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—
Chair

The Honourable Rob Merrifield

Standing Committee on International Trade

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• (1100)

[English]

The Vice-Chair (Mr. Don Davies (Vancouver Kingsway, NDP)): I would like to call this meeting to order.

This is meeting 19 of the Standing Committee on International Trade. If everybody could take their seats, we have some very interesting testimony today.

Today we have Mr. Onuoha from Xerox Canada, and appearing as an individual, Professor Van Harten.

We are going to begin with Mr. Onuoha. You have up to 10 minutes for your opening statement.

Mr. Emechete Onuoha (Vice-President, Global Government Affairs, Canada, Xerox Canada): Thank you, Mr. Chairman, and honourable committee members.

[Translation]

Good morning, ladies and gentlemen. I am very happy to be here today to participate in the discussion on the Comprehensive Economic and Trade Agreement.

[English]

My name is Emechete Onuoha and I am the vice-president for global government affairs for Xerox Canada. It is a great pleasure to have the privilege to be before you today.

I thought, Mr. Chair, I would talk a little bit in terms of the background of our circumstance here in Canada and our presence. We will focus primarily on the innovation aspects of trade and the trade liberalization agenda as it relates to creating conditions for innovation and excellence, particularly in the ICT industry.

We were pleased with the Prime Minister's most recent pronouncements in the context of his trade summit in Mexico, linking innovation with the Canadian trade agenda. In that regard, let me share with committee members a little bit about our company to situate the discourse.

Xerox globally is a \$22.3 billion corporation. We employ 140,000 employees worldwide. We operate in 163 countries around the world. We have five R and D centres in four countries, including Canada, the United States, France, and India. We are a leader in business process services, document management, and commercialization of research. This latter point is of strategic importance in the Canadian context, and I will elaborate on that a little bit, Mr. Chair.

We've been operating in Canada since 1954. Canada is one of the most strategically important markets for Xerox Corporation. We

employ about 3,000 here in every region of Canada represented at this committee table. For several years, Canada has been considered one of the top performing operating companies in the Xerox world and we are one of Canada's top 100 employers. We've also established a world-class R and D centre in Ontario, which has received most recently the coveted Green Chemistry Award from the Chemical Institute of Canada for outstanding achievement in research in engineering.

The Xerox Research Centre of Canada, or XRCC as it's called, has a global materials mandate and generates roughly 160 patentable ideas per year. That's three inventions a week, which makes it one of the most productive and prolific knowledge platforms in the world for us. We have managed to attract some of the world's top materials scientists from 35 countries, who now work, live, and pay taxes here in Canada. The XRCC also hires 42 high potential university co-op students, primarily from research-intensive universities right across Canada.

Xerox Corporation is one of the top 100 spenders on R and D in Canada across all industries. At the moment, nearly all of our foreign direct innovation investments come to this province. We're also proud of our Canadian advanced manufacturing operations and our supplies development centre, both of which are located in Ontario. In fact, every digital imaging device and technology that we sell through sprawling market channels worldwide contains intellectual property that was either invented or developed right here in Canada at our research centre. No other IT company in our established competitive space can say that.

We have a mutually beneficial record of achievement. Innovation is recognized by us internally and by Canada as a critical success factor for economic resilience and long-term sustainable development, so these strategic investments in applied research and commercialization are critical success factors for innovation. Given that innovation is the difference between good ideas and great outcomes, or the difference between knowledge, thought leadership, and market leadership, we feel that the creation of an environment that allows for the free flow of individuals and skilled labour mobility is of critical importance. This is one of the provisions with respect to the CETA arrangement that is of strategic importance to Canada, given the amount of business we do in terms of exchange of skilled personnel between our European counterparts and our Canadian research facility.

As a leading information technology company, Xerox continues to attract talent worldwide. In order to enhance Canada's continued economic resilience well into the 21st century, results-based private sector investment in value-added R and D and commercialization of research is mission critical. Foreign direct investment, which is another thing we focus on to try to ensure that our corporate colleagues understand the utility and the value of foreign direct investment in Canada, is something that is critical for our success going forward.

• (1105)

In addition to financial resources, many companies with promising ideas and/or technology lack the research, development and engineering, RD and E, infrastructure, processes, and management expertise required to move potentially profitable products and services from mind to market through effective commercialization. This free market movement, again one of the hallmarks of a liberal trade agenda, is a critical success factor for us as well.

This kind of commercialization expertise is not necessarily widespread in Canada, but it does exist. In collaboration with the private sector community of practice and relevant industry stakeholders, the Government of Canada, Industry Canada, may want to consider development of an accurate inventory of private sector enterprises that have established, robust RD and E capabilities that could be utilized by promising businesses that do not have said capabilities. By virtue of accurately mapping out these capabilities, opportunities would exist for collaboration.

Currently we're investigating using our RD and E facilities to enable small and medium-size Canadian enterprises that do not have the capacity for commercialization to actually undertake prototype and advanced research and development using our facilities to help them become export ready, which, as you know, is a critical success factor going forward and will be enhanced by enhanced market access through the CETA instrument.

Xerox continues to leverage the Canadian advantage through our global materials mandate assigned to the XRCC, which, as I stated, generates over three inventions a week. As a result of this prolific IP turn, we continue to see Canada as a favourable destination for foreign direct investment for my corporation.

I should state that in various areas that are of strategic importance to Canada, whether it is health and biomedical research, or energy research, as well as ICT-related research, material science is of critical importance and positions Canada to be a globally unrivalled competitor in this space. Insofar as material science research runs through some of the most important and strategically prioritized areas of scientific inquiry in Canada, we feel that our contribution through the globally mandated Xerox Research Centre will continue to generate value on a go-forward basis.

With that in mind, we are happy to participate in any discourse that speaks to the long-term economic resilience of Canada and also speaks to the importance of trade liberalization and a rules-based trading framework. We believe that Canada is a natural platform for innovation. We believe that when we are coordinated and focused on such things as commercialization of research, development and engineering, Canada presents largely unrivalled opportunities going forward.

With that, Mr. Chair, I will conclude my remarks. I'm happy to yield the floor to my colleague.

The Vice-Chair (Mr. Don Davies): Thank you, Mr. Onuoha.

Mr. Van Harten, you have the floor for up to 10 minutes.

Dr. Gus Van Harten (Associate Professor, Osgoode Hall Law School, York University, As an Individual): Thank you very much, Mr. Chair. It's always an honour to have the opportunity to present to this committee.

The Canada-EU CETA was announced in October as having been a completed deal. Since that time over four months ago, still no text of the deal is available publicly, so it makes it very difficult for someone like me, who is a specialist in investment aspects of the deal and could look very closely at the investment chapter, to say much about what the deal actually does.

I ask myself, why is there no text at this stage?

One explanation seems to me to be because the negotiations are still ongoing. The second explanation seems to me to be that there's some other reason not to disclose the text. Whatever the reason, I would like to stress that the text is very important to evaluate the cost and benefits of any trade or investment agreement. There's really no basis for informed public scrutiny or analysis or debate or evaluation of a trade and investment agreement without a public text of the agreement.

I would compare this to real estate agents telling you to buy a house, that it's a really good deal, but they're not going to let you look at the actual buy and sell agreement, the actual agreement to sell the house, and they're not going to let your lawyers look at that agreement; you should just commit to buy it. We wouldn't buy a house in those circumstances, and I suggest that from my perspective as a specialist in the details, it really is not a good idea for anyone to be lauding an agreement without the ability to have informed public scrutiny and debate about a text.

I should add, if you disclose a text, that allows for a certain seriousness and rigour in the evaluation. In my own experience, when I reviewed the text of the Canada-China FIPA about a year and a half ago, it's only by peeling away various layers of how certain provisions work that you can uncover things like the fact that in that FIPA, Chinese investors were given full market access in principle to the Canadian economy, and Canadian investors were not given any market access in principle to the Chinese economy.

Carrying on to the Canada-EU CETA, how can we judge this trade agreement in the absence of the text? I rely primarily on two sources.

First is a technical summary. It's called a technical summary of the CETA that was released by the government in October. That summary has a number of bullet points on investment that make certain statements or claims about what's in the CETA.

Second, I'm aware of what purports to be a leaked draft of the investment chapter of the CETA. That draft is dated mid to late November, so it comes a month after the announcement of the CETA deal being concluded.

Having reviewed those two documents, I'd like to highlight just a few issues that I think are important.

First of all, in the leaked draft text, clearly portions of the investment chapter are not yet agreed. The text is marked in certain colours of ink to indicate which side has proposed text that has not yet been agreed. While you might expect there would be some minor issues that you'd be cleaning up after the deal was done, the items that are not agreed in the leaked draft that I've seen from November are quite significant issues.

For example, in any trade or investment agreement that provides for investor-state arbitration, Canada has never agreed to a so-called umbrella clause, but there's a proposal from the European Union to include an umbrella clause in the Canada-EU CETA, and that is marked as outstanding.

If an umbrella clause were included in the CETA, the way umbrella clauses have been interpreted by some tribunals, in effect that would mean that they elevate any obligation of any governmental entity in Canada to the level of a treaty obligation.

• (1110)

For example, if you are a municipality that has concluded a contract with a European company, and that contract provides for disputes under the contract to be resolved in Canadian courts via an umbrella clause in the CETA, there will be imported into that contract a right of the European company to take any disputes with you about the contract outside of the Canadian courts and have the contract itself interpreted separately through the investor-state arbitration process.

In effect, you're rewriting many, many public sector contracts around the country if you include an umbrella clause. I'd just highlight that as a very significant decision that is not yet agreed, if we can rely on the leaked text that's gone around, dated November 2013.

Another point is that in the technical summary of the CETA, there is a statement that the Investment Canada Act has been carved out of the CETA. However, in the leaked text of November 2013, that's not yet agreed. There's red ink to describe a Canadian proposal to carve out the Investment Canada Act from the dispute settlement provisions in the CETA.

