



HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

44th PARLIAMENT, 1st SESSION

Special Committee on the Canada–People’s Republic of China Relationship

EVIDENCE

NUMBER 010

PUBLIC PART ONLY - PARTIE PUBLIQUE SEULEMENT

Tuesday, December 6, 2022

Chair: Mr. Ken Hardie



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• (1835)
[English]

The Chair (Mr. Ken Hardie (Fleetwood—Port Kells, Lib.)): I call the meeting to order.

Welcome to meeting 10 of the House of Commons Special Committee on the Canada-People's Republic of China relationship.

Pursuant to the order of reference of May 16, 2022, the committee is meeting on its study of the Canada–People’s Republic of China relationship, with a focus on the exposure of Canadian investment funds to Chinese equities and bonds linked to human rights violations for the first hour, before going in camera for committee business.

Today’s meeting is taking place in a hybrid format, pursuant to the House order of June 23, 2022. Members are attending in person in the room and remotely by using the Zoom application.

For the benefit of the witnesses and members, I have a few comments at the start.

Please wait until I recognize you by name before speaking. For those participating by video conference, click on the microphone icon to activate your mike and please mute yourself when you are not speaking. For interpretation for those on Zoom, you have the choice, at the bottom of your screen, of “floor”, “English” or “French”. For those in the room, you can use the earpiece and select the desired channel.

I remind you that all comments should be addressed through the chair.

For members in the room, if you wish to speak, please raise your hand. For members on Zoom, please use the “raise hand” function. The clerk and I will manage the speaking order as best we can. We appreciate your patience and understanding in this regard.

In accordance with the committee's routine motion concerning connection tests for witnesses, I can inform the committee that all witnesses have completed the required connection tests in advance of the meeting.

I would like to welcome Mr. Schmale, who is wearing a blank look right now, but I'm sure he will be joining us in due course.

I will welcome our witnesses for this first hour. We have, as individuals, Carl Breau, chief executive officer of Saimen Inc.; Charles Burton, senior fellow, Centre for Advancing Canada's Interests Abroad in the Macdonald-Laurier Institute; and Margaret McCuaig-Johnston, senior fellow, Graduate School of Public and Inter-

national Affairs and Institute for Science, Society and Policy, University of Ottawa.

Mr. Breau, we will start with you. You have five minutes for your opening statement. Keep an eye on your monitor. Unless you have yourself timed, I will give you the old standard floor director's “just about time to wrap it up” signal.

You can begin now for five minutes. Thank you, sir.

Mr. Carl Breau (Chief Executive Officer, Saimen Inc., As an Individual): Thank you very much, and thank you for having me.

My name is Carl Breau, and I am the CEO of companies Nummax and Saimen, both active in electronics and the manufacturing of electromechanical products, both in Canada and China. Total revenue is about \$20 million.

I am a Canadian citizen. I'm an engineer. I speak French and English and I can actually speak, read, and write in Chinese Mandarin, although my writing in Mandarin certainly looks like a five-year-old's. I live in Canada, but I also own a home in Shanghai, China, where I spend a lot of time.

I'm a business mentor for many entrepreneurs in Canada, U.S.A., and China. I'm actually an associate and mentor at the Creative Destruction Lab in Canada. I was also nominated as an MBA program learning mentor at the China Europe International Business School in Shanghai, which is generally recognized as the highest-rated MBA program in Asia.

Finally, I'm a certified board director and have board membership experience both in Canada and China. I hold patents and trademarks in China. I have received the Canadian Council of Professional Engineers medal for exceptional achievement by a young engineer. I am no longer young, so I guess that was some time ago.

The first topic I would like to address deals with supply chain traceability, transparency and best practices.

Overall, the business environment in China is actually very transparent. Accounting is based on Fapiao accounting, meaning that all transactions are recorded at the tax office at the time they occur. Most company information is public and readily accessible, including legal records, ownership structures, labour disputes, number of employees, credit ratings, etc.

Supply chain best practices in China, which I can also witness to, are actually the same pretty much as everywhere else. Language and distance can perhaps make things a bit more complex. The key is to do proper due diligence, do a mapping of your supply chain, sort of knowing whom you're buying from, but also knowing who you're buying from is buying from.

You need to do frequent audits of your suppliers or partners, which in some cases can be done remotely using recent technology, as it is done today.

Let's be reminded that we're buyers or investors in most of the examples here, so we can actually require all the transparency that we want. If we're not happy, we don't need to buy or invest in China. As buyers, we can set the traceability protocols and we can have any compliance requirements we need.

Having said that, I would also like to emphasize the importance of building enforceable, clear and detailed contracts with your business partners in China, or really anywhere around the world. All of these are common practices, so I like to tell my business friends, when they come to China, to please not leave your brain on the plane. Do things the way you think they should be done, no matter where you are.

Finally, regarding supply chain management, technology can help. There are blockchain tools now, which are more and more common, to help with traceability. Of course, remote auditing and online quality control tools have evolved considerably in the last few years, and access to live camera feeds in working areas is sometimes possible.

I would like to say a few words on corporate compliance and responsibility from our perspective.

In China, there's the notion of a company legal representative, which generally means a company director. The company legal representative, as the name implies, has significant personal legal responsibilities with regard to the operations of companies and compliance, so this is an important role to understand and manage properly.

The so-called registered capital gaps set the investor's financial responsibilities in case of default with employees or suppliers, so you need to understand that. Essentially, it's the difference between the amount set as a registered capital requirement and the actual capital invested in the company. That sets the remaining potential responsibility of investors in China, which can be significant.

