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Chair: Mr. Joël Lightbound



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• (1430)

[*Translation*]

The Chair (Mr. Joël Lightbound (Louis-Hébert, Lib.)): I call the meeting to order.

Good afternoon, everyone.

Welcome to meeting No. 03 of the House of Commons Standing Committee on Industry and Technology.

Pursuant to Standing Order 108(2) and the motion adopted by the committee on Thursday, January 20, the committee is meeting to begin its study on critical minerals.

Today's meeting is taking place in a hybrid format, pursuant to the House Order of Thursday, November 25, 2021. Members may attend in person or remotely using the Zoom application.

I would like to take this opportunity to remind all participants of this meeting that taking screenshots or photos of your screen is not permitted.

Given the ongoing pandemic and in light of the recommendations from public health authorities, as well as the directive of the Board of Internal Economy on October 19, 2021, to remain healthy and safe, all those attending the meeting in person are advised of the following recommendations. Anyone with symptoms must participate by Zoom and not attend the meeting in person. Everyone must maintain physical distancing of two metres. Everyone must wear a non-medical mask when circulating in the room. Everyone present must maintain proper hand hygiene by using the hand sanitizer at the room entrance. Committee rooms are cleaned before and after each meeting. As the Chair, I will be enforcing these measures for the duration of the meeting, with the help of the clerk, who is in Ottawa in person.

I would also like to take this opportunity to introduce and thank the witnesses joining us today virtually. They are Jeffrey B. Kucharski, Adjunct Professor, Royal Roads University, Guy Saint-Jacques, former Ambassador of Canada to the People's Republic of China, Wesley Wark, Senior Fellow, Centre for International Governance Innovation, Flavio Volpe, representing the Automotive Parts Manufacturers' Association, and Nikos Tsafos, James R. Schlesinger Chair for Energy and Geopolitics at the Center for Strategic and International Studies.

My dear witnesses, let me remind you that you will have five minutes to present your remarks. After that, committee members will be able to ask you questions.

Finally, I would like to inform my fellow committee members that I would like to take five or 10 minutes at the end of the meeting to adopt the report that has been submitted and sent to the members. This is the subcommittee report from yesterday. So I would ask members to keep that in mind.

With that, I give the floor to Mr. Kucharski for his comments.

[*English*]

Dr. Jeffrey B. Kucharski (Adjunct Professor, Royal Roads University, As an Individual): Good afternoon, honourable members. It's a privilege to be able to speak to you today.

Lithium is on the list of 31 minerals that Canada considers to be critical to the sustainable economic success of Canada and its allies, and that position Canada as a leading mining nation. The Neo Lithium takeover is not the first time a Canadian lithium company has been acquired by a Chinese firm. I have submitted several examples of Canadian lithium company acquisitions by Chinese firms over the past three or four years.

The Chinese government's "made in China 2025" industrial policy seeks to make China dominant in global high-tech manufacturing, including in batteries, electric vehicles and renewable energy technologies. The program's policy aims include mobilizing state-owned enterprises to acquire intellectual property, technologies and assets abroad, with the overall aim to surpass western countries. Securing access to lithium and other critical mineral reserves is essential to the achievement of made in China 2025.

I'm not arguing that this deal should have been denied because the lithium from this company would necessarily have been used in Canada. Currently, we don't have a lithium industry here to use it, but we never will if we allow all of our lithium companies to be sold off and don't have a strategy to build a supply chain at home. If we allow our lithium industry to be sold off, it also undermines efforts to support the development of clean energy technologies that we will need for the clean energy transition.

Part of the problem may be that the government is assessing these acquisitions on a case-by-case basis. As the minister has said, each is assessed "on its own merits", as it were. The problem with that is it seems to miss the big picture. This takeover is part of a broader pattern of acquisitions that Chinese companies have been making in this sector in Canada.

How can Canada build a lithium supply chain, or any other critical mineral for that matter, when it allows the assets of Canadian companies to be acquired by a country that seeks to cement its dominance in this sector? If each deal is evaluated on an individual basis alone, without regard to what the past record of acquisitions has been or where we need to go as a country to build a strong supply chain over the long term, how can we expect that we will ever be a player in this sector?

I believe the government should review the national security review process and provide more extensive guidance on what types of investments and situations would automatically trigger national security reviews. For example, should acquisitions by state-owned or -controlled companies, especially ones from China, be automatically subject to a national security review? There are also questions about the extent to which our national security review process is aligned with Canada's critical mineral strategies.

That's all I have for today. Thank you very much for your kind attention.

• (1435)

The Chair: Thank you, Mr. Kucharski.

I will now turn it over to Mr. Saint-Jacques for five minutes.

[*Translation*]

Mr. Guy Saint-Jacques (Former Ambassador of Canada to the People's Republic of China, As an Individual): Thank you, Mr. Chair.

Good afternoon, ladies and gentlemen of the Standing Committee on Industry and Technology.

Thank you for inviting me to testify before you today.

I will give my presentation in English, but I will be happy to answer your questions in both official languages.

[*English*]

First, let me speak about China's economic development policy. Since the early 2000s, China has encouraged its state-owned companies to invest abroad to secure long-term supplies of oil and natural gas and minerals, including critical minerals. I would note that the majority of the some \$90 billion invested by China in Canada is related to these commodities. To be fair, I should add that many communities have benefited from these investments.

As we heard previously, China is pursuing a dual circulation strategy whereby it wants to become less dependent on foreign technology and products—clearly the goal of the made in China 2025 policy, which aims at increasing China's self-reliance in 10 key technological sectors—but also to become a net exporter of high technology. As we have heard, this includes new vehicles, electric batteries and renewable energy. This policy has increased the need to secure access to critical minerals, including lithium.

To achieve these goals, China supports its state-owned enterprises by providing subsidies, tax breaks, cheap loans and so on. We also know that it does not play by international trade rules. For instance, there is no level playing field for foreign companies in China. Many sectors remain closed to them, or access is severely limit-

ed. China also uses trade as a weapon, as we saw after the arrest of Meng Wanzhou. Canada lost \$4.5 billion in exports to China in 2019. More recently, Australia has been the victim of unjustified tariffs in five sectors, because it asked for a full investigation on the origin of COVID-19.

That being said, Canada is looked at by China as a reliable supplier of minerals. Our exports to China in 2021 will likely have established a new record, as at the end of November they were up 17.5% year on year to \$26.6 billion, which is just \$1.12 billion below the previous record, established in 2018. This is thanks in large part to increased exports of metallurgical coal, copper and iron ore. I would also note that many Chinese private mining companies are listed in Canada, as it is easier to raise money here than in China.

Now let me turn to the acquisition of Neo Lithium by the Zijin Mining Group. The key question for me is where is Neo Lithium active? It has no mine in Canada, but it has one mine project in Argentina. I must say that it is not obvious to me to see how Canadian national security would be directly threatened by this acquisition. As well, we have a free market policy, and companies are allowed to manage their business as they wish.

Should the government have been more concerned about this matter, about this acquisition? I think this raises a more general and important question: What is the policy of the Canadian government to support the production of critical minerals in Canada, and what concrete actions can be taken with our allies, for instance, under the U.S.-led energy resource governance initiative or the Canada-U.S. critical minerals action plan? That should be where we need more attention and more efforts.

Thank you for your attention. I would be happy to answer your questions.

• (1440)

[*Translation*]

The Chair: Thank you very much, Mr. Saint-Jacques.

The floor now goes to Mr. Wark, for five minutes.

[*English*]

Dr. Wesley Wark (Senior Fellow, Centre for International Governance Innovation, As an Individual): Chair and members of the committee, thank you for this opportunity to appear in your important study of the national security review of the acquisition of Neo Lithium by Chinese company Zijin Mining.

I'm going to skip over the timing and details of this transaction. I think they're familiar to the committee, but I'm happy to come back to them in questions.

To cut to the chase, The decision not to conduct a formal Governor in Council-approved national security review of this transaction was, I believe, a mistake. It is worth noting that the minister did not even take advantage of the extra 45-day period of scrutiny allowed under the act to determine whether the Zijin Mining takeover could be injurious to national security.

The decision cannot be undone, but it seems to me that this case offers important lessons for the conduct of national security reviews in the future. I'd like to lean forward to quickly identify four such lessons for the committee.

The first is with regard to strategic vision, which others testifying have referenced. In my view, a national security review needs to be guided by a coherent economic security strategy for Canada. An economic security strategy remains under development, but it is not in place. There is also a promised critical minerals strategy, which is also not ready. The strategy will be important to address Canadian potentialities, especially with regard to northern development; to detail a Canadian approach to joint efforts with the United States; and to account for disturbing trends, which we've heard about, in the global concentration of critical minerals processing, where China has established a very formidable lead, perhaps a near monopoly. The absence of this strategic framework leaves the application of a national security review under the Investment Canada Act in a state of confusion.

The second point I'd make is on translating policy intentions into action. The revised guidelines on a national security review of investments issued on March 24, 2021, state that all foreign investments by state-owned investors will be subject to enhanced scrutiny and that the minister may take into account, "The potential impact of the investment on critical minerals and critical mineral supply chains." Lithium is included, of course, in the government's list of critical minerals.

The ISED minister's mandate letter, published on December 16, 2021, contains multiple relevant directives, including the use of the Investment Canada Act "to ensure the protection and development of our critical minerals." It calls for the creation of a critical minerals strategy. It talks about the promotion of economic security, the need to modernize the Investment Canada Act to strengthen national security reviews, and the safeguarding of intellectual property-intensive businesses. However, it seems to me there are significant gaps between these recent policy statements and promises and their implementation. These must be urgently addressed.

The third point is conducting more national security reviews under the section 25.3 provisions of the Investment Canada Act. The latest annual report of the ICA for 2019-20 shows that historically—that is, going back to 2009—less than 1% of investment findings have been subject to an order under the act. They are rare but they shouldn't be, especially given the changing nature of threats to our economic security and the advantages that more in-depth scrutiny brings. Any foreign direct investment with national security sensitivities, such as the Neo Lithium case, should be subject to at least an additional 45-day review period, as provided by section 25.2 of the act, so that a proper determination of the need for a full national security review could be made.

