China can, in co-operation with their workers, set up work or plant committees, the structure of which resembles work committees in Europe. For companies that want to be there and want to play a progressive role, there is a way of doing that on the sidelines and without violating Chinese laws."

According to Mr. Neve and other witnesses, enforcement is crucial if Canada is to be a leader in human rights promotion. It is also needed to deal with those few companies that abuse human rights and the environment. Consequently, they proposed the creation of regulatory framework outlining minimum acceptable standards for Canadian firms operating abroad, as well as a means to verify and monitor compliance with these standards. At the very least, Mr. Neve remarked,

> [T]here should be a very simple law reform initiative that makes it clear that Canadian companies operating abroad are still subject to the jurisdiction of Canada's laws and Canada's courts. … Canadian law needs to make it clear that just because you go abroad doesn't mean that the kinds of laws that we have in place domestically to ensure responsible human rights conduct of Canadian companies no longer apply.

The Subcommittee agrees. If Canada is to be a leading advocate for human rights, then we believe Canadian companies must abide by Canadian standards, regardless of where in the world they are doing business. As such, we recommend:

Recommendation 17:

That the Government of Canada draft legislation under which Canadian companies operating abroad should continue to be subject to Canadian laws as they pertain to human rights.

Mr. Laliberté remarked that OECD *Guidelines for Multinational Enterprises* could serve as a starting point for Canada to implement a consistent set of CSR guidelines. The *Guidelines*, a set of voluntary principles and standards for responsible business conduct in areas such as employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation, are supported by all the major industrialized countries, thus potentially providing the groundwork for further common international work in advancing social and environmental standards.

Witnesses also remarked that Canada has several “pressure points” to influence companies’ approach to human rights and environmental protection, such as government-provided financing through entities such as EDC. According to Mr. Laliberté, “If you want Canadian government support through crown corporations or procurement contracts, you should have to abide by a certain code of conduct. It doesn't mean that every time there is an infringement the train stops, but it does create a forum where you can hopefully just create a dialogue and incentives for things to happen.” Ms. Sreenivasan called on the government to adopt “a regulatory framework that addresses under what conditions the Canadian government is willing to provide political support through embassies, financing support through EDC, tax shelters through the revenue act, investments through CPP.” As well, “at a minimum the Canadian government, through public policy and public financing, should not be supporting initiatives that are in fact undermining human rights."

Other possible actions include ratifying key human rights treaties, such as the International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families (MWC), which entered into force on July 1, 2003, increased action in support of human rights internationally in organizations like the United Nations, and the implementation of an ethical labelling of goods so consumers know how the goods they purchase are made

Mr. Laliberté also recommended that the government require publicly listed companies to do social reporting in their annual reports on the implementation of their CSR, in order to assess how well such policies are working.

While the promotion of human rights is good in itself, David Wheeler told the Subcommittee that a strong, consistent stand by the federal government on human rights and the environment could help in promoting Canada in markets around the world: "increasingly in a world of low trust around multinational corporations, we've got a great opportunity here because we're not necessarily tied with the same kind of criticisms like some other countries multinational corporations are tied with." Canadian companies, he remarked, have the ability to demonstrate to the world that adhering to high social and environmental standards can create value. Mr. Wheeler argued that responsible Canadian corporations could improve the desirability of Canadian goods and services: "If it's Canadian it's going to be high design content, it's got to be well done, and it's got to be socially and environmentally responsible." The Subcommittee recommends:

Recommendation 18:

That the Government of Canada incorporate a social responsibility pillar (i.e., human and social rights, and environmental protection) into its Emerging Markets Strategy and, more generally, should also attach stronger conditions related to corporate social responsibility to its trade and investment assistance programs.

G. Adopting a Whole-of-Government Approach

There is a need for Canada to adopt a whole-of-government approach to its Emerging Markets Strategy, and to trade and investment policy in general. This report cites several examples of numerous federal departments and agencies providing similar services or of government funding initiatives being diluted across several departments.

Pierre Laliberté provided a concrete example of how the de facto split of DFAIT has complicated the process of exporting sensitive technologies. These technologies require a licence to export and under the former structure, the granting of that licence was subject to discussions involving industry, labour, human rights and other interests. Under the current system, International Trade Canada awards these licences and, according to Mr. Laliberté, the consultation process is lost.

Robert Blackburn also raised the issue of policy coherence. He observed that while Africa is a priority for the Canadian International Development Agency (CIDA), it is almost absent from the Commerce document in the recently released International Policy Statement. In his view, in an emerging markets strategy, all federal departments should be on the same page, working towards the same goal.

Andrew Steeves (Vice-President, Administration Services and Corporate Planning, ADI Group Inc.) also discussed the need for better policy coordination between DFAIT and CIDA. He noted that while DFAIT is looking to promote Canadian trade and investment abroad, CIDA is moving away from bilateral aid funding and instead sending a growing percentage of its international assistance to multilateral institutions like the United Nations. Moreover, when it does fund projects overseas, Mr. Steeves suggested that, unlike European or U.S. aid agencies, CIDA was reluctant to offer Canadian products as part of those initiatives. Mr. Steeves did not suggest that CIDA aid should be tied to the purchase of Canadian goods, but rather that an opportunity was being missed to demonstrate Canadian capabilities and expertise.

Giles Crouch (Vice-President, Marketing and Business Development, MedMira Inc.) echoed these comments. He suggested that DFAIT should work with CIDA to identify projects in developing countries that Canadian companies could bid on. The Subcommittee agrees. While tied aid has been shown to be counterproductive, this does not mean that Canada should intentionally forego business opportunities in developing countries. As such, we recommend:

Recommendation 19:

That the Department of Foreign Affairs and International Trade work with the Canadian International Development Agency to identify aid projects in CIDA's target developing countries where Canadian expertise could contribute. This information should then be made publicly available as part of the initiative outlined in Recommendation 21.

The Subcommittee also heard the government perspective on how trade policy is coordinated within the federal government. As Marcie Girouard (Acting

Director General, Sustainable Technologies and Service Industries Branch, Department of Industry) stated,

> International Trade Canada has the lead responsibility for the Canadian government for developing our trade policy and our trade development activities, but they look to [Industry Canada] for sector expertise, for aid in mobilizing industry to participate, and for also ideas about the kinds of areas where they may have interests, and for help in delivering activities that they may need to encourage Canadian companies to be exporters.

The Subcommittee acknowledges that many government departments and agencies may have an interest in international trade and investment. We also encourage the exchange of information and expertise across government departments. At the same time, however, we believe that a visibly coordinated approach is needed. Canadians or Canadian businesses looking for information on trade and investment opportunities (in any sector of the economy), government trade policy, trade and investment promotion tools, and export and investment assistance programs should be able to find all of these services at the same location.

An emerging markets strategy should be a coherent and comprehensive plan with participation from all relevant actors and interests, working towards the same goal. Above all, it should have strong leadership. As such, the Subcommittee recommends:

Recommendation 20:

That the Government of Canada employ a whole-of-government approach to its Emerging Markets Strategy. This involves adopting a clear, coordinated and comprehensive approach to the strategy with all relevant government departments and agencies contributing their expertise to the Minster of International Trade.

SUPPORTING INTERNATIONAL BUSINESS DEVELOPMENT

A. Providing Market Intelligence and Export-Readiness Services

The first step in helping businesses take advantage of trade and investment opportunities overseas is to make sure they are aware of those opportunities. Witnesses told the Subcommittee that access to accurate and timely market information is invaluable, particularly for small- and medium-sized enterprises (SMEs) which typically do not have the internal resources to engage in market research and development on their own.

The Subcommittee notes that Canada already provides considerable market intelligence through a wide variety of sources. DFAIT provides such information, primarily through its Trade Commissioner Service, but also identifies key growth and investment opportunities worldwide through its various publications. In addition, Industry Canada, Agriculture and Agri-Food Canada provide some market information, as does Export Development Canada (EDC). Other valuable sources of information on market opportunities include bilateral business councils and research groups such as the Asia Pacific Foundation.

The Subcommittee did not receive much testimony regarding the topic of the government's market intelligence services. In general, those witnesses who did comment said that the government provided a valuable service in this area. Some felt that more resources should be devoted to informing business about opportunities in Canada's priority emerging markets — and China in particular. Others felt that the government should ensure that it provide information about opportunities worldwide in order to allow businesses to make well-informed choices on the market opportunities best suited to their abilities.

We did hear from one witness, however, who suggested a change in the type of information the government provides. Andrew Steeves suggested that the government's international trade resources — both in Canada and abroad — should provide more timely information on upcoming projects rather than market trends or analysis. He noted that a trade officer in Ireland regularly sends him e-mails describing upcoming projects in that country. Mr. Steeves found this to be extraordinarily useful; even if his company did not always act on the information, it was in a position to do so because the embassy had informed him of the work.

Mr. Steeves suggested that it would be very simple to set up a formal program based on this informal arrangement. E-mail lists are easily built using information from various business associations. Embassy staff can then send project information on a regular basis to interested companies, perhaps on a monthly or quarterly basis. We agree wholeheartedly and thus recommend:

Recommendation 21:

That the Government of Canada establish a program whereby its trade officers regularly compile information on project activity by sector in their part of the world. A one-stop information source, combining this project intelligence with that collected under Recommendation 19, should be set up. Project information should be posted on the Internet and a distribution system created that allows Canadian companies to subscribe to receive free updates as new information on projects relevant to their sector becomes available. Canadian trade officers should be provided with all the tools necessary to fulfil this task.

Another important service that the government provides is helping Canadian businesses become export-ready. Team Canada Inc., a network of over 20 government departments and agencies, as well as the provinces and territories, is designed to be a one-stop resource to educate and prepare businesses for the challenge of exporting. In addition, EDC offers export-preparedness services as part of its trade financing program. Witnesses spoke favourably of these programs, particularly of their value to SMEs.

In our view, market information, export-readiness, and any program that informs businesses about the opportunities and challenges they would face in emerging markets must be a cornerstone of an emerging markets strategy. The opportunities in emerging markets may be great, but the risks are considerable as well. As Margaret Vokes (Deputy Executive Director, Canada-India Business Council) stated,

> [I]n emerging markets there are risks and you need a high risk tolerance and you need deep pockets and small or medium sized companies need to be very, very well advised by government and others.

Ms. Vokes went on to suggest that there was a role to play for bilateral business councils in transmitting the message that emerging markets take a long-term commitment and that companies should be cautioned against going into emerging markets before they are ready. As she suggested, it takes a lot of preparation and work to be successful in these countries and there needs to be some caution exercised when it comes to emerging markets. The Subcommittee recommends:

Recommendation 22:

That the Government of Canada ensure that its export-readiness services adequately inform Canadians about the realities of conducting business overseas — both the opportunities and the risks.

B. Opening Doors for Canadian Businesses

> [W]e believe that in building relationships with our partner countries, the government must figure more prominently in high-profile strategies, for example, more visits, delegations, and missions. — Dwain Lingenfelter

The government is uniquely equipped to help Canadian business get established abroad. In particular, it can act as an intermediary, smoothing the way for business by fostering a warm diplomatic relationship and promoting business and government exchanges that help promote business development between Canada and its priority emerging markets. There are two separate ways in which the government can help business in this regard: through increased high-level government visits; and business promotion tools like Team Canada trade missions. Each is discussed below.

1. High-Level Government Visits

> [T]here couldn't be anything more important than ministers, both ministers of trade and all of the functional ministers developing and maintaining very close working relationships with their Chinese opposite numbers. — Margaret Cornish

A number of witnesses spoke of the importance of good diplomatic relations and high-level government visits as part of an emerging markets strategy. At a minimum, as David Daly (Manager, Fiscal Policy Canadian Association of Petroleum Producers) suggested, the Government of Canada should make an effort to maintain good diplomatic relations with its priority emerging markets.

