

**HOUSE OF COMMONS STANDING COMMITTEE TESTIMONY BY JOHN
TRELEAVEN**

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The Chairman: I call this session back to order.

With us from the Department of Foreign Affairs and International Trade are John Treleaven, director general of trade planning and operations; John Mundy, director of the international finance division; and Peter Campbell, director of the trade commissioner service. These gentlemen will review the federal government programs that are available, what the trade commissioner service does, and our new Team Canada approach to international exports.

Mr. John Treleaven (Director General, Trade Planning and Operations, Department of Foreign Affairs and International Trade): Mr. Chairman, thank you for the invitation to appear.

As many of us have, I've read with interest the testimony from the stream of witnesses to this committee over the past few weeks. Money was mentioned at the end of the last session, and it has been a common theme throughout the presentations.

On the Canadian government's role as an advocate for companies abroad, I think witnesses mentioned our embassies in Cuba, Kuwait and China. Some described the foreign service as the eyes and ears of the business community abroad. Others discussed our trade promotion - programs, fairs and missions - and how good, effective and necessary they are. Still others have focused on the issue of preparing companies in Canada to tackle the opportunities in the global marketplace.

At the same time, several witnesses have outlined areas where they've seen problems - consistency of service across the trade commissioner service, the trade commissioner's knowledge of industry or a company's products, and inconsistency of approach between embassy staff and government agencies. For example, I can recall our embassy in Tehran contradicting EDC on the issue of export financing for that country. Several people have also mentioned the need for a predictable, effective level of service to Canadian industry to prepare them for exports abroad.

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On the research paper that was prepared for the committee, the work done there on the issue of how companies - SMEs - enter export markets was well done and consistent with the kind of research that we've had under way for some time.

Let me quote my minister, who will be appearing here later this week. Last year he wrote on the issue of the government's role in international business development in the global economy, stating the following principles:

- government does not conduct business; companies do. Government can and should provide information and services but it is not in the business of picking winners;

He further stated:

- government should supplement private sector service providers such as banks, libraries, universities...rather than replicate what is available in the public domain.
- government's role is to stimulate, not subsidize.

Given limited funds, he indicated that programs should be targeted at new business rather than ongoing market development.

Market sectors and companies are different, and government support programs should be similarly differentiated. Providing a universal service in all markets in all sectors to all companies reduces the quality of service to all.

More needs to be done within Canada to prepare companies, particularly small- and medium-sized enterprises, for the rigours of international trade. We need to refocus on providing quality, targeted service to private sector companies.

To be successful in international markets, companies need a product or service and a team of people trained, dedicated, well-managed and innovative in their approach to their customers. They need customers. They need intelligence on market opportunities and barriers. They need to be seen in markets from Costa Rica to Hong Kong as credible suppliers, even though they may only have thirty employees or fewer.

They need to have the confidence necessary for their shareholders to assume the risk of approaching world markets. They need to be skilled at risk avoidance, and they need to get paid.

Our department plays a role in several aspects of that kind of analysis, and I'll outline some of the ways we play that role.

Let me start with a letter sent by our Deputy Minister of International Trade to the trade commissioners about 18 to 24 months ago.

Our...main challenge is to provide our clients with the information they need to develop their business strategies. We have to be as good at dissemination as we are at gathering information. We have to bring to our clients information that they cannot ignore; strategic information that is not general but targeted, information that results in changed corporate behaviour. This should be information that extends beyond export opportunities to include market access, outward investment, strategic alliances, technology transfer, and competitiveness issues.

With that as background, the department operates 128 posts abroad staffed by some 600 trade officers. Their fundamental goal in life is to translate the buying power of foreign markets into jobs in Canada. This task is accomplished in a variety of ways, probably the most important of which is to establish a policy environment within which trade can take place, thus the FTA, NAFTA, APEC, the Miami Summit and free trade with Europe.

Beyond that, each of those 128 offices is every day developing a network of contacts of senior decision-makers whose decisions could have an impact on employment in this country. From that network of contacts the trade officer,

embassy and consulate draw market intelligence in its sharpest form, according to what our clients are interested in: business leads. Beyond that, the access conditions, networks of contacts, distributors and advice on how they can approach markets....

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But we don't stop there. The private sector and the government operate, to a greater or lesser extent in all of those posts, a program of promotions. We have fairs, missions, seminars, and cocktail parties, which bring buyers and sellers together and create venues in which Canadian companies can interact with local decision-makers in a way that helps them achieve their shareholders' objective.

In that regard, we seek to put one question in the minds of decision-makers around the world: why not Canada? If a business person in Costa Rica doesn't have that question in his mind, he will not necessarily bring a business opportunity to Canada. If he has that question in his mind, he also might not, but there's a chance that he will.

So together with the private sector we operate a cooperative promotional program in world markets, seeking to extend the networks of contacts we have in those marketplaces and change their behaviour; that is, that they will think of doing business with Canada and in one way or another approach the Canadian economy with a business deal.

Several of your witnesses have talked about approaching our posts and how busy they are, and I thought you might like a few statistics.

The 600 trade officers in the last fiscal year received 176,676 inquiries from Canadian companies wanting to do business abroad. In that same period, they received inquiries from foreign companies - that is, their networks of decision-makers - and processed 181,083 such inquiries.

During that same period they assisted 34,175 Canadian business visitors in a material way. They set up appointments, prepared reports, and guided.

As I mentioned, they're very heavily involved in promotion, and during that same twelve-month period, that network of 128 posts organized 5,941 events, fairs, missions, and seminars. Approximately half of those were at the specific request of companies; that is, company A is going into market B and they want to meet and hold a technical seminar on, say, Canadian mining technology, and the post organizes it.

The other half involved some public funds - a government stand at a trade show, a fair, a mission, or some other form of promotion involving public funds. It is important to note, though, that in a government booth at a trade show, for example, companies are providing, at a minimum, 70% of the cost of that government booth. We provide some seed money, but by the time you take in

the costs that the individual shareholders of those firms have to absorb...in fact they are joining the Canadian government in a national effort in, say, the Chilean mining show to promote the industry as a whole.