The fourth and final point is enhanced transparency. The national security review process under the ICA is a secretive undertaking. It is rare that Canadians learn anything about the reasons behind national security review decisions at any stage of the process. The explanations provided by the parliamentary secretary to this committee last week were, in my view, unconvincing and deserve to be subject to critical examination. As the Neo Lithium decision suggests, greater transparency leads to contestability—which is valuable—and to the potential avoidance of poor outcomes and wrong thinking in the future. I would also add that greater transparency reporting requirements for decisions on national security reviews would be in keeping with the government's national security transparency commitment announced in 2017.

• (1445)

Finally, in conclusion, a national security review under the ICA urgently needs to be rethought to deliver greater economic security for Canada going forward. I believe the government addressed the Neo Lithium acquisition using too narrow a framework; misjudged its significance to Canadian national and economic security, now and in the future; failed to translate policy promises into action; and was caught up in a protracted period of political transition while the transaction was being reviewed—all of which, I believe, led to a wrong decision.

Thank you.

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

I'll now turn the floor over to Mr. Volpe for five minutes.

Mr. Flavio Volpe (President, Automotive Parts Manufacturers' Association): Thank you.

Thank you to the chair and members for having me to this committee again.

I'm very happy to be preceded by my former professor at the University of Toronto, where one of my first lessons in international relations was the Taiwan Strait crisis. That was the first real foray into the U.S.-China balance of power dynamic. Here we are, almost 30 years later. We're here because of the dominance of that interplay on Canadian industrial and foreign policy and, more acutely, on our critical minerals strategy.

I think you invited me here because the world is electrifying. In the transportation world, I represent \$35 billion a year in shipments, with 100,000 people employed. Another 86,000 people are employed by Canadian parts and systems suppliers in the U.S. and Mexico. That's central to this electrification and this dance between the major jurisdictions of the world and automotive manufacturers, who are all in the race to get to a zero-emissions future.

If we're going to continue to be a major auto player in Canada—and right now we are the world's 10th-biggest producer of automobiles, even though we do not have a Canadian automaker—we need to do two things. We need to be able to transition the companies that supply the current automakers through that \$35-billion-a-year shipment to the new zero-emission vehicle component supply chains. Thirty per cent of what is assembled in Canadian plants are traditional powertrains, internal combustion engines and transmissions. We need to bet on those local companies making the transition to making motors and e-gears and batteries.

On the battery end of it, we need to extract, process and convert critical minerals into deployable components locally. Before this role and on this journey, between the first time I saw Professor Wark and this time, I taught international business at Humber College, practised it in Canada as the country head of the biggest European renewable energy developer, worked very closely with the minister of economic development and international trade provincially during a global financial crisis and was a key industry player in the two biggest trade negotiations in which Canada has taken part in the last five to 10 years, the TPP and CUSMA.

In all of these, China has been the biggest market disrupter, the elephant in the room and the factor that we've needed to balance against opportunities we pursue as part of the U.S. sphere.

We're here because of the Neo Lithium deal and the question of a national security review. I'll leave the principles of national security review to experts there, and I'll layer in our view on it from a components point of view.

The potential deployable assets are in a mine in Argentina. It's lithium carbonate, versus the preferred lithium hydroxide. While we're not in production yet in Canada for cells that could go into batteries that are deployed into electric vehicles and we're not making those electric vehicles yet, there is a real capacity coming online, we think between 18 and 36 months, especially in the province of Quebec.

Critical mineral strategies in automotive means local, local, local. We need extraction. We need processing. We need cell manufacture, and then we need battery assembly, because we all signed on in this country to the new CUSMA, and in that CUSMA, in the rules of origin, there is a regional value content equation that must be met for EV components and for batteries. All of them are underpinned by local, local, local. None of that lithium or other critical materials can come from outside North America and qualify for tariff-free export through the region.

Canada's auto industry and its supplier industry do not benefit from sourcing lithium from outside North America, and there is no profitable advantage to incurring the cost of importation. These are the highest-cost components of the vehicle, both in terms of processing and assembly, and they are also the biggest and most difficult products to move from their point of production to the final point of assembly.

• (1450)

Furthermore, businesses rely on forecastable, stable regulatory behaviour. Some in our business saw the potential for the blocking of this deal as blocking the sale of foreign assets.

The Chair: Mr. Volpe, I'll have to ask you to conclude very quickly.

Mr. Flavio Volpe: Sure. I have two more sentences.

There are many ways to do our part in combatting China's increased dominance in this space. Picking a fight over assets on the other side of the world is not an action that our industry would recommend, given the current fragile nature of trade between our countries in automotive.

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

I'll now turn the floor over to Mr. Tsafos for five minutes.

Mr. Nikos Tsafos (James R. Schlesinger Chair for Energy and Geopolitics, Center for Strategic and International Studies): Mr. Chair, thank you very much for inviting me to address this committee.

My name is Nikos Tsafos. I hold the James R. Schlesinger chair for geopolitics and energy at the Center for Strategic and International Studies in Washington, D.C. I have spent my career at the intersection of energy and geopolitics, so I am grateful for the opportunity to share some thoughts on the importance of critical minerals for the energy transition. I have four points that I'd like to leave you with.

First, we cannot lower greenhouse gas emissions without critical minerals. These two go hand in hand. By some estimates, the global demand for critical minerals could increase sixfold up to 2050. For some products, like cobalt, nickel and lithium, the forecasted growth is even greater. No matter what the actual numbers end up being, there is no doubt about the direction of travel. Based on current technologies, there is no pathway to decarbonization without more mining.

Second, critical minerals will, over time, become more important than hydrocarbons. Today the international trade in energy consists mostly of oil and gas. One day the trade in critical minerals will supersede that trade in fossil fuels. People like me who study energy security, who today look at the Middle East or Russia, will one day be looking at the lithium triangle in South America. They will focus on Australia, Chile, Indonesia and the Democratic Republic of Congo. We will need new mental maps to process and to think about this world.

These global flows will create new linkages and dependencies. We can also expect them to create tension. Who can develop this resource? Who benefits from it? Who bears the costs? We can already see the fault lines of mining across the world, from Serbia to Bolivia and from Indonesia to Nevada here in the United States. This is a global story, but the politics and the tensions are local.

Third, China has already built a commanding position in critical minerals. China produces some minerals, but its dominance really comes from the processing part of the value chain. China is where commodities go to be turned into useful products. This capacity gives China and Chinese industry a competitive edge in many of the sectors that will be essential for the energy transition. We cannot talk about critical minerals without talking about China.

That brings me to my fourth and final point. The west really needs a strategy for critical minerals. The end goal, as far as I can tell, is clear. We want adequate supply that is produced responsibly, with a fair allocation of costs and benefits among companies, governments and local populations. We also need supply chains that are resilient, not ones that run solely through China. There's a lot of work to do that—to grow supply, to build capacity, to strengthen governance—but the most important objective we have is to ensure that western companies have access to the minerals needed for the green economy.

Supply chains without China are impossible, but supply chains dominated by China are unacceptable. Critical minerals and the industries they enable are too important to be left alone. Western governments should tackle these questions together, because the stakes are too high for any other approach.

Thank you for the opportunity to address the committee on this important topic. I look forward to your questions.

• (1455)

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

We will start our first round of questions with Mr. Ed Fast, who's in person in Ottawa.

Mr. Fast, the floor is yours for six minutes.

Hon. Ed Fast (Abbotsford, CPC): Thank you very much, Chair.

My first question is for you, Dr. Wark. You've expressed serious concern about the government not following its stated policies. During the COVID pandemic, the government has supposedly beefed up its policies on protecting our supply of critical minerals and our access to critical minerals. Canada has also been working with the United States to establish a more coherent approach to the supply and the supply chains that deliver critical minerals to many of our industries, including automobiles.

Do you believe the Neo Lithium transaction is consistent with the ministers' mandate letters or the policies that are currently in place to protect critical minerals?

Dr. Wesley Wark: Mr. Fast, thank you for the question.

Mr. Chair, thank you for the opportunity to respond.

I would say, to repeat my testimony, that I don't find that the decision not to conduct a formal national security review was appropriate in the circumstances of this acquisition, the value of which has been reported in the media as close to a billion dollars. I would say in particular it seems to me some of the guidelines that have already been set out by the government as to how they want to approach this issue, quite apart from promises made to create things like an economic security strategy, to beef up the resourcing of national security review and to create a critical minerals strategy.... You know, these are all important promises, but as I said in my testimony, I think there's a significant and I fear perhaps a widening gap between the promises and their delivery in reality.

I would just, in response to your question, make one particular point, and it also references some of the other testimony the committee has heard. I don't regard it as terrifically significant to a national security review that Neo Lithium possessed a significant mine asset in Argentina and was engaged in a pilot plant project for extraction.

I think it's very important—and this references my own comments about the need for a broader, more strategic, more future-oriented approach to national security reviews—to understand what's lost when we allow a Canadian company, or a company that at least trades in Canada and is based in part in Canada, to go into the hands of a Chinese SOE. We're losing future capabilities. We're losing intellectual property. We're losing technological know-how, and we're losing an unknowable future, which I think all the witnesses you've heard from will agree is going to be very important to Canada's economic development and to our transition to a green economy. In that context, I think the narrowness of the approach apparently taken in this review process was fully on display and shown to be inappropriate.

Hon. Ed Fast: Thank you.

Mr. Kucharski, you mentioned that there are also other transactions relating to lithium that have occurred over the last three or four years. Are you aware of any of those undergoing a national security review?

Dr. Jeffrey B. Kucharski: Yes. I am aware of a few. I did some basic research into other acquisitions in the lithium space in Canada and came up with two or three examples, which I've included in my brief to the committee.