Margaret Cornish (Executive Director, Canada China Business Council) thought that developing close working relationships at the ministerial level was of paramount importance in developing healthy bilateral relations. In her view, Canada's trade, agriculture and industry ministers — to name only three — should develop and maintain very close working relationships with their Chinese counterparts. She felt that Canada performed relatively poorly in cultivating these relationships compared to our competitors in emerging markets. Furthermore, she maintained that Canada must visit China as frequently as possible:

> You have to go and keep going, so almost every year. I'm sure many ministers would say they don't have the time to do that, but if you want deep relationships with the Chinese, that's the time you've got to devote to it.

The Subcommittee believes this message to hold for Canada's other priority emerging markets as well.

We also heard that high-level government visits, especially by the Prime Minister or other ministers, send a signal to emerging markets that Canada is serious about improving economic relations. Visits generate profile for Canada and can be useful in showcasing Canadian businesses already active in those markets. In addition, as Roderick Bell stated, all culture value face-to-face contact.

The Subcommittee received a contingent of Canadian witnesses from the Arab states who spoke of the opportunities for Canadian businesses in that region of the world, as well as of the challenges they face. The message was clear that visits by parliamentarians and ministers generated considerable attention and was a tremendous help to Canadian businesses in the area who benefited from the profile generated by the government visit.

Moreover, these visits serve an important purpose in Canada, as they showcase Canadian successes in emerging markets and, in the case of areas like the Arab states, help correct some widespread misconceptions about the region. As Dwain Lingenfelter (Chairman and CEO, Vice-President, Government Relations, Nexen Inc., Canada-Arab Business Council) stated,

> If a Canadian minister were there to share in the celebration of an opening or an investment, not only on the end of trade missions going in to find business but also when an oil company or Bombardier opened a new operation, then the news back in Canada would be less about the bad things going on in the region but actually about a minister or the Prime Minister celebrating the success of Canadian companies in the country.

Recommendation 23:

That, in an effort to strengthen ministerial and other high-level government relationships, the Government of Canada increase the number and frequency of official visits to priority emerging markets. While visits to China, India, Brazil and Russia should be the highest priority, visits to other emerging markets should also take place as often as possible.

2. Overseas Trade Missions

Another tool at the government's disposal in promoting international business development is its "Team Canada" — style trade missions. These missions vary considerably in size and scope, but generally speaking involve Canadian government and business leaders visiting a foreign country in order to promote business development.

When discussing trade missions, the term "Team Canada" was typically used to describe the largest such missions — those involving the participation of the Prime Minister, other ministers and hundreds of diverse business interests. Since October 2004, Canada has sent Team Canada trade missions to China, India and Brazil.

Witnesses' views on large Team Canada trade missions were mixed. Some considered them to be an effective trade and investment promotion tool, useful not only in cultivating business relations, but also in generating profile for Canada and Canadian businesses as well. Phil Hodge said that, having participated in Team Canada missions himself, he would recommend them to other businesses as well; however he also cautioned that, to a large degree, it was up to individual companies to make the most of their participation in trade missions. Patrick Rooney (Senior Vice-President, Trade Finance and Correspondent Banking, Scotiabank) also felt that there were advantages to these missions.

Other witnesses were less supportive of Team Canada trips. They said that the focus of these large missions — business development — was sometimes overshadowed; in their opinion, Team Canada missions were focused more on the bilateral political relationship than they were on promoting trade and investment ties.

Witnesses may not have agreed on the value of large trade missions, but there was widespread support for the idea of trade missions in general; it was only the size and scope of these initiatives that some felt was cumbersome. A number of witnesses maintained that smaller trade missions, focused on specific economic sectors were more useful. This view was best summarized by David Wheeler:

> So when we think about how trade missions currently occur where you pack as many people on the plane as possible from all kinds of diverse industries, send them off to a foreign city, and have random contacts with random people, that's actually not the right way to go. The right way to go is to have sector initiatives where you might take a bunch of oil and gas executives with some prime ministerial or other leadership to Venezuela [for example] where there is obviously some oil and gas issues going on, and you have dense networks overlapping dense networks. So you have a range of Canadian oil and gas companies with a whole range of local oil and gas companies.

Witnesses offered some suggestions for how Canadian trade missions could be improved. Dwayne Wright (Member, Board of Directors, Canadian Association of Importers and Exporters) suggested that missions should focus less on simply exporting and include an import promotion component as well. In his opinion, the provision of lower-cost imports could help Canadian companies be more competitive internationally and also demonstrate Canada's commitment to two-way trade and building global supply chains. Yuen Pau Woo added that the importance of investment promotion should also not be overlooked, especially in terms of attracting foreign investment to Canada.

This message appears to have been received by government officials. Ken Sunquist testified that while missions in the early- to mid-1990s were focused almost exclusively on exports, they have evolved considerably since then. Now, trade missions are not solely about exports, but include investment, strategic partnerships and other types of agreements — "commerce writ large" as Mr. Sunquist stated. In a sense, then, the term "trade mission" itself has become something of a misnomer.

A second suggestion was for Canada to put forth a sustained effort on the trade promotion front. We heard that an ongoing program of trade and investment missions, combined with carefully planned ministerial visits will demonstrate to Canadian businesses as well as to our business partners abroad, Canada's commitment to developing commercial relations.

A final issue is the question of where Canada should focus its trade mission activity. The Subcommittee acknowledges that it is difficult to increase the frequency of visits to target countries without at the same time decreasing the number of countries where Canada sends trade missions. David Hutton expressed his desire for a delegation to visit the Arab states. Opportunities in Southeast Asia certainly warrant attention as well.

The Subcommittee believes that trade missions — including a focus on investment and business development in general — are a valuable tool in an emerging markets strategy. Not only do missions generate trade and investment activity, but they send a message that Canada is serious about pursuing closer economic ties. We applaud Canada' recent efforts in Brazil, China and India and believe that Canada should continue to focus its efforts on those countries, while adding Russia to the list as well. We therefore recommend:

Recommendation 24:

That Canada increase the number of trade missions it sends to its key emerging markets. A combination of larger and smaller missions should occur at least two or three times a year. Smaller missions should focus on specific economic sectors, as business demand warrants.

At the same time, however, it is business that ultimately decides where the market opportunities are. As such we also recommend:

Recommendation 25:

That the Government of Canada consult with businesses and business associations on a regular basis to determine in which countries other than China, India, Brazil and Russia — and in which economic sectors — trade missions would be most beneficial. These missions would be secondary in priority to those outlined in Recommendation 24.

Finally, in our view, Canada's recent missions to Brazil, China and India provide an opportunity for the Government of Canada to refine its trade promotion service. To that end, we believe that the government should consult with the recent participants on those three missions to determine if and how future trade missions should be changed in order to make them more effective in terms of business promotion. We recommend:

Recommendation 26:

That the Government of Canada consult with participants on its recent trade missions to China, India and Brazil for their views on how future such missions could be improved.

3. Inviting Delegations to Visit Canada

The Subcommittee heard that Canada should also make more of an effort to invite foreign delegations to Canada, whether it be official government visits, or delegations of government and business leaders, similar to our “Team Canada” trade missions. Some witnesses maintained that increasing the frequency of foreign visits to Canada was key in promoting closer economic ties with emerging markets. Phil Hodge encouraged “any initiatives or funding support involved with having delegations visit Canadian companies on our soil.”

Foreign visits to Canada offer numerous potential benefits. For one, they showcase Canadian expertise, facilities and know-how; foreign delegations gain a better understanding of what Canada and Canadian companies can offer them. Visits by potential investors to Canada are also more cost-effective for small businesses that may not have the ability or wherewithal to participate in a Canadian mission overseas.

At the same time, foreign visits also help inform Canadians of the opportunities abroad. Increased media coverage puts the visiting delegation’s country “on the map,” and Canadian businesses can meet and learn from visiting government and business leaders though direct contact at meetings and events. Phil Hodge stated that it was more valuable to have foreign delegations visit Canada than vice versa. Yuen Pau Woo also suggested that Canada focus more on bringing business and government delegations to Canada, especially in the name of attracting foreign investment to this country.

Finally, delegations from abroad need not be comprised solely of foreign visitors to Canada. Encouraging the participation of Canadians active in emerging markets can serve as an outreach tool to help inform other businesses about the opportunities and challenges in overseas markets. We heard from Denis Thibault (Ambassador, Canadian Embassy in Kuwait) that Canadians’ negative perception of the Middle East as a whole is causing Canadian businesses to overlook the tremendous opportunities on the relatively stable Arabian Peninsula. He suggested that publicizing Canadian successes in the region would help debunk some of the myths that many Canadians have about the area. Bringing Canadian businesspeople home to share their experiences abroad would be beneficial in that regard.

The Subcommittee believes that Canada should more actively encourage high-level exchanges with foreign markets. These visits help businesses by informing them about opportunities and challenges; creating exposure for Canadian abilities and successes; and helping establish foreign contacts. In addition, fostering closer relations with government leaders could ultimately pave the way for formal agreements to pursue closer economic ties. We therefore recommend:

Recommendation 27:

That the Government of Canada launch an outreach campaign that actively encourages government and/or business leaders from emerging markets to visit Canada as frequently as possible. Canadians active in the region should also be invited to participate.

C. Export Assistance Programs

1. Existing Programs

The Government of Canada offers a number of programs which provide financial assistance to companies looking to export or invest abroad. These are not export subsidies. Rather, they are intermediaries; providing risk insurance; and offsetting the costs of doing business abroad, primarily by offering repayable loans. These programs include:

- **Export Development Canada (EDC):** EDC provides export financing and insurance for Canadian operations abroad. It focuses in particular on higher-risk initiatives, filling the gaps left by commercial banks and private insurers.

- **The Canadian Commercial Corporation (CCC):** The CCC is an export-contracting organization that helps Canadian companies (or consortia) procure international government contracts.

- **The Canadian International Development Agency's Industrial Co-operation Program (CIDA-INC):** CIDA-INC is an initiative that provides financial support to Canadian businesses planning investment projects in developing countries.

In general, these programs received positive reviews from most witnesses. One note of criticism came from Pierre Laliberté, who stated that EDC actively encouraged Canadian companies to export their labour-intensive activities abroad in order to become more competitive, effectively cutting jobs in Canada. In defence of the program, Eric Siegel (Executive Vice-President, Medium- & Long-Term Financial Services, Export Development Canada) informed the Subcommittee that, in order for a transaction to qualify for EDC support, there must be a net benefit to Canada, though that benefit was not limited to the provision or protection of Canadian jobs.

While most witnesses were generally positive about Canada's export and investment assistance programs, some expressed concern at the level of government funding available. Some suggested that EDC be given more resources to expand its international presence. For his part, Peter Kieran (President, CPCS Transcom Ltd) expressed his concern over recent changes to the CIDA-INC program. Effective April 1, 2005, the eligible costs covered under CIDA-INC were cut considerably and the minimum project size eligible for program funding was increased. In Mr. Kieran's view, this made CIDA-INC a much less attractive program, especially for small businesses looking to do work in developing countries.

In addition, several witnesses suggested that there were gaps in the network of government services available. For example, some felt that EDC was limited in its current mandate from participating in the new realities of global sourcing, supply chains and knowledge-based industries.

For example, Phil Hodge stated that his firm, Westport Innovations Inc., was a research-based company that sold ideas — technology — to other companies which then used that technology to manufacture products. EDC's mandate would allow it to assist the manufacturer in exporting, but not Westport itself. As Mr. Hodge stated:

> I have no quarrel with the EDC mandate. I think it does an excellent job at what its mandate is. It is just that with Westport's business model it is not caught by that mandate. The net is just not large enough. The reason for that is because we are not exporting any particular product.

Peter Kieran identified another service gap: assistance to exporters from developing countries. Mr. Kieran suggested that, while imports into Canada might traditionally have been seen as taking jobs away from Canadians, developing countries will not have the resources to buy Canadian goods if they cannot sell their products into Canada. In addition, Canadian producers would benefit from lower-cost inputs.