It's very typical for Canada to carve out the Investment Canada Act in that way from other concluded treaties that provide for investor-state arbitration, but it seems to me that this has not yet been agreed by the European Commission. Of course, whether it's been agreed to or not, I don't know, but it's impossible to really verify that until we see an actual text.

If the Investment Canada Act were not carved out of the CETA, it would mean that not only European companies in Canada, but also American companies, based on most favoured nation treatment principles in the NAFTA, would be able to raise objections about Investment Canada Act decisions, for example, on national security issues, in the context of investor-state arbitration. That is outside of any judicial process, whether Canadian, European, or international in some other way.

Mr. Chair, please do let me know if I reach the end of my time.

• (1115)

The Vice-Chair (Mr. Don Davies): You have about three minutes left.

Dr. Gus Van Harten: Okay. Thank you.

Maybe I'll just highlight one other aspect that I thought was significant in light of both the technical summary and the leaked draft.

The technical summary makes a claim that the right to regulate of Canada and of European governments has been preserved. There's also a reference to a protection of sovereign control over natural resources.

I word-searched “sovereign” and I word-searched “regulate” in the leaked draft. I looked at it closely. No provision states that the right of anyone to regulate is protected, or uses the words “sovereign control”. Perhaps it is in the treaty—we can't verify it, of course, until the text is public—but based on the leaked draft of the investment chapter I have seen, there are, I think, some significant issues that are outstanding.

The last point I'd like to highlight is this: why have an investment chapter that provides for investor-state arbitration at all in a trade agreement between Canada and the European Union? This is a question which a lot of people ask. When we think about the history of investor-state arbitration, really it was to provide security to foreign investors in countries where the domestic courts were not thought to be reliable and independent.

I really don't think that claim can be made about Canadian courts and European courts. If there are concerns about some of the accession countries in Europe, Canada already has FIPAs with almost all of those countries. For Canadian investors in Romania, for example, or in Poland, if we had concerns about those courts—I'm not saying we should, but if we did—Canadian investors already have access to investor-state arbitration in existing FIPAs for those countries.

My question really is this: what's wrong with the European Court of Justice, with the European Court of Human Rights, with Canadian courts, with the Supreme Court of Canada, such that foreign investors need to have the right to opt out of the court system and bring claims against the public purse in Canada and Europe to an arbitration process that is clearly not independent, open, procedurally fair, and balanced in the manner of a judicial process, whether domestic, regional, or international?

That concludes my comments. Thank you very much.

The Vice-Chair (Mr. Don Davies): Thank you, Mr. Van Harten.

Monsieur Morin, you have the floor for seven minutes.

[Translation]

Mr. Marc-André Morin (Laurentides—Labelle, NDP): Thank you, Mr. Chair.

Arbitration mechanisms are a serious cause for concern for anyone who has seen the repercussions they can have. Questions come to mind. Who participates in these arbitration mechanisms? Who will be the arbitrator? Who appoints them? Those are some of the questions that come to mind.

[English]

Dr. Gus Van Harten: I'm afraid my French is not that good, but I understood you to ask who the persons are, in a sense, in the arbitration process.

I don't have a translation device.

The Vice-Chair (Mr. Don Davies): There should be a translation earpiece close by.

Dr. Gus Van Harten: Thanks very much. I obviously need to come here more often.

Mr. Ed Holder (London West, CPC): Chair, without taking away from his time, if Mr. Morin wants to ask that question again, I think it's only fair.

• (1120)

The Vice-Chair (Mr. Don Davies): Thank you, Mr. Holder. That's very generous of you.

Monsieur Morin, would you like to rephrase the question?

[Translation]

Mr. Marc-André Morin: In French?

The Vice-Chair (Mr. Don Davies): Yes.

Mr. Marc-André Morin: We now have simultaneous interpretation.

I was asking myself a few questions. Who are the members of the arbitration tribunals? Who appoints those people? Do we have a say in it or is that yet another thing out of our control?

[English]

Dr. Gus Van Harten: If it were a judicial process, there would be a roster of individuals who are members of the court. They would be assigned case by case based on some rules of the court, whether through rotation or random assignment, some decision of the chief justice of the court.

In this case there are three arbitrators. One would be chosen by the claimant, the foreign investor. One would be chosen by the respondent country. It would be the federal government if Canada were sued. If they couldn't agree on the third arbitrator, that arbitrator would be chosen by a World Bank official. These arbitrators tend to have a background in commercial arbitration. Some of them are academics. A lot of them are very good people. I don't wish to cast aspersions on anyone, but from an institutional point of view, this is not the judicial process we would be used to when matters of what I would describe as public law importance.... What can a sovereign entity do in the exercise of its sovereign authority? How much is that going to cost the taxpayers? Elsewhere, that's always something that can be ultimately resolved in a court. Here it's taken out of a court process and given to, in effect, a private arbitration process.

That's the semi-long answer.

[Translation]

Mr. Marc-André Morin: How are those people chosen? Are they chosen from a pool of recognized experts in the field? Do they come from law firms specialized in trade? Are they chosen at random? It is impossible to tell whether political influences are at work in their appointment.

[English]

Dr. Gus Van Harten: I personally have raised concerns. In the literature, in the discussion about it in the field, it's usually called the club. The arbitrators come from the club of arbitrators. I think it's fair to say they appear to have an interest in favouring claimants, because if claimants don't bring more claims, they're not going to get more appointments. They get paid by the day or the hour, per appointment. They're not like courts with judges who have secure tenure and have a guaranteed salary from the state, and so on.

Yes, you always have to wonder if the arbitrators will be thinking about who has the power to appoint them in future cases. When you give executive officials the power to appoint the judge case by case, that just doesn't satisfy basic requirements of judicial independence that we've recognized for a long time, at least in a common law context.

[Translation]

Mr. Marc-André Morin: The other question we have to ask ourselves is this. Is there a right to appeal or are these decisions irrevocable?

[English]

Dr. Gus Van Harten: It depends a bit. If the claim is brought at ICSID, which seems quite possible under the Canada-EU CETA, there would be an opportunity to seek annulment of an award. The annulment committee would be made up of three other arbitrators, all of whom are appointed under the authority of the president of the World Bank. They tend to take a light-touch approach in review. For example, they wouldn't correct what they would consider to be errors of law.

With ICSID, this is entirely outside of any judicial process. This is simply arbitrators. There's no opportunity for review in any court.

[Translation]

Mr. Marc-André Morin: I believe you said in previous testimony that Canada had never won any similar cases before a tribunal like that.

[English]

Dr. Gus Van Harten: Canada has won about half of the time when they have been sued. But Canadian investors, when invoking the investor-state arbitration mechanism under NAFTA against the United States, or in a number of FIPAs against a number of countries, have a record of zero wins and eighteen losses. That's quite striking when you consider that typically investors have about a fifty-fifty success rate.

• (1125)

[Translation]

Mr. Marc-André Morin: With similar agreements, could a municipality or province that has privatized a public service regain control—I am thinking of a water system, for instance—if the quality of the service was bad or if the terms of the contract were violated? For example, could a city that privatized its water system take it back?

[English]

The Vice-Chair (Mr. Don Davies): Monsieur Morin, your time is up. I'm going to allow the witness just a brief opportunity to respond.

Dr. Gus Van Harten: Many of the disputes under these kinds of treaties involve what I would call privatizations gone wrong. A privatization contract has been concluded, is put into effect, and there is public concern—public opposition, or the government has concerns—about how the private operator is conducting itself.

These lead to arbitration claims, and much to the surprise of, for example, a municipality, what they thought they had agreed about dispute settlement in the privatization contract—the privatization contract might refer disputes, for example, to domestic courts—it regularly has not provided any kind of block on the treaty arbitrators' inserting their role and, for example, awarding public money to the private operator, including for revenues that the operator would have earned going forward had the problems with the privatization contract not taken place.

The Vice-Chair (Mr. Don Davies): Thank you, Mr. Van Harten.

Mr. O'Toole is next, for seven minutes.

Mr. Erin O'Toole (Durham, CPC): Thank you, Mr. Chair. I'd like to say that it's good to see our vice-chair serving in this capacity today.

Thank you to both witnesses for appearing.

Mr. Onuoha, I appreciate your comments. I'm going to restrict most of my time to Mr. Van Harten, but I find the bookends that you signify together very appropriate today. In many ways your talk about innovation, about the centre in Ontario as part of the globalization of clusters or centres of excellence, is something we've heard before, in particular in relation to appearances on CETA and to the fact that many global companies are developing that cluster concept.

Mr. Van Harten, as I said at the outset, I feel as though I know you, because I see your name in so many e-mails. You have a very impressive academic background, and your passion is evident.

Do you have experience outside the academic setting in the private sector? I recognize that you have clerked and been involved with some very important inquiries as well. Have you worked in the private sector as a lawyer or researcher?

Dr. Gus Van Harten: Have I worked in the private sector as a lawyer or researcher? No.

Mr. Erin O'Toole: Generally, at the outset is it fair to say that you're in favour of liberalization of trade and of globalization of trade, or would you consider yourself more of a skeptic or someone concerned about the process of liberalized trade?

Dr. Gus Van Harten: It's interesting. When I first encountered this stuff about 15 years ago as a student, I was quite skeptical. I encountered it especially through an agreement called the Multi-lateral Agreement on Investment, and at that time I had a lot of reservations. Since doing my Ph.D., I've come to view, for example, the World Trade Organization as a very important institution.

I certainly support classical trade liberalization, that is, removal of tariff barriers and other kinds—direct and obvious non-tariff barriers. But I think the trade regime has extended into a lot of new areas, and investment is probably the most significant, in which this has gone beyond the classical debate about trade liberalization. I think there can be positive aspects of that extension, but there can also be quite significant negative consequences. We've seen those emerge in, I'd say, the last five to ten years, with the increasing invocation of these kinds of investment provisions by companies in areas that you really wouldn't associate with the typical trade liberalization agenda.