I'm not aware yet of whether those underwent national security reviews. I couldn't find any reference to reviews being undertaken in those instances, but I'm not currently in possession of all the facts on that. I'd actually like to look into that a little bit more.

Hon. Ed Fast: Mr. Tsafos, you're from the United States, but I believe you have a keen interest in ensuring that the United States works with its allies to secure its supply of critical minerals for our key industries. Given the fact that this transaction was approved without a national security review, do you believe that decision not to do a national security review was consistent with the understandings that the United States and Canadian governments have had about co-operation in this area?

• (1500)

Mr. Nikos Tsafos: Thank you for the question, Mr. Chair.

As you've pointed out, I live in the United States—I'm not a Canadian—so I will answer this from a certain distance. The key point I would like to make is the broader question here: Should we care who owns lithium and who produces lithium in the world? I think that over the last couple of years, especially in the United States, there's been a growing awareness that indifference to that question, that not paying attention, has come at a huge cost.

I will be very candid that Washington has not come up yet with a comprehensive strategy to address critical minerals, to safeguard them and secure them. That's some of the work that we are trying to do as a think tank here in Washington. In my view, what that strategy would entail would be to work with key allies like Canada, like Australia and like the European Union in trying to think about how these supply chains can evolve over time so that they become much more diversified from China than they are today.

That would be the strategic posture that I would expect from the United States. We've seen various U.S. institutions, including the development finance corporation, give money to companies that are trying to diversify these supply chains. That would be a core U.S. objective to be pursued in partnership with allies like Canada.

Hon. Ed Fast: What you're saying is that it really doesn't matter where these minerals are located.

The Chair: Mr. Fast—

Mr. Nikos Tsafos: This is a global market. It's the same way we think about oil. If in one place in the world something happens, it affects us all. Over time this is what is going to happen with these critical minerals. We may not see it today because they're a smaller part of the market, but that is where we're headed. The strategic question is this: Should we care about who owns this multi-hundred billion dollar market and access to the critical minerals that will empower a dozen industries in the future? Should we care who controls those industries? I think we should.

Hon. Ed Fast: Thank you.

The Chair: Thank you, Mr. Tsafos and Mr. Fast. That's all the time. We're a little overboard.

[*Translation*]

The floor now goes to Mr. Fillmore, followed by Mr. Lemire.

Mr. Fillmore, you have the floor for six minutes.

[*English*]

Mr. Andy Fillmore (Halifax, Lib.): Thank you, Chair.

Thanks to the witnesses for making time to share knowledge and perspective. It's greatly appreciated.

I want to just connect to something that professors Kucharski and Wark mentioned about the ICA guidelines for a national security review. I'm happy to share that the guidelines were updated in March 2021. The new updates take into account the potential for the impact of investments in and divestments of critical minerals. The changes also address concerns related to investments involving sensitive technology areas in critical minerals and also investments by state-owned and even state-influenced investors.

The departmental review that was, in fact, conducted on the transaction had the benefit of these updates and changes. In that context, the national security review was not triggered. I think that's important to point out.

I will say that all members of this committee want Canada to make the most of our critical minerals, including by having a strong presence in the transition to a green economy and the role that batteries are going to have in that transition. That is, of course, why we're anxious to get to our critical minerals study, which will then inform the critical minerals strategy. We're all in a rush to get there. That study is waiting in the wings.

I will go to lithium now, if I may.

Professor Kucharski, I would like to ask you to address two questions. I'll say that lithium is a specialty mineral that's tied to and tailored very specifically to the needs of consumers. It's different from a flexible commodity, like iron ore, for example, that could take on so many different forms. Lithium hydroxide, as opposed to lithium carbonate or lithium brine, is the preferred form of lithium for electric vehicles. A case in point is that Tesla is currently building a lithium hydroxide refinery in Texas, adjacent to its battery factory. It will supply that exclusively with hard rock lithium.

First, do all lithium sources or types have the same strategic value to Canada? Second, the way you look at this, is there any lever that, had the sale not occurred, Canada could have controlled such that these Argentinian miners mining lithium in Argentina would be forced to sell that in Canada?

Thank you.

• (1505)

Dr. Jeffrey B. Kucharski: Thank you for your questions.

I'm not a mining engineer, so I can't answer specific technical questions on the differences between lithium hydroxide and lithium carbonate, but my general understanding is that both of those inputs can be used and converted into the material used in lithium ion batteries. I think we've heard that also from others on this panel. I would therefore consider them both to be lithium inputs to electric battery production and therefore critical minerals subject to the scope of the legislation.

Could you just quickly remind me of your second question?

Mr. Andy Fillmore: Sure. One concern expressed around this transaction was that Canada is somehow giving up the usage of this lithium for Canadian purposes—the Canadian automobile industry, for example. We heard that from one of the other witnesses. Would we have had any lever to keep those minerals in Canada had we not let this transaction happen?

Dr. Jeffrey B. Kucharski: Yes, I think Professor Wark also mentioned this, but it's not just the mere fact that the assets—or the mine itself—were in Argentina. No, there is no way, I think, that Canada could or should compel a company to bring all of that production back to Canada—of course not.

However, this is part of a broader pattern. We've seen other Canadian lithium companies be acquired, perhaps not with national security reviews. We see the dominance of China in this space. We see the efforts of Canada and our partners and allies to strengthen critical mineral supplies so that we aren't reliant only on China and we're not subject to economic coercion or other leverage applied by that country, which they have been known to do in the past, particularly against Japan back in 2010.

I think, as part of a bigger story, what I'm saying is that there are intellectual property issues, there is management knowledge and there is this company as part of a supply chain, potentially, that we now don't have any longer to help build our own supply chain here in Canada.

Maybe in the short term we can't bring that lithium back to Canada. I don't know that for a fact, but companies like that are building blocks for building a supply chain, so I think that allowing those companies to pass a national security review seems odd to me. If you look at the bigger strategic picture and what we want to do over the longer term, it seems to me that there were reasons why we could have reviewed that acquisition within more of a broader strategic context of building supply chains here in Canada.

[Translation]

The Chair: Thank you, Mr. Kucharski.

Mr. Fillmore, that is all the time you had.

[English]

Mr. Andy Fillmore: Thank you.

[Translation]

The Chair: The floor now goes to Mr. Lemire, for six minutes.

Mr. Sébastien Lemire (Abitibi—Témiscamingue, BQ): Thank you, Mr. Chair.

My first question is for Mr. Tsafos.

If I understood your testimony correctly, China has an effective plan for critical minerals and for the development of high technology.

Should Canada and the United States—if I may include them—be developing a common strategic plan for critical minerals and for the development of high technology?

[English]

Mr. Nikos Tsafos: Thank you for the question, Mr. Chair.

I think the short answer is, yes, where it makes sense. We're talking about a lot of technologies. We're talking about a lot of minerals. Some countries have them; some countries don't. Some countries have industrial competencies that others don't. I don't think the answer is “everyone for himself”. We can benefit from trade and collaboration, but it does seem to me that having industrial competencies and serious supply chains that are not dominated by or run exclusively through China is a worthwhile goal.

As we argue here in the United States, this doesn't mean that everything has to be produced in the United States, but if you're going to be producing it overseas, you could do it with U.S. investors, Canadian investors and other western investors. There are multiple ways to be involved in a supply chain that is not just domestic production.

• (1510)

[Translation]

Mr. Sébastien Lemire: In your view, should the Canadian government provide better support to Canadian companies developing critical mineral deposits outside Canada? Should that support extend more to the supply and value chains?

You briefly mentioned the matter, but I'd like to hear more about it.

[English]

Mr. Nikos Tsafos: Yes, I can speak maybe a bit from a U.S. perspective as well, because I think it speaks a little more to my experience.

The major challenge with China right now is that they are a dominant part of the processing, the point where the mineral comes out and becomes something useful, so today, even in the United States or Canada, if you extract something, it may have to go to China to acquire value. You have to think about your position throughout the value chain. Sometimes, the extraction itself doesn't get you much diversification if there's only one buyer and that is China, and you have to send all your commodities there.

I think it's important to think about the entire value chain, and that is where collaboration can happen. One country may have the minerals. Another country may have capabilities to turn the minerals into useful products. A third country may have the final industries, whether it's automotive or batteries. That is the kind of collaboration that I think we need, but it has to sink through the entire value chain. The extraction is just the beginning. That's not where most of the value is. Most of the value is in being able to access the mineral and, in the case of lithium, to ultimately turn it into a battery in an electric vehicle.

The money is not really in the lithium. I mean, there is money in the lithium, but the money is really in the final product.

[Translation]

Mr. Sébastien Lemire: From your observations, does Canada have a vision, a national strategy, for critical minerals?

How could the Government of Canada champion the development of that strategy, in your opinion? What steps would be needed to establish an effective national strategy?

[English]

Mr. Nikos Tsafos: Thank you.

I won't profess to critique or be an expert in the Canadian strategy on critical minerals, but I will say that something we've seen in a lot of places—not just the United States, which I know very well, or Europe, which I also know very well—is that we have a tendency to think about the energy transition and trying to enable the final products that we want. We want solar or wind or electric vehicles, but we neglect to think about the supply chain that will enable those final products. We give a subsidy if you install a solar panel or a wind turbine or if you buy an electric car, but we don't have the same amount of industrial focus to make sure the rest of the chain is built either in the country or in allied countries.

I think that has been a deficiency in multiple countries, with the exception of maybe Australia, which is a major producer of a lot of these critical minerals. That is one area of attention.

The second area of attention, of course, is finding the right balance between local populations—especially first nations in the case of Canada or aboriginals in the case of Australia—and foreign investors for high environmental standards. Doing that has been trickier in the west than in some of the places that maybe don't adhere to the same kinds of standards we would like them to adhere to. That, I think, is another area for critical government work: to try to make sure we can raise standards, but not to do so at the expense of ever producing anything, which is sometimes where we may end up.