There were other ideas as well. Rajendra Gupta (President and CEO, ProSoya Inc.) suggested that a hybrid program which combined the strengths of CIDA-INC on overseas investment in developing countries, and EDC for assistance in exporting. In his view, each provided a valuable service, but neither fully addressed businesses' needs.

Based on this testimony, we believe that the Government of Canada needs to review its export-development and export assistance programs to ensure that they meet the needs of the business community; the gaps identified above should be filled. As such, we recommend:

Recommendation 28:

That, given the gaps identified by this report, the Government of Canada review the scope and mandates of its trade- and investment-support programs and make any necessary changes.

2. The Program for Export Market Development

The Subcommittee also heard from a number of witnesses about the Program for Export Market Development (PEMD). Created in 1971, PEMD's mandate was to assist smaller companies that are either new to exporting or are expanding to new markets. The program helps these companies identify and exploit sales and capital project opportunities abroad by sharing the cost and risk of implementing export development plans in new markets.

Until March 31, 2004, there were two main parts to the PEMD. The first, the PEMD for Industry (PEMD-Industry), was a program designed to assist smaller companies enter or expand into a new market by helping them identify and exploit overseas opportunities. Under PEMD-Industry, the government would absorb some of the costs and risks associated with a given project or enterprise. These funds were repayable based on sales generated as a result of the program. PEMD-Industry was comprised of three elements: Market Development Strategies (MDS), New to Exporting Companies (NEC) and Capital Project Bidding (CPB). It was eliminated as part of the federal government's expenditure review.

A number of witnesses expressed disappointment that PEMD-Industry was discontinued. Margaret Vokes felt that the PEMD-Industry was well-suited to an emerging markets strategy — it was designed to help offset some of the costs of doing business in markets where the risks and costs are high. This view was echoed by Rajendra Gupta: "if it were reinstated or made available in some other form, this kind of assistance would be great for a smaller company."

These, and other witnesses called for PEMD-Industry to be reinstated, or a similar program, focused on emerging markets, be implemented. Indeed, Anthony Eyton suggested that the government may already be considering a replacement. He suggested that a new program could be merged with CIDA-INC since they served similar purposes. He also recommended that a renewed PEMD be targeted at specific countries, including China, India and Brazil. He also suggested that exports to the United States not be eligible; in his view, Canadian companies do not need much help to get introduced to customers in the U.S.

The second part of PEMD is for trade associations (PEMD-TA). That program continues to exist. It provides non-repayable financial assistance to national sectoral trade and industry associations generically promoting the products and services of their members in the international marketplace. Associations receiving PEMD support have mounted a variety of sectorally based export-promotion initiatives on behalf of their members. These initiatives are particularly important for small and medium-sized enterprises, which are often unable to afford such undertakings on their own.

Bernard Courtois spoke highly of PEMD-TA. He felt that the program was a useful vehicle for promoting the exchange of information between associations. He asked the Subcommittee ensure that the program continue to play the supportive role it has played in the past. He did suggest, however, that some adjustments might be needed to ensure that “PEMD’s definition of core activity aligns with the objective of fostering opportunities in emerging markets.”

In our view, there is a great need for programs like PEMD if Canada wishes SMEs to be a part of its Emerging Markets Strategy. We observed that in a number of cases, witnesses were not optimistic about business opportunities for SMEs in emerging markets, particularly in China. Many felt that the costs and challenges associated with emerging markets were such that, realistically, most small businesses would be unable to last long enough to make a profit. As Avrim Lazar (President and Chief Executive Officer, Forest Products Association of Canada) stated,

> It may be possible for some small businesses to find small niches in China and in India, but in point of fact, it is unlikely that they will succeed in the long term.

Margaret Cornish agreed. Speaking on the subject of trade missions, she went as far as to suggest that the government might be doing a service to SMEs by not making it easy for them to participate in those markets.

> [Y]ou probably do smaller companies a service to winnow them out. It costs a significant amount of money to do business in China, and they might as well know that up front. It also encourages them to do the kind of preparation that's necessary to get anything out of the mission.

Given the trade and investment opportunities in emerging markets today, we believe that all Canadian companies interested in doing business in China, India, Brazil, or elsewhere should be able to do so if they so desire. However, given the challenges outlined above, the government must strike a balance between providing solid export-development assistance to SMEs on one hand, while at the same time, not imbuing SMEs with unrealistic expectations of profit and success. We believe that programs like PEMD, combined with a strong export-preparedness component can help prepare SMEs and optimize their chance of success. We thus recommend:

Recommendation 29:

That, given the cancellation of the Program for Export Market for Industry (PEMD-Industry), the Government of Canada consider establishing a program to provide support to small- and medium-sized enterprises to cope with the costs and risks associated with conducting business in emerging markets.

D. Providing Adequate On-the-Ground Support

> If Canada wishes to have a real chance to penetrate these markets, to create jobs in Canada … we are going to have to up the number of people we have on the ground in these emerging markets. — Avrim Lazar

Canada's embassies and consulates have an important role to play in building Canada's economic success abroad. As Albert Eringfeld stated, overseas officers provide a number of valuable services to Canadian businesses: they provide information on local markets and buyers; they arrange meetings with businesses and government officials; they help overcome various obstacles to trade; and they provide general troubleshooting services as well.

Indeed, one of the most positive messages the Subcommittee received while conducting its hearings was the unanimously high regard in which Canada's overseas trade officers and other embassy staff were held. Witnesses were effusive in their praise of the service they received while conducting business abroad.

At the same time, however, witnesses were almost as unanimous in their request that Canada increase the number of personnel employed in its overseas offices. Many witnesses felt that this was an excellent investment for Canada; increased on-the-ground support would more than pay for itself in terms of the number of jobs created in Canada by the resulting trade and investment growth.

Canada's international presence has diminished in recent years. The recently released International Policy Statement (IPS) acknowledges that budget cuts in the 1990s greatly reduced the number of Canadian officers deployed abroad. According to the IPS document, on average, about 50% of the foreign ministry employees of G8 countries are employed outside their home country. In Canada, only 25% of staff are on overseas assignments.

We are pleased to note that progress towards rectifying this situation has begun. Budget 2005 allocated an additional $42 million to enhance Canada's overseas presence. However, we believe that more still needs to be done.

Witnesses suggested that this increased overseas support should not be limited to trade officers. Robert Blackburn pointed out that, especially in markets like China, personal, political, and economic considerations are inextricably linked. He argued that people with a broad range of knowledge are needed in those countries.

The question that remains, then, is where should these resources be deployed? On this matter, the testimony we received was less clear. Some witnesses stated that if Canada is serious about concentrating its efforts in certain key emerging markets, it must distribute its staffing resources accordingly. We heard that Australia adopts a very targeted approach. It has only 80 trade offices worldwide, compared to 220 for Canada. However, Australia's offices are heavily concentrated in countries it considers as a priority; there are more Australian offices and personnel in China, for example, than there are Canadian.

At the same time, there are markets where economic opportunities abound but on-the-ground representation is insufficient. We heard that more resources would be welcome in the Arab states — an area the Subcommittee believes holds considerable potential for Canada. Canada also only has one office representing the three Baltic States. There are doubtless other countries as well — in Southeast Asia, for example — where the economic opportunities and challenges warrant additional on-the-ground government support.

In terms of government policy in this area, it appears that the federal government has already decided upon a more concentrated approach. According to the IPS document, Canada will be,

> reconfiguring our network of missions, to ensure a stronger presence in regions where our interests are growing (such as Asia and the Middle East), in partnership with other departments operating abroad.[1]

Recommendation 30:

That, notwithstanding the recent increase in funding contained in the 2005 Budget to enhance Canada's overseas presence, additional resources are needed to further expand the on-the-ground support for Canadian businesses in emerging markets.

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1 *A Role of Pride and Influence in the World: Diplomacy*, page 31.

One of the few criticisms the Subcommittee heard about the staff at Canada's overseas offices was that they were not left in the field long enough. Phil Hodge stated that, in a three-year term, officers spend 18 to 24 months learning their new jobs, meaning that only in their last year do they operate at maximum effectiveness. Mr. Hodge acknowledged that in some cases trade officers may not want to stay beyond their three-year terms, but he maintained that Canadian companies would benefit from the additional expertise of trade officers with more experience in a particular country. This, he thought, was particularly true in Asian markets, where a network of relationships is critical to business success.

The Subcommittee agrees with this view. In its last report, *Reinvigorating Economic Relations between Canada and Asia-Pacific*, the Subcommittee made a recommendation to that effect. We urge the Government of Canada to revisit Recommendation 27 of that report, and thus recommend:

Recommendation 31:

That the Government of Canada extend the length of term of international postings for its trade officers in China, India, Brazil, and Russia to a period of five years.

E. Addressing Visa Issues

> We have a lot of difficulty bringing those people into Canada to see what we have, what we have to offer. — Rajendra Gupta

Of all the testimony we received over the course of our examination on what should be included in an emerging markets strategy for Canada, perhaps the most troubling came on the issue of immigration and visas. A number of witnesses came forward with an identical message: that Canada's visa application and approval process was a major impediment to closer economic ties with emerging markets.

Witnesses spoke bluntly on this issue. Yuen Pau Woo stated that this was the single most common complaint the Asia Pacific Foundation heard from the business community in terms of the challenges to doing business in India and China. Rajendra Gupta and Albert Eringfeld also both spoke of the considerable difficulty they have experienced in bringing prospective customers, investors and delegations to Canada. According to Yuen Pau Woo, "it happened again just three weeks ago at a major conference; a trade fair in Vancouver where 60% of the Chinese delegation were denied visas."

Margaret Cornish also provided examples of high rejection rates for Chinese visa applicants. She suggested that it was far too common that "extremely senior" people, in business and in government, have their Canadian visa applications rejected. She testified that according to the consulate general in Toronto, 50% of applications are turned down: “how could you possibly do business with people when 50% are being turned down?”

What specifically frustrated a number of witnesses was what they saw as a lack of consistency and clear criteria for accepting or rejecting visa applicants. Chi Lin (President, Canada-China Society of Science and Technology Industries) spoke at length on this point. He suggested that frequently when applicants go through all the necessary steps and are still rejected, there is no explanation for the rejection. Nor, for that matter, is any suggestion offered as to what additional information could have been provided to assuage the immigration officer’s concerns. Furthermore, the Subcommittee heard that Canadian businesses have never been able to get Immigration Canada’s visa section to give them a specific list of documents that are required in order to acquire a visa for a foreign business partner to come to Canada on a business trip.

Because of the difficulty Canadian businesses have in getting visas for prospective customers or investors to visit Canada, some are intervening in the process to assist their foreign counterparts. Gary Comerford (Vice-President, International and General Manager — India, Canada-India Business Council), stated that when he issues a letter supporting the application of an applicant, the process goes much smoother. However, he admitted that this very fact suggests an unwritten protocol; people who want to do business in Canada do not know that a letter from a Canadian helps, nor do they know from whom to get one.

According to government officials, given the large number of visa applicants, not all can be interviewed. Ultimately, it comes down to a judgment of risk assessment. Officials informed the Subcommittee that the major challenge they face is fraud. Ken Sunquist provided a hypothetical example of a Chinese company that wishes to send five people to Canada to view a Canadian company. What can happen, Mr. Sunquist stated, is that the Chinese company sends four people and then sells the fifth spot to someone looking to enter Canada illegally.

Rénald Gilbert (Director, Economic Policy and Programs, Selection Branch, Department of Citizenship and Immigration), suggested three other factors that complicate the process. One is a lack of adequate staffing; a second is that often the Canadian office knows little or nothing about the applicant; and finally, there is the complexity of the Canadian system itself. On this point, Mr. Gilbert gave an example,

> [W]henever nationals of other countries come to Canada to do business, some of them would qualify as workers for which there are subcategories that are required to have an assessment by HRDC to see whether they are taking jobs from Canadians. There's an assessment that has to be done with certain individuals, not with everyone.