• (1130)

Mr. Erin O'Toole: The reason I asked the previous questions is that my experience prior to Parliament was as a lawyer. I certainly wasn't smart enough to go on to my Ph.D., but for five years I was a lawyer for a global company operating in Canada—actually the largest private sector employer in this part of Ontario—making and manufacturing products that are now sold around the world. That was a result of NAFTA, under which they specialized their manufacturing, and now in Brockville and Belleville they make products that are sold not just in Canada but around the world.

In the private sector there's a comfort level with arbitration, for certainty and reduced cost and delay. You're called to the bar in Ontario. Are you familiar with the mandatory mediation aspect of the rules in Ontario?

Dr. Gus Van Harten: Yes, I'm loosely familiar with it.

Mr. Erin O'Toole: This is a rule of civil procedure which actually mandates mediation in some cases and mandates it specifically to reduce the costs and delays associated with litigation.

Do you have any comments on the fact that Ontario, the jurisdiction you're called in, actually recognizes that litigation can be costly, can lead to delay, and can lead to uncertainty that businesses tend not to like?

Dr. Gus Van Harten: Frankly, that's an excellent question which I very much appreciate.

First of all, I fully support mediation. ADR, alternative dispute resolution, is very positive, if it can save costs, if it can speed up the resolution of disputes. If the parties are more comfortable with resolving a dispute that affects them primarily or only, I completely support it. I don't think courts should in any way try to interfere with those kinds of processes.

I think there are some contexts to which arbitration is just not well suited. In a basic public law context, let's imagine that criminal law or charter disputes could be resolved through arbitration without any possibility for review in a court. How would, for example, the accused person feel, if the accused person knows that the arbitrators, whose business, really, is arbitration, are not going to get appointed anymore unless there is a certain number of successful prosecutions? It's just not a context in which arbitration is used, and it shouldn't be used.

When we took commercial arbitration out of commercial disputes, disputes between companies, and put it into the investment chapters of trade agreements and FIPAs, that dejudicialized the dispute resolution process.

That is an essential concern that I have. You can make arbitration much more judicial than it is in investor-state arbitration. State-to-state arbitration, for example, under NAFTA is far superior to investor-state arbitration.

Mr. Erin O'Toole: You referenced the fact that it's taking disputes out of the traditional judicial process in some of the countries you discussed in your remarks. I know you're an expert in public international law. Private international law is also an example of an area in which there has been years of delay and millions of dollars spent for arguments related to choice of law, choice of forum, even in cases in which it is specified in a bill of lading.

Do you not understand that at least arbitration, and we're talking about specialized arbitration, provides certainty in a time when companies really can't afford three to four years to argue choice of law and choice of forum before getting to the root dispute?

Dr. Gus Van Harten: Yes. I support international commercial arbitration, what I would call forums of arbitration where it's classical, it's reciprocal. Either side can sue each other. The companies can sue each other under the contract. If it's a state and a company, they can sue each other under the contract.

We have a situation, though, in which the treaties allow treaty arbitrators to override the contractually agreed arbitrators, so that you have a contract between a state entity and a company that provides for arbitration, and the treaty arbitrator says no, they'll decide that dispute, even though the contract—

Mr. Erin O'Toole: If the parties have agreed to that level of power, is it not something that sophisticated parties can agree can happen on rare occasions?

The Vice-Chair (Mr. Don Davies): I'll allow a quick answer, please.

Dr. Gus Van Harten: My point would be yes. That's the point: the contract includes agreements to go to commercial arbitration. That's entirely appropriate. But the treaty arbitrators have not done what courts would typically do, which is show deference to party autonomy based on the contract. They don't use *forum non conveniens* principles, for example, to show deference, to allow the contractually agreed forum to run its course.

If there's a problem and the state tries to override that forum and won't enforce the award, then fine, the treaty arbitrators can become involved.

Mr. Erin O'Toole: The body of case law—

The Vice-Chair (Mr. Don Davies): I'm sorry, but you're out of time.

• (1135)

Mr. Erin O'Toole: —in *forum non conveniens* shows the delay and uncertainty again.

The Vice-Chair (Mr. Don Davies): Mr. Pacetti is next, for five minutes.

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): Thank you, Mr. Chair, and welcome to your new position.

Thank you to the witnesses for coming forward today. It's an interesting panel.

I have a question for you, Mr. Onuoha. From your presentation, it sounds as though you're already doing well. It sounds as though you have everything you need. You're able to attract top researchers, scientists, whatever highly skilled people you need.

What do you need CETA for? What's in it for you?

Mr. Emechete Onuoha: It's a great question, and thank you.

Our objective is really around sustainable, profitable growth. Even though we've been conducting our business in Canada since 1954, and we've been conducting our value-added advanced materials research in this country since 1974, our objective is really to grow investment. We don't necessarily take comfort in the status quo of our business, and our business is changing. The nature of our business in 1954 and even beyond that in 1974 is far different currently from what it was previously. As an example of that, traditionally our business was driven by generating profit and revenue from selling technology hardware that puts marks on paper. The Xerox brand has been made world famous as a result of the art and science of basically selling boxes that put marks on paper.

About 15 years ago, well over 85% of our revenues was generated by the sale of those technologies. Today, I stand before you representing a company that has less than 50% of our revenues generated by traditional hardware technology sales worldwide. We are moving into the distribution of services and advanced business process outsourcing.

The short answer to your question is that our markets and the nature of demand are changing, so the nature of the research, development, and engineering that we have to do in this country is changing as well in order for us to maintain a competitive edge against our external competitors. Indeed, the most intense competition for foreign direct investment for my company is internal versus external. As I mentioned in my remarks, there are no other companies that are doing this type of research.

Mr. Massimo Pacetti: This leads me to my next question.

You can't tell me there's no scientific research going on in other parts of the world by Xerox. You're a worldwide company. Why choose Canada? In future years, why choose Canada over the European countries?

Mr. Emechete Onuoha: As a proud Canadian, born and raised in Canada, my priorities are always to feature the best interests of our country. I honestly believe, although it is parochial, given my citizenship, that Canada is a favourable destination for foreign direct investment.

Mr. Massimo Pacetti: Even though the market is bigger in Europe?

Mr. Emechete Onuoha: Absolutely. We're talking about how we incubate our research, development and engineering framework. When you look at the framework conditions here in Canada, we have one of the most prolific knowledge platforms. You're quite right, Mr. Pacetti. We have research centres in France, two in the United States, a joint centre in Japan, and a new research centre in India, but the single most productive research, development, and engineering platform in the world for us is right here in Canada. That's not necessarily because of our geographic location. It has a lot to do with the critical success factors for knowledge work, which is the flow and settlement capacity for foreign....

At our research centre, our researchers represent 35 countries around the world. Canada is seen as a favoured destination for some of the world's most respected and talented researchers because we have a framework that allows for immigrant settlement and integration of not only our researchers but also their families. Therefore, the labour mobility provisions are critical in terms of the CETA.

We also have a framework that our research centre exists in the proximity of some of the world's most pronounced research-intensive institutions focusing on material science.

Mr. Massimo Pacetti: In reverse, will the CETA help any of your competitors? They'll have easier access to this great knowledge and productivity that we have here in Canada.

Mr. Emechete Onuoha: Philosophically, we have an outlook which suggests that in a fair and reasonable competitive framework, where rules dominate in the international trading environment, all ships rise under the conditions of fair and reasonable rules. The short answer to your question is that yes, our competitors should benefit as well from provisions that make it easier to move talent across borders. Our competitors should benefit from eliminating particularly the tariff but also non-tariff related barriers to trade, and the free movement of commodities, people, and ideas.

On that point, I should also mention that we're in the ICT industry. The information communications technology industry is concerned about such things as the free movement of data across borders. This is an issue for us which we raise whenever we're consulted by national and subnational governments on instruments of this nature. We'd like to see the ability for data, for example, to migrate across borders in terms of supporting our business operations worldwide.

Indeed, we believe our competitors will benefit from CETA and other intelligent trading instruments worldwide, as well, in the interest of a liberalization agenda.

● (1140)

The Vice-Chair (Mr. Don Davies): Thank you, Mr. Pacetti.

Mr. Cannan, for seven minutes.

Hon. Ron Cannan (Kelowna—Lake Country, CPC): To follow up on Mr. Pacetti's comments, the fact is this CETA agreement will make Canada one of the only G-8 countries in the world that will have an agreement, as you mentioned, a rules-based free trade agreement, with two of the largest economies, with the EU and the U.S.

I represent the riding of Kelowna—Lake Country in the Okanagan. Innovation technology is a big aspect in working with our college and university, and we have an incubator and an accelerator as well. I was really excited when I heard your comments on three patentable ideas a week, about 160 a year. I think that's very exciting out of one company. We're trying to expand that mindset across Canada. One in five jobs is based on trade.

Mr. Onuoha, in your comments you alluded to the fact that Xerox wants to work with small and medium enterprises, and the term you used was to get them "export ready". I'm really excited about that because right now we have so many opportunities for small and medium-size businesses. Most of them that are exporting are doing so just to the United States, which continues to be our biggest ally. How do you see Xerox playing a role with the SMEs to get them export ready? How can we work as a government to work with you to see that come to fruition?

Mr. Emechete Onuoha: Mr. Cannan, thank you for the question.

One of the challenges we see even within our own supply chain in Canada is that there are many companies that have really promising IP and promising technologies that they can't scale up or they can't actually optimize in terms of even prototyping.

One of the things we have done, given our natural skill in terms of commercialization of research, is we have identified the capacity in our Canadian research centre to actually utilize some of our surplus research ability to help those fledgling Canadian companies actually continue the RD and E process by using our platforms and the infrastructure and capital that we've already invested in here.

An example of this is we've already initiated some work that is in partnership with the National Research Council's flagship programs, where the NRC is trying to commercialize research in a more applied scientific fashion that is more focused and market connected. We are actually the platform in tier one of the flagship research program related to printed electronics which, as you may know, Mr. Cannan, is relevant to advanced additive manufacturing, in particular, 3-D printing. My company is actually a world leader in the production of 3-D printheads, which is one of the two critical components of standard 3-D printers. Through this interaction with the NRC, we're actually using our research platform to further incubate and extend applications that have been developed by Canadian companies that don't have the capacity to scale those up. In addition to doing fundamental research and basic research at our research centre, we also have an integrated prototyping plant, as well as a supplies development manufacturing centre.