We view our main means of impacting corporate behaviour, once the policy framework has been established, as the provision of market intelligence. The trade commissioner service was formed 101 years ago, and for the first 10 years of its existence it was called the Commercial Intelligence Service.

We know that market intelligence has the highest impact on corporate behaviour when it reaches a company that's not only capable of taking advantage of an opportunity, but willing and anxious to do so and prepared to do so.

There is one piece of research that I think very much supports the work your staffers have done in this committee, for example. Some while ago, the Canadian Federation of Independent Business, which, as you know, surveys its members with great regularity - about every two weeks - did a survey with the following title: "Factors affecting my willingness to hire one more person". It's interesting that 84.9% of respondents cited increased demand for their product as the first factor influencing a decision to expand.

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On one level, the Department of Foreign Affairs and International Trade delivers to Canadian industry demand information. We believe the most powerful piece of information we can give a Canadian company is the knowledge that somebody might want to do business with them. This leads to all kinds of other, more value-added advice.

Let me refer to a second survey. This was carried out by the Department of Industry among IT companies in B.C. in January. It produced what is certainly a counter-intuitive result. The survey was done by a professional and asked 80 Canadian IT companies to rank 20 factors affecting their ability to compete in world markets. First, second and third were something like market opportunity, technical standards - very important in that business - and contacts. Down about number 18 were tailored market surveys, totally consistent with what your research report has indicated. The consultant was surprised that market surveys were ranked so low, but then he took a look at his sample and realized that of the 80 companies, most were SMEs by any definition.

He concluded that SMEs are by definition niche marketers. Niche marketers don't need the 40-page report on the market for telephones in Costa Rica; they need to know the three people in Costa Rica who are going to influence the buying decision. So he coined a phrase that I really do like, and that is, perhaps for an SME the best form of market strategy is point and shoot.

In 128 locations around the world, we'll help the company point. The shareholders of that company will decide whether the trigger gets pulled or not.

Anyway, I thought it was quite interesting.

The network of trade commissioners around the world is linked by a computer network called WIN Exports. It's a database of Canadian corporate capability. Fundamental to the success of that very expensive network of trade commissioners abroad is data on Canadian corporate capability.

The chairman referred to making Trade Team Canada, the initiative announced by the minister in Fredericton, work. You'll all recall the Prime Minister's Team Canada mission to China last year. Of course, it was spectacularly successful. We've looked at why, and I think it's evident to the Canadian public why.

First of all, you had a group of 200 or 300 Canadian companies that knew exactly what they wanted, and they knew what role they wanted the government to play in assisting them to achieve their shareholders' aims. The government, at a very senior level, both provincial and federal, was prepared to play that role.

So the issue is, if Team Canada worked for nine days in China and 60% of our GNP is dependent on international trade because we import almost as much as we export, shouldn't Team Canada work every day? The essence of the minister's announcement has to do with making Team Canada work every single day.

As a part of that process, the federal government departments involved in international trade are organizing themselves into national sector teams - a very simple concept.

Who in the public service, federal or provincial, is an expert in a particular sector? Regardless of their department, have them work as a team. Publish a phone book for Canadian companies, not by government department or level of government but by product. We don't have that yet; the U.S. foreign commercial service does. But under the Trade Team Canada initiative, we'll soon publish a phone book where if you're in the apple business, you'll look under A for apples and it'll tell you who thinks they're experts in the international marketing of apples.

Let me give you an example of how that works at its best. As the Gulf War approached, the interdepartmental community on defence trade - the Department of Industry, DFAIT, my own department, DND, Public Works and Government Services, the Canadian Commercial Corporation, and one or two others - a group of people who'd worked together for years and trusted each other, who all knew their relative strengths, started to receive phone calls from allied governments, our own companies and foreign companies at an enormous rate. That group of officers set up a fax network. Whoever got a call took action and indicated who would take action. That group of eight people handled 15,000 inquiries in three months because they worked together, trusted each other and had no turf considerations.

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That model is behind the Team Canada announcement and the thought of national sector teams. By the way, there are many that work. They are in agriculture, automotive and seafood, and we're extending that. So that's a building block. Initially, at least, a national sector team will focus primarily on identifying Canadian industrial capability and sharing that knowledge with our network abroad.

Another part of that announcement is to take regional teams. In every province in Canada there are federal departments that work and there are provincial departments. The challenge facing Canada's effort to coordinate its international trade efforts is that there are about 21 federal departments with a real role in international trade, and about 110 provincial government departments that have been interested in international trade.

At a regional level, you take the federal government's regional operations and mesh them with the provincial government's international trade operations and create for the client in New Brunswick, Quebec or Ontario a network of organizations that will respond as one. When the minister made his announcement in Fredericton, Premier McKenna gave him a copy of the trade team New Brunswick business plan. All New Brunswick departments of government and five federal departments were working off a common business plan.

A further element of -

The Chairman: Mr. Treleaven, I'm sorry to interrupt you, but if we're going to have comments by Mr. Mundy and Mr. Campbell, there will be little time for questions. Were you going to give the overall view and then they'll be available for questions?

Fine.

Mr. Treleaven: A further element of the Team Canada announcement was a focus on the delivery of market intelligence to interested and capable companies. As I've already said, companies have told us that what they want more than anything else are trade leads. So we've established an interdepartmental organization in Foreign Affairs that takes leads from our posts abroad, where they cannot find a company that's interested and capable of responding at the moment and deliver that information to that company.

In creating Team Canada, ministers have also agreed that what used to be called the international trade business plan, which is federally published but cleared through the provinces, should become the planning document and a resource allocation tool for Trade Team Canada. So Canada's international business strategy, the preparation of which is now under way and does involve all 10 provinces and all federal departments with an interest in international trade, and

does involve our clients through the minister's sector advisory groups on international trade, and is less a document than a process aimed at making best use of our resources abroad and in Canada - that will be the planning document for Trade Team Canada. That process does involve our client through trade associations and should result and is moving in the direction of a true contract between the private sector and the various levels of government that have an interest in international trade abroad.

