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**EVIDENCE**

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—  
**Chair**

**Mr. David Sweet**



## Standing Committee on Industry, Science and Technology

Thursday, May 28, 2015

• (1105)

[English]

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

[Translation]

Good morning.

[English]

Colleagues, welcome to the 40th meeting of the Standing Committee on Industry, Science and Technology.

Welcome to the room that honours veterans. In my previous role as chair of the veterans affairs committee, we had the official parliamentary carver do the insignias of the different branches of the Canadian Forces and other aspects here simply to set this room aside to honour veterans. Every time I come in here I want to let people know we have done that work and how important veterans are to us.

To get back to the issue at hand, pursuant to Standing Order 81(4), main estimates 2015-16, you'll see the rest of the description here on your orders of the day.

We have before us John Knubley, a deputy minister at the Department of Industry; Philip Jennings, assistant deputy minister of the industry sector; Lawrence Hanson, assistant deputy minister of science and innovation; Paul Halucha—who's been here so many times before this committee that I feel you're almost one of us—associate assistant deputy minister, strategic policy sector; David Enns, chief financial officer, corporate management sector; and Fiona Gilfillan, director general of the spectrum licensing policy branch.

Colleagues, I'm going to let Mr. Knubley go ahead with his opening remarks. There's been discussion, so I will simply go around the table in a fair process. Whoever has a question can get up to ask one question. If that responds to supplementary that's fine, but we'll just have a free flow in that regard.

Please go ahead, Mr. Knubley.

**Mr. John Knubley (Deputy Minister, Department of Industry):** Thank you, Mr. Chair.

Just by way of introduction, I thought I would take a little time to go through our mandate, our three strategic outcomes, and a few words on the Industry portfolio and the main issues at hand.

Overall, Industry Canada helps create a strong business environment that promotes competition and instills investor and consumer confidence.

[Translation]

We do this by working with Canadians in all areas of the economy and in all parts of the country to create a fair and efficient marketplace, to encourage innovation, and to provide support to business.

[English]

The department basically has three business lines.

First is marketplace frameworks or the regulatory frame, if you like. The industry department is responsible for about 25 acts of Parliament that set these rules, including the Telecommunications Act, the Investment Canada Act, the Copyright Act, the Trade-marks Act, the Competition Act, and the Bankruptcy and Insolvency Act. Key objectives of these marketplace rules include providing businesses certainty through predictability and stability of the rules, achieving fairness of outcomes, incentivizing innovation, providing confidence in the marketplace, and aligning with international approaches and practices while recognizing unique Canadian interests. We try to promote well-functioning marketplace frameworks that generate positive outcomes for Canadians overall to create an innovative, entrepreneurial, and dynamic economy.

The second line of business is science, technology, and innovation. In the area of science and innovation we've seen a shift in governments focus and support. The Jenkins panel of 2011, and its review, took a hard look at overall levels of R and D spending, at the breakdown in federal innovation funding between direct and indirect investments, and at how to get more bang for our buck in terms of the effectiveness and impact of our federal support.

We've moved forward to implement the recommendations of the Jenkins panel. Whether it's transforming the NRC into a more business-oriented research organization, or changing the balance in SR and ED expenditures from indirect to direct support, we have truly been in implementation mode, and we'd be happy to talk about that.

[Translation]

Industry Canada also recently launched two important initiatives that will help shape support in the knowledge-based economy.

•(1110)

[English]

The updated science, technology, and innovation strategy announced in December 2014 focuses on three key areas. The first is people, attracting and retaining highly qualified and skilled individuals. The second is knowledge, strengthening support for excellence across discovery-driven and applied activities. The third is innovation, helping to bring new ideas and knowledge from the laboratories to the marketplace.

The second initiative of note is the Canada first research excellence fund. This \$1.5-billion investment will enable Canadian post-secondary institutions to excel globally in research areas that create long-term economic advantages for Canada.

The third line of business is support for business overall. This last business line focuses on the importance of boosting the global competitiveness of key Canadian sectors. Typically we focus on the manufacturing sector, and historically Industry Canada's direct support is mostly geared towards the aerospace and automotive sectors.

Following the 2012 aerospace review by David Emerson, Industry Canada has implemented the report and its many measures to support the aerospace sector including, for example, the technology demonstration program; stable funding of close to \$1 billion for the strategic aerospace and defence initiative, otherwise known as SADI; and the launch of the Consortium for Aerospace Research and Innovation in Canada, otherwise known as CARIC.

In any case, support for the automotive sector, on the other hand, is largely sourced from the automotive innovation fund, a program that supports significant, new, strategic, large-scale research and development projects to build innovative, greener, and more fuel-efficient vehicles in Canada. Budget 2015 recognized the important role of supply chains in the auto sector in terms of the future sustainability and competitiveness of the sector with the announcement of the automotive supplier innovation program.

Industry Canada also provides intelligence, analysis, and advice on key sectors, as I said earlier, primarily in the manufacturing area but including pharmaceuticals; information, communication, and technology; and some resource-based areas like food processing, which in the manufacturing area creates so many jobs.