The Subcommittee heard of one effect that this visa assessment has had on the Canadian economy. Ken Sunquist gave the example of a textile factory in Quebec which had to close temporarily because, in the name of domestic job protection, Canada was not issuing visas to Chinese workers to come to that facility. We heard other specific examples of lost opportunities for the Canadian economy because of visa rejections or lengthy approval processes.

Businesses and business associations were not unsympathetic to the difficulties facing immigration officers. However, they were frustrated by the conflicting claims, by bureaucrats on one hand, who claimed the situation was improving, and businesses on the other, who disagreed.

The message we heard from witnesses on this issue was summed up by Gary Comerford: “act like China and India are important partners for us in trade.” We agree. In our view, it is not unreasonable that prospective business partners and investors would want to come to Canada to learn about opportunities, see their investments, visit their partners or explore the potential in this country. It seems unacceptable that Canadian businesses must resort to “tricks,” as one witness put it, to improve the chances of winning an approval.

The speed, transparency and predictability of the visa application and approval process for legitimate business travel to Canada must be improved. The Subcommittee notes that in India, Canada has selected a private company to operate nine visa application centres. Indian residents are able to submit visa applications at these centres. These applications are then forwarded to the Canadian High Commission or the Consulate General in Chandigarh for approval. We view this as a positive step towards improving the accessibility of Canadian visas. However, we believe that more still needs to be done. As such, the Subcommittee recommends:

Recommendation 32:

That the Government of Canada review its visa application and approval process with a view to expediting the process. As part of this review, the government should ensure that adequate visa application services are available in the highest-traffic and/or more central cities.

Recommendation 33:

That the Government of Canada establish a clear and explicit list of required documents for business visa applicants, taking into account security and safety considerations.

Recommendation 34:

That the Government of Canada establish a "fast track" process for repeat business visa applicants. Under such a process, candidates would undergo a thorough preliminary screening, but once approval and a visa were granted for the first visit, subsequent visas would be guaranteed expedited clearance.

Recommendation 35:

That the Government of Canada consider establishing a "fast track" program similar to that outlined in Recommendation 34 for companies that frequently send businesspeople to Canada. Under such a program, firms that undergo a preliminary screening and exhibit a good track record would receive expedited clearance to regularly send employees or representatives to Canada on temporary business visas. These individuals could vary from trip to trip, provided they all met Canadian immigration requirements.

Finally, the Subcommittee heard a specific request from Anthony Eyton that Canada remove its visa requirement for Brazil. Mr. Eyton believed that requirement to be an unnecessary impediment to economic co-operation. He noted that Canada did not require a visa from Brazilians in the past and suggested that Brazil imposed visa requirements on Canadian visitors only in response to Canada having done so for Brazilian travellers. The Subcommittee agrees that visa requirements can be a limiting factor in increasing trade and investment ties and should be removed where they are not needed. As such, we recommend:

Recommendation 36:

That the Government of Canada review the list of countries from which it requires an entry visa, and remove visa requirements where unnecessary. By so doing, the government can free up staff resources that can be redeployed to countries where the need is greater.

F. Showcasing Canadian Products and Businesses

Several witnesses suggested that Canada could do a better job in promoting Canadian success stories abroad and showcasing Canadian products, technologies and innovations. Avrim Lazar highlighted the Canadian forest industry's sustainable harvesting practices and its considerable voluntary reductions in greenhouse gas emissions. He stated that, even though production has increased by 20-23% over 1990 levels, greenhouse gas emissions have fallen by 28%, well ahead of Canada's

Kyoto Accord commitments. Mr. Lazar maintained that if the federal government were to actively brand Canadian forest products as sustainable and environmentally preferable, it would help Canada's image in emerging markets.

Other witnesses noted that Canada could also do more in showcasing Canadian technologies. To a large degree, this relates to the issue of commercialization of research, discussed further below. One of the difficulties Canadian firms face in selling new technologies and products overseas is that customers want to know where in Canada these goods are being used. As Stephen Kukucha said, "it's the example of the shoe maker wearing their own shoes." He argued that small, targeted demonstrations — of Canada adopting fuel cell technology, for example — would make a significant difference in building international confidence in new Canadian technologies.

Giles Crouch agreed. He noted that MedMira is the only diagnostics company out of 36 in the world to receive reguatory approval in Canada, the U.S., and China for its rapid HIV test; the test is effective and inexpensive, but is hardly used at all in Canada. One of the obstacles MedMira faces in selling its product overseas is that there is no easy reply to the question "why is Canada not using your product?"

The Subcommittee believes that the federal government can do more to help showcase Canadian technologies and expertise, to other Canadians and foreigners alike. It was suggested that what is needed is an "innovation centre" in which Canadian companies can showcase their new products. We wholeheartedly agree. In our opinion, an "innovation centre" will help better inform companies and government officials — both in Canada and abroad — of the knowledge, expertise and capabilities within Canada. Furthermore, foreign delegations visiting Canada should be encouraged to visit such a facility. We thus recommend:

Recommendation 37:

That the Government of Canada establish an "innovation centre" within Canada — a venue in which Canadian companies can showcase their new products and technologies.

APPROPRIATE DOMESTIC POLICIES: GETTING THE HOUSE IN ORDER

> All the best efforts abroad by all of us … will founder unless we have our act together here. — Ken Sunquist

A solid domestic foundation is crucial to ensure the success of Canadian companies abroad and help them compete effectively at home. This was a message the Subcommittee heard clearly and consistently. Robert Keyes summarized this position:

> [S]uccess abroad starts at home. If Canadian companies are to take maximum advantage of overseas opportunities in no matter what country — developed, developing, or strategic markets — they must start with the right support at home. Our fiscal and regulatory systems must facilitate Canadian competitiveness, and so must our infrastructure … Part of having a smart external strategy must involve having smart domestic policies.

As some witnesses pointed out, Canada has already made considerable progress in this area; John Murray (Adviser to the Governor, Bank of Canada) observed that Canada's macroeconomic position is much stronger today than it was 10 years ago; fiscal and monetary situations have improved considerably. Structural economic reforms resulting from the Canada-U.S. free trade agreement and the North American Free Trade Agreement (NAFTA) have also improved business competitiveness in this country.

Even so, many witnesses were eager to suggest areas for further improvement. Indeed, clear themes emerged as to where Canada needs to focus its domestic policy efforts. Witnesses pointed to infrastructure capacity needs, taxation and regulatory reforms, and improved incentives to modernize industries — including better research and development programs. Each of these is discussed below.

A. Infrastructure Needs

As a trading nation, Canada is reliant on strong transportation linkages to get its goods to foreign markets. Witnesses spoke of shortcomings in all three major modes of trade-related transportation — rail, shipping and roads. In particular, testimony focused on two specific concerns: capacity issues at Canada's ports and railways; and congestion at the major Canada-U.S. border crossings.

1. Port, Rail and Road Capacity

> Currently our port and rail systems and borders are at capacity, and if we cannot ensure that they leverage our competitiveness, it hurts both our imports and our exports. — Robert Keyes

The recent strong growth in Canada's trade with Asian markets, and China in particular, is already straining Canada's existing transportation infrastructure. This is especially so at the Port of Vancouver — Canada's largest port and the primary conduit through which flows Canada's trade with Asian markets.

Chris Jones (Director, Federal/Provincial Government, Railway Association of Canada) informed the Subcommittee that in 2004, a record 1.66 million TEUs (twenty-foot-equivalent units) moved through the Port of Vancouver and that *annual* growth in container traffic was expected to average 7% over the next 15 years. China alone accounts for about 40% of container volumes in and out of the Port of Vancouver. Robert Taylor (Director, Federal Government Affairs, Canadian Pacific Railway) pointed out that, although the Port of Vancouver dominates Canadian container traffic to Asia, other ports — Montreal and Halifax, for example — are also picking up some of the increased demand for shipping.

The strain on Canada's ports, and especially the Port of Vancouver, is an issue that must be addressed as soon as possible. Gordon Houston (President and Chief Executive Officer, Vancouver Port Authority) pointed out that current predictions are that West Coast container traffic volumes are predicted to triple by 2020. If Canada hopes to benefit from this growth, it needs to make the appropriate changes and investments as soon as possible.

The Port of Vancouver is already investing in new capacity to accommodate this increased demand, but we heard that more help from the federal government was still required. Mr. Houston stated that the port intends to invest $1.4 billion from 2006 to 2016 in order to increase its capacity by 3 million TEUs. This expansion was made possible by the fact that the port recently had its borrowing authority raised from $200 million to $500 million.

However, while witnesses welcomed the increase, they believed that, even at $500 million, the port's borrowing limit is an impediment to investment. Moreover, we heard that low borrowing limits are limiting expansion efforts at smaller ports as well. In Mr. Houston's opinion, there is, in fact, no need at all for borrowing limits for the simple reason that banks will not lend money if they believe the risk of an investment is too high.

In addition, the Subcommittee heard that Canada faced difficulty in competing with heavily subsidized ports in the United States. Witnesses did not propose a direct subsidy per se, but observed that, unlike most other businesses, ports are restricted from applying for federal infrastructure funding. We were told that a proposed expansion at the Port of Prince Rupert is delayed for lack of such support.

The Subcommittee believes that efforts to expand commercial ties with emerging markets will be of little value if Canada lacks the port capacity to accommodate an increase in trade. As such, we recommend:

Recommendation 38:

That the Government of Canada lift the current borrowing limit in place on ports.

However, increasing the shipping capacity at Canada's ports will do little good if the existing road and rail networks are unable to deliver products to container terminals, or if the intermodal connections (rail-port or road-port) are inadequate. As Mr. Houston stated,

> [W]e … need to build the capacity before we land the business. It makes no sense for our terminals to scramble to accommodate a greater number of containers, or break bulk shipment if we do not have the transportation infrastructure in place to deliver the goods to market.

For its part, the rail industry has already moved to maximize the efficiency of its existing infrastructure. Chris Jones stated that, compared to 1994, the cubic carrying capacity of trains has increased considerably. Moreover, CN and Canadian Pacific Railway (CPR) — Canada's two major rail lines — have announced co-production agreements whereby the two companies use one another's tracks and rail yards in the lower mainland of British Columbia to improve the efficiency of rail operations for the Port of Vancouver.

However, Mr. Jones pointed out that there is a limit to the efficiency gains that can be squeezed out of the existing rail networks; track expansion and other upgrades are needed. Although a recently announced $160 million investment in track expansion in Western Canada by CPR will ease some of the pressure, more investment in rail and intermodal infrastructure is urgently required.

Indeed, there are economic consequences to not improving Canada's rail-port transportation capacity. As mentioned above, a transportation bottleneck undermines the effectiveness of an emerging markets strategy.

Moreover, there are more direct economic consequences as well. Mr. Jones pointed to major infrastructure investments in port-rail complexes in the U.S. west coast. If the Canadian transportation network becomes too clogged by comparison, traffic may be diverted away from domestic ports to those in the United States. Failure to eliminate rail-port transportation bottlenecks could have the indirect effect of needlessly exporting jobs to the United States.

Witnesses stated that there were a number of things the federal government could do to help improve domestic transportation infrastructure. First and foremost, witnesses requested stability and certainty in government policy. Given the amount of investment needed, a stable and predictable policy environment is critical.

The Subcommittee also heard numerous suggestions on how the tax system could be changed to better encourage investment and expansion in the rail industry and in intermodal facilities. Gordon Houston stated that Canadian rail operators do not function in an environment that is attractive for investment. He pointed out that land taxes on rail in BC is $10,000 per mile, compared to $3,000 in neighbouring Washington State, which has the highest such tax rate in the entire United States.

Mr. Jones also identified a number of tax changes that would improve the investment climate for the rail industry. While some of these are more general and will be discussed further below, others are specific to the rail industry. These suggestions included:

- Raising capital cost allowance (CCA) rates from 15% per year to 30% per year. This would allow the industry to more quickly write off capital equipment such as locomotives, allowing for faster replacement with more modern assets.

