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Chair

Mr. Brent St. Denis

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•(1535)

[English]

The Chair (Mr. Brent St. Denis (Algoma—Manitoulin—Kapusking, Lib.)): Good afternoon, colleagues. *Bonjour, tout le monde.*

I would like to call to order this November 4 meeting of the Standing Committee on Industry, Natural Resources, Science and Technology.

Our principal witness, Mr. Anderson, has been delayed, but that fits in with my suggestion for you anyway. I would propose we take the first 10 minutes of the meeting just to have members, if there is a consensus to do this, state without debate or discussion what they think, and in a few words how they would see the business of the committee, outside the legislative program.

We will have the Competition Act coming to us in the next short while. The Stats Canada bill on the census will come to us. However, there will be times when we are not preoccupied with legislation that we will want to continue the important work we have already started in our briefings.

Is there consensus that I ask members, in any order they wish, to make a very brief one-minute statement of how they see the study side of our work unfolding?

Does anybody want to make a statement?

Mr. Werner Schmidt (Kelowna—Lake Country, CPC): I am quite prepared, Mr. Chair.

The Chair: We'll let Mr. Anderson catch his breath.

Mr. Werner Schmidt: Oh, I am sorry.

The Chair: We will take a few minutes just to do some business, Mr. Anderson, and allow you to catch your breath.

Mr. Werner Schmidt: Make sure you take a deep breath.

Thank you, Mr. Chair. I think it is good you are approaching it this way.

I would like to suggest we deal with the smart regulations in particular. But also, I think we could easily combine that kind of study with the energy situation, because recommendation number five in *SMART Regulation* refers particularly to the integration of regulations between the two countries. It deals with three areas there; it deals with energy, agriculture, and food. I know the committee is concerned about automotive; it fits in there as well. I think already we have a base in the smart regulations to deal with that. That is a very big area.

If we wanted to specialize, we could go in and become very specific. We could deal with recommendation number 66. It is one paragraph that deals specifically with the Mackenzie Valley pipeline, the regulations, and the environmental approval process that has to be gone through.

These, I think, are really good subjects for this committee to deal with in some depth. It would be good for all of Canada, east, west, and central.

The Chair: Thank you, Werner. I appreciate your being right to the point.

Denis, will you offer something equally short, equally concise, as usual?

[Translation]

Hon. Denis Coderre (Bourassa, Lib.): I fully agree with my colleague: the issue of smart regulation is an important one. I also agree with him regarding the three subjects he mentioned. However, I would like to propose a one-two punch, in the sense that this is certainly an important area, but the other area I think is absolutely critical relates to our overall industrial strategy.

We have talked about competitiveness, productivity and protection for working conditions. As Werner suggested, we could work on those issues initially. I personally would be in favour of a slightly larger umbrella, with special focus on two subject areas: the one he suggested and Canada's industrial strategy.

We are quite concerned, particularly in relation to the matter of foreign ownership, about Investment Canada and the need to review this whole area. Based on the questions we have been asking, there are some more immediate issues to look at, like the status of the textile industry. So, I think we could go with a one-two punch: Canada's industrial strategy, and smart regulation, as it relates to a particular context, such as my colleague from the Conservative Party was suggesting.

[English]

The Chair: Thank you for your brevity.

Next is Paul, then Brian.

[Translation]

Mr. Paul Crête (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, BQ): Yes, I think we've already begun to give some thought to the issue of our industrial strategy. We could have a meeting in the next little while to share our views. Then we might want to ask the ministers responsible to come before the Committee to talk about these things. I don't want to rule out any of the four themes that have been put on the table so far, because we may well come up with recommendations that would cover all these subject areas.

Basically, because the world is evolving, we are really looking at how the economy and economic players are adjusting to the situation. To that end, I believe we must continue to think about these issues as a group, first of all, and then solicit the views of the ministers.

Le président: Excellent.

Brian.

[English]

Mr. Brian Masse (Windsor West, NDP): I think it's especially imperative to look at the Investment Canada Act. As of yesterday, China Minmetals has entered with Noranda into discussions of an exclusive nature.

The minister has encouraged this committee to bring forth a representation and would appreciate our view. As well, I think it's important that we do that before a particular case is looked at with this 20-year legislation.

I'm very supportive of smart regulations and the suggestions made around this table as a secondary thing, but I think it's very important that we get into the Investment Canada Act as a priority first and then move towards other business.

The Chair: We're talking of just one-minute interventions.