[Translation]

Tourism is also a major source of employment in Canada and we will continue to examine ways to increase the attractiveness of domestic tourism to Canadians.

[English]

Lastly, Industry Canada has an entire team dedicated to small business. Whether it's supporting business through the Canada small business financing program, providing information to entrepreneurs through the Canada Business Network, or supporting the implementation of the venture capital action plan, we as a department are helping small and medium-sized businesses to compete and grow.

Before concluding, while I don't have any of the heads of agencies with me here today that are part of the industry portfolio, this is a

diverse group of 12 organizations and indeed other affiliated bodies such as Statistics Canada, the Canadian Space Agency, the Business Development Bank of Canada, the granting councils such as NSERC and SSHRC, and the Canadian Tourism Commission, to name a few of the elements from my portfolio and the department's portfolio.

[Translation]

The entire portfolio, including Industry Canada, has a budget of \$6.1 billion and about 16,100 FTEs.

[English]

We work in partnership with members of the industry portfolio as a department to leverage resources and to use synergies in a number of areas to further the government's goal of building a knowledge-based economy.

Let me just conclude with a few short words on the main estimates themselves. Industry Canada will receive \$1.2 billion in the 2015-16 main estimates, which represents an increase of about \$93 million from last year, the majority of which are in the grants and contributions area. The lion's share of this increase is from new funding from budget 2014, and specifically the largest item is \$80 million for the connecting Canadians program.

Regarding the main estimates for the industry portfolio, the organizations will receive a total of \$3.7 billion in the 2015-16 main estimates, representing an increase of \$170 million over last year. The single largest increase in this total is \$146 million for Statistics Canada to deliver on the 2016 census of population and agriculture programs. There are also significant increases to support SSHRC, NSERC, as well as space programs at the Canadian Space Agency.

Thank you very much, Mr. Chair. We look forward to questions.

•(1115)

**The Chair:** Thank you, Mr. Knuble and colleagues.

Go ahead, Mr. Masse.

**Mr. Brian Masse (Windsor West, NDP):** Thank you, Mr. Chair.

I have just a couple of quick questions. Do you have the numbers from last year in terms of unused resources from different programs, the total that industry returned unused? I'll give you a good example with the automotive innovation fund. We weren't successful in getting a Ford manufacturing plant, so those funds still reside. Do you have an overall number in terms of other programs and services that didn't actually have expenditures?

**Mr. John Knubley:** I'll let Mr. Enns address this question in detail, Mr. Chair. I just want to point out as deputy minister that typically when there are these lapses, it reflects the expenditures. We are moving forward, particularly on vote 10, the grants and contributions, to allow for future expenditures in these areas. So the money continues within the program.

**Mr. David Enns (Chief Financial Officer, Corporate Management Sector, Department of Industry):** The total lapse that we're expecting to see in the public accounts later in the year will be approximately \$8 million, I believe.

**Mr. Brian Masse:** Sorry, say that again.

**Mr. David Enns:** I said \$8 million.

**Mr. Brian Masse:** Okay.

With regard to the tourism file, I raised the question with regard to Bill C-290, which is in the Senate and it's languishing. It's a real problem for many tourist destinations that we're competing with Americans and they're moving forward on single-sports betting. There was an attempt at the Canadian Tourism Commission at one point to move towards more international visitation. Now it seems that we're going to return to some more strategies on American visitation. Can you maybe highlight a little bit about that?

**Mr. John Knubley:** Yes, I can. It's true. Two years ago the Canadian Tourism Commission made a specific decision to focus on emerging markets. For example, the growth in China in terms of visitation is significant. Indeed, other markets, which would include India and Brazil, for example, might really change the numbers in terms of annual visits to Canada from other countries.

More recently, very much in consultation with TIAC, the industry association, the CTC has moved towards refocusing on how it would go back into the U.S. market. It's partly in the context, of course, that the United States itself has increased spending in terms of the market in Canada. I think the specific details of how this will be done are yet to be identified, but there's a strong recognition that in order for us to be successful in the tourism area we need to be excellent, if you like, in terms of attracting Americans.

**Mr. Brian Masse:** My last question, Mr. Chair, relates to that. We're going to be consulting and working with CBSA. One of the concerns I've heard expressed is that the cuts it has faced have reduced the front-line operations. If we're going to have more border traffic coming across our major infrastructure nodes, is there going to be consultation with them to make sure that, for example, we're not creating longer lineups and delays and then frustrating our attempts at trying to win back some of that market?

I've heard some border operators express a little bit of concern about the planning. I just want to make sure that this might be in the works, hopefully, so they're aware that, if we're trying to increase the volumes, there are going to be the supports there to make sure people actually get through.

**Mr. John Knubley:** The short answer is yes. What we actually do in the department, from a tourism perspective, is run what we call the interdepartmental tourism strategy. We regularly bring together all the departments that touch the tourism area. I think that's one of the challenges, in effect, in managing tourism, that CBSA, Immigration, and all of them play roles affecting tourism. We regularly meet, we

consult each of the departments individually, and we try to align ourselves, again, to support better outcomes in the tourism area.