A person cannot declare personal bankruptcy in China, so that creates that extra level of responsibility. Whatever personal debts or responsibilities, arise from some of the issues above, a person cannot actually escape from them in China.

I would like to say a few words about cascading or firewalling.

It's very common for Canadian companies investing in China to actually do that through another company in between, in a place, for example, like Singapore. That shields the Canadian company from most of its responsibilities for its investment in China, so it's considered good practice, because it protects investors. At the same time, it sort of disengages investors from their responsibilities in foreign countries, including China, so that can be a little bit of a dilemma.

● (1840)

Finally, on the topic of living in and doing business in China, I think China is a good place to do business in full compliance with international standards. It comes back to who is managing and making decisions. I feel totally safe when I am in China, both as a business owner and in my private life.

I do feel that there is considerable bias in how information about China is reported in the news and social media. I personally don't rely very much on this often distorted information to make any decision.

I sure hope I can make a positive contribution to this committee. Thank you very much for having me and for your attention.

The Chair: Thank you very much, Mr. Breau.

We'll now turn to Dr. Burton for five minutes.

Dr. Charles Burton (Senior Fellow, Centre for Advancing Canada's Interests Abroad, Macdonald-Laurier Institute, As an Individual): Thank you very much.

Canada's new Indo-Pacific policy defines China as an "increasingly disruptive global power." Others of our like-minded democratic allies are using more straightforward language in identifying that their national policies should regard China as a strategic competitor or systemic rival. After reading over a lot of the evidence given to this committee, I judge that what we're really talking about here is China as an emerging strategic adversary.

China's geo-strategic agenda is shaped by the ideology of the Chinese Communist Party as expounded by its general secretary, Xi Jinping, which is transparently hostile to Canada and the west's liberal values.

China as a nation, Chinese culture and the Chinese people are not what this is about, but right now, we have to recognize that the Communist Party is what it is. China's 2017 revision of the constitution of their party makes it clear that the party exercises overall leadership over all areas of endeavour in every part of the country.

As Xi Jinping has put it, quoting Chairman Mao, “Party, government, military, civilian, and academic; east, west, south, north and centre, the Party leads everything.” A commentary by the official Xinhua News Agency on the statement by Mr. Xi says that the party exercises all leadership in all areas of endeavour in this country.

The People’s Republic of China’s Chinese Communist Party regime is an integrated party-state-military-security-industrial complex, under which, as they put it, the party’s leadership is “absolute,” “powerful,” “comprehensive” and “unified.”

All business enterprises in China are subject to direction and coordination by the Chinese Communist Party and are able to be deployed for non-commercial regime-strategic purposes, and we see a lot of this, unfortunately. There are no Chinese industrial or commercial enterprises existing independently from China’s party-state. While some important Chinese businesses, such as Huawei, are not deemed state-owned enterprises as such, they are still integral components of China’s Communist Party regime integrated into the overall purposes of the Chinese Communist Party-state. That’s why we’re not allowing the Huawei 5G software and hardware into our Canadian telecommunications networks.

Moreover, Chinese enterprises can reciprocally draw on the Chinese military and intelligence services to bring technology and data to their commercial advantage—as there is compelling evidence that Huawei, for example, has done—so China’s integrated regime is able to mobilize business relations to further its purposes in a variety of aspects. Let me mention a few.

First of all is technology transfer. There are many examples of the foreign party’s technology or proprietary manufacturing processes being transferred to the Chinese regime.

Then there is espionage. The mobilization of Chinese businesses to facilitate espionage is well established. Leaving aside the provision of China’s intelligence law requiring all Chinese citizens to collaborate with security and intelligence when called upon to do so, the integrated nature of the regime allows for smooth melding of the profit motive and pursuit of geostrategic advantage. The latter always trumps economic benefit.

Then we have economic coercion and retaliation for states that have unfriendly, as China deems it, policies. We see economic coercion by the Chinese regime to pressure foreign governments to comply with Chinese non-economic demands on them. For example, when the South Korean LOTTE conglomerate had the terminal high altitude air defence missile defence system designed to counter North Korean missiles installed on a LOTTE golf course, LOTTE’s operations in China were affected by the simultaneous close-down of the operations of its many department stores in China on false grounds of fire code violations. We all know about the Canadian canola seed producers who had their contracts with China cancelled on false claims that their product was contaminated by non-seed matter.

We also have support of illegal police operations in foreign nations. As our government has observed, Chinese businesses in Canada have sent false letters of invitation to facilitate fraudulent visa applications by Chinese police to enter Canada to engage in illegal activities.

• (1845)

Then we have the enforcement of “discourse power”, whereby several multinational companies have had to “correct”—as one might put it—their websites and issue apologies for non-compliance with Chinese regime discourse that the Taiwanese government is an illegitimate rogue regime that will be returned to the embrace of the motherland as a Chinese province and be ruled from Beijing. For example, the Marriott hotel website was blocked in China until they ceased to identify Taiwan as a separate market for their hotel business.

Let me conclude by saying that investment by Canada in Chinese business carries the risk of Canada becoming complicit in all of these things that I have mentioned, even if rigorous due diligence is done before investment is made.

I thank you, Mr. Chair.

• (1850)

The Chair: Thank you, Mr. Burton.

We’ll now go to Margaret McCuaig-Johnston.

Before I start the clock, perhaps you can share with us the story of your white ribbon.

Mrs. Margaret McCuaig-Johnston (Senior Fellow, Graduate School of Public and International Affairs and Institute of Science, Society and Policy, University of Ottawa, As an Individual): Thank you, Mr. Chair.