A number of your witnesses have talked about exporter preparation. As I said before, we do our work best when we are dealing with companies that are prepared and willing to trade abroad. You will be hearing from Dieter Hollweck, from the Forum for International Trade Training later in this process. HRDC, ourselves and Industry Canada have collaborated - it's mostly an HRDC project - to bring through the community college system in Canada a body of knowledge that does prepare exporters to take advantage of world opportunities.

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It's one of the main issues, I think, facing the country's ability to meet Minister MacLaren's challenge to Trade Team Canada, which is to double the number of active exporters between now and the year 2000. We estimate about 8,000 Canadian companies account for 94% of our trade abroad. His challenge in Fredericton was to double that. Clearly, doubling it involves SMEs.

As you have heard, Minister MacLaren takes a keen interest in strengthening SME exporters. He takes a very keen interest, as you well know, in the issue of finance. He has encouraged EDC as well as the banks to sharpen their focus on SMEs, involving export financing and insurance needs.

Several innovative products and approaches have resulted from dialogue initiated by the minister. These include EDC's emerging exporter team, a guaranteed program for foreign receivables, and in the medium term, framework agreements between EDC and the banks. You will have had references to some of these during the course of these hearings, and EDC will describe them further, I think, tomorrow.

If Trade Team Canada worked for nine days in China, how much more of an impact would world markets have on employment in Canada if we worked every day? If you look at the numbers with the new GATT round in place, estimates of an immediate increase in world trade of, I think, \$1.073 trillion U.S., if you look at the U.S. market alone currently importing \$800 billion worth of product - within ten years it will be at \$1.8 trillion in imports - the issue facing SMEs and Canadian companies is far less one of opportunity - there's lots of it - than one of tackling it, preparing for it, avoiding risk, being paid, and knowing how to invest wisely their shareholders' capital. Thank you very much.

The Chairman: Thank you very much, sir. I have Messrs Penson, Volpe and Alcock and Ms Torsney on my list.

Mr. Penson: Mr. Treleaven, I think the Trade Commission Service and our embassies overseas do a pretty good job of gathering market intelligence.

We're studying small- and medium-sized businesses here, and what I'm concerned with is that there's not a good trade environment at home with our small- and medium-sized companies, and there's not awareness that when we negotiate these big trade deals there are advantages out there but there are also opportunities for companies from other countries to come in and nip us here at home. I don't believe our small companies, and medium-sized companies to some extent too, are aware that they are vulnerable, that this protected Canadian market they have had for some time is not necessarily going to be there for them. I think there's a role for the Trade Commissioner Service to be playing, that you must get much more aggressive here at home and build that awareness.

I understand you are working through the community colleges, and I think that's an excellent way for that to happen. But I think it has to be expanded beyond that, because if these companies do not have that awareness, I think they haven't been provided with the time advantage they need in order to adapt and become a lot more aggressive. What would your comments be in that regard?

Mr. Treleaven: I agree with you completely.

Anecdotally, I was delighted to see a couple of weeks ago that it's not just the community colleges that are behind turning Canada from a trading nation to a nation of traders. In fact, the Beavers, the Cubs, this year for the first time, will award a badge in international trade.

The Chairman: Don't train them to point and shoot, or we'll all be.... Stick to other forms of analogies.

Mr. Treleaven: One of the things your son would have to do to qualify for this badge is to take a chocolate bar, read the ingredients and figure out where they came from. The ninth qualifier is to compare any two currencies - this is a seven-year-old kid - to the value of the Canadian dollar.

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Anyway, I agree with you totally that there's a very large job to be done in this country by all kinds of partners, including trade associations most especially.

Let me suggest one small way that we're trying to change corporate behaviour in that sense. We are receiving trade leads from posts abroad very regularly. Where we have a post that has a hot trade lead from a quality contact that's time sensitive, we send the lead to this centre that I mentioned in the Pearson building.

In its pilot stage, that centre handled 1,300 trade leads and phoned 9,000 companies. So 9,000 companies, small and large - they're all in a way an exporter through trade associations - got a message. Suddenly they got a call from the federal government saying, hey, there may be business for you in Uganda. The effect of that on the company is quite interesting, and by the way, many of these companies are not on WIN and we add them to it.

The minister, of course, each year gives out an award to Canadian exporters at the CEA annual convention. That's part of the process of signalling to the Canadian business community that not only should it be done, but it can be done, and it can be done spectacularly.

I agree with your comment, though, that what's happening with the free trade movement is that our domestic market is becoming somebody else's export market. All I can suggest is that anecdotally there's not a community in Canada - not one - that doesn't have within it very successful companies tackling world markets.

I spent a day a couple of months ago in Renfrew, Ontario, and in Renfrew there were six companies. One had just won a printing contract in Geneva with the UN. Another shipped hardwood flooring - you would understand that - to Japan. A third small firm was in the athletic tape business. That company, by going to one trade show a year, ISPO in Germany, had agents and distributors in 30 countries. He tackled world markets from Renfrew by going to one trade show in Germany. He had a good product.

Now, how you pull all that -

Mr. Penson: That's my concern. I think we have to step back even one more level.

Let me give you an example of what I think has been successful. Last year, in my home community in northwestern Alberta, there was a regional conference to do just what we're talking about. They invited the Trade Commissioner Service from Edmonton to come up and speak, along with some other people that had been exporting in the past. I think we have to get down to that very basic level where trade commissioners have to go out and sell this thing in the communities, and from there it will start to grow.

So I guess we're on the same wavelength, but I think it has to start at one level further down than what you're talking about yet.

Mr. Treleaven: I agree, and if you look at the concept behind regional trade networks in that Team Canada MC, what we're looking at is pulling all the players together.

If you look at WD, for example, it has 76 offices in western Canada, never mind the provincial governments. Now, suppose in Alberta - and it is a team - there was a predictable level of service that had an international trade bent from the

Wetaskiwin office of WD, and that you wouldn't have to go to Edmonton to get it. There would be some triage. Plus, as you're suggesting, there would be some promotion.

If you have that whole network that's out there in the province of Alberta interested in identifying companies that are capable and interested, or could be, in world markets, some promotion and some feedback into the system, it would be very powerful.