**The Chair:** Thank you.

Go ahead, Mr. Carmichael.

**Mr. John Carmichael (Don Valley West, CPC):** Thank you, Chair.

Thank you to our witnesses for joining us today.

I'd like to focus my brief time on the automotive sector and manufacturing.

Mr. Knubley, you spoke to both areas in your opening comments. I happen to be a big supporter of the automotive innovation fund, and we've seen some significant success with that fund, specifically in southwestern Ontario. I look at the Ford plant where they have now built a global centre for developing right-hand drive vehicles that are manufactured and shipped overseas. With CETA coming down the pipe fairly soon, we're going to have a great market opportunity for that company, and there are others who have also had successful results with the automotive innovation fund.

I'd like to direct today's discussion more to the supplier innovation program, if you could, and you spoke to that. I wonder if you could talk about the importance of this fund. Clearly when we have manufacturing sectors, there are clusters of suppliers, parts manufacturers, etc., that are around these. They tend to create a type of hub environment around these manufacturing facilities. Would you be good enough to speak to, from your perspective, the objective of the supplier program and the scale of it? What's the timing of this program to bring it on stream?

• (1120)

**Mr. John Knubley:** Thank you for asking that question.

I think it is very important to recognize that attracting new investment from large companies in the auto sector remains an important challenge for Canada, an opportunity. A big part of what we need to do in supporting the auto sector is to reinforce, if you like, the supply chain and the linkages between the small and medium-sized firms with those larger firms.

The automotive supplier innovation program is a five-year, \$100-million program. It's designed to reinforce those supply linkages by promoting technology, demonstration, and development, and by prototyping activities of Canadian-based suppliers and ensuring that we have this strong supply chain in place. I think in terms of timing, we're looking to begin accepting applications in June, so very shortly, and we have been meeting with an advisory group in that respect.

Again I think the main focus is really contributing to the development of technology that will allow us to have high-value-added suppliers in Canada that are part of a strong auto supply chain.

**Mr. John Carmichael:** Mr. Knuble, could you or one of your colleagues explain...? It's my understanding that it's a matching fund. In other words, when we invest a dollar, there's a dollar being invested on the other side. How do we manage, if you like, the accountability of those who are receiving those investments and are participating in the program to ensure that from a taxpayer perspective we're getting maximum value?

**Mr. John Knuble:** I think a big feature of the program is that matching characteristic, but I'll let Phil Jennings speak to the accountability issue.

**Mr. Philip Jennings (Assistant Deputy Minister, Industry Sector, Department of Industry):** Maybe I should first just address why we took that approach in terms of a matching fund. In some ways the program is really geared to trying to incent the suppliers to make investments where we think the future of the car industry is going. It's really taking higher risk, and we're trying to incent small or medium-sized companies to participate, companies that may have difficulty in accessing the right financing and in taking the risks that are necessary.

We're really trying to make sure that we're touching what we talked about, the TRL levels four to seven, which are really after basic research but before commercialization. It's really trying to make sure that we can fill that gap to essentially commercialize the discoveries. We see that as a tremendous opportunity in the sense of where the industry is going and what is being demanded. You think about the environmental regulations, safety regulations, and also in terms of what consumers are demanding. The suppliers will really need to be there to be able to participate in the cars of the future, participate in the supply chains in Canada, and also participate in global value chains around the world.

Talking about accountability, you really have to have a robust review, as you mentioned, in terms of making sure that we get value for money in terms of where we invest. We do plan on having a thorough due diligence that will be made by third parties as well as having an advisory committee or a common steering committee that will be reviewing the applications to make sure that we really are making investments in where the future is going and drawing on the strengths that already exist in Canada.

• (1125)

**Mr. John Carmichael:** Great, thank you.

**The Chair:** Somebody else?

Madame Papillon.

[*Translation*]

**Ms. Annick Papillon (Québec, NDP):** I have two questions, and one of them is about tourism.

A conference board of Canada report recommends reforms in the air transport sector, where the high taxes and tariffs make Canada an expensive destination, unfortunately.

Does the department intend to act on that?

**Mr. John Knuble:** As I have just explained, the department is responsible for a committee made up of representatives from all of the departments that have anything to do with tourism. We work in close cooperation with the Department of Transport on air transport issues.

**Ms. Annick Papillon:** So the matter of transport is studied.

**Mr. John Knuble:** We work on that because it is always a challenge in the tourism sector.

**Ms. Annick Papillon:** My other question is about the long-form census questionnaire. I questioned the minister on this topic last Tuesday.

In the business world, just as in the scientific community, people are concerned about the changes made to the census. Businesses feel that they are the losers, quite simply. They say that this could have repercussions on market studies. When you want to open somewhere, you look at the household income levels in the area, as well as the social and economic components. That is what Martine Hébert pointed out, and she is a spokesperson for the Canadian Federation of Independent Business.