• (1515)

[Translation]

Mr. Sébastien Lemire: I would like to ask one last question.

Do you believe that the deal to acquire Neo Lithium, close to \$1 billion, is a fair price? In your opinion, would China have paid more to acquire it if Canada had shown an interest?

[English]

Mr. Nikos Tsafos: I won't pretend to have done due diligence on the project in order to be able to offer a fair price for the transac-

tion, but I will say two things. One, on lithium prices, if you look at the chart, they have gone up a lot, so what this transaction would be today versus three or six months or a year ago is very different.

The broader point is that the forecasts are talking about 30-, 40-, 50- or 60-times increases in these critical minerals. For lithium the International Energy Agency thinks the increase might be a hundredfold.

When you grow a market a hundredfold, it is very difficult to understand today what that market is going to look like. We're talking about an enormous amount of value, and we're also talking about developing resources in a lot of places where we don't think doing so is economical now. If you have to grow something 100 times, you have to go to those resources that are not economical now, so the value changes over time. We've seen this with hydrocarbons. We're going to see the same thing with critical minerals.

The Chair: Thank you, Mr. Tsafos.

[Translation]

Thank you, Mr. Lemire.

Mr. Masse now has the floor, for six minutes.

[English]

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

Thank you to our witnesses.

I asked this committee 17 years ago to look at this issue because China Minmetals Corporation was spending \$7 billion to buy up Noranda. Then prime minister Paul Martin thought it was a good idea. It was the first state-owned enterprise to do such a thing. Then industry minister David Emerson showed some reservations about it, but then later he backed off. We've had other incidents since then that have been focused on China. The concern I raised at the time was about our private equity firms and other unknown purchasers.

My first question is for Mr. Wark and Mr. Kucharski.

Should we not be looking also at some type of transparency there, or at least at some review, and how do we deal with that when we have co-investors? I don't mean just China. It's non-democratic governments that have been purchasing Canadian companies. What we have seen is successive governments raise the threshold over and over for triggering reviews, and at the same time the danger we have right now, in my opinion, is also losing start-ups without any reviews or screening, for which smaller amounts of money are allocated.

During all this, it's just ironic that we're doing this because of electric vehicles and concerns related to those. If we go back in time, as I said, it was unacceptable for Canadians to own even shares in Petro-Canada for our vehicles at that time as we sold it off, and then, when you fast-forward to today, we even had to buy pipelines.

Here we are again, dealing with automotive and the consequences for transportation. What I'd like to know is this: Should we be opening up a little of this but more robustly than just focusing on China alone?

Go ahead, Mr. Wark and Mr. Kucharski, please.

Dr. Wesley Wark: Thank you, Mr. Masse.

I'll just say that I think probably government officials may agree with you in questions tomorrow that the national security review process needs to be more robust. It is probably not resourced to the extent it needs to be. Intelligence assessments on these foreign direct investments are very difficult and take time, and we certainly need to work with allies to think through them, which is one of the reasons why I am so struck by the fact that the government was so confident that it didn't need to even invoke the second 45-day period that's available to it before it goes to a full national security review.

I would also like to take up your point about losing start-ups, because I think this is very significant, not least in the critical minerals industry. What we are losing with regard to the Chinese takeover of Neo Lithium, at a pretty extraordinary price tag, is a start-up. Neo Lithium is a junior miner with this project in Argentina, which is a kind of pilot project, a pilot plant extraction effort. It recognized—and it's clear in the company's own transactional documents—that it needed more capital or a partner to be able to really bring this asset online.

It found that partner in a Chinese mining company, not in a western one. I think it is important—and it should have been important to a national security review—to reflect on that fact and on the significance of losing start-up capacity, which is not just about a mine asset in Argentina. It is about, as I've said, technological know-how and intellectual property, and about the future, and we have cut ourselves off from that by failing to think through these issues more significantly.

Thank you.

• (1520)

Mr. Brian Masse: Thank you.

Go ahead, Mr. Kucharski.

Dr. Jeffrey B. Kucharski: I would build on that by saying that in this case the company that's doing the acquisition, Zijin Mining, is a state-controlled company, and that should have automatically triggered a national security review, in my view. I would tend to focus, in terms of the legislation—the guidelines—mostly on state-owned enterprises, whether they're from China or anywhere else, but particularly from China because of China's dominance in critical minerals and also because China has used that dominance, not only in critical minerals but through demand in its own economy, to

exert coercion and leverage over other countries. Therefore, we have a specific concern with China's behaviour.

As I said in my opening statement, I think that state-owned enterprises or state-controlled firms, particularly those from China, should automatically trigger national security reviews, and certainly in this case one should have been conducted, in my own view.

We know that state-owned and state-controlled enterprises have unfair advantages over private firms, such as Canadian firms that have to compete in the marketplace for capital. They have access to cheap capital. They have access to subsidies. They are under the influence of the government and the regime, which has its own strategic priorities and, therefore, can influence how those assets are employed.

For a number of reasons, I think that's justifiable. Thanks.

Mr. Brian Masse: Thank you.

I want to get Mr. Volpe into this.

Mr. Volpe, you had some really good testimony. I think it's probably some of the most pertinent when you look at the practical application of what we face here. As you mentioned, we've actually slipped to 10th in the world in auto manufacturing. I remember the days of being at number three. As well, we don't have the domestic decision-makers we used to. We don't even have many CEOs. We used to have Canadian CEOs for some of the companies that were here. Some of them were trained in Canada and later on became CEOs in the United States and other places.

I guess where our auto industry is going could be getting out of the traditional systems, as you mentioned, that are still very much dominant and having a greater strategy than just rip-and-ship, meaning having lithium and others as part of our positioning to get investment.

How important is it to have a policy to not just rip and ship these resources out to other automakers across the globe, let alone the United States? It could be Mexico. It could be Europe. It could be China—whatever. How important is it for us to have a solid domestic policy not to rip and ship?

The Chair: Mr. Masse, I'm sorry. We're already extended by about a minute on your time for questioning. I'm sure we'll have the chance to get back to this important question for Mr. Volpe in your next round of questioning.

Mr. Brian Masse: I'll leave that for Mr. Volpe for the next question. Just let me know, Mr. Chair.

Thank you for that.

The Chair: Thank you.

[Translation]

We will now move to the second round of questions, for five minutes, starting with Bernard Généreux

Mr. Bernard Généreux (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, CPC): Thank you, Mr. Chair.

My thanks to all the witnesses also.

Mr. Wark, last week, BNN Bloomberg pointed out that Canadians and investment funds in Canada seemed to be turning their backs on their own country by choosing to invest \$144 billion abroad in the first 11 months of 2021. Yet our great and wonderful country is sitting on a vast reserves of resources that could secure Canada's economic success for decades.

How do you explain the fact that foreign companies see the advantage in investing in Canada's mining industry but Canadians themselves do not? My question is along the same lines as the one Mr. Masse asked previously.

The Chair: Who is your question for, Mr. Généreux?

Mr. Bernard Généreux: For Mr. Wark.

The Chair: Go ahead, Mr. Wark.

[English]

Dr. Wesley Wark: Thank you, Chair. I'll just answer very briefly.

I'm not an economist, but I think what you've heard from other witnesses today is that Canada, like many other countries, has been slow to think about the value chain involved in critical minerals and the transition to a green economy. We are, hopefully, trying to catch up.

Part of the business of catching up is to create a made-in-Canada capacity to identify critical mineral source locations, to extract minerals, to process them and to feed them into global supply chains, but at the moment we are nowhere near that with regard to lithium, which is regarded by many as a critical mineral. We have other strengths in other more traditional mineral extraction, but we haven't yet headed in the direction of being able to create that made-in-Canada capacity that can feed into a global marketplace to Canada's benefit.

Allowing a junior miner with a significant experimental project in Argentina, I'll call it, to slip into the hands of the Chinese seems to me to be an indication of a legacy policy whereby we have not properly thought about our capacity to build made-in-Canada knowledge and capabilities in the new economy when it comes to critical minerals. That is the direction in which we need to go. Whenever we see a critical minerals strategy being produced by Natural Resources Canada, that should be an important question directed at that strategy. Hopefully it is going to be embedded very strongly in it, but we haven't seen that critical minerals strategy yet.

• (1525)

[Translation]

Mr. Bernard Généreux: Thank you, Mr. Wark.

Mr. Wark, I would like to ask you another question.

In your presentation, you were very critical of the government, which, in your opinion, should have conducted a much more comprehensive review of the Investment Canada Act.

In your opinion, the government could have evaluated the impact of the acquisition of the Neo Lithium mine by a Chinese company. You seem to be saying that, because of the election, the ball slipped through the government's legs. Canadians did not want an election but we had one anyway.

The news came out on October 12, and the minister was appointed on October 25. The government would therefore have had 45 days to conduct the review, but none was done.

In your opinion, why did the government not take that opportunity to conduct the review?

[English]

I'm sorry. I speak really fast.

Dr. Wesley Wark: Mr. Généreux, thank you again.

Chair, I'll answer as quickly as I can.

I believe that the political transition period we were in probably had an impact on the kind of attention that we should have been giving, particularly at the political level, to this transaction.

I would also say that one of the reasons I think we need to do more national security reviews, or at least do reviews of sensitive acquisitions using the full 90-day period provided by the Investment Canada Act, is that the acquisition of information and intelligence, the analysis of it, the consulting with allies and coming up with proper judgments is a difficult, complex and time-consuming business. We need to have the resources and the talent to do that business, and we need to give it time.

Really, to be honest, I'm afraid I'm dumbfounded by the fact that the government was so confident about its conclusions within that 45-day period from the original announcement of the acquisition in October through to early December that it felt it didn't even have to do any more. I think we just have to reflect on this acquisition and not rush to judgment on these matters, which clearly involve a strategic issue, sensitivities and Canada's future economic security. We must take our time to do this, and I'm afraid we didn't take the proper time.