Mr. Penson: I have one more short question with regard to the Canada business centres. Is that a division that is also shared with your department?

Mr. Treleaven: Yes, in fact, WD. The regional development agency is one, but we are definitely strong partners.

Mr. Penson: We are conscious that the Asia-Pacific area should be one of the targeted areas. We have some strengths in terms of people in the Vancouver area knowing the business culture, the language, and so on. But one of the comments that was made here was that in the Canada business centre there, there was nobody that worked there that had any knowledge of the Chinese culture and the language, and I think that's a real shortcoming. If we're going to make these things work, surely we have to take advantage of some of our strengths and tailor it to the needs of the business community.

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Mr. Treleaven: Absolutely. You might be interested to know that the Hong Kong-Canada Business Association is the world's largest bilateral business association between any two countries, and it's all across the country. On the CBSCs, their role is mainly triage - the first point of contact. The partners will provide the specialized advice. That's the concept.

Mr. Penson: But even so, they should have a knowledge of the language.

Mr. Treleaven: Yes, or on the first bounce, to be able to direct the business inquirer to the agency or organization that does public or private....

Mr. Volpe: I really enjoyed the presentation. It gave me a sense that the Government of Canada is actually doing something. But allow me to play devil's advocate for a second. If the Government of Canada is doing all of this, and I'm deferring to my colleagues and the chairman in particular, what's this committee doing? Why are we conducting these hearings?

The Chairman: We're here because we have to educate Mr. Penson about what we're doing and that there's more activity in Toronto for the Asian market than there is in Vancouver.

Mr. Volpe: I'm sure Mr. Treleaven is a sharp individual. He wouldn't take that bait.

Go ahead, Mr. Treleaven.

Mr. Treleaven: I won't comment on the role of the committee, but to go back to your comments and the fact that with exports of \$225 billion and 11,000 jobs per billion dollars worth of exports, if six companies in Renfrew, Ontario can get together for coffee every day and tackle world markets, there's not a community in Canada whose economic prosperity isn't vitally linked to this process.

There is also an awareness issue and systemic issues. You're dealing with the finance issue. It's not as if the place isn't without problems and couldn't do with some adjustment here. In announcing the Team Canada initiative in Fredericton, Mr. MacLaren was not saying that we should become a nation of traders and trade's important; he was saying that trade's important and we're doing well, but we have to do better. So let's sit down together and figure it out. We are doing well, but where do we make some changes, whether in resources, coordination or identifying new financing products or whatever, that will allow us to do better.

Mr. Volpe: On that theme, Mr. Treleaven, I went through some of the figures that you provided for us. I don't want to go into anecdotal accounts of what might or might not be happening, but I would like some reaction here. You're well aware of what the witnesses before this committee have been saying. When I see that our 600 missions abroad answered some 181,083 inquiries from foreign companies, that comes out to about 300 per mission per year, or one per day.

Slightly less than that are from Canadian companies. Assuming they didn't all go to foreign missions, or that all of them went to foreign missions, that means that they got two phone calls per day on average. Under the same circumstances, with an increase in inquiries alone, we had the same number of events, including fairs, missions and seminars - some of these have been panned by the witnesses who have come before the committee.

I agree with every theme that you raised in your presentation - that every time we provide opportunities and contacts we create businesses and jobs in this country. This isn't so much a question, but in your presentation you focused indirectly on the importance of the North American market. Since our trade with the U.S. consists of approximately 45% of their imports.... Is that success based on the kind of work that we're doing as a government, or is it the natural flow of things and the government is present post factum?

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Mr. Treleaven: First of all, in the numbers that I gave, there are 128 posts. The arithmetic comes out to -

Mr. Volpe: I'm sorry, then it must be 600 officers.

Mr. Treleaven: That's correct.

On the issue of where we add value, first of all, we tend to deal on the margins. Once companies have their agents, distributors and what not in place - we're there to assist them if they need it, but we tend to move on and deal with new companies. On the 34,000 business visas, that's clearly just the margins of the business people who are travelling in this country.

Mr. Volpe: That number, by the way, is less than the number of visas we issued to Chinese business people who wanted to come here to look at investment opportunities in Canada.

Mr. Treleaven: That's interesting. We don't have those numbers.

But it's clearly on the fringe.

Mr. Penson: As it should be.

Mr. Treleaven: Yes, exactly. We're not in business to -

Mr. Volpe: You're not yet espousing his philosophy, though. We want our questioning to be tough.

Mr. Treleaven: The issue of the United States market is very interesting. We are the envy of many countries in the world, simply because we are right beside the United States. It gives our exporters, particularly our SME exporters, a golden classroom. It's not easy - no market is easy - but we have programs in place that bring new exporters to border states, for example.

The issues facing an exporter going to Buffalo, Bangkok or Beirut are essentially the same. If they haven't been there before they have to know that there is a market, get some contacts in place, work those contacts, work that market and make their own business decisions. It is quicker for us to do that in Buffalo than in Bangkok.

Mr. Volpe: Are we abandoning more traditional markets because of that? I guess that's where I'm headed, Mr. Treleaven. While our exports have been increasing in absolute numbers and dollar values, in more traditional markets, Europe and Asia, for example, they have actually gone down in both value and percentage terms.

Does that indicate that as a government we should adopt a different strategy? Or should we continue along the lines that appear to be successful in North America for a whole variety of reasons - you've indicated that it is a natural workshop for us - and therefore probably outside the realm of any resources that we might expend as a government?

Mr. Treleaven: Our resource allocation process, done collectively with our clients, is opportunity-focused. We have shifted resources considerably over the last 10 or 15 years. We've shifted to Asia and more recently we've shifted to Latin America, particularly Mexico, because of NAFTA. The workload on that post has

skyrocketed. In the effort to reduce our costs but maintain the same level of service, we have gone through a process of adding locally engaged staff and removing some Canada-based officers in Europe and elsewhere.

We have also almost entirely pulled out of some regions, and tropical Africa is a case in point. We've taken almost all of our trade commissioners out of tropical Africa. We have one or two. We have some locally engaged commercial officers.