The Canadian Chamber of Commerce and the Canadian Federation of Independent Business have concerns about this. And yet the minister refuses to change the census. Given these facts, how are you going to be able to calm the fears of SMEs?

[*English*]

**Mr. John Knuble:** In terms of what the minister responded on this, I would add two things. One is that this is an issue that you should raise directly with Wayne Smith as the chief statistician. I think this is an area that has constantly been a challenge over many censuses, getting strong data for SMEs as well as for municipalities. I know this is an area where Statistics Canada has been working for many years to try to improve the relevance and the strength of that data. It's very important, as you mention, how municipalities use that data. I worked in the field in Halifax and was working very closely with some of the municipalities there and I recognized and I learned how important that data is. It's something I know Statistics Canada pays a lot of attention to.

[*Translation*]

**Ms. Annick Papillon:** Certain cities, such as Calgary and Edmonton, are going to do their own censuses. I fear that the municipalities and the provinces are going to be forced to conduct their own censuses to solve this problem.

[*English*]

**Mr. John Knuble:** Again, as the minister indicated, I think there are lots of other sources of data. I know, having worked with municipalities, you use the Statistics Canada data plus any other source of data you can find to help you do your job.

**The Chair:** Mr. McKay.

**Hon. John McKay (Scarborough—Guildwood, Lib.):** Thank you, Mr. Chair.

What is the pattern here, or is there no pattern? It is what it is.

**The Chair:** We're having a discussion and whoever had a question...we're just moving back and forth.

**Hon. John McKay:** I have a couple here.

The minister apparently said in the last committee meeting that the World Economic Forum has said that Canada has one of the best job numbers in the world, but when we check, the World Economic Forum ranks Canada at number 26 after quite a number of other countries. Number 26 doesn't exactly describe the best job numbers in the world. Can you explain the discrepancy between what the minister apparently said and the ranking of 26 in job numbers?

**Mr. John Knubley:** I think what the minister was saying was that since 2009 and that recessionary period, the Canadian economy has done well in job recovery. That's a fact. I think questions were raised about full-time versus part-time elements at play, and even on the full-time side we have seen steady increases every year since 2009.

• (1130)

**Hon. John McKay:** But the only fact is that we're number 26. The rest seems to be opinion.

**Mr. John Knubley:** Well, I think you're asking me, are the World Economic Forum estimates and rankings strong? Without going into a lot of detail, I think they tend to do this on a survey basis—a survey of CEOs—and I would just say it's not strong, qualitative data.

**Hon. John McKay:** So the minister's quoting not very strong, not very qualitative data when he—

**Mr. John Knubley:** No, I think the minister was saying that we've had a good record.

**Hon. John McKay:** The quote is, “the World Economic Forum has said that Canada has one of the best job numbers in the world”.

So he's the one who's bringing the World Economic Forum into play here.

**Mr. John Knubley:** I think, Mr. Chair, though, I was asked whether the ranking of 26 is good or not, and I gave the answer to that.

**Hon. John McKay:** Well, they—

**Mr. John Knubley:** Honestly, I don't know whether the ranking is 26.

**Hon. John McKay:** But it seems to me you're dissing the data that the minister himself actually referenced.

**Mr. John Knubley:** I'm questioning whether this is the only source of data around jobs.

**Hon. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC):** I have a point of order.

It might be easier for all of us to follow if John was to cite exactly what he's talking about in terms of the information.

**Hon. John McKay:** I'm just citing the quote. The quote is, “the World Economic Forum—

**Hon. Mike Lake:** Not that. The information you're talking about, the number 26. What are we number 26 in? Maybe you could cite—

**Hon. John McKay:** However, according to the same organization, on private sector capacity for innovation, Canada ranks 26th behind—

**Hon. Mike Lake:** Where's that from, though?

**Hon. John McKay:** That's from the World Economic Forum.

**Mr. John Knubley:** Sorry, did you say “private sector innovation”?

**Hon. John McKay:** Can you explain the difference between the job numbers that the government references—

**Hon. Mike Lake:** I'm sorry, I'm not sure what you're.... It sounds like you're leading a question, but do you have an actual specific citation?

**Hon. John McKay:** The ranking according to the World Economic Forum on private sector capacity for innovation is 26.

**Mr. John Knubley:** Sorry, what does that have to do with—

**Hon. Mike Lake:** So they're completely different things, it sounds like.

**Hon. John McKay:** Yes, that's fair. That's a fair comment. It is fair.

But there does seem to be some discrepancy between what the World Economic Forum's views on job creation or job numbers are, and the minister's. Where do we get this notion that we are among the best in job numbers in the world?

**Mr. John Knubley:** I think I stated the fact that since 2009—

**Mr. Mark Warawa (Langley, CPC):** Chair, on a point of order. I think we've gotten to the point, Chair, where the questioning is inappropriate. The question was asked, the answer was given, and to keep aggressively going after one of the witnesses is not appropriate.