I'm not trying to prejudge what a national security review conclusion might have been. I'm just saying we needed to take more time and give this much more serious attention than was done, and the kinds of explanations that have been offered by the government to date I find wholly unsatisfactory and very narrowly focused.

The Chair: Thank you, Mr. Wark.

[Translation]

Thank you, Mr. Généreux. That is all the time you had.

Mr. Erskine-Smith, you have the floor now, for five minutes.

[English]

Mr. Nathaniel Erskine-Smith (Beaches—East York, Lib.): Thanks, Joël.

I'm sympathetic, Mr. Kucharski, to what you said about state-owned enterprises. Last session the committee unanimously recommended that when a state-owned or state-controlled enterprise was involved, there would be an automatic security review. I'm also sympathetic to this idea of a broader strategy rather than taking it case by case. I'm certainly sympathetic to the idea that we have to be especially cautious in the case of countries that have weaponized trade in the past.

When I get to the nuts and bolts of this one, I just want to be clear on the details.

Mr. Volpe, just so I'm clear on what your testimony was, you said that location matters. You said, "Local, local, local." Is that correct?

• (1530)

Mr. Flavio Volpe: That is 100% correct, and let me just expand on this.

We're doing a lot of navel-gazing, I think, on the potential for the use of lithium from Argentina. I practise this every day. I was part of the CUSMA rewrite. We cannot use lithium from Argentina in the production of vehicles in Canada, the U.S. or Mexico and still meet compliance with the CUSMA-USMCA rules of origin. We're talking about a hypothetical use here that in practice would never happen—

Mr. Nathaniel Erskine-Smith: I appreciate that. I'm sorry, but I have limited time.

Just to build off of that, location matters, and the kind of lithium matters too?

Mr. Flavio Volpe: Absolutely, the type of lithium matters.

All auto companies and parts suppliers are in the business of who can build the longest-lasting and longest-range battery, so the chemistry is important and the specific recipe by each company is important to listen to. If the companies say they won't use it, they're not going to use it.

Mr. Nathaniel Erskine-Smith: I appreciate that.

Mr. Wark, it's good to see you again. The last time we engaged with one another, I think we were setting up a national security committee, which, unfortunately, was recently deconstructed.

When we look at this particular transaction, I'm not so sure, based on what Mr. Volpe has said, that it clearly touches our economic security. It depends, really, on what the critical minerals strategy is, I think, and it depends upon location. It depends upon the kind of lithium and it depends upon how we can add value, to Mr. Tsafos's point, into the supply chain, and what role Canada is going to play. It may well be the case—and I do take the point—that there is a need for a broader strategy.

In this particular case, I think your main criticism was that more time should have been taken and we should have been more thoughtful and clearer about the strategy. I guess my question is, what more did we need to know?

We know the kind of lithium and that it's less strategic. We know that location does matter; that is the evidence from Mr. Volpe. We know that it's a publicly traded company, although a major shareholder is a state-controlled enterprise. What more do we need to know to make this decision? If the national security agency has done an enhanced review and is saying there's no need to proceed further, we'll hear more tomorrow or Friday, I think, on that particular question. Help me to ask those questions when we get the officials in. What more should have been asked? What more should we know?

Dr. Wesley Wark: Mr. Erskine-Smith, it's nice to have the opportunity to converse again. It's nice to see you.

Chair, I'll just respond very quickly, in part by addressing Mr. Erskine-Smith's suggestion that we knew all we needed to know and that the government made a decision appropriately on not having a national security review.

I think it's a very contested view that lithium carbonate is a less important derivative of lithium than is lithium hydroxide. It's certainly contested in the Neo Lithium corporate documents. It's contested, certainly, in some of the public expert discussions about the future of lithium carbonate and its uses. I would note that the Neo Lithium pilot plant project in Argentina was producing lithium carbonate at what it described as a 99% purity level for use in batteries. Again, I'm not an expert on this aspect, but I think the black-and-white notion the government has advanced that lithium carbonate is of no strategic value, which I think was the suggestion from Mr. Fillmore, is probably incorrect—

Mr. Nathaniel Erskine-Smith: I appreciate that. It sounds, though, as if you're bleeding into an argument as to why it ought not to have been approved at all as opposed to this idea of more time. I guess what I am trying to get more clear on is why more time was needed.

Dr. Wesley Wark: Yes. So—

Mr. Nathaniel Erskine-Smith: I apologize. I have limited time.

Dr. Wesley Wark: Okay.

Mr. Nathaniel Erskine-Smith: My last question is for Mr. Tsafos in relation to the broader strategy. We're dealing with this one transaction, but this is a much bigger-picture issue of how Canada and the United States work together with allies to have a more "resilient" supply chain. I think that's the language you used.

What is the advice to this committee if we're going to make recommendations to the government about how Canada can work constructively with our allies, including the Americans, to build out more resilient supply chains, keeping in mind the evidence from Mr. Volpe in particular?

The Chair: I would ask for a brief answer, Mr. Tsafos.

Mr. Nikos Tsafos: A brief answer on how to solve this problem.... Thank you, Mr. Chair.

Very quickly, I would say that, one, we need I think a better infrastructure of information.

As you know, when something happens in the oil market and the gas market, we've been doing that for a long time and we know what it means. These are new markets for policy-makers and elected officials. It's not as easy to understand what they mean. I think that's one.

Number two, I think we really need to figure out how we put public money forward to support the supply chains that we want and not just put in money at the final product. That is a key part.

The third thing is that I think we need to have a much more honest conversation on exactly what you're talking about, which is, what is the ultimate threshold at which we say no? If we treat every transaction one by one and say that "this is not going to tilt the thing", "this is not going to tilt the thing" and "this is not going to tilt the thing", then you wake up one day and find that China has 80% of the market. We need to take a much more coordinated approach to what we want this thing to look like.

• (1535)

The Chair: Thank you, Mr. Tsafos.

[Translation]

Thank you, Mr. Erksine-Smith.

Mr. Lemire now has two and a half minutes.

Mr. Sébastien Lemire: Thank you, Mr. Chair.

My question will be going to Mr. Wark.

First, thank you for your testimony. You stated that only 1% of the acquisitions of Canadian companies by foreign companies have undergone a national security review. That figure seems very low to me.

Does it concern you? Do you have doubts about the effectiveness of the national security review process in Canada?

Dr. Wesley Wark: Thank you for your question, Mr. Lemire.

[English]

Chair, very quickly, I'll say that I think it's widely regarded that a national security review is an important tool that the government has to try to protect Canada's national security, including its economic security. We haven't quite yet come to a definition of what we mean by "economic security", which I think is important.

As I said in my testimony, because of changes to geopolitics and because of changes to the global economy, I think there should be a much greater willingness going forward to use the full national security review provisions and to use them in a strategic context so that we're not thinking, as Mr. Tsafos says, in terms of that kind of one-by-one basis and suddenly find that a great deal has slipped away.

I would also say that the notion that we do national security review with a purely local, internal focus is simply wrong. Whatever "local, local, local" might mean to the Canadian parts manufacturing industry, I understand. It has very much less significance to the

question of Canadian national security, it seems to me, and I think that needs to be taken into account.

Thank you.

[Translation]

Mr. Sébastien Lemire: In terms of the Investment Canada Act, one of the major issues for me is transparency.

In your view, should the government be more transparent and publicly explain its rationale for proceeding or not proceeding with a national security review?

Dr. Wesley Wark: Thank you, Mr. Lemire.

[English]

I would just say, Chair, absolutely: I think there is a requirement for greater transparency, and really for two purposes, or three purposes, if you like.

One is the general public interest, so that Canadians better understand how the government is using this tool. One is accountability, particularly on the part of Parliament, and we're seeing this in action now. One is the investor community, and frankly, those in the investment community will say that there's been a lot of complaint and confusion about the guidelines and how they're implemented. I think greater transparency around that would help all of those sectors—parliamentary accountability, public knowledge, the investor community—to better understand what's involved. I see no reason why we couldn't come up with an appropriate degree of greater transparency around these decisions that are made.

Thank you.

The Chair: Thank you, Mr. Wark.

[Translation]

Thank you, Mr. Lemire.

[English]

Mr. Masse, you have two and a half minutes.

Mr. Brian Masse: Thank you, Mr. Chair.

I'll go quickly to Mr. Volpe so that he is able to get in on this.

In terms of our minerals as Canadian assets, how do we leverage that for further auto investment? I'm worried about the fact that we haven't had greenfield expansion as others have, and I would like your comments. How do we use this as an opportunity to expand our manufacturing base?

Mr. Flavio Volpe: By definition, these assets aren't Canadian as the term pertains to how we source parts that are compliant in the trade agreements we have. Nothing we could have brought in—if it was profitable, which it isn't—from this potential mine in Argentina would have furthered that. What we need to do is set our critical minerals strategy around the extraction and processing of those critical minerals here in Canada.

I am the committee chair of the Invest in Canada committee for battery development in the Canadian Automotive Partnership Council. You've been to those council meetings, Brian, over the years. They have the federal government, the provincial governments of Ontario and Quebec, the assemblers, the parts suppliers, academia and labour. This is where we have the big overarching policy discussions and policy creation. Mr. Fast, of course, sat at that table for years.

We have a strategy with regard to critical minerals, battery creation and assembly, and location here in Canada. I'm sorry, but I'm not hearing any of that in the contemplations here about the theoretical national security interests we may have in stuff in the ground in Argentina.

What we need to do is what we are doing, which is pursuing these major investments and creating the future market to draw auto assemblers and battery assemblers, who then have to meet the CUSMA compliance rules of origin and source that stuff in Quebec. We in the industry know that orders are being made for that 18, 36 and 72 months off. At the same time, we're ramping up this production of electric vehicles.

For us in the industry, it's.... We're having this discussion here today about whether we could have had more time and whether we should have done a national security review. It sounds to me like the arguments are about predetermining an outcome. We're invested in the fact that we think this was a national security mistake, but in reality, practically thinking, what is it? Where is it? Could we actually use it? If we could use it, would it be profitable?