I too am wearing a white ribbon, as many MPs are, for December 6. That’s because I was the director responsible for women in science and engineering in 1989 when the Polytechnique attack took place. It was MPs themselves who started wearing the white ribbon at that moment. Others, like myself, followed suit.

I have kept my white ribbon all these years and I bring it out every year.

Thank you, Mr. Chair.

The Chair: All right. We will now go to the business at hand.

Mrs. Margaret McCuaig-Johnston: Thank you, and thank you to the committee for inviting me to present today.

I come to this issue from the perspective of one who has tracked Chinese technology developments for decades, but I have also closely followed human rights issues in China since 1979, when I went to the Xidan democracy wall in Beijing to talk to the workers and the students there.

China is now using advanced technology surveillance equipment against the Uighur people, but also in Tibet and Mongolia and against members of Christian “house churches” across China.

What would Canadians think if they knew that the CPPIB has more than a billion of their dollars invested in Tencent, which owns WeChat, which is being used to monitor and censor the communications of Uighurs, Tibetans and zero-COVID protesters?

The company Alibaba makes video cameras that look down from every corner in the crowded cells of Uighurs in indoctrination camps and prisons. What would those Uighurs think if they knew that Canadian pensioners had invested in those video cameras? Its software is also designed to pick a Uighur out of a crowd.

Neusoft is a Chinese tech firm that was asked to build a system to target journalists, migrant women and international students so that public security authorities can quickly locate them and obstruct their work. Both CPPIB and the Caisse de dépôt have investments in Neusoft.

This committee learned last week that CPPIB invests in two Morgan Stanley indices that include 13 companies making money from the genocide. The board says they don’t invest directly in those companies, but they have said they do invest in index funds, giving exposure to as many as 10,000 securities in very small amounts—only a million dollars or two, and sometimes even smaller. Those are their words.

We’re often told by CPPIB that the board invests in companies and not in countries, but when Chinese authorities ask a company to design even more repressive surveillance equipment to use against certain categories of citizens, that argument falls apart. Companies in China fall under government direction and not just market forces, and they now all have Communist Party committees that are increasingly active in decision-making.

I have several recommendations.

First, we need to have an entities list, as the U.S. has, prohibiting Canadian investment in named Chinese genocide and forced labour companies. It does not need to be the same list as the Americans have, but it must be focused on companies serving the Uighur genocide and the surveillance state.

Second, pension and university funds in Canada must be transparent about their investments in China. For example, if a Chinese surveillance company wants a confidentiality agreement, CPPIB respects that, and it does not publish information that is commercially sensitive in some circumstances. These practices obscure investments that are harming human rights.

Third, pension funds must be willing to engage in discussion with civil society about their investments. They may say they use an ethical lens, but what informs that lens when company policy forbids the investment managers from meeting Canadians to hear their concerns first-hand? Any such meetings are with a communications officer, seemingly to keep a PR lid on the discussion.

Fourth, while private investors may pursue the highest return independent of ethics, for a Crown corporation investing public monies there is a higher bar, especially when the government iden-

tifies human rights as a principal concern. Its code of ethics should be mandated by the government, whether federal or provincial.

Finally, I would hope that pension funds and universities are now looking more broadly at the economic and geopolitical risks with Chinese investments, including in the tech sector, real estate, unexpected regulations and threats against Taiwan. I believe that our pension funds and university trust funds are smart enough to make the transition that would put themselves on the right side of Canadians’ ethics as well as their wallets.

Thank you.

• (1855)

The Chair: Thank you very much, Ms. McCuaig-Johnston.

We will now go to our first round of questioning and to Ms. Dancho for six minutes or less.

Ms. Raquel Dancho (Kildonan—St. Paul, CPC): Thank you, Mr. Chair, and thank you very much to the witnesses for being here today. It’s quite an interesting background from all of you. Certainly your opening remarks were very diverse and very informative.

Ms. McCuaig-Johnston, I do have a few questions for you.

You’ve outlined quite clearly that Canada’s CPP, or pension plan, is invested in companies that use quite advanced surveillance technology that’s capable of picking out—as you mentioned specifically—Uighurs or a big a group of people if this technology is engaged. This is certainly extremely concerning, particularly in light of what we’ve all learned that they are doing to the Uighur population.

You also rightly pointed out that one of the primary values of the government is human rights. With your expertise and knowledge, what sort of grade would you provide the Canadian government in living up to that key value in terms of our investments with our pension or other public dollars that are going to these types of companies? What grade would you give them?

Mrs. Margaret McCuaig-Johnston: I would give them a “D” because they have not yet done enough to ensure that their funds are not going towards these genocidal companies.

I do give them some credit. They did move out of the direct investment in iFlytek. iFlytek is a company that does voice recognition technology, and Uighurs are all taken to their local police station so that their voices can be recorded in different modulations so that the police will understand who exactly is speaking on telephone calls when they listen in.

I was very pleased, and in fact in an op-ed, I commended the CP-PIB for moving out of that investment, but unfortunately I've learned that iFlytek is captured under one of the index funds that they do invest in, so it's a continuing concern. It's not enough just to stand back and invest in a broad set of funds that include genocide companies; you have to look at every single one of the companies to ensure that they're not one of those contributing to the Uighur genocide.

It's unconscionable, in my view, to have technology that's funded by Canadians being used against Uighurs. It's remarkably tragic.

Ms. Raquel Dancho: Thank you very much for that answer. I very much appreciate it.