**The Chair:** Thanks, Mr. Warawa.

**Hon. John McKay:** I don't think there's anything appropriate or inappropriate. What the honourable member thinks about how I should or should not conduct a question is irrelevant.

**The Chair:** I think Mr. McKay just reframed the question. Go ahead, Mr. McKay.

**Hon. John McKay:** Yes, I'm looking for the basis for the minister's statement, which is that Canada has one of the best job numbers in the world according to the World Economic Forum. If you could provide the committee with that, that would be helpful.

**Mr. John Knubley:** We will provide that.

**Hon. John McKay:** Thank you.

**The Chair:** Any other questions?

**Hon. John McKay:** I still have a question.

**The Chair:** Okay, go ahead, Mr. McKay.

**Hon. John McKay:** Now, there's another quote from the minister which said that "Bloomberg has said that Canada's the best place in the world to start a small business, which of course creates jobs." However, if you look at the Bloomberg Innovation Index, Canada ranks 17th in manufacturing, 20th in research and development, and 21st in patents, in rankings out of 50 countries—not exactly the best. Again, I'm trying to arrive at the discrepancy between the minister's statement, which seems to say that Bloomberg says this is a really great place to create jobs, and the actual rankings of Bloomberg.

**Hon. Mike Lake:** Clearly, the honourable member was reading his last question and didn't characterize it right. It would be helpful, again, if we had a citation for the point that he's making right now.

**Hon. John McKay:** It's the Bloomberg Innovation Index 2015.

**Hon. Mike Lake:** Innovation index...thank you.

**The Chair:** Go ahead, Mr. Knubley.

Oh, I'm sorry, Mr. Daniel. You had a point of order—

**Mr. Joe Daniel (Don Valley East, CPC):** It goes to the relevance of the question on the data. Clearly, what he's talking about in terms of jobs versus what they're saying about innovation, there is no correlation between the number of patents and the number of jobs. So let's get close to the point.

• (1135)

**The Chair:** Mr. Daniel, that's not a procedural point but I understand the information.

Mr. Knubley, you can go ahead.

**Mr. John Knubley:** What I'd say is that I do know the Statistics Canada data shows that Canada is a leader in the creation of small firms. In fact, when you compare our record in the creation of small firms to that in the United States, we're actually better at creating small firms and we create more than the U.S.

**Hon. John McKay:** Again, it would be helpful if that information were tabled, because on the face of it, there seems to be a contradiction between what the minister says and how Bloomberg is ranking it.

The final question has to do with a statement that was put before this committee by Professor Martin. He said:

If I could make a recommendation, it would be to not stop supporting the existing people and the ones who are out there, but to focus a little bit more attention and energy...on supporting the smaller companies and ideas and entrepreneurs and helping them move through the process so they can become the bigger companies. As a researcher, I have no mechanism to do that now. I have to find a big company that is willing to give me a big amount of money...

Apparently Mitacs invests in innovation but not in the start-up phases that universities are advocating, yet there's an increase in support for Mitacs of 50%. What's your explanation of what the professor is recommending versus the decision by the government to increase the funding for Mitacs? I don't think he's actually objecting to the increase in funding to Mitacs.

**Mr. John Knubley:** No, I don't think he actually is. I think what he was raising, if I understood your question, was the question of what we need to do in Canada to grow firms.

I think, as I indicated earlier, the data actually shows, consistent with the minister's remarks, that we're very good at growing and supporting small firms. I think the minister referenced yesterday the

new accelerated capital cost allowance in budget 2015 to support small business. We also changed the Canada small business financing program to help small business. The government has invested \$14 million over two years in Futurpreneur Canada.

Indeed there's a whole series of investments in small business in budget 2015.

**Hon. John McKay:** What specifically addresses—

**Mr. John Knubley:** Then on the side of growing firms, I think if you look at budgets 2015 and 2014 you will see that the Government of Canada has invested in what we call incubators and accelerators, which are specifically designed to help small firms grow and to participate in global markets and to move to that medium-sized range. I think the government has taken steps to address the issue that Professor Martin has identified.

**Hon. John McKay:** The final question has to do with CANARIE. There's a reduction of \$26 million to CANARIE programs. What's behind that?

**Mr. John Knubley:** I think this is simply reflecting changes in terms of cash disbursements.

CANARIE and Futurpreneur were renewed in budget 2015 and will get additional funding for that in supplementary estimates (A). The decline you're seeing is just reflecting the changes in grants and contributions and the expenditures related to that. As typically happens as we move through the supplementary estimates and beyond the main estimates, you'll see that the funding is replaced.

**Hon. John McKay:** I'm just a little confused. You're reducing it in the main estimates and expecting to get it back in the supplementary estimates.

**Mr. John Knubley:** I'll let Lawrence Hanson, who knows these numbers upside down—

**Hon. John McKay:** Where does that leave the universities that are pretty dependent upon this virtual digital network?

**Mr. John Knubley:** Again, in budget 2015, there is further commitment to CANARIE. Perhaps Lawrence can speak to that.

**Mr. Lawrence Hanson (Assistant Deputy Minister, Science and Innovation, Department of Industry):** The numbers you see in the main estimates are just a result of the fact that this was the year in which existing funding for CANARIE was going to sunset.