- Investment tax credits for capital expended on intermodal facilities. This would provide an incentive for targeted investment in a specific problem area.

- A more rapid phase-out of the capital tax.

- Matching the recent U.S. move to phase out the federal excise tax on fuel. The tax stands at 4 cents per litre in Canada.

Although the discussion to this point has focused on rail, shipping and the intermodal linkages between the two, road infrastructure is also important to the efficient operation of Canada's ports. Gordon Houston stated that investment in roads, as well as rail, is "desperately" needed. He pointed to work done by the Greater Vancouver Gateway Council — an organization comprised of senior government and business leaders dedicated to making the Greater Vancouver area the "Gateway of Choice for North America." The Council identified road solutions that will address most of the major issues regarding road-port transportation. According to Mr. Gordon, all that is needed is the leadership and political will to make it happen.

The Subcommittee believes that, in order for an emerging markets strategy to be effective, steps must be taken to ensure that there are no bottlenecks in domestic transportation infrastructure. As such, we recommend:

Recommendation 39:

That the Government of Canada consult with the various Canadian Port Authorities, transportation associations and other stakeholders to ensure that capacity at Canada's ports and all related transportation infrastructure is adequate to meet the demands arising from increased trade with emerging markets. In addition, the government should re-examine its infrastructure support programs with a view to making ports eligible for funding.

2. The Canada-U.S. Border

Improvements to the Canada-U.S. border are critical to Canada's economic well-being; Canada's prosperity is closely tied to its access to the U.S. market. However, ensuring a secure and trade-efficient border is also a critical component to an emerging markets strategy. Through NAFTA, Canada enjoys virtually unrestricted access to the U.S. market. Canada has, in the past, used this asset to sell itself as a competitive entry point for foreign investors looking for a gateway into the U.S. However, in order for NAFTA to be an advantage, the border must function well.

Not all witnesses agreed that its access to the U.S. market makes Canada an attractive destination for investment. Buzz Hargrove stated that there was no empirical evidence to support the investment platform argument. Mr. Hargrove supported the idea of attracting foreign investment into Canada, but felt that NAFTA added nothing in that regard.

Other witnesses, however, maintained that Canada-U.S. border issues are, in fact, jeopardizing foreign investment flows into Canada. Robert Keyes told the Subcommittee that he had spoken with Australian and European businesses who were interested in Canada as an investment platform from which to enter the U.S. market, but those businesses were concerned about the Canada-U.S. border. He stated,

> [I]f people are going to come here and use Canada as a platform to manufacture and re-export, those goods have to get out. They have to get across the border. So we have to make sure that our infrastructure on both sides of the country is fully capable of supporting this investment … I think the border issue is a strategic investment issue for Canada.

What border issues need to be addressed? Prior to beginning its hearings on emerging markets, the Subcommittee heard from a number of witnesses on this subject. David Bradley (Chief Executive Officer, Canadian Trucking Alliance) stated that the border is in no better shape today than it was on September 10, 2001. He highlighted three factors underpinning this assessment. The first is challenges in implementing the Free and Secure Trade Border System (FAST) program, which was intended to ensure that low-risk people, good and carriers would move freely across the border. Mr. Bradley spoke highly of the idea of FAST, but maintained that there were some implementation concerns. The second is the state of border infrastructure on the Canadian side, particularly at the Detroit-Windsor crossing. The third is the spate of recent border security measures being considered or implemented in the U.S. Mr. Bradley pointed to the *U.S. Bioterrorism Act*, the *U.S. Trade Act*, the *Patriot Act*, and the US-VISIT program, which contain measures that could impede progress on the flow of people and goods across the U.S. border.

Moreover, Matthew Wilson (Manager, Consumer & Industry Affairs, Canadian Vehicle Manufacturers' Association) observed that there was a lack of policy coordination on border issues, both in Canada and in the U.S. He noted that the Department of Homeland Security in the U.S. and the Department of Public Safety and Emergency Preparedness in Canada are supposed to have overarching responsibility for the border, but, in fact, there are 44 agencies on both sides of the border that have some say in how the border functions. On the Canadian side, Mr. Wilson pointed to the Canadian Food Inspection Agency, Agriculture and Agri-Food Canada, DFAIT and the Canadian Border Services Agency as examples of departments and agencies that have a role in regulating border flows. Mr. Wilson stated that while many of these agencies have been working to improve regulations in their own areas of responsibility, they have not been doing so in a coordinated way. As a result, different programs have different security and reporting requirements, undermining the efforts that have been made to date in improving the functioning of the border.

The Subcommittee believes that, whether as part of an emerging markets strategy or not, every effort should be made to improve the functioning of the Canada-U.S. border. Canada’s access to the U.S. market is an invaluable asset and should be treated as such. We note that, in co-operation with the U.S., Canada has made a significant effort in this regard — most notably through the December 2001 smart border declaration and its 32-point action plan. However, we believe that more still needs to be done, especially as it relates to border infrastructure and policy coordination. We therefore recommend:

Recommendation 40:

That the Government of Canada invest in border infrastructure to increase the capacity of its border crossings. It must also improve government policy coordination with regard to border issues. A single department or agency should be directly responsible for all border activity.

B. Improving Business Competitiveness

> In order to compete, we always have to do things differently, because our competitors are finding ways of doing things differently. — Avrim Lazar

In addition to building the necessary infrastructure capacity to accommodate the increased volume trade with emerging markets, Canada must also work to foster a competitive economic climate at home. There are two compelling reasons for this. The first is that Canadian businesses must be in the best possible position to compete with cheap goods coming from China and other low-cost producers. This requires a "defensive" strategy to ensure that Canadians are able to adapt, survive and prosper in the new economic environment.

To be sure, low-cost imports can provide a benefit to Canada. As Dwayne Wright (Member, Board of Directors, Canadian Association of Importers and Exporters) stated, low-cost imports at the low end of the value-added chain can be used to more cheaply produce higher-end goods in Canada. However, as Buzz Hargrove suggested, Canada cannot hope to compete with countries like China on labour costs. He noted that, in general, the "China price" for goods was half the Canadian price, or less. Mr. Hargrove also dismissed the notion that China's labour cost advantage was only true for low-end, labour intensive products. He pointed to high productivity levels in Chinese auto manufacturing plants as an example of China's growing ability to compete at all levels of the value-added chain. He also noted that Bombardier is moving 100 technical writing jobs to India to take advantage of lower costs.

The second reason to enhance Canada's international competitiveness is the growing importance of global supply chains and business networks in international commerce. We heard that trade is no longer a simple matter of buying and selling goods from one country to another; it has become a complex, multilateral system in which sales and sourcing activities occur on a global basis. As Jayson Myers (Senior Vice-President and Chief Economist, Canadian Manufacturers and Exporters) stated, the business of manufacturing no longer takes place within individual companies:

> Companies are sourcing materials, components, finished products, services, knowledge, skills, technology, and capital from around the world and we're competing for those assets. They're competing for investment and product mandates on a worldwide basis. They're operating around the world. Those value chains and business networks that I referred to now span the world, and that's where the competition is taking place.

Indeed, we heard that one of the primary motives for pursuing an emerging market strategy was to capitalize on these supply chains by investing abroad and more actively seeking investment into Canada. Ken Sunquist told the Subcommittee that "value chains and supply chains are increasingly important to Canada and to Canadians if we want to succeed."

However, there are costs as well as benefits to participating in global supply chains. One of the greatest concerns is that increasing trade and investment ties with emerging markets will result in a transfer of Canadian jobs overseas. This phenomenon is commonly referred to as “outsourcing.” Outsourcing occurs when a company foregoes some aspect of its production and instead purchases that product from a (foreign) supplier. An example given to the Subcommittee was a chair manufacturer that stops making its own upholstery and instead buys it from elsewhere. However, the term “outsourcing” is usually applied broadly, and includes a second, related phenomenon called “offshoring.” Offshoring occurs when a company moves, or sets up, part of its own operations overseas in order to take advantage of lower costs or other assets.

Buzz Hargrove expressed concern about the potential loss of Canadian jobs to countries like China. Pierre Laliberté also suggested that when labour-intensive activities are transferred to low-wage countries, not only are jobs lost at home, but there is little positive effect on the economy in the country to which the work migrates. Moreover, many of those employed in low-wage industries in Canada tend to be among the socially disadvantaged. Furthermore, he suggested that liberalized trade and investment could result in a “race to the bottom” in which companies continually migrate to lower-cost countries, thus leading to extreme wage inequality.

To the extent that outsourcing from Canada occurs, adjustments and losses are to be expected in certain sectors of the economy. This is especially true for low-value-added jobs, although as Mr. Hargrove suggested, it may not be long before jobs are threatened all across the value-added chain.

However, several witnesses cautioned the Subcommittee that we should not be too quick to write the obituaries of some sectors of the Canadian economy. Jayson Myers pointed to the Canadian furniture, clothing and textile industries as some that economists had predicted would disappear after NAFTA was implemented. However, after some initial and painful restructuring, some companies have found niche specializations and have prospered. Danielle Goldfarb agreed, stating that

> [S]ome people may lose their jobs, and some short-term adjustment may have to take place [but] over the long term, we would expect to see increased productivity and higher living standards as a result of increasing opportunities to trade.

Ms. Goldfarb also highlighted the importance of Canada’s social safety net to deal with that kind of short-term structural adjustment.

Several witnesses shared this more positive view about the ideas of outsourcing and participating in global supply networks. According to Stephen Poloz (Senior Vice-President and Chief Economist, Export Development Canada), Canadian companies who outsource part of their production become more competitive because by so doing, they lower their overall costs. Mr. Poloz suggested that while outsourcing may result in a temporary loss of jobs in Canada, the net result is a healthier, more profitable business; not only are the remaining jobs more secure, but by becoming more competitive, the company is in a better position to grow down the road.

Indeed, the Subcommittee heard that, on the whole, outsourcing has not had a negative effect on the Canadian economy to date. Bernard Courtois (President and Chief Executive Officer, Information Technology Association of Canada) pointed to a recent study by the United Nations Council for Trade and Development which determined that Canada is actually a net beneficiary of the phenomenon, thanks in large part to the strength of the domestic call centre industry. According to the UN study, only India and Ireland have benefited more from global outsourcing than Canada. As International Trade Minister Jim Peterson stated,

> [T]he process is one of creative destruction. The issue is not how many jobs we've lost, but how many jobs have already been created. Currently, we are ahead of schedule. We have created far more jobs than we have lost.

In addition, Jayson Myers informed the Subcommittee that the manufacturing sector in Canada has also remained strong. Unlike the United States where outsourcing to China and elsewhere has been blamed for a declining manufacturing sector, in Canada, the sector's contribution to the national economy has increased slightly and manufacturing employment reached record levels in 2003. Moreover, Dr. Myers suggested that the quality of manufacturing jobs has remained solid; he stated that manufacturing wages are 26% above the all-industry average and that 95% of manufacturing jobs are full-time positions.

However, even if outsourcing and competition from low-cost producers have not yet had a significant effect on jobs in Canada, this is no reason to be complacent. The Subcommittee believes that Canada needs to have policies in place that foster a healthy business climate; encourage research, development and innovation; and enhance Canada's position as an attractive investment destination. This will allow the Canadian economy to create and retain stable, high-quality and well-paying jobs in this country. As Ken Sunquist suggested, the primary motive of an emerging markets strategy is prosperity at home.

As Avrim Lazar testified, capital is mobile; it will go to where it can receive the highest rate of return. If Canada is to remain an attractive destination for foreign investors, we must ensure that ours is an attractive environment in which to invest. Witnesses identified a number of areas where the federal government could help improve the competitive environment for Canadian businesses. These are discussed below.