There's zero risk there. This is akin to risking a holding penalty on someone who's passed you on offence—maybe the ref will see it or maybe not—just to frustrate the opposition.

We have to do more important things, like working on our mining potential and extraction potential in Canada, especially in Quebec, because it's there.

• (1540)

Mr. Brian Masse: Thank you.

Mr. Chair, I know I was over last time, so thank you for that.

The Chair: You were over again this time, but that's fine.

Thank you, Mr. Volpe. Thank you, Mr. Masse.

[Translation]

The floor now goes to Mrs. Gray, from the Conservative Party.

[English]

Mrs. Tracy Gray (Kelowna—Lake Country, CPC): Thank you very much and thank you to all of the witnesses for being here today.

My first few questions are for Dr. Wark.

You illustrated the timeline of the purchase of Neo Lithium, which was made public in early October 2021. In your remarks, you mentioned that a protracted period of political transition may have played a role in the acquisition not getting the needed scrutiny. By this, are you referring to the recent snap election? Is that what you're referring to in that comment?

Dr. Wesley Wark: I would just say we probably all remember the timeline of the recent election, which had been concluded by the time this transaction was announced and notified to ISED.

The problem was in the post-election period, when a new government was creating a new cabinet, when departments and agencies were responding to transition briefings and focusing on transition briefings and when new or returning cabinet ministers were being provided with mandate letters. That is the political transition period I'm really talking about.

How does that detract from a national security review? Departments and agencies continue to do their work, but perhaps their attention couldn't be fully paid to this issue. Perhaps they couldn't fully get the attention of cabinet ministers who had not yet been appointed. Perhaps their attention was elsewhere. They were rushing through, I think entirely unnecessarily, an initial 45-day period without giving any thought to a second 45-day period.

I should say, to explain the technicalities to the committee if it's not familiar with them, to engage in a second 45-day period under the Investment Canada Act requires an exchange of letters between the public safety minister and the ISED minister. It involves them in a clear briefing and consideration of the file, which, given that we didn't go into a second 45-day period, may never have taken place.

It had some kind of impact. It's difficult to know what. The timing, at the very least, was unfortunate for the kind of extended scrutiny that this takeover required.

• (1545)

Mrs. Tracy Gray: Great. Thank you. That's good information. Thank you for clarifying that.

This committee studied the Investment Canada Act and potential changes back in the summer of 2021, and it submitted a report with recommendations to Parliament. One recommendation was:

That the Government of Canada introduce legislation amending the *Investment Canada Act* to reduce the current valuation threshold for prospective acquisition of control by either state-owned or state-controlled enterprises to zero, so that every transaction triggers a review, including a net benefit test and a national security test.

From a security standpoint, should the federal government have implemented such a recommendation?

Dr. Wesley Wark: I would just remind the committee that the net benefit test, which has different thresholds depending on the kinds of transactions we're talking about, is quite separate from the national security review process, although perhaps, in an ideal world, they should be more closely combined, and maybe an economic security strategy would think about that. The fact of the matter is that the national security review, at its various phases, is meant to be conducted no matter what the threshold of the investment, and it was conducted in this case.

As interesting as the suggestion from the committee might have been, I don't think it really applies to the national security review.

Mrs. Tracy Gray: Great. Thank you.

Just for clarification, we know that on the Investment Canada Act, the recommendations were brought to Parliament in 2021 but the actual work was done back in 2020.

The government is using language saying that security screening is being done, but no comprehensive review. Can you explain the difference between security screening and a review? Would a screening be sufficient, based on your expertise, Doctor?

Dr. Wesley Wark: I would just say, really to try to put the Investment Canada Act process in a nutshell, that there are three phases. There's an initial phase of national security review, which must take place within 45 days of notification of the investment. Following that initial phase, questions, such as whether an investment poses any potential national security risk, can be raised. The language the government officials use is to ask whether this investment could be "injurious to national security".

After that initial 45-day period, the Investment Canada Act allows for an additional 45-day period, to continue to scrutinize an investment under that same kind of heading of whether it could be "injurious to national security". What triggers that, under section 25.2, is an exchange of letters between the public safety minister and the ISED minister.

At the end of that potential two-phase process, the ISED minister, in consultation with the public safety minister, needs to decide whether to go to a full national security review, which can provide the agencies with much greater time to scrutinize an investment and ultimately come up with a determination of whether an investment would be injurious to national security.

I hope that is helpful. There is a could-be-injurious phase and there is a would-be-injurious phase, which is ultimately determined through a formal national security review.

The Chair: Thank you, Mr. Wark. Thank you, Madam Gray. That's all the time we have.

I'll turn to Mr. Dong for five minutes.

Mr. Han Dong (Don Valley North, Lib.): Thank you very much, Chair. I want to thank all of the witnesses for coming today.

My first question is for Mr. Volpe.

Listening to your testimony, I'm a little surprised to find that currently in Canada we don't have any auto manufacturers that are producing EV batteries. You said it's going to take another 18 to 36 months.

Mr. Flavio Volpe: That's right. It's also about the demand to date. Regardless of our ambitions, the market demand is about 3%, and those production decisions are made by Japanese and American companies that make vehicles here in Canada.

Mr. Han Dong: What kinds of recommendations can this committee give to the government so we can ensure that the industry is leading in some specific technology or is ready to take a significant share of the market?

Mr. Flavio Volpe: We have an enviable volume of critical minerals in the ground here in Canada. We have upstream companies that could do the battery assembly, such as Martinrea, which has done a joint venture with a company called NanoXplore to form a

battery company, VoltaXplore, in Quebec. They need processing help.

We need to address directly the Canadian mining industry. Who owns the mines? Who owns the resources here for extraction? What's missing—

• (1550)

Mr. Han Dong: But we have a lot of resources here, and a lot of—

Mr. Flavio Volpe: We have a lot of resources here. We don't have the capital—

Mr. Han Dong: Okay.

Mr. Flavio Volpe: —currently deployed to take those resources, process them and turn them into cells. We're currently working with governments at both levels, in Quebec and Ontario, on deploying that capital or developing that capital strategy to get there.

Mr. Han Dong: Thank you.

Mr. Tsafos, we have experts in the lithium market who suggest that the lithium supply for the North American market will trend toward North American mines and plants. What are the security and supply chain benefits for North American sources over a dependency on foreign sources?

Mr. Nikos Tsafos: As a student of energy security, I would say that we've learned over many years that local supply chains and local production have certain advantages over international supply chains. There are fewer linkages. There is less exposure to effects that may happen far, far away. However, to be intellectually honest, I would say that concentration in one place at home is also a risky thing. Really, resilience is the objective; it's not just domestic supply. If you produced everything at home but it all came from one part of the country that could be subject to something happening, then you'd be out of production.

There's a benefit to domestic production. You control it. You know what's happening. You have rules and regulations. You have oversight. You have tools to incentivize more supply. All these things are great benefits, but the solution, as we've learned from history, is really diversification, resilience and redundancy. If you have that, domestic supply is an added benefit, I think, but it's not a cure-all.

Mr. Han Dong: Thank you.

Chair, how much time do I have left?

The Chair: You have a minute and a half.

Mr. Han Dong: That's great.

Professor Kucharski, with the minerals for electric batteries being so critical, should we stop, as you said, all transactions or most transactions, regardless of the types of mineral deposits and the roles in critical Canadian supply chain and the nature of Canadian business and the actual location of the mining deposits? Should we stop all transactions?

Dr. Jeffrey B. Kucharski: No, I'm not saying at all that we should stop all transactions. I'm saying that I believe a proposed acquisition by a state-owned or state-controlled company should automatically trigger a national security review. I'm not saying anything about what the end result of that review would or should be. I'm just saying that I think we need to review the review process and ensure that state-owned enterprises are given due scrutiny over such transactions.

Mr. Han Dong: I'm thinking again about recommendations to the government from the committee. Should any specific principle or specific elements be included in those reviews? Do you have any suggestions for the committee?

Dr. Jeffrey B. Kucharski: Yes. I would just say that the government should consider making a national security review mandatory if the company doing the acquiring is a state-owned or state-controlled foreign company.

Mr. Han Dong: Even if—

The Chair: Thank you, Mr. Dong. That's all your time.

Mr. Han Dong: Thank you.

The Chair: I'll now go to Mr. Kram for five minutes.

Mr. Michael Kram (Regina—Wascana, CPC): Thank you, Mr. Chair.

Thank you to all the witnesses for being here today.

Dr. Wark, can you explain in lay terms why a Chinese state-owned enterprise would want to acquire yet another lithium supplier when they already refine 80% of the world's lithium?

Dr. Wesley Wark: Thank you for the question. It's a fascinating question and probably would be best directed, in a way, to Zijin Mining, which is the company that has acquired Neo Lithium for a billion-dollar price tag.

One thing that's interesting about Zijin Mining, as you see if you look at the company's corporate history, is that it began as a gold miner in China. It expanded overseas, principally in gold and other base metal extractions. The Neo Lithium takeover by Zijin, to the best of my knowledge from the available public documentation on Zijin, is the first such acquisition that it has made. I'm presuming—I can't speak for the company's directors, owners and whatever passes for shareholders in a Chinese SOE context—that they looked at and did their due diligence on the Argentinian mine, which is recorded in Neo Lithium public documents on the transaction. I'm presuming simply that they looked at that asset, thought about the future, thought about how they wanted to position themselves as a global miner and as a potential future Chinese industrial champion, as the Chinese strategy has it, and thought that was a terrifically important acquisition for them.

The question for me, I must say, is that if we're going to think about foreign direct investment in a national security and economic security strategy, we also have to do what is known, in intelligence terms, as a “net assessment”, which essentially means that you think about your own interest in this investment and you also think, “Why is a foreign company also interested in this investment?” I hope—and perhaps this is a question for officials when they appear tomorrow—some due consideration was given to that very question, which I think is implicit in your question.