The unique feature of that structure is that all three of those components are actually housed on one compound underneath one roof. It is the most unique facility of this nature in Canada. It's one of only two or three in North America, and one of only six or seven in the world.

By virtue of having all of those attributes in the value chain located in one facility, we have the ability to present the research centre as a turnkey RD and E option, if you will, for promising companies that have technologies that can benefit from material science.

As I mentioned earlier, there are four areas, four lines of scientific inquiry that are deemed to be of global, competitive, strategic importance for Canada relating to health and biomedical research, as well as ICT research, and energy research going forward, and certainly material science plays a role in all of those areas.

We're leveraging our platform, and we've been in discussion with the Government of Canada and Industry Canada on these points. Two weeks ago I had the opportunity to speak with Minister Fast on some of the work we're trying to do.

This isn't theory. This is actually something we have voluntarily undertaken to do using our platform and in keeping with our objective to be a responsible corporate citizen and utilize our assets in the interests of developing the resilience and the profitable growth and export readiness of Canadian companies.

• (1145)

Hon. Ron Cannan: It's very exciting news and I'm going to try to tap in with constituents and Industry Canada and NRC. I know Minister Fast is doing an outstanding job continuing to work with Canadian businesses across all the spectrum, and on February 14, along with my colleague Mr. Holder, there was some sharing the love in London, Ontario with the announcement of the contract with Saudi Arabia and Canadian businesses expanding opportunities. It's another example of our trade expansion.

Specifically with 3-D printing, I was trying to get my head around 3-D and now they're looking at 4-D printing. I was watching something on that on my iPad the other day.

That's really an interesting and exciting opportunity, specifically with CETA. They have very comprehensive labour and environmental standards in the EU and we're looking at working there.

As far as patent extension, is that something you see as a benefit to your company and also for innovation and technology as well?

Mr. Emechete Onuoha: Sure. The most compelling patent provisions and IP protection provisions relate to the pharmaceutical industry rather than our industry. However, because of the prolific nature of our IP production not just in the Canadian operation, but also in our other research centres in the United States, India, and France, the provisions around IP protection and any provisions around intellectual property are of significant importance to my company.

Again, one of the things that we're trying to facilitate... As a multinational corporation we succeed when we can leverage skill and scale across our entire organization, but the propensity for us to make foreign direct investments in IP creation that might be at risk is going to be reduced. This is one of the reasons we're always so concerned about this notion of IP protection, whether it be in multilateral or plurilateral instruments or in the domestic framework. We've given testimony to your colleagues on the industry committee and submitted content to the Department of Industry as well in that regard.

IP protection provisions as they relate to a multilateral instrument like the CETA are of compelling importance, and indeed, the lifeblood of being able to commercialize and monetize the knowledge work that we do right here in Canada and at our other locations around the world.

The Vice-Chair (Mr. Don Davies): Thank you.

Madam Liu, for five minutes.

Ms. Laurin Liu (Rivière-des-Mille-Îles, NDP): I'm going to you, Mr. Van Harten, on the subject of investor-state dispute settlements.

We know that negotiations between the EU and the United States in the context of the transatlantic trade and Mexican partnership have been put on hold for three months in order to allow the different parties to proceed with public consultations on the investor-state dispute settlement process. Do you think the Canadian government should do the same?

Dr. Gus Van Harten: I think that's a very important point in that since investor-state arbitration was on the table for the European Union in its relations with the United States, many European officials at the national level and at the regional level have expressed concerns about assuming the fiscal risks and the regulatory constraints associated with investor-state arbitration when you're dealing with major foreign companies that are going to be covered in that way.

From the Canadian point of view, to me it couldn't be clearer that the Canadian interest is to avoid including investor-state arbitration in the CETA because of the much greater role that European companies can be expected to play in the Canadian economy. In a way, when the shoe is on the other foot with the Europeans, there has been this great deal of public concern.

What's slightly ironic about that is I was told by a European Commission official that it was Canada that asked for investor-state arbitration in the Canada-EU CETA. I don't know whether that's true or not, but if that is true, I really can't imagine what the explanation could be for that.

• (1150)

Ms. Laurin Liu: Yet there aren't any public consultations going on here, so that's definitely a preoccupation for us.

We know the federal government is responsible for the signature and the ratification of international treaties, but provinces had exclusive jurisdiction over certain areas. For certain exports in cases of non-execution by a province of an international treaty, is it true that the federal government could be responsible for the compensation?

Dr. Gus Van Harten: Yes, it's a very odd situation in that the federal government may conclude a treaty without the provinces having ratified it. The treaty may then be interpreted by these arbitrators as having been violated by a province, but then it's not entirely clear who should bear the cost of the award. Is it the provincial government that made the decision that's been found to have been unlawful by these arbitrators, or is it the federal government that concluded the treaty?

We have a very strange situation coming out of one of the recent NAFTA decisions. It's a couple of years old. It's a Mobil Oil case where a regulatory board in Newfoundland and Labrador put in place research and development expenditure requirements, and NAFTA exemptions for the relevant legislation were interpreted very narrowly by two of the three arbitrators. In the end, the arbitrators have indicated they will order the federal government—or they'll order Canada, presumably the federal government—to pay compensation to the investor to make up for the R and D expenditure costs that are applied by the provincial level going forward for decades, which is just a very odd situation.

Ms. Laurin Liu: For the case on the side of Europe, would it be the European Union, or would it be the individual countries that are part of the European Union that would pay in the case of litigation?

Dr. Gus Van Harten: The last I heard several months ago is that this is still under discussion in Europe, and the European Commission has indeed committed to the member states that it will not finalize the CETA until it's resolved politically, especially in the European Council in discussions with the European Parliament and the European Commission who is going to bear the fiscal liability. In Canada we haven't faced a multi-billion-dollar award yet. It's when the multi-billion-dollar award comes that no one's going to want to pay that. I think it's sensible from a Canadian point of view as well as a European point of view to work that out in advance.

Ms. Laurin Liu: Mr. Onuoha, we are very proud to have the Xerox Research Centre in Mississauga, and it's great news it's one of your highest performing R and D centres.

Do you have any idea of what kind of expansion of R and D would take place in Canada as a result of CETA?

Mr. Emechete Onuoha: It's hard to pinpoint precisely the relationship between foreign direct investment at that centre and the CETA arrangement.

Ms. Laurin Liu: Would you be able to give us any specific information on how much and when that would be up in the air?

Mr. Emechete Onuoha: In terms of a monetary amount, it would be premature to do so at this point. What I can comment on is the objective of eliminating some of the rigidities associated with the free movement of our talent, particularly as you may be familiar with the intra-corporate transfer provisions of the CETA, which is a critical success factor for us.

The ability for us to move talented individuals from wherever they exist in the world.... Many of them exist among the 28 EU member states. Our ability to move Canadians into the European market and Europeans into the Canadian market for the purposes of 12-month exchanges and interaction with a minimal amount of rigidities associated with that mobility is a critical success factor for us. It really is, although I can't put a specific number on it at this point.

The Vice-Chair (Mr. Don Davies): I'm sorry, Mr. Onuoha. There has been a point of order raised.

Mr. O'Toole.

Mr. Erin O'Toole: I would like him to finish.

Are you finished your remarks?

• (1155)

Mr. Emechete Onuoha: I'll just conclude by saying that although I can't put a numeric figure on the proposed expansion, we do know that the demonstration of a culture of ambition, and the incentive or the intention to create conditions for more investment demonstrated by the government and the trade agenda here in Canada strengthens our case that Canada should be perceived as a favoured destination for foreign direct investment.

The Vice-Chair (Mr. Don Davies): Thank you, Mr. Onuoha.

Mr. O'Toole, do you have a point of order?

Mr. Erin O'Toole: Yes, Mr. Chair.

In the honourable member's question, she made a statement that there has been no public consultations on CETA. I'd like the record to be corrected in that regard because certainly not only have there been public consultations through hearings here in Ottawa, but the committee actually travelled to both Halifax and Vancouver to hear from members of the public and stakeholders in a public consultation which she claimed did not take place.

It's just a clarification.

The Vice-Chair (Mr. Don Davies): Fair enough, thank you. I think I would regard that more as a point of debate, not a point of order, but your position has been noted.

Mr. Erin O'Toole: It's a point of order for the purposes of the record.

The Vice-Chair (Mr. Don Davies): Thank you.

Mr. Holder, for five minutes to conclude.

Mr. Ed Holder: I'd like to thank our guests for being here.

Frankly, if those public consultations had been in the great riding area of Mississauga, obviously my colleague would have been part of that as well.

I might say, Mr. Onuoha, that if for any reason Mississauga doesn't fulfill all your requirements, the great city of London, Ontario, the 10th largest city in Canada, which is just down the road, would be more than pleased to absorb any excess R and D that you do.

Mr. Van Harten, welcome back to our committee.

You remind me a bit of my Cape Breton mom. In a real sense, my thought of her was that no matter how much she knew about a subject she had an opinion on it. That was my mom. You have a lot of opinions. The reason I bring that up is you said that without the text you can't say much, but my God, you sure said a lot.

I have a couple of questions, if you'd allow me, please.

I found it very interesting and very reasoned in terms of your approach, at least the tenor of your dialogue, but something you said actually quite surprised me. It's not the part where you said that you'd like to eliminate non-tariff barriers. Quite true. I might add there probably isn't one guest of ours, one witness who hasn't come forward that would say, "We'd love to eliminate non-tariff barriers."

That always becomes the tricky part, because what we can do at the legal end, if you will, and the contractual end is do those kinds of things, and if we don't have some kind of a dispute settlement mechanism to try to reduce the impact of those non-tariff barriers... because those are the most insidious ones I think for any country, frankly, and for any business that's trying to do business. I say this as a business person; it's the most challenging part.