1. Tax Reforms

Witnesses' views on the need for tax reform were mixed. While several witnesses did raise some specific tax concerns, Dwayne Wright stated that the overall level of taxes was not a major issue for the Canadian Association of Importers and Exporters. Avrim Lazar stated that the forest products sector in Canada was the most highly taxed in the world and that, while he would like to see lower taxes, he acknowledged that low-tax competitors like Brazil and Indonesia don't get much in the way of government services for the taxes they do pay.

This is not to say that there were no concerns with the business tax regime. Richard Fraser stated that tax policies must be both competitive and supportive in order to develop and win international projects. Mr. Lazar agreed, stating that,

> [I]t's not just how much the taxes are. If you're going to reduce taxes, the place to reduce them is in things that [promote] capital turnover and new investments and innovations.

To that end, we heard two specific suggestions for how targeted tax reform could help improve the competitiveness of Canadian businesses. The first of these is increasing capital cost allowance rates. As discussed earlier, Chris Jones suggested that allowing faster capital cost write-offs would encourage investment in the rail sector. Several other witnesses called for such a move as well, in the interests of encouraging productivity-enhancing capital investment through the Canadian economy. In his presentation to the Subcommittee, Serge Lavoie (President and CEO, Canadian Plastics Industry Association) suggested that capital investment write-offs as high as 50 to 100% would "send a very strong message that there's a willingness to spur productivity and innovation in the country's manufacturing sector."

The Subcommittee agrees that capital investment can lead to productivity gains by encouraging the purchase of new, efficient machinery. Productivity growth is critical if Canada is to attract international investment and if Canadian businesses are to compete effectively abroad. We thus support the idea that capital cost allowances should be raised and recommend:

Recommendation 41:

That, in the interests of increasing the international competitiveness of Canadian industries by promoting productivity-enhancing investment, the Government of Canada review its capital cost allowance rates.

The second suggestion came from Richard Fraser, who stated that his engineering services company, like many firms that operate in emerging markets, is project-based. He noted that Canada's foreign tax credit system does not work well for project-based enterprises. Foreign tax credits essentially provide Canadians and Canadian businesses with relief from double-taxation (i.e., being taxed twice on the same income — once in Canada and once in the country of operation). Unused tax credits can be carried over to the following year, but cannot be transferred from one country to another.

Project-based companies typically have volatile revenues depending on their level of activity. For years in which a project is underway, revenues, and therefore taxes, may be high. In subsequent years, however, unless a new project gets underway, there are little or no revenues. Since unused tax credits cannot be transferred from one country to another, when a project-oriented company begins a new undertaking in another country, it loses those tax credits.

The Subcommittee believes that Canada's tax regime should be applied fairly and consistently. Companies should not be put at a disadvantage because of the nature of their business. As such, we recommend:

Recommendation 42:

That the Government of Canada reform its foreign tax credit system to allow project-based companies to retain the use of their unused tax credits accumulated in one country for application against taxation in another country in the following year.

2. Promoting Innovation through Research and Development

> From a Canadian government standpoint though if we want to continue to build the knowledge based companies that are going to produce the product that we're going to then export to the world, I think you have to support that R and D work that's happening in Canada. Today I don't think that's being supported. — Phil Hodge

Research and development is a key driver of product and process innovation, and is critical to ensuring that Canadian companies — whether they be in high-tech or resource-based industries — are able to compete in a globalized economy. However, the Subcommittee heard that there are a number of shortcomings with the way federal government support for R&D in Canada is distributed.

Stephen Kukucha identified three issues related to R&D that, if addressed, would help innovating industries considerably. The first is to allow businesses to innovate by sufficiently supporting R&D spending. Second, existing programs should be allowed to have an international scope; and third, current programming must function properly.

On the first point, Mr. Kukucha stated that federal government support for R&D spending is weak or non-existent. Moreover, he maintained that the federal programs which do exist are insufficient to allow Canadian companies to maintain (or generate) a competitive advantage over companies in other countries. He noted that U.S. federal government spending to support R&D dwarfs Canadian spending.

And unlike Canada, the U.S. provides non-repayable grants to companies to innovate and invest. These grants are distributed on a cost-shared basis whereby the U.S. government picks up 80% of project costs. As such, Canada's competitors in the U.S. are accessing what Mr. Kukucha characterized as "extremely beneficial rates of government investment" by comparison.

The second issue Mr. Kukucha raised was that existing government R&D support programs should be allowed to have an international scope. Ballard Power Systems, a leading Canadian fuel cell technology company, is looking to the Indian and Chinese markets because of their size, demand for environmentally friendly products and that Ballard's nascent technologies are more easily adaptable to developing countries where standards for automotive performance are not as high as in North America or Europe. Mr. Kukucha stated that if Canadian R&D programs allowed his company to spend the money demonstrating its products overseas, it would greatly help sales and product development.

Phil Hodge agreed, noting that American R&D support programs are much more international in scope. He pointed out that he receives a substantial amount of funding from the U.S. government (and on more favourable terms than from Canada), despite the fact that his company is headquartered in Vancouver (but has operations in the U.S.), its R&D facilities are located in that city, and that Canadians are being employed doing the research. In his view, the U.S. government mandate sees new technology as important and will support it, even if the work is taking place outside of its borders.

Mr. Kukucha's third point was that Canada's existing R&D support programs must work properly. On this topic we heard two specific concerns. The first relates to Technology Partnerships Canada (TPC), a federal program aimed at supporting pre-commercial research and development.

TPC funds are granted during the research and development stages of product development, but become repayable once the project reaches the commercialization stage. Phil Hodge supported the notion of repayable funding, but noted that funding ends and repayment obligations begin just as a project moves from the development phase to the commercialization phase — precisely the time when companies need all the funds at their disposal to set up commercialization plans and to market the new product:

> I would just try to look at what's the best way for those companies to pay them back without penalizing them…[Y]ou don't want to set up a situation where you strangle those companies after having supported them. Because I think in some ways now you're making the program detrimental to its initial purpose.

The second concern was that, as Mr. Kukucha stated, federal R&D investment must be efficient. He noted that federal funds are frequently spread across numerous departments and agencies, impeding their value to industry. For example, Mr. Kukucha described a $215-million commitment the federal government made to the fuel cell industry in October 2003:

> [T]hey then took that $215 million, put some in industries, some in Natural Resources Canada, some in Sustainable Development Technologies Canada, some in TPC and scattered it out among so many different agencies that have different program terms, different program application dates, different requirements for reporting, that it is somewhat dysfunctional and the efficiencies in applying for those dollars just are not there.

Moreover, Mr. Kukucha also observed that many programs have a regional component as well — all parts of the country must receive a certain share of federal support. In his view, the government should target and focus its programming on what will yield the highest-value return.

The Subcommittee believes that if Canadian companies are to be globally competitive and move up the value-added chain, research and development support in this country must be improved. Funding must be increased and the delivery of those funds must also be improved. As such, we recommend:

Recommendation 43:

That, in order to meet the opportunities and challenges associated with emerging markets — both in terms of export competitiveness and the adjustment within Canada to outside competitive pressures — the Government of Canada ensure that R&D support is sufficient and easily accessible. Funds for any given R&D initiative should be delivered out of a single access point within government.

Recommendation 44:

That the repayment obligations of the Technology Partnerships Canada program be extended to allow companies to spend more money on commercialization.

LIST OF RECOMMENDATIONS

Recommendation 1:

That, without excluding other emerging markets, the Government of Canada make China, India, Brazil, and Russia the primary focus of its Emerging Markets Strategy.

Recommendation 2:

That, in the context of Recommendation 1, the government should make every effort to inform Canadian businesses of trade and investment opportunities around the world. Government programs and policies should be flexible and responsive enough to allow businesses to pursue those opportunities, recognizing the laws of those countries and within the framework of corporate social responsibility.

Recommendation 3:

That, without foregoing strategic opportunities elsewhere, the Government of Canada focus its future bilateral free trade negotiating efforts on large economies or regional groupings. These agreements should include open rules of origin requirements and not undermine trade liberalization efforts at the multilateral level. No such negotiations should proceed without first consulting with Canadian stakeholders, including civil society, to ensure that their needs are addressed.

Recommendation 4:

That the Government of Canada vigorously pursue free trade negotiations with the Mercosur regional bloc. NAFTA type investor-state provisions should be excluded from any such agreement.

Recommendation 5:

That the Government of Canada, in consultation with business, explore the need for, and negotiate, foreign investment protection agreements (FIPA) in key emerging markets.

Recommendation 6:

That in its current FIPA negotiations with China and India, and any future negotiations with other countries, the Government of Canada ensure that any final agreement contains meaningful provisions to protect Canadian intellectual property.

Recommendation 7:

That the Government of Canada look for ways to reduce regulatory hurdles between Canada and emerging markets. Where enough common ground exists, and ensuring that Canadian health and safety regulations are maintained and enhanced, mutual recognition agreements should be considered.

Recommendation 8:

That the Government of Canada work to maintain and enforce its completed air service agreements with China and India, and turn its attention to improving air service access to other priority emerging markets, especially Russia and Brazil.

Recommendation 9:

That in any bilateral or multilateral trade negotiations, the Government of Canada seek well-defined, science-based rules that allow countries to address their legitimate sanitary and phytosanitary concerns. Sanitary and phytosanitary concerns should not be used as an illegitimate non-tariff trade barrier.

Recommendation 10:

That, following the recent example with India, the Government of Canada negotiate science and technology agreements with other significant emerging markets, beginning with China, Brazil and Russia.

Recommendation 11:

That the Government of Canada, while respecting the jurisdiction of the provinces, ensure that there is a systematic connection between Canadian university offices for technology

transfer, and appropriate international trade officials in Canada and abroad in order to facilitate partnership opportunities for commercialization purposes. Consideration should also be given to organizing missions of university transfer officers to key countries.

Recommendation 12:

That, building on the successful experience of the 2003 Canada-India Science and Technology study on institutional linkages and academic, government and private partnerships, the federal government work with the provinces, the Association of Universities and Colleges Canada, foreign governments and other key actors to map existing linkages and complimentary research interest and strengths in countries of interest in order to develop strategic plans of action for research co-operation between Canada and key nations. China, Russia and Brazil should be the top priority in this regard.

Recommendation 13:

That the Government of Canada conduct a formal review of the *Investment Canada Act*, to ensure that the Act is effective in delivering on its stated intent — ensuring that foreign investment in Canada serves the national interest. The *Investment Canada Act* should make certain that foreign investment maximizes the benefit to Canadians, including, but not limited to creating jobs in Canada; building the domestic capital stock; raising productivity levels; and improving research and development capacity. Any investment that is not in the Canadian national interest should be rejected.

Recommendation 14:

That the Government of Canada ensure that the Canadian International Trade Tribunal has the necessary resources to conduct safeguard investigations and that the government use import safeguards as per WTO rules.

Recommendation 15:

That, in accordance with the commitment made in the September 2002 Speech from the Throne, the Government of

Canada, in partnership with the provinces and universities, "position Canada as a destination of choice for talented foreign students and skilled workers by more aggressively selecting and recruiting through universities and in key embassies abroad." To that end, the government should follow the examples of the United Kingdom and Australia, which offer prestigious scholarships to foreign students.

Recommendation 16:

That the Government of Canada examine ways to improve the visa acceptance rates of foreign students looking to study in Canada.

Recommendation 17:

That the Government of Canada draft legislation under which Canadian companies operating abroad should continue to be subject to Canadian laws as they pertain to human rights.

Recommendation 18:

That the Government of Canada incorporate a social responsibility pillar (i.e., human and social rights, and environmental protection) into its Emerging Markets Strategy and, more generally, should also attach stronger conditions related to corporate social responsibility to its trade and investment assistance programs.

Recommendation 19:

That the Department of Foreign Affairs and International Trade work with the Canadian International Development Agency to identify aid projects in CIDA's target developing countries where Canadian expertise could contribute. This information should then be made publicly available as part of the initiative outlined in Recommendation 21.