• (1555)

Mr. Michael Kram: Again for you, Dr. Wark, if this is clearly part of their long-term strategy, can you think of any good reason that this would not trigger a national security review on our end?

Dr. Wesley Wark: I'm sorry, Chair, I cannot think of any good reason. That's not to prejudge the outcome of a national security review, but it is to say that this was a sensitive acquisition in political and economic terms that needed very considered judgment, not a rush to judgment in a 45-day period.

Mr. Michael Kram: Okay.

Dr. Wark, in your presentation you mentioned that “less than 1% of investment filings” have been subject to a national security review. Also, in the ICA report, it was pointed out that the majority of these reviews involved acquisitions by Chinese entities.

I have a two-part question: Why are so few national security reviews done, and why, in the ones that are done, is China so overrepresented?

Dr. Wesley Wark: Thank you for the question. It's an excellent question.

I'm not sure I have a good answer for you as to why we have failed to do very many national security reviews in the past. I think the best answer I can give is that it wasn't part of the tradition. It wasn't part of the way in which we thought about foreign direct investment. We wanted to maintain an image for Canada as a country open to foreign direct investment, which we saw as important to our economic prosperity. Although that still holds, what has changed is the geopolitical and economic security environment in which we now operate, so whatever our past calculations in that regard, I think we have to take a different approach in the future.

It is also, I must say, to be fair to the officials involved, a resource-intensive and very complex undertaking to come up with an appropriate intelligence assessment on these investments. I think, to be frank, that Canada has not invested a lot of resources in what I would call “economic intelligence”. That hasn't been a priority for our intelligence community. We may need to pivot to that enterprise more appropriately in the future, but I don't think we have a lot of resources that we can devote to it at the moment.

Mr. Michael Kram: Still with you, Dr. Wark, in June of last year, the White House released a report entitled “Building Resilient Supply Chains, Revitalizing American Manufacturing, and Fostering Broad-Based Growth”.

This report states that “global demand for lithium”, one of “the most important” inputs in “electric vehicle batteries, is estimated to grow by more than 4000 percent by 2040”. The report goes on to say, “The United States must secure reliable and sustainable supplies of critical minerals and metals to ensure resilience across U.S. manufacturing and defense needs....”

If Canada loses its lithium supplies, can you elaborate on what this would mean for lost opportunities, given the integration of Canadian and American supply chains?

The Chair: Mr. Kram, I'm afraid we'll have to come back for that answer in the next round for the Conservatives. We're out of time.

We'll go to Madame Lapointe for five minutes.

[*Translation*]

Ms. Viviane Lapointe (Sudbury, Lib.): Thank you, Mr. Chair.

• (1600)

[*English*]

My first question is for Mr. Tsafos. You talked about how, on this matter, most of the value is in being able to access the lithium. Can you deepen my understanding of what you mean by that?

Mr. Nikos Tsafos: The way I think of it is you progressively go from the raw materials to something processed. You then turn this into a battery pack. The battery pack goes into a vehicle. Ultimately, you make a lot of money on the vehicle. There's value that accrues throughout the chain.

The question that the United States and Canada face is where you enter into the chain so that you can create value on your own. If China controls the first four parts of the chain and just sells you a battery and you just put it in a car, a lot of the value that is in that battery accrues to China.

What I meant is that if you look at the numbers in my testimony, you'll see that BloombergNEF, which is one of the well-known energy consultants, shows the value that the lithium may start at and that \$11 billion of mined lithium ultimately ends up in a \$7-trillion auto industry. The lithium itself has value, but the question is, who can access that lithium and turn it into a useful product? That's where the competitive edge comes from.

If this were an open market and you could get lithium wherever you wanted, no one would care. However, it's not an open market; it's a new market and it's a growing market, so accessing that mineral is very important in ways that it's not for other commodities that are in ample supply and that you could go and get from the open market.

Ms. Viviane Lapointe: Thank you.

My next question is directed to Mr. Volpe.

It's been said that it's very important to think about the whole value chain. Could you weigh in and share your thoughts on that? In particular, what does that mean for Canada?

Mr. Flavio Volpe: The concept is mines to mobility here.

Let's say we're going to take what we do in the automotive sector, which is predominantly making internal combustion engine ve-

hicles on platforms that are shared around the world, and around the world we're going to shift, both from a regulatory standpoint to mandating zero-emission vehicle percentages to industrial policy. We're all talking about China's planned state-owned enterprises, but the Americans, by most definitions, are going by the way of industrial policy in this space as well. They're spending billions on different parts of this value chain.

To every country that is in the automotive business, it also matters how you compete. The transition, which is in part being regulated and then in other parts being co-invested in by our competitive jurisdictions, is to move to zero emissions. That requires critical minerals and the deployment of high-voltage platforms that will enable artificial intelligence, machine learning and connected autonomous technologies.

Canada, the 10th-biggest manufacturer in the world and the maker of 2% of the world's vehicles, does not have an OEM carmaker, so we have to concentrate on where we play. We play massively in the parts space. We play massively in the technology space. Many independent studies from around the world have always ranked Canada as one of the potential key players in those critical minerals. For us, it's about where we play.

In the case of Canadian lithium, like Canadian cobalt, Canadian graphite and all the other critical minerals, we need to define what they are. They're Canadian if we can find them in Canada. They're not Canadian, in a deployment or a regulatory compliance sense, if they're overseas. That's especially true because successive Canadian governments have entered us into successive trade agreements that define products by country of origin. The strategy here is to say, “Where can we play?”

Canada can play on the technology side, especially in mobility technology. Canada is absolutely playing in added-value volume parts and has the potential to surpass some of the other players in that top 10 group by being one of the key players among three, four or five players in battery manufacturing. That comes down to whether you can extract lithium in Canada, process it in Canada to turn it into cells, turn it into batteries that go into electric vehicle platforms that are made in Canada and are then enabled by Canadian connected autonomous intelligent technology—

• (1605)

Ms. Viviane Lapointe: Thank you, Mr. Volpe.

Mr. Flavio Volpe: You're welcome.

Ms. Viviane Lapointe: Do I have—

[*Translation*]

The Chair: Ms. Lapointe, unfortunately, that is all the time you had.

The floor now goes to Mr. Lemire, for two and a half minutes.

Mr. Sébastien Lemire: Thank you, Mr. Chair.

Thank you for your presentation, Mr. Volpe. I would like to dig a little deeper.

You mentioned a local strategy and you expanded on it. Is it important for processing to be close to the resource, particularly in a mining area? Does that also have a strategic advantage for Quebec and for Canada?

[*English*]

Mr. Flavio Volpe: From a profitability point of view, it's almost necessary. You're talking about big sums of materials being processed to make smaller sums of usable components. They're big and they don't transport easily or cheaply. The global auto business is based on just-in-time delivery. Car companies try to take the biggest components and locate their sources close to where their final assembly is.

Quebec, and to a large degree Ontario, is very well positioned to be a profitable contributor to that space. We signed on to the USMCA-CUSMA, which states, actually, that they have to be sourced within North America to qualify.

[*Translation*]

Mr. Sébastien Lemire: Thank you very much.

Now I have a question for Mr. Saint-Jacques.

China is the world's biggest supplier of critical minerals, and, as we can see, its intention is to dominate the world of technology. When China acquires a lithium deposit like Neo Lithium, is it with an eye to a business goal or to a geostrategic one?

The Chair: Mr. Lemire, I cannot see Mr. Saint-Jacques on the screen anymore. Perhaps he had some connection problems, I'm not sure.

Mr. Sébastien Lemire: I see that too.

In that case, Mr. Chair, let me put my question to another witness.

Can anyone answer this question: is China working towards a business goal or to a geostrategic one?

[*English*]

Dr. Wesley Wark: Mr. Chair, I'm happy to answer quickly, if that's appropriate, and other witnesses may have their own views.

The Chair: Sure. Be brief, though, because we're almost out of time.

Dr. Wesley Wark: Okay.

Very quickly, I would say that in the Chinese context, it's important to understand that it's almost impossible to distinguish purely business calculations from state strategy and state policy. China's economy and political structure are very different from those of western capitalist societies. You can probe the details of what is

strategic and what is economic in its investments and policies, but it's very difficult to distinguish broadly between the two.

The Chair: Thank you, Mr. Wark.

Now the floor goes to Brian Masse for 2.5 minutes.

Mr. Brian Masse: Thank you, Mr. Chair.

To Mr. Volpe again, just yesterday General Motors announced another \$4 billion for plants in Orion. I can get in my car here and drive for an hour from here to Lansing, Michigan, where they're getting a new battery plant with a \$2.6-billion investment. They also did \$150 million recently in New York state for electric parts.

We're getting our lunch eaten. This is really bad in terms of the investment decisions. How do we turn this around using our critical minerals to make sure that we actually do get the value added here? It's been very robust for Michigan, and Detroit in particular, over the last several years. How do we turn that around so we don't become as susceptible to losing, not only within Argentina, which as you've shown is not connected to this at all, but for other manufacturing we see on the doorstep right next to me?

Mr. Flavio Volpe: Brian, you're certainly a champion for your region. We've always spent time agreeing on a lot of things.

I will recast your question by asking what you think they were thinking in Michigan the year before, when we landed \$6 billion of investments in electric vehicles and battery manufacturing in Windsor, Oakville and Woodstock.

I think you're right: We are competing with Michigan more than we're competing with anything south of the equator. We do have to be vigilant on pieces like that. Part of the Canadian equation and part of the reason those companies committed to manufacturing those vehicles here is that they see that the long-term strategy includes real resources that are extractable and processable here in Canada.

As you said, if we don't stay on it as we have been on it, the American industrial policy and the Biden administration's dedicated investment of almost \$200 billion into the space will lead to our losing more than we win.

I will remind you also that any vehicle assembled in Michigan also includes 30% to 40% parts made in Ontario. It's not always a binary announcement for Canadian parts suppliers.