The question I have for you is on something that probably struck me most of all. You were talking about dealings with claim arbitrators. You made reference to challenging their judicial independence in your first series of comments and questions. You said because they were appointed the way they were that there was a bias in their judgment. I think this is really critical, as it gets to the credibility of arbitrators. Do you have any specific proof? I ask this as a sincere question to you. Do you have any specific proof that arbitrators have biased their judgments on a claim because that arbitrator was appointed? Do you have a specific reference you can make to that?

Dr. Gus Van Harten: With judicial independence, the concern is to remove reasonable perceptions of bias.

Mr. Ed Holder: Got it.

Dr. Gus Van Harten: We want to ensure confidence of the parties and the public.

Mr. Ed Holder: Got it.

Dr. Gus Van Harten: On actual bias, I never allege actual bias. That's not the requirement from the point of view of judicial independence, because to establish actual bias, you really require an admission from the person. We don't put judges on the stand and ask them, "Are you biased?"

Mr. Ed Holder: Why did I get the impression, sir, and I don't imagine that I'm alone here, that somehow in the comments that you made—and we can go back to the testimony to be clear. I think I'll want to do that; I'll go back to the blues and your comments—I got the very distinct sense that you were challenging the credibility of arbitrators, that their judgments would be biased because they were

appointed? I understand the principle of potential for bias. That's why I ask you the question.

Do you have a specific reference where you have seen, or that has been established, that because an arbitrator was appointed, that has somehow biased their judgment?

Dr. Gus Van Harten: We can test—

• (1200)

Mr. Ed Holder: That's a yes or no answer, though, first, and then you can go into it. Is that a yes or a no?

Dr. Gus Van Harten: Can you repeat the question, please?

Mr. Ed Holder: I'll try, if I can add to my time, Chair.

Do you have a specific example of an arbitrator who was appointed, that as a result of their appointment, their judgment was biased in the resolution of a claim? I'm saying it slightly differently, but it's the same.

Dr. Gus Van Harten: I've never alleged.... I assume all arbitrators come at this without bias.

Mr. Ed Holder: Then you don't have the issue that because they're appointed, that would somehow bias their judgments. That's not the issue.

Dr. Gus Van Harten: There is empirical research, including some I've done, that looks at systematic trends. It's social science research. It doesn't prove causation; it proves correlation. But there is evidence to support concerns—

Mr. Ed Holder: I have a degree in philosophy, which means I went into the insurance business. I understand causal connection. I even actually understand nihilism, not that it relates to anything that we're talking about today—well, actually it might relate a lot to this, Chair.

I'll take that as a no. You have not seen a specific claim of bias because a judge, an arbitrator, was appointed, notwithstanding the theory of it.

Dr. Gus Van Harten: Parties make that claim themselves, investors and states. They challenge individual—

Mr. Ed Holder: But you're not making that claim?

Dr. Gus Van Harten: Oh, no.

The Vice-Chair (Mr. Don Davies): I'm sorry, Mr. Holder, your time is up. I'm going to give the witness a brief opportunity to respond to those riveting questions.

Mr. Ed Holder: Thank you.

Dr. Gus Van Harten: Basically, the problem is we should have the usual institutional safeguards of judicial independence in the final resolution of public law. These arbitrators are deciding whether or not the public should pay potentially billions of dollars because a government passed legislation.

All I'm saying is that should be decided in a judicial process. I don't like to go in the direction of casting aspersions on individuals. I trust individuals are committed to doing a good job.

On the other hand, if you look at the record of Canadian investors dealing with the United States, I'm not the only one to say Canadian investors have not done very well in the hands of these arbitrators.

Mr. Ed Holder: That's like saying, "You're cute, but...". Okay.

Thank you, Chair.

The Vice-Chair (Mr. Don Davies): I'd like to thank both witnesses for appearing before the committee. Your testimony is very helpful.

We're going to suspend now as we end this session and get ready for the next witnesses.

• (1200)

_____ (Pause) _____

• (1205)

The Vice-Chair (Mr. Don Davies): We're going to commence the second part of our meeting, continuing our study of the Canada-European Union comprehensive economic and trade agreement.

We have with us two witnesses, Mr. Arsenaault from Association des fromagers artisans du Québec, and Mr. McInerney from GreenField Speciality Alcohols Inc.

I understand, Mr. Arsenaault, you will go first. You have the floor for 10 minutes, sir.

[Translation]

Mr. Louis Arsenaault (President, Association des fromagers artisans du Québec): Thank you very much, Mr. Chair. Thank you for the opportunity to express myself in French. My presentation today will be a quick rundown of the situation of artisanal cheesemakers.

I am the president of the Regroupement des producteurs et transformateurs du Québec, an association made up of approximately 40 companies in Quebec. Those companies are spread out across Quebec. Our province has three dairy production sectors: cow's milk, goat's milk and sheep's milk.

Of course, the current situation is of great concern to us. We fully understand how important such an agreement is. However, this agreement is of great concern to the agricultural sector and to our processing sector in particular.

We prepared a little summary on what Europe is currently doing. We can see that the 27 European countries produce and process around 8 billion kg of cheese. This production mainly comes from France, Italy and Germany. If we look at France, we see that it basically exports 760 million kg of cheese all over the world. That number converted into tonnes is 760,000. That's basically about 2.8 billion euros.

The math is quite simple. At the end of the day, the average price for French exports around the world is 4.17 euros, or around CAN \$7.25, based on the exchange rate. For producers, processors and some semi-industrial producers in Quebec, that amount does not even cover the price of milk.

You can see why we then agreed that we had to try and understand how those people managed to have such a low price. The fact is that they have various subsidy programs, for both cheese production and cheese factories. Subsidies are even granted to companies like Lactalis, Bongrain and European artisanal cheese factories.

In fact, by digging a little deeper and doing a bit more research, we found that, in some sectors, such as the sheep industry or the goat industry, subsidy programs cover up to 115% of the gross profits generated by companies. That says it all. If they did not receive support from the government, those companies would not survive. It's sort of the same thing for the dairy cow sector. I think the latest figures I have seen were around 76%. We in Canada get 17,500 tonnes, 16,000 of which are fine cheeses.

Take goat's milk for example. We, including the industrial sector, process 10 million litres annually, 80% of which are processed into cheese; that's 8 million litres. The average yield is 10%, which gives 800,000 tonnes. Ten percent of the 16,000 tonnes of fine cheeses from Europe is twice the volume of Canada's goat's milk sector. So it's completely different. In that sense, the competition is completely and clearly unfair because of the subsidy programs they have.

We know that Quebec and Ontario are the provinces that import and consume most of that cheese. That is especially true for Quebec because I think 58% or 60% of the cheese is sold there. Inevitably, those two provinces will definitely be affected.

Of course, the situation is alarming for us. As I said earlier, Quebec's production and processing sector is made up of around 40 companies. As a result, over 200 jobs have been created across Quebec. And over 250 types of cheese are being produced. Our sector has grown a great deal over the past 20 years.

• (1210)

We are working hard to develop the market in Ontario and western Canada. You will agree that the fleur de lys may not always be popular, but, when it comes to cheese stalls in Ontario and the rest of Canada, the Quebec fleur de lys is very popular because of the quality of the product. However, with the cheeses that will keep coming to Canada, it will surely be replaced with the French fleur de lys.

Many people will say that various bodies will work hard to promote Canadian and Quebec products to help them keep their market share and receive the exposure they deserve. However, there will be price gaps. Even though consumers like Canadian and Quebec products, they will do the logical thing. I think we can all understand that.

I must admit that, at our last general meeting, people were very worried. What really worries them is that they will find themselves in a position similar to the current position of French companies. You are able to see all the problems they are experiencing, despite the financial support provided to this sector in France.

I actually have a very interesting story to tell you. Some of our members have European roots. Two of them came to Canada to have the freedom to manage their own company without having to rely on the government. Today, the dynamics are changing. Unfortunately, the fact is that we don't have a choice. We will need to be subsidized and supported by the government. That is not what we wanted and hoped for. However, the dynamics have changed significantly.

Do you have any questions? If not, I can add things as we go. I shortened my presentation because the copy I submitted was from a presentation I gave before the Syndicat des producteurs de chèvres du Québec. You can see a brief overview of the amount of cheese processed in Quebec and Canada. The gaps are significant. Would you like me to specifically elaborate on certain issues?

• (1215)

[English]

The Vice-Chair (Mr. Don Davies): Mr. Arsenault, you have another two minutes or so, if you'd like.

Your submission to us was in French only, so we're unable to distribute it because it is not translated. We will have it translated and distributed to committee members later. There will be, of course, questions from the committee once you and Mr. McInerney are finished.

You can take another two minutes, if you'd like, or you can end now.

[Translation]

Mr. Louis Arsenault: Okay.

I can just list some figures that need to be considered. Canada produces roughly 400 million kg of cheese. Of that, 215 million kg come from Quebec. Quebec produces 32 million kg of fine cheese. The Association des fromagers artisans du Québec produces 800,000 kg of cheese.

The gap is significant when compared to the 8 billion kg that we initially had with Europe. With the massive entry into Canada of European cheeses over which we have no control and since we have no idea how the quotas will be distributed, how do you expect the cheese market to be competitive?

I talked to them about it yesterday and I know that this is still a mystery and a concern for all the producers, processors and members of the food industry. Because of those various variables, we still don't know how those products will get to market. We know that quota holders who are required to import cheese will buy cheeses that are more profitable in terms of added value. Cheeses that have the added value are inevitably fine cheeses, the cheeses we produce.

[English]

The Vice-Chair (Mr. Don Davies): Merci, Monsieur Arsenault.

Mr. McInerney, the floor is yours for 10 minutes, sir.

Mr. Gary McInerney (Vice-President, Sales and Marketing, GreenField Speciality Alcohols Inc.): Mr. Chairman, on behalf of GreenField Speciality Alcohols, thank you for the opportunity to present our views on the Canada-EU comprehensive economic and trade agreement.

Let me begin by telling you a bit about GreenField.

We are the leading specialty alcohol producer in Canada, with a focus on corn-based bulk industrial alcohol, packaged alcohol, and fuel ethanol, as well as associated agricultural co-products.