I'd like to ask the same question to Mr. Burton. It's wonderful to see you again. Thank you for being here.

What grade would you give the current government on living up to their values on human rights with respect to what we're talking about today, having our pension plan investing in these Chinese companies and others?

Dr. Charles Burton: I think that Margaret's "D" is perhaps a little generous. We really have to be much more aware of the implications of our investment in terms of whether we're enabling a regime that is potentially hostile to us.

I quite agree with Margaret about the technologies that are being used to enable the Uighur genocide, but I think there are a lot of other areas in which, unless we really are on top of exactly where the money is going and who is using it, it can be used for things that are hostile both to our values and to Canada's national interest.

I'd like to see, if we're going to invest in China, a lot more government supervision of what our pension plans and university endowments are doing.

Ms. Raquel Dancho: It sounds as though we're hearing that investors and those on the CPPIB—I believe that stands for CPP Investment Board—in particular are saying that it's only a few million bucks here and there, and it's through an index fund. I haven't spoken to them personally, but it sounds, from what Ms. McCuaig-Johnston shared and from Mr. Burton's feedback, as though they're making excuses.

Would you say this is something doable? Could Canada say we're not investing any taxpayer dollars or any public programs in anything that is harming any of the groups that are marginalized and abused or in any group that is engaging in genocide against Uighurs and others? Is that actually a doable thing? Can we as a country achieve that if we put our mind to it?

● (1900)

Dr. Charles Burton: I would prefer that our pension plans look elsewhere for profitable investments, but if we're insisting that we're going to continue to regard China as a systemic rival in the first part of the week and in the latter part of the week say that we can engage with them, then we really have to be going about this with much more care and transparency than we're seeing.

I think any investments in China are potentially going against Canadian interests, because we don't have control over what the Communist Party directs Chinese companies to do.

Ms. Raquel Dancho: It's over to you, Ms. McCuaig-Johnston.

Mrs. Margaret McCuaig-Johnston: We probably can't do it overnight so that next week we will have a clean slate, but we can do it quickly. We have talented investment managers in these funds. They're paid a lot of money. They're given incentives to increase the profits of the funds. They need to be incented for good governance and for human rights. This should be a target of every board. The obvious ones to get out of are Tencent and Alibaba. Both of those companies are very complicit in human rights infringements across China. Those are the number ones.

They also need to be able to take a look at these index funds. It seems bizarre to have an organization called Hong Kong Watch based in London, England, telling CPPIB what their investments are by the dollar in a range of 13 different genocidal companies. Surely the investment managers themselves know that. They should be able to get themselves out of those investments and move to different funds.

I don't think it would happen overnight, but I think it could happen within a month or two.

The Chair: Thank you very much, Ms. Dancho.

We'll now go to Mr. Fragiskatos for six minutes or less.

Mr. Peter Fragiskatos (London North Centre, Lib.): Thank you, Chair. Thank you to our witnesses.

Professor McCuaig-Johnston, I recognize that the investment board of the CPP is independent and I don't want to get into the particulars on that, but I think it's important to put on the record that it does not operate at the dictates of the Canadian government.

I do want to delve into some of your remarks. Hopefully you can build upon them by giving us an understanding of what other countries have done in terms of their investment boards with respect to pensions or other ways of investing that you think Canada should look at. We recognize, of course, that in other countries too, in democracies, investment boards operate independently.

Do you have thoughts on other models?

Mrs. Margaret McCuaig-Johnston: The U.K., France and Germany have better track records on this than we do.

I know there's a lot of exchange among the various boards and pension funds, so I know that they have an ability to learn from those best practices. They're well documented in the recent report of Hong Kong Watch, which looks at a range of countries, including the U.S. and Canada.

Mr. Peter Fragiskatos: Thank you very much.

Let me just change focus for a moment.

On November 29, you wrote an op-ed for The Globe and Mail. You put forward a number of points, but if I understood you correctly, you kind of give an understanding or a view on where China is headed, in light of the protests that have materialized there in recent weeks.

Can you share with the committee your point of view on where China could be going?

Mrs. Margaret McCuaig-Johnston: I'm very concerned about where China's going. I have many good friends in China. I look at the zero-COVID policy and I see the effect that it has had on the human rights of people being forced to stay home for months on end. The Uighurs have been at home since August without adequate food replenishment, so I've been concerned about that.

Now we're seeing that the national health commission is starting to ease up on some of the COVID restrictions. That's good to see in terms of the zero-COVID constraints, but the really concerning thing is that they don't have vaccines that will protect their population. Most of their seniors are not fully vaccinated. The vaccines they are using are less than effective. It seems that mRNA vaccines from the west have been offered to them, but they have not accepted them.

Xi Jinping is very much invested in his zero-COVID policy, and it seems he doesn't want to take vaccines from the west. They're going to have to do it or there are going to be millions of deaths, and it's really going to put a big strain on their hospital system.

• (1905)

Mr. Peter Fragiskatos: Thank you very much. I ask the question as a way to get back to what I first raised in terms of models of other countries with respect to investments.

Last week at our committee we heard testimony on that. The German model was explored and in fact pointed to as probably one of the most progressive ways that a country can address the question of investment. It's not a law that's active yet, but it will come into force very soon, so what you just told us is concerning in terms of China's current and potential future direction.

One issue that came up in committee last week was the challenge of administering that law. Clearly the law that the Germans are moving ahead with, or seem to be moving ahead with, is based on an ethical standard. I commend them for it, but no law is going to be effective unless it can be administered. There are questions about how exactly that law will be administered. It's very difficult to see, going forward, its efficacy.