Recommendation 20:

That the Government of Canada employ a whole-of-government approach to its Emerging Markets Strategy. This involves adopting a clear, coordinated and comprehensive approach to

the strategy with all relevant government departments and agencies contributing their expertise to the Minster of International Trade.

Recommendation 21:

That the Government of Canada establish a program whereby its trade officers regularly compile information on project activity by sector in their part of the world. A one-stop information source, combining this project intelligence with that collected under Recommendation 19, should be set up. Project information should be posted on the Internet and a distribution system created that allows Canadian companies to subscribe to receive free updates as new information on projects relevant to their sector becomes available. Canadian trade officers should be provided with all the tools necessary to fulfil this task.

Recommendation 22:

That the Government of Canada ensure that its export-readiness services adequately inform Canadians about the realities of conducting business overseas — both the opportunities and the risks.

Recommendation 23:

That, in an effort to strengthen ministerial and other high-level government relationships, the Government of Canada increase the number and frequency of official visits to priority emerging markets. While visits to China, India, Brazil and Russia should be the highest priority, visits to other emerging markets should also take place as often as possible.

Recommendation 24:

That Canada increase the number of trade missions it sends to its key emerging markets. A combination of larger and smaller missions should occur at least two or three times a year. Smaller missions should focus on specific economic sectors, as business demand warrants.

Recommendation 25:

That the Government of Canada consult with businesses and business associations on a regular basis to determine in which countries other than China, India, Brazil and Russia — and in which economic sectors — trade missions would be most beneficial. These missions would be secondary in priority to those outlined in Recommendation 24.

Recommendation 26:

That the Government of Canada consult with participants on its recent trade missions to China, India and Brazil for their views on how future such missions could be improved.

Recommendation 27:

That the Government of Canada launch an outreach campaign that actively encourages government and/or business leaders from emerging markets to visit Canada as frequently as possible. Canadians active in the region should also be invited to participate.

Recommendation 28:

That, given the gaps identified by this report, the Government of Canada review the scope and mandates of its trade- and investment-support programs and make any necessary changes.

Recommendation 29:

That, given the cancellation of the Program for Export Market for Industry (PEMD-Industry), the Government of Canada consider establishing a program to provide support to small- and medium-sized enterprises to cope with the costs and risks associated with conducting business in emerging markets.

Recommendation 30:

That, notwithstanding the recent increase in funding contained in the 2005 Budget to enhance Canada's overseas presence, additional resources are needed to further expand the

on-the-ground support for Canadian businesses in emerging markets.

Recommendation 31:

That the Government of Canada extend the length of term of international postings for its trade officers in China, India, Brazil, and Russia to a period of five years.

Recommendation 32:

That the Government of Canada review its visa application and approval process with a view to expediting the process. As part of this review, the government should ensure that adequate visa application services are available in the highest-traffic and/or more central cities.

Recommendation 33:

That the Government of Canada establish a clear and explicit list of required documents for business visa applicants, taking into account security and safety considerations.

Recommendation 34:

That the Government of Canada establish a "fast track" process for repeat business visa applicants. Under such a process, candidates would undergo a thorough preliminary screening, but once approval and a visa were granted for the first visit, subsequent visas would be guaranteed expedited clearance.

Recommendation 35:

That the Government of Canada consider establishing a "fast track" program similar to that outlined in Recommendation 34 for companies that frequently send businesspeople to Canada. Under such a program, firms that undergo a preliminary screening and exhibit a good track record would receive expedited clearance to regularly send employees or representatives to Canada on temporary business visas. These individuals could vary from trip to trip, provided they all met Canadian immigration requirements.

Recommendation 36:

That the Government of Canada review the list of countries from which it requires an entry visa, and remove visa requirements where unnecessary. By so doing, the government can free up staff resources that can be redeployed to countries where the need is greater.

Recommendation 37:

That the Government of Canada establish an "innovation centre" within Canada — a venue in which Canadian companies can showcase their new products and technologies.

Recommendation 38:

That the Government of Canada lift the current borrowing limit in place on ports.

Recommendation 39:

That the Government of Canada consult with the various Canadian Port Authorities, transportation associations and other stakeholders to ensure that capacity at Canada's ports and all related transportation infrastructure is adequate to meet the demands arising from increased trade with emerging markets. In addition, the government should re-examine its infrastructure support programs with a view to making ports eligible for funding.

Recommendation 40:

That the Government of Canada invest in border infrastructure to increase the capacity of its border crossings. It must also improve government policy coordination with regard to border issues. A single department or agency should be directly responsible for all border activity.

Recommendation 41:

That, in the interests of increasing the international competitiveness of Canadian industries by promoting

productivity-enhancing investment, the Government of Canada review its capital cost allowance rates.

Recommendation 42:

That the Government of Canada reform its foreign tax credit system to allow project-based companies to retain the use of their unused tax credits accumulated in one country for application against taxation in another country in the following year.

Recommendation 43:

That, in order to meet the opportunities and challenges associated with emerging markets — both in terms of export competitiveness and the adjustment within Canada to outside competitive pressures — the Government of Canada ensure that R&D support is sufficient and easily accessible. Funds for any given R&D initiative should be delivered out of a single access point within government.

Recommendation 44:

That the repayment obligations of the Technology Partnerships Canada program be extended to allow companies to spend more money on commercialization.

APPENDIX A
LIST OF WITNESSES

Associations and Individuals	Date	Meeting
Department of International Trade	2005/02/08	9
Ken Sunquist, Assistant Deputy Minister, International Business and Chief Trade Commissioner		
Canadian Commercial Corporation	2005/02/15	10
Tom DeWolf, Director, Market Opportunity Development		
Hugh O'Donnell, President		
Department of Citizenship and Immigration		
Rénald Gilbert, Director, Economic Policy and Programs, Selection Branch		
Department of Industry		
Marcie Girouard, Acting Director General, Sustainable Technologies and Service Industries Branch		
Frank Vermaeten, Director General, International and Intergovernmental Affairs Branch		
Export Development Canada		
Stephen Poloz, Senior Vice-President and Chief Economist		
Eric Siegel, Executive Vice-President, Medium- & Long-Term Financial Services		
Canada-Arab Business Council	2005/02/21	12
Mohamed Azzam, President, Containboard, G.A. Paper International Inc.		
Dwain Lingenfelter, Chairman and CEO, Vice-President, Government Relations, Nexen Inc.		
Richard Mann, Director General		
Canadian Embassy in Kuwait		
Denis Thibault, Ambassador		
Canadian Embassy in Saudi Arabia		
Roderick Bell, Ambassador		
Canadian Embassy in United Arab Emirates		
David Hutton, Ambassador		
Cansult Limited		
Peter Ventin, Resident Manager and Vice-President		
Canadian Chamber of Commerce	2005/03/09	15
Robert Keyes, Vice-President, International Division		
Clifford Sosnow, Partner, Blakes, Cassells & Graydon		

Associations and Individuals	Date	Meeting
Railway Association of Canada	2005/03/09	15
Chris Jones, Director, Federal/Provincial Government Liaison		
Robert Taylor, Director, Federal Government Affairs, Canadian Pacific Railway		
Canadian Fertilizer Institute	2005/03/22	16
Clyde Graham, Vice-President, Strategy and Alliances		
Forest Products Association of Canada		
Avrim Lazar, President and Chief Executive Officer		
W. Joel Neuheimer, Director, International Affairs		
Amnesty International Canada	2005/03/23	17
Alex Neve, Secretary General, English Speaking Section		
Canadian Council for International Cooperation		
Gauri Sreenivasan, Trade Policy Officer		
Canadian Labour Congress		
Pierre Laliberté, Senior Economist, Social & Economic Policy		
Bank of Canada	2005/04/05	18
John Murray, Adviser to the Governor		
Canadian Agri-Food Trade Alliance		
Liam McCreery, President		
Patty Townsend, Executive Director		
Centre for Trade Policy and Law of Carleton University		
William Dymond, Senior Executive Fellow		
Canadian Education Centre Network	2005/04/11	19
Gardiner Wilson, Director, Public Policy and Research		
Vancouver Port Authority		
Scott Galloway, Director, Trade Development		
Gordon Houston, President and Chief Executive Officer		
Ballard Power Systems Inc.	2005/04/12	21
Stephen Kukucha, Director, External Affairs & Government Business Development		
Sandwell Engineering Inc.		
Richard Fraser, Vice-President, Corporate & Project Development		
Westport Innovations Inc.		
Phil Hodge, Vice-President		

Associations and Individuals	Date	Meeting
Canada-China Society of Science and Technology Industries	2005/04/13	22
Chi Lin, President		
Canadian Association of Petroleum Producers		
David Daly, Manager, Fiscal Policy		
Centre for International Governance Innovation		
Annette Hester, Economist, Special Research Fellow		
CPCS Transcom Ltd.		
Peter Kieran, President		
Polar Genetics Inc.		
Albert Eringfeld, General Manager		
ProSoya Inc.		
Rajendra Gupta, President and CEO		
Brazil-Canada Chamber of Commerce	2005/04/18	23
Anthony Eyton, Head, Ottawa Chapter		
Canada China Business Council		
Margaret Cornish, Executive Director		
Canada-India Business Council		
Gary Comerford, Vice-President, International and General Manager — India		
Margaret Vokes, Deputy Executive Director		
Canadian Association of Importers and Exporters		
Dwayne Wright, Member, Board of Directors		
Retail Council of Canada		
Diane Brisebois, President and Chief Executive Officer		
Darrel Pearson, Partner, Gottlieb & Pearson		
C.D. Howe Institute	2005/04/19	24
Danielle Goldfarb, Senior Policy Analyst		
Canadian Manufacturers and Exporters		
Jayson Myers, Senior Vice-President and Chief Economist		
Scotiabank		
Patrick Rooney, Senior Vice-President, Trade Finance and Correspondent Banking		
As An Individual		
David Wheeler, Erivan K. Haub Professor of Business and Sustainability, Schulich School of Business, York University		

Associations and Individuals	Date	Meeting
Asia Pacific Foundation of Canada	2005/04/20	25
Yuen Pau Woo, Vice-President and Chief Economist		
Association of Universities and Colleges of Canada		
Karen McBride, Vice-President, International Affairs Branch		
Canadian Plastics Industry Association		
Serge Lavoie, President and Chief Executive Officer		
Information Technology Association of Canada		
Bernard Courtois, President and Chief Executive Officer		
Canada Eurasia Russia Business Association	2005/05/02	26
Piers Cumberlege, Acting Executive Director		
Canadian Auto Workers Union		
Basil “Buzz” Hargrove, National President		
Jim Stanford, Economist, Research Department		
Rights and Democracy		
Jean-Louis Roy, President		
SNC-Lavalin Group Inc.		
Robert Blackburn, Senior Vice-President, Government and International Development Institutions		
ADI Group Inc.	2005/05/03	27
Andrew Steeves, Vice-President, Administration Services and Corporate Planning		
MedMira Inc.		
Giles Crouch, Vice-President, Marketing and Business Development		
James Smith, Vice-President, Corporate Affairs		

APPENDIX B
LIST OF BRIEFS

Amnesty International Canada

Asia Pacific Foundation of Canada

Association of Universities and Colleges of Canada

Bank of Canada

Canada-Arab Business Council

Canada-India Business Council

Canadian Agri-Food Trade Alliance

Canadian Association of Petroleum Producers

Canadian Auto Workers Union

Canadian Commercial Corporation

Canadian Council for International Cooperation

Canadian Fertilizer Institute

Canadian Manufacturers and Exporters

Canadian Plastics Industry Association

Centre for International Governance Innovation

CPCS Transcom Ltd.

Department of International Trade

Export Development Canada

Forest Products Association of Canada

Information Technology Association of Canada

MedMira Inc.

Railway Association of Canada

Rights and Democracy

Scotiabank

SNC-Lavalin Group Inc.

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this report.