So to the best of our ability and in concert with our clients, we do adjust our resource base to where we and Canadian industry see opportunities growing.

Mr. Volpe: Many of our witnesses, including you, have emphasized that one of the crying needs - I think you are partially addressing them through some of your programs - is not only the access to data, but the interpretation of the data and the significance for the person who is asking. Traditionally, that's not somebody who is starting from scratch but somebody who is already engaged in business and wants to expand business to the export market.

The one thing that seems to be lacking is a direction. Once you have the data and an interpretation of that data, is there any thought in International Trade about providing a direction - I think a previous witness said something in terms of industrial strategy, sectoral focus - or beginning to choose the winners and losers? If I'm not mistaken, along with the absence of a direction is the question of financing.

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I am asking this because many of our SMEs say the big problem with competing in a market like the Asian market is that their competitors, the Europeans, Germans, French, Italians and English, go there with a financing package in place, and ours don't. They'll never be able to strike a deal because our government doesn't have a strategy for providing our exporters or investors with a complete package for doing business, and the Asians are not interested in wasting time trying to work out a financing package.

Is that an accurate assessment, Mr. Treleaven? If so, do you have something in the works that we might bring back as good news?

Mr. Treleaven: You have a two-part question. One is the issue of focus.

Mr. Volpe: I had to give you a two-part question because the chairman wouldn't allow me to go on for another ten minutes.

Mr. Treleaven: On the issue of focus, last year the minister asked Red Wilson and a group of business people to look at the international business development program and suggest places where we could make changes - cut and adjust. That Wilson task force report provided much of the input that later came out in the Team Canada announcement, and among other things challenged the

government not to pick winners but to focus resources both in terms of sectors and markets through the Canadian international business strategy process.

It's not that this hasn't been done. If you look at it from a country focus perspective, in a sense the FTA grew out of an early policy by the government to focus on the United States and an agreement resulted. For two or three years now we have had an action plan for Japan where we've come together with the private sector, taken sectors, taken that market and put resources in place. We've done the same thing on occasion for Hong Kong. A similar document is now in preparation for the Prime Minister's visit to India. It's a thorough analysis of that market, Canadian capabilities and what's needed to pull it together.

On the issue of financing, I'll defer to John Mundy, but EDC is not without having put in place lines of credit that are a precursor to a commercial launch. It is an issue, and one of your witnesses pointed to the anomaly where a trade commissioner will say, come and do business in Iran, and then the agency back here says, just a minute. So in looking at Canada's international business strategy as a resource allocation process in which EDC, CCC, CIDA and all are involved, we're hoping and aiming to produce a coherent, strategic resourced view of the world from the view of the Canadian exporter and act on it.

Mr. John Mundy (Director of International Finance Division, Department of Foreign Affairs and International Trade): On the question of competitive financing services - I think you used the example of Asia - there are well-defined international rules on the rates, terms and conditions for officially supported export credit that's delivered through the public sector in Germany, France, Canada, the United States and others. Our mechanism for delivering that export credit is through EDC, which is in a position to offer terms and conditions that are fully competitive with any other export credit agency.

There are circumstances where other countries use their aid program to subsidize export credit. In the 1980s, this area of credit mix was a difficult area. It involved large subsidies and a distortion of aid funding into export credit activities.

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In the early part of this decade, there have been a number of international agreements that have greatly restricted the ability of foreign countries to use aid funds to distort the supply of export credit.

What we hear from the export community is not that additional concessional financing is needed to help our exporters, but rather that the overall risk capacity of the Canadian government to offer hard terms of export credit needs to be enhanced.

The Chairman: Thank you. Does that answer your question?

Mr. Volpe: Mr. Chairman, you want somebody else to ask the next question, right?

The Chairman: Mr. Alcock has been patiently waiting, and we have Ms Torsney and Ms Beaumier on the list, as well.

Mr. Volpe: Patience is a virtue that needs to be rewarded. Let me be the first to be magnanimous and say, here's your reward: ask the question.

Mr. Mundy: I hope I answered the question.

Mr. Volpe: No.

Mr. Alcock: I actually hate to break the flow. If you want to finish off with another....

Mr. Volpe: No, that's okay.

Mr. Alcock: I want to come back to a couple of things.

First, I have a small question on WIN Exports. Is this an External resource available to the trade officers, or is this something that can be accessed externally and searched by the public at large?

Mr. Treleaven: It's not available to the public at large, because we seek from companies to divulge in that document material they might not wish to go to a competitor. The companies themselves fill out the application, and they decide what to put on the database.

Mr. Alcock: One of the things that has been discussed a little bit at the committee here is the situation encountered by companies that are exporting, particularly in developing markets, and that is the request for payments for services. They're known as bribes here.

Frankly, I was rather surprised in asking a question about this to earlier witnesses to receive a rather lengthy description of how you hid them and how you actually paid them, as opposed to any kind of comments on whether or not you should pay them, or alternatives to paying.

What do you do? What recommendations do you give to companies who are approached for these payments, and are you able to assist them at all with foreign governments?

Mr. Treleaven: I've had six postings, and in my career I have not been approached for such advice. I've been approached by Canadian firms saying, how do I get into this market, who are the decision-makers and how do we get at them, who are the agents and distributors, and all of that sort of thing.

I am a public servant, and at a given point fairly early on in the business process, the company takes over and makes the business decisions. Obviously, I'm asked

in every post and in every situation, who has the decision-making power that can swing this deal, and that sort of thing, but I have not ever been asked that question.

Mr. Alcock: So it doesn't occur?

Mr. Treleaven: Oh, I'm not saying it doesn't occur.

Mr. Alcock: People at your posts haven't been asked that question?

Mr. Treleaven: It's not an issue.

Mr. Alcock: It's not an issue?

Mr. Treleaven: It's not an issue that has been brought to me for resolution as a Canadian government trade commissioner.

Mr. Alcock: You're the director general of operations.

Mr. Treleaven: Yes.

Mr. Alcock: So that means you relate to the various trade officers in the one hundred and some odd posts.

Mr. Treleaven: All of them.

Mr. Alcock: Has it never been raised with you?