Do you have any thoughts on that question of administration?

Mrs. Margaret McCuaig-Johnston: I have every confidence that if Canada accepted the same approach, we would be able to implement it efficiently. I have tremendous respect for Heather Munroe-Blum, who is the chair of the CPMIB, and for their senior managers. They're very professional and solid people.

I don't see a problem with administering a policy that has a higher bar of ethics at its core. The fact that these are public monies—CPMIB is a Crown corporation, although I take your point that the government can't intervene to tell them what to fund—I think sets a

broader standard for human rights within which Crown corporations must operate.

Mr. Peter Fragiskatos: Thank you very much.

I see that I have 45 seconds left.

Mr. Breau, I wanted to ask you a question, but it's limited now.

You put a number of things to us. Could you summarize your testimony in one recommendation? If you were to leave this committee with one key thought for us to consider, what would it be?

Mr. Carl Breau: My main recommendation would be this: If, for example, we decide to move in the direction of putting in place a new law, reinforcing more compliance or getting more visibility or traceability on things happening in China in terms of business or purchasing, don't be afraid that those laws or things cannot be implemented in China. They can be.

I think that's the main thing I would like to recommend: Don't be under the impression that in doing business in China, the legal systems or the way things are happening here won't allow these things to be implemented efficiently.

That would be my 30-second comment on your pertinent question.

The Chair: Thank you very much, Mr. Fragiskatos.

We'll now go to Mr. Bergeron for six minutes or less.

[*Translation*]

Mr. Stéphane Bergeron (Montarville, BQ): Thank you, Mr. Chair.

Good evening to all the witnesses. Thank you for being here so late in the day to share your insights with us.

Mr. Breau, although you have every right to use the official language of your choice, I must tell you how disappointed I was not to hear you speak the language of Molière, especially since you told us that you were proficient in French.

The few French-speaking members on the committee turn into excited little puppies when we have witnesses who speak French. We were eager to hear someone finally use the language of Molière, which doesn't happen very often.

Be that as it may, I have a very simple question for you. We just heard that Parliament is toying with the idea of bringing in legislation that would hold Canadian companies that do business in China accountable for their supply chains, investments and so forth. The idea is to make sure they are engaging in ethical activities, and not supporting forced labour or environmental exploitation.

How do you make sure that your business activities and investments don't support forced labour, social rights abuses, environmental violations or what have you?

Is that something you're concerned about?

If so, how do you control those things?

• (1910)

Mr. Carl Breau: Let me begin by saying thank you for the opportunity to speak French today. I do indeed always have the option, and it's a dilemma I face more when I speak in various forums.

The first thing I would say is that it's important to put those mechanisms in place. To answer your question, I would say that we have established rules to ensure respect for human rights, supply chain integrity and product traceability.

I think it really comes down to establishing good business practices, which we've already done. We don't hesitate to follow them, just as we would in a different context or another country.

We map our supply chain, so we know where the products we buy are coming from. We do site visits, we carry out virtual audits of our suppliers and we do the necessary checks. You have to do online research, meet with people and request—demand, even—the information.

Basically, that is what's missing. Generally speaking, a lot of the companies I see doing business in China don't apply the same rules they normally would in other countries. That may be due to the fact that China is different: the language is different, it's far away, and the way the Chinese do business is also a bit different.

To answer your question, I would say it's important to follow sound business practices and to see the process through.

If you're going to map your supply chain, you have to scrutinize every layer. You start by looking at the suppliers of the Chinese business you're dealing with. Second, you look at the suppliers of those suppliers. You do the same with the third- and fourth-tier suppliers.

You have to dig for the information you're looking for. You have to visit suppliers' and partners' facilities, and ask questions. If you're not able to get the answers you're looking for or you're not satisfied with the answers you get, you simply pull back and you don't go through with the purchase or investment.

Problems can arise, but when they become widespread, that's where you can fall into a trap. For example, when an entire province is designated as being problematic and, all of a sudden, you are told to stop purchasing things from a particular province or region, the problem is too big. You end up losing what you were trying to achieve—the protection of certain individuals. Sometimes an attempt to protect certain groups ends up hurting many others.

I think sticking to business principles that are widely recognized is the best way to do business in China.

You have to find the people, go out and meet them, and ask them questions.

Mr. Stéphane Bergeron: Thank you very much.

Mr. Burton, you wrote an article for the Toronto Star recently, and in it, you say, and I quote:

[*English*]

The propaganda campaign, which includes conspiracy theories promulgated by pro-Beijing Chinese language media in Canada, threatens our democracy. It already cost Canadian MPs of Chinese heritage their seats in the last election, and because we do nothing about it, we can expect more in the next election.

[*Translation*]

I gather you're referring to the Chinese-Canadian MPs who lost their seats in the 2021 election. As you know, there is already a whole debate around the 2019 election. The Prime Minister raised the matter with President Xi Jinping, but as it turns out, it wasn't all that serious.

What is your statement based on? What prompted you to put a fly in the ointment, so to speak? We are already talking about what may have gone on in 2019, and you're adding to that allegations related to the 2021 election.

• (1915)

[*English*]

The Chair: I have to intercede, Mr. Bergeron. You're over your time.

Mr. Burton, if you have some reflections on this, perhaps we could ask you to submit them in writing to our clerk. It would be useful to have that testimony.

We'll now go to Ms. McPherson for six minutes or less.

Ms. Heather McPherson (Edmonton Strathcona, NDP): Thank you very much, Mr. Chair.

I would also like to express my gratitude to the witnesses for bringing this testimony to us today. It's very interesting.