In addition to being the largest producer of fuel ethanol in Canada, we are also the market leader in the production of high-quality industrial alcohol for both domestic and export markets. As well, we

are a major producer of grain neutral spirits for the beverage alcohol industry in Canada, the United States, and selected markets around the world.

Our company also manufactures and sells co-products from the alcohol process, including distillers grains, corn oil, and carbon dioxide.

GreenField owns and operates four state-of-the-art manufacturing plants in Ontario and Quebec. All plants are strategically located close to the corn supply. We process more than 60 million bushels of Canadian corn each year. These facilities produce a combined annual output of 650 million litres per year, of which 125 million litres is industrial beverage-grade alcohol and the balance is fuel ethanol.

We are known as one of the top producers of specialty alcohols in North America. Our specialty alcohols are found in a wide range of consumer applications and products. You can find it in paints, solvents, inks, detergents, repellants, pharmaceuticals, disinfectants, and in the food and flavour preparation industry. As well, of course, it is very common as grain neutral spirits used in the production of vodkas and alcoholic coolers and for beverage fortification.

Through its membership within the Canadian Association of Importers and Exporters, GreenField has been actively following the progress of CETA. We are encouraged that the European Union and Canada signed an agreement in principle on CETA last October and look forward to CETA coming into effect. We support the idea of free and open trade between Canada and Europe.

In particular, we have no reservations about the removal of the Canadian tariffs on European alcohol, fuel ethanol, or related co-products coming into Canada. We believe that we are low-cost producers within the global marketplace and are fully prepared to compete fairly on price, quality, and service.

To date, GreenField has had limited export activity into Europe, principally due to the existence of both tariff and non-tariff barriers. The removal of the EU duties on our product—non-denatured alcohol is currently, in euros, at 0.19 per litre and denatured alcohol at 0.11 per litre—would be a welcome first step in advancing our ability to access the EU markets. However, it should be noted that the elimination or the phase-out of the EU tariffs will not in itself lead to any meaningful level of GreenField exports into the EU. Certain non-tariff barriers will need to be addressed and overcome before we truly see open trade of our products.

By way of example, EU Regulations 1829/2003 and 1830/2003 are regulations that deal with genetically modified foods and ingredients. These regulations would apply to any of our alcohol products that might find their way into the food industry. Any products that are derived from a genetically modified organism, such as hybrid corn, cannot be imported into the EU without EU approval, which then requires traceability and mandatory labelling of GMOs also on the final consumer products. Alcohol for human consumption that is derived from genetically modified corn would be considered to be food produced from GMOs.

To make matters more complicated, the responsibility for enforcement of EU regulations for imported GMOs falls on the member states within the EU, each of which has its own food and safety and regulatory bodies.

In our case, the majority of the corn grown in Ontario and Quebec is derived from hybrids and traits that are not presently approved in the EU.

● (1220)

Even though they are perfectly safe and approved for use in food and feed in Canada, the United States, and Asia, there is just no practical way we can operate our plants by trying to source and certify the use of identity-preserved, EU-approved corn hybrids. This disparity between the GMO regulations will continue to act as a non-tariff barrier for many of our alcohols that we produce here in Canada.

Another example of a non-tariff barrier is the European regulatory initiative called registration, evaluation, authorization, and restrictions of chemicals, better known as REACH. A number of our denatured industrial alcohol products are used as chemical intermediaries and require the addition of approved denaturants to meet end-use specifications. Any denatured alcohol products that we wish to export to the EU would be required to be registered under REACH. Complying with the registration and labelling and protocols contemplated under REACH will be extraordinarily complicated and expensive, so you can see that we will continue to have challenges accessing the EU markets unless there is some harmonization of regulations between Canada and the EU.

We are encouraged that the CETA framework contemplates the establishment of a working group to examine biotech issues, such as GMO, with the objective of achieving such harmonization.

Before I conclude my remarks, I would like to comment on the prospects for exportation of fuel ethanol to the EU. Presently, all of our fuel ethanol production is sold in Canada to Canadian oil companies that blend ethanol to comply with federal and provincial renewable fuel standards. Canada is short of fuel ethanol and is a major importer of ethanol from the United States, importing about 1.2 billion litres of its total three billion litres consumed last year. With this structural supply imbalance, it is unlikely that we would be selling significant quantities of fuel ethanol into the EU in the near future.

On the other hand, the prevailing price for ethanol in the EU is higher than in North America, reflecting higher costs of production due to economies of scale, higher feedstock costs, and higher energy input costs. Access to this premium EU market could prove to be important in the future. Currently the EU imports about 20% of its 5% mandated fuel ethanol requirements. There is support in Europe to increase the renewable content in their transportation fuels to 10%, and some European auto manufacturers are recommending a 20% ethanol blended standard by 2025. Long term, there is a future market for Canadian-produced biofuels like ethanol in the EU markets.

Members of the committee, I would like to conclude my remarks by commending the government on bringing the Canadian-European trade deal forward. Through our membership of the Canadian

Association of Importers and Exporters and the Canadian Renewable Fuels Association, we at GreenField Speciality Alcohols look forward to staying informed of the progress of CETA and to providing our input.

Thank you.

● (1225)

The Vice-Chair (Mr. Don Davies): Thank you, Mr. McNerney.

[*Translation*]

Mr. Morin, go ahead. You have seven minutes.

Mr. Marc-André Morin: Mr. Arsenault, let's talk about the production of artisanal fine cheeses in Quebec. You will agree that it's not really something new. I personally consume fine cheeses and I think, over the past 20 or 25 years, the production has developed a great deal. We have high-quality products that are as good as the best imported cheeses. Renowned cheese factories have been around for several generations.

What is the difference between the potential impact of imported European fine cheeses on local artisanal cheese factories—which are fairly recent—and the potential impact of those imports on the bigger and more established cheese factories?

Mr. Louis Arsenault: I will focus on the sector I am most familiar with, the artisanal sector. Of course, the impact will vary from one company to another, but the fact remains that most of the 40 companies rely heavily on marketing outside our respective regions. So we must inevitably compete in major markets, including Quebec City, Montreal, Trois-Rivières and Sherbrooke. Most retailers, be they specialty cheese shops or big ones, will certainly take some of our products, but they will also take a lot of imported cheeses, including industrial productions, which use a dairy ingredient in many so-called fine cheeses. Clearly, we are faced with stiff competition on that front.

The fact remains that the impact is significant for industrial cheese producers as well, especially since some of them are quota holders. They are required to bring in those cheeses even if the imported cheeses are directly competing with the products they process. There used to be a limit when supply management protected us and ensured that Canadian and Quebec products were in the majority on our markets.

This new situation will inevitably bring about changes, including a large amount of European fine cheeses. And it is not always easy for consumers to differentiate between foreign and domestic products. This will definitely have a major impact on them. Despite some products having a dairy ingredient, the fact that European producers are currently able to make cheeses at such a low cost makes the situation very challenging for us.

Mr. Marc-André Morin: To some extent, we are already feeling the impact here. For instance, you can buy a good Brie cheese in Montreal for \$2.99.

Mr. Louis Arsenault: You are absolutely right. That is a very good point. At the end of the day, we are already feeling the impact. However, as I was saying earlier, there was a limit until now. Shopkeepers currently use up 40% to 50% of their stalls for European cheeses. With the products that are going to enter the market, the situation will be dreadful no doubt. The market will be flooded.

In addition, the numbers from Statistics Canada show that, although those cheeses are primarily consumed in Quebec, they are being increasingly consumed in Ontario. In a word, we were already feeling the impact, but we were able to adjust and compete. However, things will change drastically. I think it is important to add that, with the current negotiations between Europe and the United States, the Americans will certainly ask that the existing bilateral agreement, NAFTA, be reopened so that they can export the same amount of cheese to Canada.

In other words, Canada's current supply management and the sustainability of our businesses, of course, will be called into question.

• (1230)

Mr. Marc-André Morin: Wasn't the assistance that the government talked about when everyone was asking about the potential impact of European exports supposed to help you offset this impact?

Artisanal producers can grow on the local market only through personal investments and years of work.

Mr. Louis Arsenault: Absolutely.

Mr. Marc-André Morin: They should become more established on the local market before we let other producers sweep in. Shouldn't the support help to market their products locally?

Mr. Louis Arsenault: Yes, exactly.

With the stakes changing dramatically, we would like to receive financial compensation, as the Prime Minister pointed out when the agreement in principle was signed. Even before everything goes into effect, whether in January 2015 or in January 2016 as some authorities prefer, we would like the government to act quickly by providing cheese factories with a budget envelope, as it did in last week's budget when it set aside \$500 million for the automobile sector in anticipation of an agreement with South Korea.

It hurts a little to see that the automobile sector is being protected from a significant potential impact when the same could have been done for the dairy and cheese sectors in Canada. Before the agreement even goes into effect, it would be only fair for the government to help businesses in the sector to improve their bases in order to be better prepared for what is coming.

Two things are clear. First, foreign companies will take over 30% of the market for fine cheeses from Quebec and Canada. That is not an insignificant amount. It is huge. Second, as I said earlier, their prices will be significantly lower than ours, because of the subsidies those companies receive. For those reasons, the government must respond quickly before the agreement goes into effect.

The Vice-Chair (Mr. Don Davies): Thank you, Mr. Arsenault.

[English]

Mr. O'Toole is next, for seven minutes.

Mr. Erin O'Toole: Thank you, Mr. McNerney and Mr. Arsenault. Today, most of my questions will be directed to Mr. Arsenault.

I appreciate your presentation. You're representing a very interesting group. In many ways, through your discussion of cheeses in France and the subsidies you're talking about, it shows the globalization of the industry.

Two of your members are Saputo and Agropur. Saputo now makes more cheese in California in one location than in all of Canada. It shows both the excellence of some of your members and also the fact that there is a lot of flow of cheese and dairy.

Have you, in your experience, seen the fine and speciality cheese market in Canada grow in recent years?