Serge.

[Translation]

Mr. Serge Cardin (Sherbrooke, BQ): Thank you, Mr. Chairman.

[English]

The Chair: At the moment, it's without debate. Just lay out your opinion. Thank you.

[Translation]

Mr. Serge Cardin: I want to comment on natural resources and energy policy. I know we will be discussing these things shortly. I cannot presume to know what is going to be said, but I do think that our energy policy is quite an important issue in the continental context. There is also the matter of Canada's energy policy, which we are also working on. We could try and put all these things in perspective, to get an idea of how far along the working groups have come and what direction they're moving in. Energy management is becoming increasingly important, and we can also consider it from the perspective of the Kyoto Protocol. I know we will be discussing that this afternoon, but my feeling is that it would be worth devoting a couple of extra meetings to a discussion of energy policies.

[English]

The Chair: Merci, Serge. Again, I really appreciate the short interventions.

Next is John, then Andy.

Mr. John Duncan (Vancouver Island North, CPC): I'll be short as well. I'm not disagreeing with anything that's been said.

I'd like to reinforce that the Canadian advantage, the real asset we've had for a long time in our industrial sector, has been our energy supply and the fact that it's been quite economically efficient for Canada. We have the potential to lose that advantage, which affects every other industry in the country.

A country without an energy strategy, particularly in Canada's position, is a country that is badly in need of one. I think this committee would do well to focus in that area.

• (1540)

The Chair: Thank you, John.

Andy. Just take one minute, Andy, if you would.

Mr. Andy Savoy (Tobique—Mactaquac, Lib.): I would say there are two priorities in my mind. One of them, of course, is Investment Canada. I agree with Brian it's one of the most challenging issues facing us right now as a country, and one of the most critical decisions we will have to make in the coming months will definitely be that concerning Minmetals. I don't know the avenue or the vehicle to do it, but I agree it has to be a top priority.

Second, I would like to talk very briefly about the umbrella concept of our pulling in smart regulations in textiles, and talking about skilled labour, talking about off-shoring and outsourcing, and somehow looking globally at Canada's competitiveness in the world—our place in the world—and where we're going as a country in terms of our businesses, both services and manufacturing, and our competitiveness around the world.

Those are the two things I would propose. One is the Investment Canada Act, and two is an umbrella to look at a number of these issues, which I think can fall—even energy, to some extent—under the subject of our competitiveness, and to create a blueprint moving forward.

The Chair: Colleagues, unless somebody has a burning opinion, I'm going to take from this that we virtually have a consensus, and unless before the meeting is over you disagree with me—because we're going to go to the witnesses now—I'm going to try, with our researchers and the clerk, to phrase something that responds in a positive way to all the interventions. I think there is support around the room for some kind of umbrella approach under which we can accommodate all the good ideas here.

I'll let you mull that over between now and near the end of our time together, and if I see no dissent, I'll try to phrase something on our behalf. Then, as Paul suggested, when we come back, the first meeting might offer a good round table time. We may or may not have witnesses. We'll see.

With that, then, I'm going to thank Mr. Anderson for being here with his officials to help us with the fourth piece of our opening round of briefings. I won't repeat what the other three were. They're on the record, but this fourth one was an early attempt to put energy and the climate change or energy and Kyoto issues together. They may or may not end up together when we're all done, but that's where we've started.

We thank you, Mr. Anderson, for being here and we invite you to speak for the time you feel is appropriate. For these briefings we've gone beyond the normal time.

Mr. George Anderson (Deputy Minister, Department of Natural Resources): Thank you very much, Mr. Chair. I'm very pleased to be here. This is the first time I've met this new committee. Our department used to be bunched with other departments or other issues, and we're very pleased to find ourselves now in this committee, which deals with a series of economic issues—which seems to be a very good arrangement.

I want to say before I start that I bring the greetings of Mr. Efford. He looks forward to meeting the committee in due course, and he's instructed all of us in the department to work closely with you and be responsive to you.

I have some colleagues with me, who I will quickly introduce. Mr. Phil Jennings is the director general for the oil and gas branch. Margaret McCuaig-Johnston is the assistant deputy minister, recently arrived from the Department of Finance—we all had to work somewhere, didn't we? She is the assistant deputy minister for programs and technology. Also with us is Mr. Frank Des Rosiers.

[*Translation*]

I should point out that Frank's participation this afternoon is quite exceptional, because his wife is expected to give birth around 5 or 6 o'clock tonight, if I'm not mistaken. But he still wanted to be here.