I'm not an investment specialist, so I need to understand this a bit better.

Ms. McCuaig-Johnston, you spoke about how Germany was the gold standard of the legislation that has been brought forward. We know Canada has not yet brought forward that legislation. I think during your testimony, you also talked a bit about the possibility of it being policy or legislation.

Could you talk a bit about why Germany is considered the gold standard? Should this be a policy change leading toward legislation, or is it a solid legislation change?

Maybe talk a bit about whether the legislation should be focusing on public dollars, or if it should also be including funds such as university and pension funds.

Mrs. Margaret McCuaig-Johnston: Thank you very much, Mr. Chair, for the question.

What we're seeing in Germany's approach is putting human rights and ethics at the core of their policy, so there's a policy dimension as well as a legislative dimension.

For Canada, I indicated that I think we need something like the entity list in the U.S. That would be a guideline for university trust funds as well as for pension funds as to what they are not permitted to invest in, which is the obvious genocide companies. It's not a very long list. There are many other companies in China that they could invest in.

Having said that, there's a broader question here about the extent to which public pension plans are investing in China. In the situation with Russia, Canada, along with other countries, chose to sanction Russia, and we found that investments in Russia were frozen. I would be very concerned to see a situation of a blockade against Taiwan.

One of the things on the table among western countries was whether to have a sanction list for China and find organizations like CPPIB and university trust funds coming to the government saying, "Please, please don't touch all of our important investments in China. We don't want to put them at risk."

I think that's one thing behind proposals such as the one Charles Burton expressed, which is, "Take another look at all of your investments in China to see whether this is a stable country going forward."

We've seen with the COVID numbers that we could find even more severe problems going forward with the supply chains. I think this situation merits broader thinking than just the narrow selection of one investment or another.

Ms. Heather McPherson: Thank you very much.

Mr. Burton, I'll move to you next.

You talk about the risks to investments. We're talking right now about doing our due diligence to ensure there is not forced child labour or slave labour within our supply chains. However, what are those risks—I think Ms. McCuaig-Johnston brought that forward—to Canadian entities if they're invested in China and the world's geopolitical situation changes? What does that look like?

• (1920)

Dr. Charles Burton: I'm not as confident as Mr. Breau in the trustworthiness of the Chinese Communist regime to enforce our laws as we would hope they would. The concern, of course, is that China is an unstable environment, and that should factor into any investment decisions.

Picking up on what Margaret said, I'm currently in Berlin attending a conference of 82 countries with 240 delegates—including members of the Canadian public service—to try to come up with a coordinated response to Chinese interference activities. I think we really need to be working in concert with other nations, sharing best practices and experiences, and ensuring that we are all on the same page with regard to Chinese investment and many other aspects of our concerns about China's flouting of the international rules-based order in diplomacy and trade.

There are a lot of implications here. Obviously, if there is a war over Taiwan, that will be devastating to the global economy and to the geostrategic future, including our participation in the Indo-Pacific region. However, those questions are pretty broad, and we'll see what happens.

Ms. Heather McPherson: Of course, we like to give you six minutes to talk about those questions, but they're a little deep for that.

I have 10 seconds left, so I will just pass that back to you, Mr. Chair.

Thank you very much.

The Chair: Thank you.

You're on the mend. We missed you last week.

Ms. Heather McPherson: I'm working on it.

The Chair: Are you getting there? Good for you.

Nancy, our clerk, is sequestered away after having been exposed to COVID. She has decided to do us all a favour and not share, which is very nice.

We will now go to our second round of questioning.

Mr. Seeback, the floor is yours for five minutes.

Mr. Kyle Seeback (Dufferin—Caledon, CPC): Thank you very much, Mr. Chair.

In an article from Hong Kong Watch, "Passively Funding Crimes Against Humanity", they have a number of recommendations.

Ms. McCuaig-Johnston and Mr. Burton, I think you'll agree with this, but I'm going to ask anyway.

One of the recommendations, and you've touched on it, is the following: "Draw up a list of banned entities that are known to be involved in state-imposed forced labor in the Uyghur region, applying this to public procurement, pension and government investment, and imports."

This question is for both of you: Do you agree with that recommendation, and if so, why?

Mrs. Margaret McCuaig-Johnston: Mr. Chair, I will certainly volunteer that I agree with that.

I have a broader concern as well. We've talked about the groups of funds that CPPIB and others are using that meld a lot of different companies. CPPIB also invests in Alibaba Group, not just Alibaba technology. Alibaba Group is a big umbrella for many, many other companies in China. We don't know what the human rights situation is in all of those.

That's another group that I think should be taken off the table.

Dr. Charles Burton: I agree with everything in the Hong Kong Watch report. I think the evidence given last week by Mr. Tohti and Ms. Calverley was golden. I hope you'll take it into consideration in your report.

Mr. Kyle Seeback: I guess my question really is this: Why is it taking so long for Canada to do this? Does either of you have any insight? You know, if you really wanted to, you could just copy the American list. I know that's not ideal, but at least then we would have something.

Does either of you understand why this is moving forward at a glacial pace in Canada?

Dr. Charles Burton: I think it's very hard for our government to make such a dramatic change. We could also....

We could be doing something similar to the Foreign Agents Registration Act in the United States or the Foreign Influence Transparency Scheme Act in Australia. As you say, it would be easy to do, because the language is there. I would like to see stronger language in Canadian law with regard to the transfer of classified dual-use military technologies to agents of a foreign state. Our language is not as good as the American or British language, and therefore we have a great deal of difficulty bringing to justice the people who have done this sort of appalling activity.