• (1235)

[Translation]

Mr. Louis Arsenault: That is one of the problems our sector has. Whatever people have said, cheese consumption in Canada has not gone up. That is also mentioned in the document I submitted. The amount of per capita cheese consumption in Canada has plateaued at around 12 kg. Of course, you will tell me that the amount varies with the population. If the population increases, consumption will increase as well, of course. But in terms of production, the figure still remains the same.

Consumption of fine cheese in Canada has been stagnant for the last five years, and that is a problem. It is also why companies like Saputo are inevitably turning to other markets and making acquisitions overseas. I am not really familiar with the great Saputo family or with major companies like Agropur, but I can see that they are looking more and more at diversifying their markets and at targeting international markets.

[English]

Mr. Erin O'Toole: Thank you.

I'm not sure whether you had the opportunity to see the signing of the agreement in principle in Europe, but the Prime Minister only spoke in those remarks in Europe about one industry, and that industry was dairy. He spoke about how, for the 18,000 tonnes of new import, which represents a little less than 6% of the market, the intention is that if rising demand does not compensate the production that the 18,000 tonnes represents, he has pledged to have a compensation structure to make dairy producers whole at the end of the implementation period.

What are your thoughts on that? Did you see the Prime Minister's remarks in Europe specific to this industry?

[Translation]

Mr. Louis Arsenault: Yes, indeed, and we took note of what he said. However, we have to be careful. As I said earlier, the 16,000 tonnes that the government is assigning to fine cheeses represents a significantly higher percentage than is understood at the moment. Actually, since the main target is fine cheeses, the cheese imported from Europe will have a higher value. We are certainly not talking about 6% here, but an impact that will be significantly higher, somewhere in the order of 30%. Some people at a meeting yesterday even talked about an even greater impact. That is the first point.

We met with Frédéric Seppey, who was the chief negotiator for agriculture in the free trade agreement. One of the first questions we asked him was how the 17,700 tonnes, 16,000 of them in fine cheeses, had been determined. The answer was very simple: since May 2009, the negotiations included no increase at all, and Canada was very insistent on that. But Europe wanted 25,000 tonnes. Canada maintained its position until January 2013. So that means that, from 2009 to 2013, people knew that it would have a significant impact.

In a visit to Brussels in October 2013, Mr. Harper managed to reach an agreement to set the amount at 17,500 tonnes in exchange for exports of Canadian beef and pork. We find it surprising to see an agreement on such a major amount with so little analysis. For four years, we maintained our position that there should be no increase.

If, for four years, you agree that the increase must be kept at zero, you are implicitly admitting that there is a major impact.

• (1240)

[English]

Mr. Erin O'Toole: You haven't addressed the compensation aspect once the additional amount over time is brought in. I'd like your comments on that.

This week I was speaking to Mr. Jarvis from one of your companion organizations. He suggested that they feel the European cheese imported under this new amount would actually not be specialty or artisanal cheeses, but would be more bulk cheeses. That seems to be contrary to what you are saying today, Mr. Arsenault. Could you comment on that?

[Translation]

Mr. Louis Arsenault: Yes, certainly. There will be quotas again in Canada. It has not been done yet, but quotas for the right to import cheese have already been assigned. It is the holder of the quota who decides on the product he wants to import. Basically, we do not want the quota holders to be the big boys, because if that is the case, and if they are able—

[English]

Mr. Erin O'Toole: Your members hold a good portion of the quota, do they not?

The Vice-Chair (Mr. Don Davies): I'm sorry, Mr. O'Toole, you are out of time. I'm just going to allow the witness a brief time to answer.

[Translation]

Mr. Louis Arsenault: Essentially, the quota holders have all the rights. I certainly understand your question, but I cannot answer it

precisely because the quota holder has all the rights once he gets the right to import.

As to the financial compensation that the Prime Minister mentioned, you are right, I forgot to answer that question. Basically, we want him to intervene immediately, given the size of the subsidy programs available to French cheesemakers. That is what he is going to have to do if he wants to keep companies, especially artisanal ones, alive all over Quebec and Ontario. Ontario actually is seeing significant growth in the area at the moment. The French support their producers, and the Prime Minister is going to have to support ours to the same extent.

The Vice-Chair (Mr. Don Davies): Thank you, Mr. Arsenault.

Mr. Pacetti, you have five minutes.

Mr. Massimo Pacetti: Thank you, Mr. Chair, and my thanks to the witnesses for being here today.

Mr. Arsenault, I have a number of questions to ask you, but, since my time is limited, I am going to focus on two or three.

You said that most of your cheeses are made from milk from cows, goats and ewes. Cow's milk is covered by supply management, but are goat's milk and sheep's milk regulated too?

Mr. Louis Arsenault: No. The industry and the Syndicat des producteurs de chèvres du Québec have put a price maintenance agreement into place. I cannot tell you what the situation is for the rest of Canada. The producers and processors have agreed on a price, but there is no supply management program as there is for cow's milk.

Mr. Massimo Pacetti: Are the base prices for goat's milk and sheep's milk competitive?

Mr. Louis Arsenault: No, not at all. The situation is kind of the same as for cow's milk. For goats milk and sheep's milk, we see the same pattern.

Mr. Massimo Pacetti: Is that because French farmers are subsidized?

Mr. Louis Arsenault: Yes. As I said previously, goat's milk production is subsidized at 100% of gross revenue. Without subsidies, farmers would not make it, you understand. For sheep, the rate is 115% to 125%.

Mr. Massimo Pacetti: Can you give us a recommendation about a type of subsidy or a way in which we could help you? What form could that assistance take? Would it be a lump sum, a fixed amount?

Mr. Louis Arsenault: That is a very good question.

As I told you, the overall impact that all this will have on the market remains to be evaluated. For it to be fair for everyone, we would like to receive the same ongoing financial support that European producers presently receive on an ongoing basis. We could evaluate the assistance in a decreasing or graduated way. In other words, starting from a zero point, the point at which the cheeses start arriving, as a company's sales increase, the overall assistance program would decrease.

Mr. Massimo Pacetti: Would that financial assistance be intended to pay for raw materials or would you prefer to use it to invest in your equipment?

Mr. Louis Arsenault: I think it should be a blanket assistance. It should be available for upgrades to the farm as well as to the businesses themselves.

Mr. Massimo Pacetti: It has to be quite a flexible form of assistance.

Mr. Louis Arsenault: Exactly, it has to be quite flexible.

• (1245)

Mr. Massimo Pacetti: I have another question for you.

When I go into a cheese shop or into a supermarket, there is always imported cheese and local cheese. There seems to be so much production that sometimes the cheeses do not sell. Even with more imported cheese, there will always be Quebec cheese, Canadian cheese and international cheese, will there not?

Mr. Louis Arsenault: If you are a shopkeeper, of course, you are going to sell the cheese that gives you the highest margin. That is just human nature. It is as true for the consumer as it is for the seller. Ultimately, the shopkeeper wants to make money. I have to tell you that, when cheeses come into the port of Montreal, their average price is \$10 per kilogram. In the dairy industry, that barely covers the price of the milk necessary to make 1 kg of cheese. Let us be clear on that; I am talking about those who use only milk to make their cheese.

Mr. Massimo Pacetti: I would like to ask Mr. McInerney another question.

[English]

In the ethanol industry, who would benefit more under CETA, the Canadian exporters or the European exporters? You're not exporting right now from what you were saying in your presentation. Meanwhile the Europeans are buying at higher prices. If I'm a producer, would I just not sell more to Europe, or is Europe using us to lower the prices of the raw material when it comes to ethanol?

Mr. Gary McInerney: You're perfectly correct, as I stated, that Canada is a net importer of ethanol. The only question would be who would benefit more from this. You have to look at the economy as a scale and the cost of production. We as Canadians are more cost-effective producers than the Europeans. That's a known fact.

Mr. Massimo Pacetti: Our cost of production is lower even though we have less—

The Vice-Chair (Mr. Don Davies): Sorry, Mr. Pacetti. You're out of time, so I'll just ask for a brief answer.

Mr. Gary McInerney: Yes, our cost of production is lower in Canada than it is in Europe, more so than to offset that any transportation dealt a difference between the two countries.

The Vice-Chair (Mr. Don Davies): Thank you.

Mr. Hoback, for seven minutes.

Mr. Randy Hoback (Prince Albert, CPC): Thank you, gentlemen, for being here this morning.

It's a very interesting conversation for sure, with both sets of witnesses we've had today.

I'm going to talk a little bit about ethanol because there are some comments that I definitely want to get on the record here.

You talked about your four plants being located next to the corn. Why is that?

Mr. Gary McInerney: Corn is our number one cost of production, our number one feed cost. It represents anywhere from 80% to 85% of the cost of production, depending on the price of corn that year.

Mr. Randy Hoback: So the reality is the logistics in shipping corn is a lot more expensive than shipping the end product, correct?

Mr. Gary McInerney: It absolutely is. For every one unit of corn you bring into the plant, you bring in one-third by weight ethanol, one-third by weight animal feed, and one-third by weight CO₂.

Mr. Randy Hoback: Then of course you've got a market for the distillers grain and for the other products in the Ontario and Quebec regions.

Mr. Gary McInerney: We do. Our plants are strategically located in southwestern Ontario, one south of Ottawa, and one on the south shore in Varennes, close to corn country, close to the ethanol demand, and where there is CO₂ demand as well.

Mr. Randy Hoback: You look at expansion, and you look at the European market in the big picture, in the long-term picture, and having access to that market. I understand there are some barriers that we need to work through, which you've identified. Thank you for doing that.

In reality, though, for corn farmers right across Canada, it's fairly positive in this scenario because you won't be shipping corn to Europe. We'll probably be processing it either into something other than corn itself or products like you make, for example.

Mr. Gary McInerney: That's correct. In our industry, the potential would be ethanol. Having said that, it is a global market. We have to look at what's going on in the world and not just between Canada and Europe. Our biggest trading partner, the U.S., is also the largest producer of ethanol in the world. They're also the most cost-effective producer of ethanol in the world. Our Canadian industry has to be cognizant of that and cannot make any decision just based on what's going on between Canada and Europe. It's a global decision, so you have to balance this.