[*English*]

The Chair: Feel free to leave if you need to.

• (1545)

Mr. George Anderson: And then, depending on where your questions take us, I have a series of other colleagues here. Perhaps I will introduce them if and when they are called upon to speak.

With your indulgence, Mr. Chair, what I thought I would do is take you very quickly through a package we've prepared that gives you a little bit of an oversight. I appreciate that your main focus is to be on energy, but I thought, given this is the first opportunity to meet the committee, we might give you a bit of an oversight of the department and some of the broader issues.

I'll move through this quickly. A lot of it is material you can read at your leisure, and then of course we'll be open for questions.

The package that's in front of you—I assume everybody has it—is divided into three parts: the importance of the natural resource sectors for Canada; some material just about the department, to give you some basic bearings about the department; and then finally, an overview of some of the policy issues we're dealing with.

You're familiar with the importance of the energy, forest, mineral, and metal sectors in a variety of ways—environmental, social, and

economic—and you can see that laid out here. They play out globally, continentally, nationally, and locally.

These are all issues in which we're involved. They are cornerstones of the Canadian economy. People sometimes talk of these industries as being the “old economy”. It may be old, but it's robust. It remains about 13% of the Canadian economy, and it's really one of the cornerstones of the Canadian economy. Much of the rest of the Canadian economy—a lot of those glass towers in cities—are built on these industries.

You can see just how important it is for the private sector, with 38% of our private-sector investment, when you exclude housing, going into these sectors. Energy obviously dominates, but forestry and minerals are important in that regard as well.

You can also see the size of their employment. There are over a million Canadians who work directly in these sectors, not including those who work indirectly through service industries and so on.

They are very important for our exports. One of the reasons the dollar is up is that commodity prices are up. In 2002, 38% of our exports were in these three sectors, as you can see, but we are also big importers, particularly in things like metals that come into Canada, but also energy. We import a lot of oil into eastern Canada and export oil into the centre of the continent.

It is a big part of our balance of trade. We had a positive trade balance of \$68 billion in 2002. Those numbers will be higher with this year's prices. You can see that's one of the reasons why Canada has a large surplus on our trade account.

You can also see the importance of these industries in terms of foreign investment in Canada, but also increasingly in terms of Canadian investment abroad. It may surprise you to see how similar those numbers are. We think of a lot of foreigners investing in Canada, but these numbers are quite similar in terms of the Canadian investment abroad.

That's one of the big changes over the last 15 or 20 years: the growth of Canadian foreign investment in these sectors abroad. I was speaking to a group this morning about Canadian mining investment in Africa. We have over \$5 billion of Canadian mining investment in Africa. We're in 37 countries there. Over a million barrels of oil are being produced by Canadian companies outside of Canada. The mining sector now invests more outside of Canada than in Canada. You can see some of those numbers there.

Our view is that Canadians benefit a lot from the investments in these industries that are being made outside of Canada, as well as from the investments that are made here. A lot of Canadian jobs are associated with these investments around the world.

[Translation]

Page 8 shows you where our natural resources are found. I'm sure you're familiar with this, but you can see just how important these investments are. Energy is especially important for Alberta, which is in a very favourable position, compared to just about every other jurisdiction in the Western world. We have a significant level of production elsewhere in Canada as well. Forestry operations are in place across the country. The same applies to the minerals and metal sector.

I should also say that there is significant production ongoing at this time, as well as another level of exploration in the mining sector in the far north. This year, diamond exploration has outstripped base metal exploration. This is occurring mainly in the northern region of the country.

Because of the location of these industries, they are a significant source of employment for members of Aboriginal communities. In terms of sustainable development for these communities, if we're looking for a significant economic base, then it is very often in these industries that it can be found. What you have in front of you is a very broad overview, but the idea is simply to remind you of the importance and nature of these industries.

I now want to move on to the role and nature of our Department, starting on page 11. As you know, jurisdiction over most of natural resources in Canada rests with the provinces. The provinces own the resources, with the exception of our borders and what are known as Canada lands. So, we have a formula for sharing jurisdiction—for example, in the area off the coast of Newfoundland and Nova Scotia. We also own land in the far north and have a special role to play with respect to the nuclear industry. So, jurisdiction is shared, but the provinces typically have a more significant role in the field.