When the estimates were tabled, in theory, going into the new fiscal year, that money would be gone, but given the fact that CANARIE has been renewed in the budget for the next five years, there is no reduction in CANARIE funding as a result.

• (1140)

**Hon. John McKay:** Thank you.

**The Chair:** Thank you very much.

Mr. Daniel.

**Mr. Joe Daniel:** Thank you, Chair.

Thank you, witnesses, for being here.



Clearly, the aerospace and space industries are a huge part of Canadian industry. They employ hundreds of thousands of people, and they have a significant role to play in the aerospace and space sector across the globe. Obviously we had the Emerson report that came up with a number of recommendations to be implemented. I just wondered if you could actually expand or explain a bit more on what has been done on these recommendations.

**Mr. John Knubley:** Yes. I'll let Philip Jennings elaborate, but I will just make a few basic points before I turn it over to him.

I actually joined Industry Canada in September 2012, just eight months after the review was launched and just two months before Mr. Emerson tabled his report. I was quite involved at the time in terms of working with him as well as with the industry that supported the committee. I was struck with how the industry supported the work that was being done by Mr. Emerson and his panel. I think it's almost a model for the kind of work we need to do with industry in that regard.

Since the tabling of the report we have moved forward to implement the recommendations. They were actually tabled, because of this process that was followed, in a way that was very practical and allowed for quick implementation. Phil, could you explain some of the things that we've done?

**Mr. Philip Jennings:** Sure. It's actually a pretty long list of recommendations that were made in the Emerson report and we have an equally long list of responses from the government. I'll focus on some key ones.

I'll start with what was announced in the most recent budget, which is really a commitment to work with the Aerospace Industries Association of Canada and other industry stakeholders and provincial stakeholders to develop a national aerospace supplier development initiative, which is essentially tailored off a successful model called MACH, which is with Aéro Montréal.

The government has committed seed funding that would begin next fiscal year and the balance of the funding toward that initiative would come from industry. It's meant to develop a world-class supply chain in Canada. The funds are geared toward small and medium-sized enterprises, where we're trying, for one thing, to bring up their performance. A lot of the funding that's provided is really about trying to make sure that people can rate and understand their performance and they can take action on where they feel they're underperforming, as well as a rating system so that the larger companies can rest assured that when they're dealing with a certain supplier they have a certain rating in terms of the quality of their work, so they're more likely to take part in a supply chain that's either local or global.

Another key commitment that was made in previous budgets, which the deputy has spoken of to some extent, is the \$30 million that was provided to the Consortium for Aerospace Research and Innovation in Canada. Again, that was modelled off a successful model in Quebec called CRIAQ. Emerson essentially said that the future of aerospace and for us to be competitive is based in innovation. That's really about trying to marry the research institutions, the academics, and the industry players in terms of making sure they can develop the R and D necessary for the future

platforms in aerospace and space. That was launched already in terms of the consortium.

Another key deliverable was a recommitment to SADI, a five-year recommitment for \$1 billion. There have been a number of very successful projects launched through that. I think since its inception 37 projects have been supported under SADI.

Another one announced in the same budget was \$110 million for a tech demonstration program, which is, as I mentioned, under the automotive supplier innovation program and is trying to get at moving from basic research to commercialization. It's really about the government sharing in the risk in terms of making sure that companies make those investments that will be necessary for the future.

I should mention that Emerson also made recommendations that applied to other departments taking action. Two of them were in the procurement field in terms of defence procurement. For both of those, actions have been taken in terms of the defence procurement strategy. One of the key recommendations was that when companies bid for procurement contracts in Canada they should be offering an industrial package of investments that they plan to make in Canada and that will now be part of the bid selection process. That has now been implemented.

Another key one was with Transport Canada in terms of certification. Canada is viewed as a world leader in terms of how well we do our certification of aircraft. Emerson recommended that we continue to focus on that area to remain world class. Transport Canada is now consulting with industry on that.

• (1145)

**Mr. Joe Daniel:** Thank you.

**The Chair:** Colleagues, do you have any further questions?

Mr. McKay.

**Hon. John McKay:** My last question has to do with Genome Canada, which goes from \$22 million or \$20 million, and then drops to \$7.5 million. Is it the same explanation as previously, that there's a difference between mains and supps?

**Mr. John Knubley:** That's correct. Well, specifically—and I think I gave this answer yesterday—Genome is currently funded under three different mechanisms: a statutory grant, a statutory contribution, and a voted contribution. Total funding for Genome Canada in last year's main estimates was \$86.2 million. At \$78.3 million in these main estimates, the actual net decrease from mains to mains is \$7.9 million. I think that was pointed out yesterday. It derives from overlapping funds under these three sources following previous budget announcements, minus \$0.2 million under the budgeted statutory grant from budget 2008, positive \$7.3 million under the statutory contribution for budget 2010, and minus \$15 million in a voted contribution from budget 2012. If you do the math, that takes you to the \$7.9 million difference.