• (1250)

Mr. Randy Hoback: But you're going to have nice preferential access to Europe, hopefully, in relationship to the U.S. Is that not fair to say?

Mr. Gary McInerney: Compared to the U.S., yes, but how long will it be until the U.S. gets a free trade agreement?

Mr. Randy Hoback: So it's important that we get this deal done as quickly as possible and try to leverage that.

Mr. Gary McInerney: I think it's important. It gives us a couple of years' head start.

Mr. Randy Hoback: You talked about the amount of consumption we have here in Canada and the production that you have. At least roughly about a third of that volume is still being filled by imports from the U.S. What do we have to do to get that consumption or that manufacturing of ethanol products so we're actually manufacturing what we consume?

Mr. Gary McInerney: That's a great question.

You look at that and you realize that we're importing a third of our demand. What can we do about it? You have to keep in mind that there are a couple of factors here. Our trade between Canada and the United States and the ethanol industry is north-south rather than east-west trade. Logistics are critical. There will be, unless there's ethanol production in western Canada, imports in the United States because there's no duty as you know from ethanol coming into the United States, and transportation will trump all.

You also have to keep in mind that gasoline demands are very seasonal; therefore, ethanol demand is very seasonal. There are three to four months of the year when the demand is up a good 15%. In Canadian industry, at least in our business, we like to run 100% all the time. We've designed and built our plant based on supply and demand so that we can have 100% inclusion rate outside of those demand peak periods. We sure don't want to be exporting. As an industry, to your point, we would like to see the industry more closer in balance and not tipping the scales into export mode, but continue as an import mode because you know that's when your industry's getting the highest possible price.

It is a balance. It's very difficult to get investment to build plants when you know that there are issues. In terms of free trade between Canada and the United States, you look at the industry in the United States, there are issues down there with blend walls. There are issues down there with mandates. Until those things get resolved, it's very hard for investment. Even companies like ours, as our balance sheets get stronger are saying that we should plot down and build another plant. We have sites selected, but the risk associated with that at this point in time has us sitting back and focusing on the cost of production.

Mr. Randy Hoback: It's fair to say that risks are related to the fact of the markets they sell the product in. You need to have that market access in order to eliminate a lot of those risks that you can justify the investment. Is that correct?

Mr. Gary McInerney: Absolutely correct, but it is a global market. We have to be cognizant of that. Investment decisions need to be made keeping in mind what's going on globally.

Mr. Randy Hoback: Just for the record, I'm glad you talked about the north-south flows and how important the free trade agreement with the U.S. is. For example, in Saskatchewan, we're starting to grow more corn, but we don't...and of course the conversion rate off corn for ethanol is so much more than off feed wheats and feed grains. Again, just explain how that works so that my fellow committee members understand that.

Mr. Gary McInerney: You're absolutely right. Another co-product of the ethanol industry is animal feed. Canada for years had been the number two importer of distillers grains, which is the animal feed component of that, but has now slipped to position number four. All those imports were in western Canada because of the beef industry in western Canada and the proximity to the U.S. ethanol market.

Mr. Randy Hoback: Let's change and talk about the speciality products that you make, the other alcohols. How did you describe them? Was it as non-conformity alcohols?

Mr. Gary McInerney: When I talk about speciality alcohols, it's a host of things. I like to break down our industry by saying that we make three specific products: we make fuel ethanol for the automobile industry and we make industrial and beverage grade alcohols.

As the name implies, industrial alcohol goes into every application in the manufacturing of many products. It's probably the most commonly used chemical in the world. For many products that you use every day, alcohol has been in their production. It's in everything from mouthwash to hair spray. Vinegar is manufactured from it. There are all sorts of other chemical intermediates produced from the ethyl compound.

Then the beverage industry, as you know, is very large. It's for the vodkas and the coolers of the world. As Canadians, we're having success in exporting our alcohol south of the border because marketing people want to put imports on their label. So we're getting a piece of the import market into the U.S. It's the same with the other part, exporting outside of Canada. We're in a unique Canadian position to be doing that. Our trade is in both the U.S. and other countries around the world.

Mr. Randy Hoback: Mr. Chair, I think all of us around this committee table would agree that we would like to try some of that beverage alcohol with a Quebec fine cheese. I think we'd all enjoy that. I know the agriculture committee got to enjoy their cheese here a little while ago. It's definitely some of the best cheese in the world.

● (1255)

The Vice-Chair (Mr. Don Davies): Thank you.

Madam Liu, you may have about three minutes.

[*Translation*]

Ms. Laurin Liu: Thank you, Mr. Chair.

Mr. Arseneault, I am very proud to tell you that the official opposition's deputy agriculture critic, Ruth Ellen Brosseau, tabled a motion in the House of Commons today to make sure that the Conservatives keep their promise of providing adequate compensation to cheese producers. Rest assured that some members of Parliament will be monitoring this very closely.

I am also concerned by the fact that the Conservatives are still refusing to table the text of the agreement in Parliament. In addition, they proposed nothing by way of compensation in the last federal budget. That is one more reason why we must be on our guard.

My question is about supply management. We know that Canada is taking part in other negotiations, specifically involving the trans-Pacific partnership. We also know that other countries taking part in those negotiations disagree with our system of supply management. Australia is one of them.

Do you think that our system could be put at risk because of those negotiations?

Mr. Louis Arsenault: Actually, that is more or less the question we asked the chief negotiator: to what extent can it continue to be breached, as has happened recently in the agreement with the European Union? Of course, he does not know the answer and neither do we. However, it is true that, if NAFTA is reopened or with the new agreements that are about to be made, as you said, supply management no longer makes any sense. And if that is the case, if supply management is not protected, the dairy sector will inevitably feel the repercussions.

We also have to understand that supply management currently has a very significant benefit. It actually provides the guarantee of a decent income for our producers of cow's milk. That is a major sector and I feel that it is important for us to keep it. Let us not forget that we are in a northern country. In the United States, average dairy herds are 1,200 head, but here it is 75 head. Essentially, I think that says it all.

So, if supply management goes under, the sector will become hugely more fragile. It will be worse for goat and sheep producers, because we will be ending up with price gaps that are clearly bigger.

Ms. Laurin Liu: I do not have a lot of time left. I would like to hear your comments about the geographical considerations. The Dairy Farmers of Canada have said that Canada should not give in to demands from the European Union.

Are you satisfied so far with what you have seen in the technical summary?

Mr. Louis Arsenault: You have to understand that it is not something that we as artisanal producers and processors were necessarily looking for. It certainly may benefit some of our members, but they do not even represent 5%. So it was not a major concern of ours.

That said, the only question to be asked is whether it was necessary to sacrifice a large amount in terms of major imports of cheeses in order to be able to protect those brands. That is the question that I am more concerned with.

[English]

The Vice-Chair (Mr. Don Davies): We'll go to Mr. Hiebert for the final three minutes.

Mr. Russ Hiebert (South Surrey—White Rock—Cloverdale, CPC): I'm going to focus on Mr. Arsenault with my questions.

You've described a situation in which you're very pessimistic, I would suggest, out of fear that these foreign cheeses are going to come in and take over market share.

You focused a lot on price. Can you tell me what difference in price you think there would be between the cheeses you currently sell and the cheese that you expect to come in from Europe?

[Translation]

Mr. Louis Arsenault: I am sorry to give you that impression, but, to a certain extent, I feel that it is quite realistic.

As I was telling you, the current average price of products coming in is C\$10 per kilogram. When they get to market, those products sell for about C\$30 per kilogram. So you are going to end up with fine cheeses, like cave-aged Gruyère, Comté, Cantal, or Salers.

Those are all French cheeses with high added value. They will compete with our cheeses like Louis D'Or, which has won a lot of prizes in Quebec, in Canada and in the United States. It retails for \$65 or \$70 per kilogram.

Louis D'Or is a Gruyère-style cheese that compares well to Emmenthal, to Comté and to all those cheeses. Consumers may well like it, but they are rational too.

We have done a lot of work in recent years to develop our consumer market. With such a price difference, we are going to lose it quite quickly. That is certain to happen because those products are going to literally invade our markets.

• (1300)

[English]

Mr. Russ Hiebert: Yes.

When we were in Vancouver, we had testimony from a cheese manufacturer from the Lower Mainland of British Columbia who was very optimistic about the opportunity to export their cheese. I think you call it an artisanal cheese.

Mr. Randy Hoback: Yes, it's artisanal cheese.

Mr. Russ Hiebert: They had a completely different perspective. It was a small operation. It was not large in the amount of production that they had, but they viewed this as an opportunity to get their product into a much larger market.

Could you explain these different perspectives? On the one hand we have a small operator on the west coast of Canada eager to get into the European Union, eager to tap into the demand for local food. Now, there are many people, for example in British Columbia, who like to buy local, support farmers, all those sorts of trends that we're seeing in retail, and I'm wondering why the different perspective.

The Vice-Chair (Mr. Don Davies): Give a very brief answer, please.

[Translation]

Mr. Louis Arsenault: I am a little surprised to hear that. What I can tell you, though, is that when we met with Frédéric Seppey, he clearly told us that, in the current situation, it was not possible for us to export.

It is also certain that there is still a kind of legal trench warfare going on between Europe and Canada over supply management. They see it as a subsidy. That creates a barrier for us.

Basically, as I said beforehand, unless the producer you spoke of has access to programs that British Columbia provides for its businesses, he will not be able to see that expanded market. Even the Americans themselves have had a lot of difficulty getting into the European market precisely because their price was not competitive.

So there you go; it is that simple. The statistics show it clearly. We are not making it up.

The Vice-Chair (Mr. Don Davies): Thank you very much, Mr. Arsenault.

[English]

Thank you, Mr. McInerney.

I'd like to thank the witnesses for their testimony and remind all committee members that we're not sitting this Thursday, and the committee will stand adjourned until Tuesday, March 4.

The meeting is adjourned.

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