A copy of the relevant Minutes of Proceedings (*Meetings Nos. 9, 10, 12, 15 to 19 and 21 to 33 of the Subcommittee on International Trade, Trade Disputes and Investment and No. 50 of the Standing Committee on Foreign Affairs and International Trade, which includes this report*) is tabled.

Respectfully submitted,

Bernard Patry, M.P.
Chair

Conservative Party of Canada Dissenting Opinion
Elements of an Emerging Markets Strategy for Canada
June 20, 2005

The Conservative Party respectfully submits the following dissenting opinion to "Elements of an Emerging Markets Strategy for Canada", a report of the Standing Committee on Foreign Affairs and International Trade.

There can be no question of the importance of creating and pursuing a strong strategy for promoting trade with new and emerging markets, there must be a reflection of Canada's need to grow beyond the notion of inflated imports alone as trade objectives.

The report as submitted by the members of the Subcommittee on International Trade, Trade Disputes and Investment occasionally falls victim to the use of language that leans towards reactionary protectionism for Canada's domestic industries. A balance must be struck between adjustments to the ever-changing global trade environment and invoking temporary and unsustainable interventions to shield sectors from external market forces.

The Conservative Party of Canada recognizes the unique nature of our domestic trade objectives and counsels the government to end its policy of divisive and polarizing dialogue on international trade. Canadian industry relies on the federal government to continue its ambitious agenda of trade liberalization.

Issue 1.)

In the attached report, there is reference to and Recommendation made for including rules of origin requirements in bilateral and regional trade agreements (see Recommendation 3.)

The Conservative Party of Canada does not support establishing mandatory rules of origin requirements in bilateral, regional or multilateral trade agreements as this would negate the progress made to dismantle non-tariff trade barriers.

Issue 2.)

In section B, points 69-72 reflect the trend towards unbalanced dialogue. Legitimate discussion on the government's commitment to defend the "unique policy models and institutions" is not balanced by a reaffirmation of the government's commitment to aggressively pursue a global increase in strong, rules-based, clean market access for Canada's export-oriented commodities.

The Conservative Party of Canada recommends that the Government of Canada re-commit to achieving a strong and enforceable agreement at the World Trade Organization (WTO) that achieves increased effective and efficient market access to global markets while also maintaining the sovereignty to retain domestic marketing practices consistent with WTO obligations.

Issue 3.)

Reactionary policy direction is also reflected in Recommendation #13.

Recommendation 13:

> That the Government of Canada conducts a formal review of the Investment Canada Act, to ensure that the Act is effective in delivering on its stated intent — ensuring that foreign investment in Canada serves the national interest. The Investment Canada Act should make certain that foreign investment maximizes the benefit to Canadians, including, but not limited to: creating jobs in Canada; building the domestic capital stock; raising productivity levels; and improving research and development capacity. Any investment that is not in the Canadian national interest should be rejected.
>
> "Elements of an Emerging Markets Strategy for Canada"

The Conservative Party of Canada recommends that the Government of Canada pursue all international trade actions with Canada's national interests in mind, including new and emerging markets without resorting to aggressive and protectionist language or threats to reject foreign investment. The Conservative Party of Canada believes that the Government of Canada must commit to ensuring all negotiations are concluded in a manner than both promotes foreign investment and is consistent with Canadian interests and values.

The Conservative Party of Canada further recommends that the Government of Canada amend the Investment Canada Act to expand the review process to include not only the net benefit to Canada in reference to our industrial, economic and cultural policies, but also a consideration of our national security interests. This would include security of supply, technology transfer and any anti-trust implications.

Issue 4.)

In discussion of "Adopting a Whole-of-Government Approach" in section G, reference is made and recommendation is offered to leverage the Canadian International Development Agency's (CIDA) funds and CIDA-INC program to promote trade in developing nations. The Conservative Party agrees with the

Report's expression of concern over CIDA's move away from bilateral aid spending towards transferring monies, responsibility and accountability to multilateral institutions such as the United Nations. On the other hand, the Conservative Party does not agree with references to the concept of informal "tying" Canadian goods and services from the Canadian private sector to the delivery of foreign aid.

The private sector does play an important and under-recognized role in contributing to development in countries where they have investments. It must be made clear by the Government of Canada that private sector business can expect support from the government to establish development projects in concert with their operational investments around the world.

The Conservative Party of Canada Recommends that the definition of Export Assistance Programs under section C, sub-section 1, Existing Programs should make clear that CIDA-INC is an initiative that provides financial support to Canadian businesses planning development related projects as a consequence of their business investments in developing countries, rather than an initiative to establish Canadian corporate investment in developing nations.

The Conservative Party of Canada recommends that the Government of Canada address concerns raised by the un-legislated nature of CIDA which lays this crucial element of Canada's global contribution vulnerable to misappropriation. The inclusion of CIDA and CIDA-INC in both the Commerce section of the recently released International Policy Statement (IPS) and the attached Report raises concerns by the Conservative Party that CIDA funds may be diverted from development work towards priorities such as trade promotion rather than being effectively leveraged to enhance the development advantages that can be achieved as a consequence of Canadian industry investment in developing nations.

Issue 5.)

The Virtual Trade Commissioner program has been expanded to address many of the elements of the now cancelled Program for Export Market for Industry program (PEMD). This negates the need to pursue new and potentially duplicate programs and services as recommended in Recommendation 29 of the attached report.

The Conservative Party of Canada recommends that the Government of Canada expand and enhance the International Trade Commissioner Programs and services to address specific emerging market requirements rather than add expense and bureaucratic infrastructure by establishing a program to provide support to small-and-medium sized enterprises.

The Virtual Trade Commissioner Program includes the International Business Opportunities Centre (IBOC), which is “the export opportunities sourcing centre for Team Canada Inc, a partnership of government departments and agencies working together to provide trade services to Canadian exporters.

Business leads from Canada's trade commissioners are collected and researched by IBOC. The opportunities are then disseminated daily via the Virtual Trade Commissioner (VTC) to Canadian companies who have registered via the VTC website at www.infoexport.gc.ca. The service is free of charge and is exclusive to Canadian companies.”

In addition, Industry Canada has developed an online portal to encourage Canadian businesses to access and pursue domestic and international trade opportunities. SourceCAN is an electronic marketplace. It raises the awareness of Canadian companies about business opportunities and matches their products and services with thousands of these opportunities posted daily, by both domestic and foreign corporations and governments. SourceCAN helps Canadian companies win new business both in Canada and in the international marketplace. It facilitates trade and empowers small and medium sized Canadian companies to compete in the global trading environment.

These initiatives address online, one-step access for Canadian businesses and while there may be room for discussion regarding the potential overlap and departmental territoriality of these two programs their existence contradicts the justification for Recommendation 21 of the attached report.

The Conservative Party of Canada recommends that the Government of Canada increase support and development and explore the streamlined delivery of programs and services that currently exist rather than establish a new and duplicate one-step program to distribute via the internet business opportunities for Canadian enterprises.

Conclusion

In an increasing competitive global economy, trade remains the key to future prosperity in Canada. Many Canadian jobs depend heavily upon foreign markets. Those jobs are placed in jeopardy when other nations make it difficult for our exporters to sell their products. The Conservative party of Canada is committed to improving overall economic growth in Canada through facilitating competition, improving productivity, streamlining regulation and fostering innovation in concert with free and fair trade agreements.

The Government of Canada must bring more security to existing trade related jobs. To create new employment opportunities it is critical to focus on diversifying both the products we sell abroad and the markets into which we sell those products.

Secure access to international markets through a rules-based trading system will maximize the benefits we have as a free trading nation, emphasizing the need to establish trading relationships beyond North America.

The Government of Canada must vigorously pursue reduction of international trade barriers and tariffs; eliminate trade-distorting government export subsidies within clearly established time limits and seek a clear definition of what constitutes an export subsidy.

The Conservative Party of Canada urges the Government of Canada to resist implementing reactionary protectionist policies, balance its domestic and international dialogues to reflect all sectors of the Canadian economy and reject pressure to undermine Canada's foreign aid budgets by raiding legitimate CIDA programming to achieve international trade objectives. Finally, the Conservative Party of Canada supports the development of an innovative and aggressive strategy to develop trade ties with emerging markets.

MINUTES OF PROCEEDINGS

Monday, June 20, 2005
(*Meeting No. 50*)

The Standing Committee on Foreign Affairs and International Trade met at 3:35 p.m. this day, in Room 701 La Promenade Building, the Chair, Bernard Patry, presiding.

Members of the Committee present: Francine Lalonde, Hon. Lawrence MacAulay, Alexa McDonough, Hon. Dan McTeague, Ted Menzies, Pierre A. Paquette, Bernard Patry and Kevin Sorenson.

Acting Members present: Jim Abbott for Stockwell Day, Navdeep Bains for Maurizio Bevilacqua, Don Boudria for Beth Phinney, Peter Goldring for Stockwell Day and Peter Goldring for Helena Guergis.

Associate Members present: John Cannis.

In attendance: *Library of Parliament*: Gerald Schmitz, Principal; James Lee, Analyst.

The Committee proceeded to the consideration of matters related to Committee business.

John Cannis presented the Third Report of the Subcommittee on International Trade, Trade Disputes and Investment.

By unanimous consent, it was agreed, — That the Committee adopt the Subcommittee's report as its report.

By unanimous consent, it was agreed, — That dissenting opinions be included with the report.

By unanimous consent, it was agreed, — That, pursuant to Standing Order 109, the Committee request that the Government table a comprehensive response to the report.

By unanimous consent, Jim Abbott moved, — That the Standing Committee on Foreign Affairs and International Trade undertake a review of issues related to the subject matter of Bill C-357 including:

1- Whether the form and content of that Bill would constitute recognition of Taiwan by Canada;

2- The procedures or protocols for enabling or restricting private or public visits of persons appointed or democratically elected to positions of executive or political or administrative authority in Taiwan;

3- The propriety and procedures for facilitating the participation by Taiwan in international bodies consistent with its economic standing and its relationships to China and the rest of the world;

4- Procedures and protocols for enabling commercial cultural, economic, trade or other mutually beneficial ties between the people of Taiwan and the people of Canada;

5- The most appropriate measures that Canada might initiate with respect to peace and security in the Asia Pacific region;

6- That appropriate witnesses be invited to testify and,

That the review be competed and report to the House by October 21, 2005.

Debate arose thereon.

On motion of Don Boudria, it was agreed, — That the motion be amended by adding in the first line after the word “That” the following:“, notwithstanding any usual procedure or practice for Private Members' Business,”.

On motion of Dan McTeague, it was agreed, — That the motion be amended in the last paragraph by replacing the words “by October 21, 2005” with the words “within 30 sitting days after return of the House”.

After debate, the question was put on the motion, as amended, and it was agreed to.

Navdeep Bains presented the Third Report from the Subcommittee on Human Rights and International Development.

Pierre A. Paquette moved, — That the Report be amended on page 2 in the fourth recommendation by deleting the word “serious”.

Debate arose thereon.

After debate, the question was put on the motion and it was agreed to.

Pierre A. Paquette moved, — That the report be amended on page 2 in the second recommendation by inserting the words “outside Canada” before the words “in a socially and environmentally responsible manner”.

Debate arose thereon.

After debate, the question was put on the motion and it was agreed to.

Alexa McDonough moved, — That the report be amended on page 2 in fourth recommendation by adding before the word “human rights violations” the following: “environment and/or”.

Debate arose thereon.

After debate, the question was put on the motion and it was agreed to.

By unanimous consent, it was agreed, — That the report, as amended, be adopted as the Committee's report.

By unanimous consent, it was agreed, — That, pursuant to Standing Order 109, the Committee request that the Government table a comprehensive response to the report.

By unanimous consent, it was agreed, — That the Chair present the report to the House.

At 4:17 p.m., the Committee adjourned to the call of the Chair.

Andrew Bartholomew Chaplin
Clerk of the Committee