Mr. Treleaven: In my six postings -

Mr. Alcock: I'm asking you, as the director general of planning and operations.

Mr. Treleaven: It has not been raised as a systemic issue.

Mr. Alcock: It has been raised with me three times in the last couple of months by companies who are trying to do work: one in the Ukraine, one in China, and now one in Jamaica.

So you have no advice to offer people who are encountering this problem.

Mr. Treleaven: No, that's a pretty delicate issue and it has to do with, among other things, the financial aspects of the overall business deal. That's what it's about, the sharing of the profits. Normally we do not get involved in corporate conversations on the issue of how much, do I charge a 10% premium? When it comes to the money, we're out of the running. Regarding the price, the willingness to sell...that's not what we do.

.1145

Mr. Alcock: I don't want to sound horribly naïve, although in this environment perhaps I do. But it's the little guy; we're talking about the small businesses.

I have one example that just rings for me of a little guy who has never done business before, who has a product to sell and has been approached by a representative of a foreign government to get active in their market. He does so and goes over there in good faith. He's doing all the stuff he feels he's supposed to do, signing all the agreements and lining up his financing. Everything's going really well, and at the eleventh hour he gets asked for a cash payment.

He doesn't have the sophistication of those who have already built it into their cashflow planning and have accepted this as the cost of doing business, and he comes to you and asks, what do I do? He came to me and asked me that.

Mr. Treleaven: I would argue that it is a decision for his shareholders to take, because if he has to make a cash payment, then it's going to come out of some part of the financial equation behind that business. I cannot advise him on the dollars and cents involved in a business negotiation.

Mr. Alcock: Okay, thank you, sir.

The Chairman: Let me follow that up a little bit because we are going to have to address this issue in our report.

You're telling us basically that, from the government's perspective, this is an issue that you just don't give advice on. Really, concerning what to tell small- and medium-sized businesses if someone came to you, from the point of view of Mr. Alcock's position and other witnesses we've heard, at least wouldn't it be helpful if the Government of Canada, in this market information, all this market intelligence, could say, "People, if you are going to go to X country, you'd better be ready to address this issue; don't invest \$500,000 of your money and your time and energy and then be surprised by this"? At least even that would be helpful -

Mr. Alcock: That would be helpful, yes.

The Chairman: - and let the private people make up their own minds as to how they wish to address it.

They'll have to get legal advice. Having practised law myself and having dealt with this issue, they can be breaking the law in Canada. So we're talking here about very serious things. You may be breaking the law of the country where you are and be running very serious consequences.

There are moral, political and legal issues here, but at least it would be helpful if the government could advise Canadians abroad where this arises on a regular basis - because you must hear about it and get rumours. There must be circumstances where the Canadian government could go to bat for people and go to the officers, or the politicians, or whatever involved, and say, look, as a government, we find this unacceptable, and deal with it.

I've been at some foreign posts where the ambassador specifically said that it has been raised at the highest levels with those governments, saying, look, this is something we don't have in our culture or tolerate, and the Canadian government won't go to bat. Is that being unreasonable to assume that we might get that type of support from our government?

Mr. Treleaven: I would suggest to you, as I've mentioned, that we do on a daily basis specialize at a post abroad in knowing decision-makers and people who can influence decisions, business decisions. To the best of our ability we will give the Canadian company a range of what we consider to be options for them to enter that marketplace. Of course, they're free to go and choose anybody they wish, and part of the process of selecting a representative is looking at how that representative is going to act on your behalf.

To say the least, it's not an easy business for companies to go abroad. There are many trading conditions that are very much different there than they are here.

The Chairman: Thank you. Ms Torsney.

Ms Torsney (Burlington): Thank you. Although that was a fascinating conversation, I'd like to focus on some of the development at this end. I certainly think our role can be to help facilitate access so that businesses can create jobs.

.1150

In my riding we did a seminar on how to export. We had terrific participation from local businesses that were hugely successful internationally, and they gave them some pointers. One of the things people also focused on was human capital, so I'm glad to hear that you're working with the community colleges to prep exporters.

I wonder about a couple of things. It's logical for us to be doing business in big numbers with the United States, but in terms of growth, opportunities and where the huge youth populations of the world are - Mexico, China and India - those are the opportunities that exist. I'm not sure why we're focusing so much on putting all of our eggs in one basket with the U.S., especially with rising protectionism.

Second, are we using the huge resources of all kinds of communities across Canada that have mondialization committees, that are already twinned with good...? They're set up, they have contacts and they have people visiting back and forth between the two cities - Burlington and Itabashi, Japan, Hamilton and Osaka.

Third, what are we doing to advise young entrepreneurs about where the market opportunities will be in five years, where they need to be focused? For instance, water technologies are a hugely successful area for my city. They're all over the world doing water systems and having opportunities to make potable water in all kinds of countries. Five years ago people might not have focused on that if they

were lay people trying to get in somewhere. Since young entrepreneurs are going to be the way of the future, how are we telling young people where they should be thinking about creating businesses?

Finally, I have heard from community colleges and universities that we're not taking advantage of the huge potential of selling spots in universities and community colleges around the world, particularly to the United States. These colleges are becoming extremely proactive. They are businesses and they are going after people. It creates a whole bunch of linkages for future business people, when they all graduate and go on their way, for solid connections. All kinds of money can be brought into Canada in terms of all the spin-offs in the community, yet the education sector tells me that when they talk to our trade people in some of the offices, particularly in the United States, they're told to talk to the cultural affairs people, that if you want to do education exchanges, that's where you belong. No, it's a business. How do we focus people on that?

Mr. Treleaven: Do you realize that it's very expensive to educate a child in Canada?

Ms Torsney: Yes.

Mr. Treleaven: A friend of mine in Hong Kong complained to Allen Kilpatrick, who was the commissioner at that stage, that it cost him \$500,000 to send his son to school for one year in London, Ontario. How did that happen? First there was buying the condo, then the car and then the trips home.

When I arrived in Hong Kong in 1981, there were 25,000 Hong Kong students studying in Canada and 2,500 studying in the United States. When I arrived in Costa Rica, the president of Costa Rica was a graduate of McGill. The president of the only Costa Rican government agency that could borrow freely on world markets, the electric power utility, and they also ran the telephone company - he graduated from the University of Toronto in 1922, and all of his children and grandchildren were going to U of T rather than to other great institutes.