We have a new Indo-Pacific policy out. It's not as strategic as I'd like it to have been, but it's something that we're going to work with. I'm confident that your committee will be holding our government to account to make it serve Canadian interests.

• (1925)

Mrs. Margaret McCuaig-Johnston: Thank you, Mr. Chair.

A lot has changed since the Michaels were taken hostage. Canada has learned a lot about China in that time. The government has come a long way. They walked on eggshells for a very long time. It was frustrating for people like Mr. Burton and me, because we were pushing for stronger action to stand up to China. In my view, the strategy is a game-changer for this government. I think we'll see a lot of changes coming in on the heels of it. It was only about a week ago that it was brought in.

The strategy, in my view, is visionary. It's a U-turn. I think it's a leadership role that we can take in Canada with other countries. In my view, and I've said this in an international publication, this is now the model that other countries should be looking towards to take on the new aggressive China that we're seeing and to implement really targeted initiatives that are well funded.

It's comprehensive and it's well funded. I'm really pleased. With that, I think we'll start to see other changes on the part of the government in this area of pensions as well as other areas.

Mr. Kyle Seeback: Switching quickly to trade, and imports in particular—that's my portfolio outside this area—how hard would it be to draw up a list with respect to imports of banned companies whose goods and products we should not be importing? We haven't done this, as far as I'm aware.

Mrs. Margaret McCuaig-Johnston: I think it's pretty straightforward. We have really excellent trade officers at Global Affairs Canada. They can get some help from the Uighur community in Canada. I know that there are a lot of conversations between Global Affairs and the Uighur community. That community can highlight particular products that come from an area that is known to have forced labour.

Remember, this is forced labour across China. The Uighurs are often sent in groups of tens of thousands to factories in other parts of China. That raises the whole question of what's happening to their children. There are more than a million children in indoctrination schools with the same kind of surveillance technology that is used on their parents. There are also 800,000 Tibetan children. That's another whole layer of human rights abuse that we see in China.

The Chair: Thank you, Mr. Seeback.

We'll now go to Mr. Oliphant for five minutes or less.

[*Translation*]

Hon. Robert Oliphant (Don Valley West, Lib.): Thank you, Mr. Chair.

I'm going to continue with Mr. Bergeron's line of questioning. This is for Mr. Burton.

What exactly do you have in terms of proof that any candidate lost their seat in the last election because of Chinese interference?

[*English*]

Dr. Charles Burton: I have no proof that a single candidate lost their seat because of the last election. I was—

Hon. Robert Oliphant: Mr. Burton, you said that in testimony to this committee just 20 minutes ago.

Dr. Charles Burton: No. I haven't said that any candidates lost their seat. We don't know why people go to the polling station or why they put the X on the candidate that they do.

However, what I was involved in was the disinformation about Kenny Chiu on WeChat and attempting to trace the source of this disinformation that slandered Mr. Chiu and mischaracterized his private member's bill. We were unable to do so, and we referred this matter to—

Hon. Robert Oliphant: Would it surprise you, Mr. Burton, that there were hundreds of negative Twitter comments about me by many people in the last campaign, but I still won?

Dr. Charles Burton: I think that the issue of election interference by the Chinese Communist Party is a well-established policy of the United Front Work Department's operations throughout the world, coordinated through the embassy and consulates.

This is nothing particularly new or distinctive to Canada, but it's certainly something that we should stop. If there are agents who have engaged in illegal activities, such as the funding of candidates, or if there are diplomats who are coordinating this activity, I think they should be returned to Beijing.

Hon. Robert Oliphant: If there are any signs of influence, absolutely, they should be investigated, and anyone should be prosecuted. I would agree.

I'll leave that at this point. I want to move on now.

Dr. Charles Burton: The procedure and House affairs committee will be investigating this matter. I'll be giving evidence to that committee.

• (1930)

Hon. Robert Oliphant: I'll look forward to it.

We're hearing a range of views tonight, from a radical decoupling of our economy from the Chinese economy through to wary, restricted engagement with heavy government influence and an informed corporate social responsibility model. I think that is the range of activity we've heard tonight.

I want to give you each a chance to comment on that.

Mr. Burton, you seem to be advocating, based on ideology, a radical decoupling.

Ms. McCuaig-Johnston, you seem to be advocating a restricted, wary engagement, with government engagement and involvement.

Monsieur Breau, you seem to be advocating an intelligent, business-minded engagement in which businesses, investment bureaus and pension funds would be mitigating the risk if they invested intelligently and with good corporate social responsibility.

Am I getting the three of you correct? I ask because we're trying to find a model.

Maybe I'll begin with Mr. Breau.

Mr. Carl Breau: Very quickly, I hold that position and I agree with the position that you introduced.

I think that there's a lot of noise in the signal between Canada and China, and I wish that some of the contribution I'm bringing here....

I'm not a politician and I don't follow this topic from a political point of view. I just run businesses. As a Canadian, I carry Canadian values in everything that we do, and I'm very proud of that. I think the fact that I'm testifying here very candidly is also testimony to that. I'm doing that from China, by the way.

I agree with that position, which is one of saying no matter what we do here, let's stick to best practices, let's stick to facts, let's get the information and let's ask the questions, and if we don't have the questions, we move out, but not after we've asked the question and seen the answer.

Hon. Robert Oliphant: Thank you.

I'm going to move to Ms. McCuaig-Johnston.

Mrs. Margaret McCuaig-Johnston: Mr. Chair, I would say that yes, the member has me well pegged.