• (1610)

Mr. Brian Masse: No, I know, and they do actually go back and forth, so I don't disagree with that, but let's be real here. Detroit has over-performed all of Canada for auto investment over the last number of years. Those are just the raw numbers. Especially in OEM manufacturing, our trade numbers are disproportionately dropping for the cells.

You're right that there's some really good news and there's some stuff happening, but I want more.

Mr. Flavio Volpe: I'll agree with you there. I want more too.

Mr. Brian Masse: Fair enough. Thank you.

The Chair: We'll end on that note of agreement. Thank you, Mr. Volpe and Mr. Masse.

We'll turn for five minutes to Mr. Fast.

Hon. Ed Fast: Thank you very much.

I want to return to a comment that Mr. Fillmore made, reinforced by Mr. Nathaniel Erskine-Smith, that somehow lithium carbonate is effectively useless for the EV battery industry. That's just patently false. If it's battery grade, it is highly useful, so much so that a Chinese company is paying a billion dollars for it.

I would note that Benchmark Mineral Intelligence, which is the world's leading reporting agency and market intelligence publisher for the lithium ion battery industry, said this, as it was reported in Reuters: "Prices of lithium carbonate in China jumped to a record high...in December driven by strong demand from manufacturers of the batteries that power electric vehicles".

That's from BMI, the industry reporting agency. It's pretty clear that the Chinese knew what they were picking up.

Dr. Wark, I was intrigued by the comment you made that government explanations for not doing a national security review are "wholly unsatisfactory". I hope I got that quote right. Could you expand on that?

Dr. Wesley Wark: Mr. Fast, I'll quickly provide an answer and hopefully accurately reflect on what the parliamentary secretary said to the committee yesterday; presumably, you'll hear more of the same tomorrow from the minister and his officials.

First of all, the point was made that this was lithium carbonate production in the pilot project that Neo Lithium was running in Argentina, not lithium hydroxide, and so it was irrelevant, which has been very much contested, including in your remarks and in remarks by other experts.

Second, there was the notion that this was really an Argentinian mine. It was an offshore resource, and so it was hard for the government to see its relevance to Canadian national security. Those kinds of considerations, it seems to me, were also raised by Mr. Volpe in his remarks. I would just reference the fact that I think everyone involved in this conversation about critical minerals in particular is in agreement that Canada needs to up its game in terms of creating a critical mineral industry capacity and a lithium capacity in Canada, which we currently don't have. It's very hard to see how you're going to do that by allowing a Chinese company to take over

a very promising development by a Canadian company in terms of technology know-how and intellectual property.

Who knows what the future might be? I think Mr. Volpe himself mentioned the word "potential". It seems to me that this has to be part of any national security review. It seems we didn't, I don't think, give any consideration to the future potentiality of this company in terms of its previous track record and how that might apply to Mr. Volpe's determination that the only thing that matters is local, local, local. Well, we don't know what the future of Neo Lithium might be in terms of its future ability and its future activities in Canada, but apparently we just ruled that out because at that moment it had an overseas asset.

I think those were the main points the parliamentary secretary made, to my understanding. I just find it hard to believe that they really hold water unless we had engaged in a much fuller review and consideration, including... As I said, Mr. Fast, I think it's very important to think strategically, to think long term, to understand the complexities of these transactions, and also to apply what I call a "net assessment" approach—that is, you take what your interests are and you consider them, and you take what the interests of foreign direct investment might be as a strategic calculation, and you combine both. I don't think we gave sufficient thought to why it mattered that a Chinese SOE was acquiring this asset.

• (1615)

Hon. Ed Fast: Thank you.

How much time do I have, Mr. Chair?

The Chair: You have 45 seconds, Mr. Fast.

Hon. Ed Fast: I have a quick question for Mr. Tsafos. How much lithium is being produced in the United States today? Do you know?

Mr. Nikos Tsafos: I do not know the answer to that question off of the top of my head. I'm sorry.

Hon. Ed Fast: It's my understanding that there's not a lot of lithium being mined in the U.S. There's none being mined in Canada yet. Mr. Volpe is suggesting that because we would source it outside of the CUSMA partners, it's somehow going to be offside with our rules of origin. He and I can probably contest that, but I don't want to spend more time on it.

You also asked what the ultimate threshold is at which we say no. It was your rhetorical question: "What is the ultimate threshold at which we say no?" Do you have an answer to your own question?

The Chair: Answer very briefly, Mr. Tsafos.

Mr. Nikos Tsafos: By the way, very briefly, I looked it up while you asked. The U.S. does not publish the number for lithium. It's withheld for confidentiality reasons, but it's very small.

For the threshold, the way I would think of it is we have a lot of well-established tools that we've used in other industries about industry concentration, diversification and measuring the share of the top three and the top five suppliers. We have a lot of different ways to think of criticality in this sector, especially as we look to a rapidly growing sector. You can't look at a resource today and say, "Well, it's not material", because frankly, every resource that we have is going to have to expand tremendously over the next 10 to 20 years.

We need to apply a bit more imagination to visualize what this world is going to look like. We can't just look at 2022 and prejudge too much the importance of these assets for the future.

The Chair: Thank you, Mr. Tsafos. That's all the time that we have.

For our last questioner, we have Mr. Gaheer.

Mr. Iqwinder Gaheer (Mississauga—Malton, Lib.): Thank you, Chair.

My questions are for Mr. Volpe.

First, Neo Lithium's own November 2021 feasibility study observed that battery cell manufacturers are planning capacity investments closer to where the automotive manufacturers are located within North America and Europe.

Is it preferred by the Canadian industry that battery cell manufacturers are planning to stay close to auto manufacturers?

Mr. Flavio Volpe: It's just the function of the way the business runs. You don't increase costs by putting your biggest components so far away that you'd eat your profits in transporting them.

Mr. Fast plays fast and loose with rules of origin, but he and I spent a lot of time around the table at the TPP in those negotiations, and those rules of origins are in place for a reason. They define what that asset is in terms of tariff eligibility, and you want it close, Mr. Gaheer, because it then becomes defined as North American and you don't have to charge a tariff as you try to sell that vehicle in a really tough market.

Mr. Iqwinder Gaheer: In line with what you're saying, the same study suggests that local lithium sources in North America are preferred by manufacturers because they cut down on lead time and freight costs and minimize default risk. These are increasingly important, given the limited shelf life of lithium hydroxide.

Do you agree with the assessment that local lithium hydroxide from hardrock resources is what will be critical to North American manufacturers and battery manufacturers?

Mr. Flavio Volpe: Forget my opinion. Why don't we look at the investment decisions of the major automakers in North America, who are committing to generational investments in battery electric vehicle production throughout North America? That includes Mr. Masse pointing out "very close" in Michigan. There are no lithium deposits in Michigan. They're all north of Michigan. Why do you want to make cars in Michigan? You want to be close to that capacity.

Despite the fact that Professor Wark doesn't like the word "local", the fact of the matter is that on the ground, this is how those

investment decisions are made. This is why Mr. Masse is saying we have to be careful and we have to watch out that the Americans don't eat our lunch; it's because the Americans are obsessed with local. In fact, they've invested hundreds of billions of dollars into local because their customers are local.

A lot of this theory that we're looking at in terms of what should or could be there for a national security review doesn't happen in a vacuum; it happens tested in the market. Who drives the market? Right now, the American consumer drives the market and the American government drives the market, and we serve it in Canada.

• (1620)

Mr. Iqwinder Gaheer: My last question is based on something that Mr. Wark said. If it's so economically unfeasible for Canada to access this resource for the purposes that we need, why would China be interested? Geographically they would be just as far away from Argentina, if not farther.

Mr. Flavio Volpe: Mr. Tsafos has alluded to it. You know, there is a great interplay between energy resources around the world, and our reliance on the types of critical minerals that underpin batteries and their deployment in both transportation and utilities as well as in other areas overlaps really well with China's global ambitions. China's global ambitions in Central America and South America are the subject of many public studies. Their investments in infrastructure in those regions would probably benefit from the acquisition of a lithium mine there. Also, the export and foreign direct investment objectives of Chinese automakers into those regions that have less disposable income and that could accommodate Chinese-produced vehicles at lower costs with lower customer expectations of range and durability make lithium more viable in Argentina than it would be in New York or Ontario, or for that matter in Coahuila.

Mr. Iqwinder Gaheer: That's great. Thank you.

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

That concludes the time we have for questions.

I wish to thank all of the witnesses, on behalf of the committee, for taking the time to speak to us this afternoon. It's much appreciated. Thank you very much for that. We might hear from you again in the future.

Before we adjourn, I would like to ask the members to stay on for a few more minutes. There's a bit of committee business we need to take care of: I'm hoping that the committee wishes to adopt the subcommittee report that's been distributed by the clerk. I was promised that everyone was on board. I hope that's still the case.

Oh, no—I see Mr. Erskine-Smith with his hand up.

Mr. Nathaniel Erskine-Smith: Rather than "oh, no", to be especially collegial I'll just say I move that the committee adopt the subcommittee motion and that we proceed with the schedule that we've set out there.

The Chair: Go ahead, Mr. Lemire.

[*Translation*]

Mr. Sébastien Lemire: Thank you, Mr. Chair.

I would like to say something that I should have said earlier, when the full version was sent to the members of the subcommittee.

I would like to include the issue of processing in a mining region to motion 4, the one dealing with critical minerals. It could be included under the third point. Then, the witnesses whom we are going to invite will be able to discuss it.

In my view, the issue of processing is key. The witnesses said so too a little earlier, when I asked them about it.

Basically, I agree with the rest of the motion and I will be very happy to vote for it.

The Chair: Mr. Lemire, from what I can see, no one has any objection to your proposed amendment. However, I will ask for the clerk's advice.

Mr. Clerk, can we proceed in such an informal manner? It seems that we can.

Since silence implies consent, I am advising committee members that the report from the subcommittee is carried.

(Motion agreed to)

The Chair: Thank you.

[*English*]

Thank you, all. The meeting is adjourned.

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