I have seen the enormous benefits to this country of welcoming students from abroad.

Starting with your last question first, we are putting renewed effort on treating education as a business, which it is. It's a wonderful business, but in the past it has been sort of serendipitous. There's one example of a young Hong Kong student back in the 1950s coming into the commission and asking for the book published by the AUCC on community colleges in Canada. It fell open at St. Dunstan's University in P.E.I., so Albert Young went to St. Dunstan's, and about eight years ago he gave them a building.

I agree with you that we need to take a more strategic approach to that business, and we have been. There's the Canadian Bureau for International Education, and we've done education fairs and all that, but within the department - newly reorganized, you'll be pleased to know - there is a unit that will be focusing on education as a business, training our officers abroad in the techniques, and I couldn't agree more.

On the issue of youth, you're right again. In the Team Canada approach we are fundamentally seeking to involve any organization or level of government, private or public, that can affect the bottom line of the country.

The federal government doesn't own the school systems in this country. Some years ago my high school students in Sudbury used Inco as a threat. It was a good school and there were good teachers, but once a week in the classroom you would hear that if you didn't go to university, you'd have to work at the stacks. We should have been sending our best people to work at the stacks because the livelihood of 100,000 people depended on what comes out of those stacks.

It would be of huge advantage to Team Canada if international trade training was adopted as early as possible in the school system. If cubs in this country are earning a badge in international trade, then maybe a student in grade 10 might be given some exposure to how his or her mother or father earns a living and how the community functions. I think it's important.

In terms of making information available to young entrepreneurs, in keeping with every other organization, public or private, we have a Web site, we have fax back, and there's a large information dissemination process. The Canada Business Service Centres are a part of that, and we welcome, regardless of age.... Students can phone the information centre if they're doing a class project and they'll get the literature, because we recognize that we're trying to grow a nation of traders.

In terms of what we can do beyond that, I think Mr. Penson's suggestions about the need to increase awareness - let's focus where we'll have the most leverage.

The issues you raised were preparation and twinnings. Japan was my last post, and we definitely facilitate twinnings in posts abroad. It works where the community puts a lot of effort into it, but it's like any other relationship. Some people go along for the trip, some people see that it's the goodwill mission from X to Y, and others do their homework. The city will only choose a partner where there is a natural economic link. Where that's the case, that's very beneficial.

I would hope that in a Team Canada approach we would take a strategic look at the twinning situation and see where it can work to our advantage. One that I think has been a huge success for the province of Alberta is the twinning with Heilongjiang province. The economies are quite similar and there's a need for technology. It has cost the province a lot of money to keep it going. I think the

province has been very assiduous in that regard, and I believe there's been a good return.

The cities of Vancouver and Yokahama are both Pacific ports and they have an interesting relationship. The port of Vancouver is interested in getting more ship traffic. Where those kinds of relationships are based on the fundamentals of a community, apart from simply people to people, which I recognize in and of itself is interesting...but if you're going to get taxpayers' dollars and private sector participation, one way or another there has to be a degree of resonance there. So where they work well, I think they're great.

The Chairman: Did you get a satisfactory answer to your question?

.1200

Ms Torsney: No.

On the face of it, Burlington and Itabashi don't have much in common, but because they've developed a relationship.... If somebody is going into Itabashi and for whatever reason has picked that as an area they want to focus on, do our computer systems tell them that contacts have been made with that community so that business people are aware of Canadians and Canadian industries on the basis that they have had friendships? Who better to do business with? For instance, as far as the SMEs go, it's very easy. The contacts have been made and developed over years.

For instance, stores in downtown Osaka and downtown Hamilton have switched goods between the stores and are opening up a market for Canadian goods being sold in Osaka. It would otherwise be difficult to get into that market, but now there's some exposure.

So when people are looking for who the suppliers are and how we are going to make those connections, they should be in our data bank of connections. Connections are important.

Mr. Treleaven: I agree that it's an important asset for Team Canada and I agree that we could probably exploit those relationships more than we are doing. It goes back to the issue of the community level and what is happening. This is the community level. How do you pull that together? It's a challenge but a very pleasant one, because we can do it.

Ms Beaumier: This is not to diminish Team Canada or to criticize Foreign Affairs, but I think the best that I can hope to get out of this committee is some accountability to take back to my riding.

To use NorTel as an example, how can we justify to the Canadian people investing Canadian dollars and risking more Canadian dollars to create jobs and set up research and development facilities in third world countries? In so doing

we reduce Canadian content requirements in our EDC loans, and the direct result of that is a loss of jobs in Canada.

I understand that these companies are private businesses and if they are going to move their labour force out of Canada, they are going to do it, but how do we justify to the Canadian taxpayers that we are providing gold-plated Samsonite for them to move?

Mr. Treleaven: Is it that the Canadian government is providing financing for NorTel to expand abroad?

Ms Beaumier: A \$200 million consumer credit was given to China for this. I don't want to go on about this, but how do we and how do you justify helping companies to set up and eventually move out of Canada with Canadian taxpayers' dollars?

Mr. Treleaven: I may be wrong but I believe the only time taxpayers' dollars are used to assist companies in establishing joint ventures or manufacturing offshore is through CIDA's industrial cooperation program, where CIDA believes developmental objectives can be achieved.

That is against a background - I don't have the numbers but they are widely available.... The extent to which trade is increasingly becoming a product of investment, such as intercompany transfers, etc.... Canadian companies, if they're going to be successful in markets, will have to look at ways of putting local content into their product in order to ship more, expand and achieve a greater market share.

There's nothing natural in business, but there's a bit of an evolution from selling the finished product to engaging a strategic partnership in a foreign market in order to expand sales. For example, the partner may suggest that they look at the product and if there's a piece of metal that they could make locally to reduce the final cost of the product, together they'll ship more. There's that kind of evolution.