I have a cautious approach to business in China. It comes from five years of research that I did on Canadian technology company joint ventures in China. I found that instead of sharing the joint venture 50%-50% or 51%-49%, it was 90%-10% or 80%-20% in favour of the Chinese majority joint venture holder, when it was 100% Canadian technology that was being made. Then over time, the Chinese partner eased the Canadian partner out of their own joint venture.

I've seen a lot of this. I've seen more than three dozen cases like this, which were documented in a document at the China Institute, which published it.

I'm cautious on business issues. I don't take at face value what a supplier to a supplier to a supplier would say about whether there's forced labour in their factory. I'm skeptical.

I believe there's a government role on important things like human rights and being aligned with our partners as well.

Hon. Robert Oliphant: I think that is probably my time.

The Chair: Mr. Burton, we'll give you half a minute to answer the question as well.

Dr. Charles Burton: I agree with Margaret's assessment. I think it's the most realistic.

In terms of decoupling, it is more likely to come from the Chinese side than our side, given the way things are developing in China with regard to Mr. Xi's approach to the market economy. It looks like they'll be closing off to a lot of Canadian business in the future, but in the meantime I think the measures that Margaret is suggesting are excellent.

The Chair: Thank you very much.

Mr. Bergeron, it's over to you for two and a half minutes.

[*Translation*]

Mr. Stéphane Bergeron: Thank you, Mr. Chair.

Ms. McCuaig-Johnston, you co-wrote an article that came out back in April. In it, you say that it's time to start divesting from China to avoid being complicit in the atrocities the Chinese government is perpetrating on its own people, to avoid the emerging risks involved with Chinese investments, and to avoid being held hostage by these investments in years to come.

Are you referring to Canadian investment and pension funds, or are you talking about Chinese investments?

• (1935)

[*English*]

Mrs. Margaret McCuaig-Johnston: Mr. Chair, I was referring, in this case, to pension funds. I co-authored the op-ed with Phil Kretzmar of the Jewish community. The Jewish community understands genocide and it is very much behind trying to get our public pension funds and university funds out of investments in China. It's pension funds that I was referring to.

We will always trade with China. It needs our products and we need its products. Our trade, in fact, even during the horror crisis with the Michaels, was still going up, but in terms of our pension funds, I think we need to be cautious.

[*Translation*]

Mr. Stéphane Bergeron: Thank you.

I'm going to stay on the same topic. The last time the committee met, we heard from representatives of the Uyghur Rights Advocacy Project. As you did a few moments ago, they pointed to the fact that Norwegian pension funds had Russian investments. Once the west imposed a sanctions regime, those assets were frozen and lost most of their value after the start of the war in Ukraine. Norwegian investors lost thousands, even millions, of dollars.

Don't we run a similar risk by investing in China? After all, the question is not whether China will invade Taiwan, but when.

[*English*]

Mrs. Margaret McCuaig-Johnston: Mr. Chair, this is something that deeply concerns me, because I feel that we are so invested in China through our pension funds that it would be a drag on our ability to create positive public policy in a time of a blockade of Taiwan.

We should be able to operate as a government without the private sector or the public pension sector putting up big red flags and saying not to touch their investments in China. They can see very clearly what might possibly happen and they should be particularly cautious now and be looking at how they can divert their investments from China to other countries in the region in a way that is consistent with our Indo-Pacific strategy.

The Chair: Thank you, Mr. Bergeron.

We'll now go to Ms. McPherson for two and a half minutes or less.

Ms. Heather McPherson: Thank you very much.

Again, thank you to the witnesses for being with us today and sharing your expertise.

One of the comments you made earlier, Ms. McCuaig-Johnston, was around the incentivization of human rights. You talked about how people who run funds and run the CPP are currently incentivized for profit. Their performance is evaluated on that particular framework.

What would incentivization of human rights look like? How would that look? How would we incorporate incentivization for human rights into this work?

Mrs. Margaret McCuaig-Johnston: This would have to be done by the pension boards themselves in setting the standards for how their managers are remunerated. We know that they value good corporate governance and ESG, but we're not seeing it in the behaviours. We need to start to see it in pension funds reducing and actually getting out of their investments in big companies like Al-

ibaba, Tencent and Neusoft, which are clearly genocide companies. We should not be in those. I'd like to see a day when we're not in any of those directly and we have a public policy to not invest in these broader roll-up trust funds.

Ms. Heather McPherson: That's great. Thank you.

One thing that I think we have to consider here, if we're talking about legislation, is that even though this is the Canada-China committee, legislation would not just apply to China. This legislation would be in place for forced labour in supply chains around the world.

With regard to that entities list that you've brought forward, would we have an opportunity to work with like-minded countries, with allies, to develop that list? Could we build on lists that have already been developed by other countries? Is that something you could see as a reasonable expectation?

• (1940)

Mrs. Margaret McCuaig-Johnston: I think that's a real opportunity. For example, Canada is the host of most of the mining companies, and we should be taking leadership and ensuring that there's no forced labour in any of the mining companies that are registered in Canada. That should be straightforward. It should be part of this legislation that you're considering.

Ms. Heather McPherson: Thank you.

Finally—

The Chair: I'm sorry, Ms. McPherson; you are well out of time.

Ms. Heather McPherson: Thank you.

The Chair: I'd like to thank our witnesses for their time tonight. It's been very enlightening, as all witnesses seem to be. Thank you very much.

We will now suspend because we have some committee business to attend to. That will be done in camera.

We'll suspend as of right now.

[*Proceedings continue in camera*]

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