I stress, as I think I did yesterday, Mr. Chair, that this is really about a change in the program and a fluctuation based on Genome's cashflow requirements. Perhaps I'd ask Lawrence Hanson, though, to talk a little more broadly about Genome and where it stands and what it's doing.

**Mr. Lawrence Hanson:** I'm happy to do that.

For Genome, as the deputy indicates, the reduction in funding is about cashflow and it's off a much larger base. It's not off the \$22 million. It's off the \$86 million.

They continue to be operating large-scale contribution programs in multiple areas of genomic science. I think we tend to think about genomics as very specifically in the issues of human health, but there are obviously genomics applications in a wide variety of sectors, including such areas as agriculture, mining, and promoting environmental sustainability. One thing Genome seeks to do is to have competitions and fund research in a variety of sectors. They work with regional genomic centres across the country that can be focusing on various kinds of specific needs in specific economic sectors.

Again, it could appear that this is a move from \$22 million to \$7 million, a much larger decrease than it actually is. This is really more about their current cashflow needs.

**Hon. John McKay:** When we to and fro and add and subtract and multiply and divide, where are we with Genome? Is it roughly the same funding level? Is that a fair statement?

**Mr. Lawrence Hanson:** It's moving from about \$86 million to about \$79 million, a change of \$7 million, but this money exists in the fiscal framework. It's just about their cashflow needs.

I think it's just words, and I should probably say this, because it's important for a lot of our science and innovation funding. Many of these organizations—Genome Canada, the Canada Foundation for Innovation, etc.—are not A-base entities inside our departmental reference levels. These are actually contributions that are made at the front end, and then new inlays of funding are put in place over time. The money, if you will, is invested up front, and then it can fluctuate normally during the course of the years of the contribution agreement.

For things such as Genome and CFI and others, infrastructure and capital expenditures and so forth are often involved. It's impossible to predict those to the dollar each year, so inevitably there's going to be some fluctuation. But the money they have is in the fiscal framework. It's not that there has been any kind of cut or reduction to their funding.

• (1150)

**Hon. John McKay:** Will you be back here with supplemental estimates for Genome over the course of the year because of the fluctuations?

**Mr. Lawrence Hanson:** If the Genome cashflow needs were such that it required something, we would look into it, but at present I don't think that is the case.

**Hon. John McKay:** Good. Thank you.

**The Chair:** Mr. Lake.

**Hon. Mike Lake:** I thought I would take a quick second based on Mr. McKay's line of questioning earlier, with the statistics or whatever they were that he brought up.

I went to the Invest In Ontario website and found a link with the headline "Canada ranks second in the world for 'Best Countries For Business' according to Bloomberg". Hong Kong apparently secured the top spot.

"Canada jumped from sixth place to second largely because of the receptivity of its consumers, measured by the size of its middle class, household consumption and GDP per capita," states the report.

I thought I'd bring that up for clarification, because it was interesting, given that this is a Liberal Government of Ontario website that highlights this. I thought it might be good information for John McKay.

**The Chair:** Mr. Carmichael.

**Mr. John Carmichael:** Thank you, Mr. Chair.

Mr. Knubley, I'll follow up on my earlier line of questioning, when I didn't get a chance to get to manufacturing in southwestern Ontario directly. At a previous meeting we talked about accelerated capital cost allowance and the extension of that program, as well as about some other initiatives. Could you speak to what this government is doing to incent manufacturers in Canada, and certainly in southwestern Ontario, to invest more heavily in their industries and meet the challenges ahead?

**Mr. John Knubley:** Over the course of the last few budgets, a number of steps have been taken by the government to support manufacturing. Again I'll look to Phil to elaborate more, but they include the technology demonstration program for aerospace, the strategic aerospace and defence initiative—we talked a bit about it earlier—and the automotive innovation fund, which complements the automotive supplier innovation program.

In addition, the regional agencies have programs that support business development and that would fall into the category of supporting manufacturing.

Phil, do you want to talk more about this issue?

**Mr. Philip Jennings:** Maybe I should start by just talking about the capital cost allowance measure that was put in place. In some ways, it's a really broad-based measure that benefits firms across all the manufacturing sectors. These include aerospace, automotive, forest products, information and communications, food processing—it's really a broad base.

Also, what's really critically important in some ways is that there is long-term certainty about how capital costs will be allowed to be written off. That makes a difference for some sectors, such as the chemical industry in Canada, whose horizon to invest in capital is much longer than the two-year extension that has been the case in previous budgets.

The last thing I'd say is that in some ways, if you look at the future of manufacturing, it's really about getting positioned for it. The deputy mentioned a number of programs that are geared toward this. It's about trying to incent innovation in R and D. The other part of it is about trying to incent capital investment by way of people investing in the latest machinery, which is important for the future.