.1205

I might be wrong, but I think only in the case of CIDA do you have a program. That was called CIDA Starter Studies. I'll get the information for you. There it was a question that you have developmental objectives in a place like - it doesn't really matter where - country X, and there's a way of bringing Canadian transfer of technology and what not. It's private sector held, of course, so it has to be taken out or there has to be some business incentive for it to go there, for it to be transferred. I'll check, but I do believe they have programs.

The Chairman: CIDA is coming next week, so we can ask specifically about that program.

Ms Beaumier: And also the \$200 million consumer credit to China. I don't mean to be -

The Chairman: Was that for purchase of Canadian exports or for purchase of -

Ms Beaumier: This is getting very specific, and I don't mean to be picking on one.... Well, I sort of do; it's in my riding and it affects my constituents.

I was told unofficially that this company gets the lion's share of development money in China. Certainly regarding the research in our office, every time you go to one area they say, I'm sorry, that's confidential and that's confidential, so you get very little.

I understand what development is and what your responsibilities to your shareholders are, but I also understand what my responsibilities to my constituents are, and there seems to be a conflict here.

Mr. Treleaven: If I could ask John....

Mr. Mundy: This is a very tough issue, because you can be pulled in two ways.

You're absolutely correct that EDC has lowered the threshold on Canadian content for export financing. I think this is certainly something you can pursue tomorrow when EDC testifies. But I think this is a function of the globalization of the Canadian economy, where it's becoming harder and harder as a manufacturer in Canada to produce a Canadian product with a very high Canadian content because of the globalization of the economy, particularly because of the interconnecting relationships with the United States, but certainly not just the United States.

So if you set a threshold too high - and this becomes a judgment issue - then you risk sending a message to companies that Canada may not be a competitive manufacturing base, and that if they really have to have a series of components that are not being manufactured in Canada, if you have to have those as part of your product, if our Canadian content is too high, then that company, which can move around the world, may choose a different location to manufacture that. So you have a judgment issue that, by maintaining too strict a policy, you may be losing manufacturing capability in Canada.

I think a good example is flight simulators, to get off the specific example of Northern Telecom. Canada is probably the most competitive country in the world in providing flight simulators. It's a marvellous high-tech industry. But the actual Canadian content of that flight simulator is rather low.

Ms Beaumier: Is that basically in the intellectual property value of it as well?

Mr. Mundy: It becomes all wrapped up. But in many ways you tend to protect the high value-added part of the Canadian export by being amenable to looking at

the Canadian content and, on the margin, reducing Canadian content in order to protect a Canadian capability to offer export finance overseas.

But I agree with you. It is a very difficult issue, and it is an issue that requires judgment calls.

The Chairman: Mr. Volpe had a very quick question. We're running ten minutes over.

.1210

Mr. Volpe: My colleague Ms Torsney was asking about education as an industry. I think of it as two: the exporting of education and the importing of students.

I realize that, at least on the latter part, there is an immigration component to it. Is there a policy coordination between the Department of International Trade, for example, and the immigration department on selling immigration abroad and here?

Mr. Treleaven: You're right to point out the issue. In my experience, in Hong Kong in particular, there were great sensitivities on the immigration side, and rightly so. I believe now the sensitivities are still there, but we're dealing with them in a way that focuses on what this country wants to achieve.

I'm quite certain that there are detailed discussions between that portion of our department that deals with education as an industry and our colleagues in the immigration department. I'm not privy to them, but I'm sure that that's the case. But you're quite right to point out the issue.

If you were looking at constraints to growth in that industry, that's one issue that has to be dealt with. The schools can't; it has to be the two federal departments or -

Mr. Volpe: But you do have schools that are going over there actively trying to recruit, but can't get the business, though, because the immigration department says, hold on, there's a different consequence here that we're looking at. It has nothing to do with the trade and the other potentials that emanate from it; it's strictly an immigration issue.

Mr. Treleaven: I agree, and if we are to be successful in growing this industry as much as we can, we have to handle that issue. I'm not briefed on exactly where the issue stands, but I would be happy to get some information for you.

Mr. Volpe: Would you get back to us on it?

Mr. Treleaven: Absolutely.

Mr. Volpe: We'd appreciate it. Thank you.

The Chairman: If you're going to do that, obviously another dimension of this problem is that because higher education is the responsibility of the provinces, and setting fees....

There's no question that in my own university in Toronto, where I came from, we had this phenomenon that we talked about for years. As you said, leaders of countries came to Canada and they got a wonderful education.

McGill was another good example. Many Americans came to McGill because they could get the equivalent of a first-class American degree for about one-third of the price.

As you know, visa students now pay much higher fees than anybody else, and it has been said that this is inhibiting a lot of foreign students from coming to Canada, in a way.

Would your department be recommending to the federal government - the provincial governments are not going to change this policy because they say, listen, we have a revenue shortfall here and we're looking at this as revenue-creating; I know from the university administration that they have to deal with this. Are you saying that as a parliamentary committee we should be looking at recommending that the Government of Canada thereby subsidize these students as a way of -

Mr. Treleaven: No.

The Chairman: But this is going to be a problem, because this phenomenon is not going to exist if our price gets so high that we're not an attractive venue.

Ms Torsney: There are probably some thresholds, but, for instance, from 1982 to 1985, I was paying \$570 Canadian for tuition at McGill and my American room-mate was paying about \$4,500. That was acceptable to her because that was a huge saving over Harvard, or anywhere else. So there are different thresholds and it will be what the market can bear, but there are a lot of people who believe you could charge \$20,000 per year and still sell, as long as the quality is there, in different sectors, whether that's at the college level in cartoon design, or whatever.

Mr. Treleaven: Or at Queen's University. There is that radical MBA program for \$20,000 for a ten-month curriculum.

The Chairman: That's provided, of course, we arrange our affairs in such a way as to keep our dollar so low that it is more attractive to them. We'll leave that discussion for another committee.

Thank you very much, gentlemen, for taking the time to be with us. We appreciate your information very much.

I would remind members of the committee that Mr. MacLaren will be before us at 9 a.m. on Thursday. The meeting will be in room 371 in the west block.

Thank you very much. We're adjourned until 9 a.m. on Thursday.