This measure, the ACCA, is something that has been broadly asked for as something that is important to complement the actions on R and D.

I won't spend too much time talking about what John talked about concerning the programs. I can go into the details, but broadly speaking, they are geared generally towards supporting innovation and R and D. Different programs adopt different risk levels in the way they support R and D. With tech demo and the automotive supplier innovation program that I mentioned, the government is taking a larger risk but is also expecting the companies—and there will be thorough due diligence on this—to take risks in what we support.

Then you have programs that are more geared towards the front end, towards basic research. Many those programs come out of the shop that Lawrence Hanson leads at the moment. Then you have some that are more at the commercialization end. The automotive innovation fund, which is really about trying to attract the assemblers here, is an example of the way you support that goal.

• (1155)

**Mr. John Carmichael:** For the longer-term programs, such as the capital cost allowance extension, do we have a place such as we talked about earlier concerning the supplier innovation program and the automotive innovation fund—we talked about accountability and measurement—in which we actually measure our success in terms of reinvestment and investment in new equipment, job creation, etc.? Is there a place we can go to see, as you look from the outside in, how this is actually measured on criteria of success?

**Mr. John Knubley:** All programs are constantly subject to evaluations and audits. I'll let Phil talk to that.

**Mr. Philip Jennings:** As John said, every program has its own performance measurement framework, which we have to follow. There are short-, medium-, and long-term objectives that have to be met. Essentially those are evaluated and audited in terms of how we meet them.

To speak about automotive, there was an evaluation done of the automotive innovation fund about three years after it was launched that felt it was on track in meeting its short-term objectives. Also, we have a long-term evaluation, which will be done in 2017.

But if you look at what we're seeing about how we are achieving the objectives we're expecting to achieve, every single assembler in Canada has reinvested in its capacity in the last two years. For me, if you think about the ultimate outcome of what we're trying to do in supporting the auto sector, this is a good measure, people reinvesting in the capacity that exists in Canada.

**Mr. John Carmichael:** Great. Thank you very much.

**The Chair:** Mr. Masse.

**Mr. Brian Masse:** By how much were the automotive innovation funds cut?

**Mr. John Knubley:** They haven't been cut.

**Mr. Philip Jennings:** The automotive innovation fund has so far supported seven projects, and the fund was fully subscribed in terms of the first tranche of \$258 million. There have been two additional funding envelope enhancements that have been provided, and there are still some funds that remain in those that are available for

companies to access if they wish to make further investments in Canada.

**Mr. Brian Masse:** It appears, though, that there was money moved over to the parts fund from the innovation fund, the supplier fund.

**Mr. Philip Jennings:** Yes—

**Mr. John Knubley:** That's correct. In budget 2015 it's identified. It's \$100 million.

**Mr. Philip Jennings:** That's right—well, \$50 million is actually identified from the automotive innovation fund, and the other \$50 million will come from the fiscal framework.

**Mr. Brian Masse:** Right, so our automotive innovation fund has less money than it did before, and that seems like an odd strategy to try to attract new auto investment when we haven't been able to successfully get that investment.

**Mr. John Knubley:** As Phil said, every assembler operating in Canada has reinvested in Canada. We could go through the list of those investments. There have been significant investments using the automotive innovation fund for this purpose.

**Mr. Brian Masse:** I have one last question. The EDC has decided to loan Volkswagen \$500 million for investments in Mexico, and I think, Arizona. Is that not counter to your attempts to try to win investment for Ontario and other parts of Canada?

**Mr. John Knubley:** As I mentioned earlier, it's very important in every sector, but particularly in the auto sector, to ensure that our companies are part of the automotive supply chain. Indeed, this particular investment by EDC is designed precisely to ensure that Canadian suppliers are participating in the global supply chain, and that is the perspective with which this investment was made.

Phil, do you want to add anything to that?

**Mr. Philip Jennings:** In some ways the incentive is for Volkswagen to really have a deep look in terms of what Canadian capability exists in the supply chain. Essentially you're creating that incentive because you're offering some financing measures to Volkswagen, and Volkswagen, in return, commits to essentially try to look at all opportunities to bring Canadian suppliers into the supply chain.

**Mr. John Knubley:** I would just add from the perspective—

**Mr. Brian Masse:** The problem is that they are building in foreign countries with Canadian money.

**Mr. John Knubley:** Again, I think it's very essential that we are participating in the supply chain, and Flavio Volpe from the Automotive Parts Manufacturers' Association recognizes that. He said:

...this is great news for our companies and their employees, and we're confident that the stronger connection with Volkswagen, created through this loan, will help Canadian toolers and parts manufacturers win new business with VW.

That is the objective, to win new business with Volkswagen.

• (1200)

**Mr. Brian Masse:** It's even greater news for Mexicans and Americans.

Thank you.

**The Chair:** Colleagues, it looks like questions have been exhausted.

We will have bells any moment.

I want to thank you and all your colleagues very much, Mr. Knubley, for your very concise answers.

This meeting is adjourned.

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