Having said that, the federal government and our Department have a number of important activities. The schematic on pages 12 and 13 gives you a good idea of what our role consists of. Our primary role at the federal level has to do with providing national public goods. In science and technology, and in every section of the Department, we have a large network of laboratories. Much of our funding is expended in that area. We also have a knowledge infrastructure—for example, relating to Canada's geology and containing important information for the country's protection and security.

Second, we play a very important role in representing Canada abroad in the context of discussions regarding our resources. We also play a role with the provinces in terms of coordinating issues. I can

say more about this later, if you like. We are involved in a great many discussions, as well as a number of working groups with the provinces. We have a more direct role to play in the far north, as I have already mentioned.

• (1550)

[English]

If you look now on page 14 at the budget of the department and our portfolio, you'll see our portfolio includes, in addition to the department, two major regulatory boards, the Canadian Nuclear Safety Commission and the National Energy Board. We have the Northern Pipeline Agency, of which I am the commissioner, which is now doing some work; that's the agency that was set up in relation to the Alaskan pipeline, coming back into the news. We are also the portfolio within which you have Atomic Energy of Canada, which receives, as a crown corporation, some appropriations, and Cape Breton Development Corporation, the activities of which are pretty well wound up, but it still has some outstanding financial needs. That gives you an overview of the portfolio. The department is about 80% of the portfolio.

On page 15 you see the allocation of the departmental part of the money. Something over half goes to the two energy programs within the department. Earth sciences is a very big sector in the number of people, as well as the forestry service. Then we have quite a significant number of people on metals and minerals, but there is a relatively modest budget from that side.

If you break it down by the kinds of things we spend money on—I was mentioning the importance of science—our big money typically goes to our labs and our science programs, but what you are seeing here under other transfer payments, particularly with the growth of the climate change programs, is that we now have quite a significant number of programs related to energy efficiency, renewable energy forms, things of that type. Some of those will involve grants and contributions. That's what you're seeing in that corner of the pie on page 16.

The statutory payments relating to Hibernia represent a remnant of the deal that was done on Hibernia. In fact, because oil prices are as high as they are, we expect we will be paying rather less than what you are seeing there, and I think we may be towards the end of those payments.

The other thing that is interesting for you to bear in mind as you think about this department is how much of our money is sunsetted. The department was quite substantially cut back during program review in 1993. Since then, particularly in the area of climate change, there has been a growth in program money, but most of that money has come to the department for periods of three to five years. Those are called sunset programs. They create their own issues in respect of management. As a department, we are a bit challenged to have that large a part of our budget in that form.

That's a very quick overview of the financial picture of the department. I hope this is an appropriate introductory briefing, Mr. Chair. I am trying to move with some speed here.

Now I turn to some of the issues we are facing in respect of policy in a very general way. Page 20 is a schematic that gives you a broad sense of the kinds of issues we're dealing with. Resource access and availability is a very important issue for development resources. Can people get at the resources? Obviously, prices and exchange rates are significant for the underlying economics.

Market access is a big issue for us in the area of forestry products in the United States, as you know—you have been following the softwood lumber file, I am sure—but also in some parts of the minerals and metals business, particularly in Europe, but in other countries as well. There are upgraded forestry products going into China.

Global resource demand is a big issue. Where are we going in the longer term with oil markets, and what does that mean for energy security over time? Where are we going with the growth of liquefied natural gas?

There are international competition and labour issues. Particularly in a province like Alberta, which is going on all eight cylinders at the moment, there are real issues about labour supply and cost control. That will also be a big issue as we move forward with the Mackenzie Valley pipeline and the Alaska pipeline in the north, where you have a small local labour market.

• (1555)

[Translation]

On page 21, you can see the kind of variations that have occurred in terms of exchange rates and commodity prices. At the present time, after a long period of fairly stable or declining prices, we are now in a phase where commodity prices are on the rise. People think that there is a circular movement involved here, and that in the long term, there will be higher prices; but one never knows. We're also dealing with a higher Canadian dollar.

As you can see, demand from countries such as China, Brazil and Russia is putting pressure on these markets. That is one of the reasons why the price of oil is so high now.

In order to increase the competitiveness of these sectors, you have to know how. I already referred to the old economy earlier, but this is also part of the knowledge economy. All of these industries have leading-edge technologies. They pay very well, and many of their experts work in these markets. We have always said that if we're talking about a policy to foster inventiveness within the Canadian economy, we must see these industries as being central to that kind of thinking. That is true for resource development, but also for value added, and market development.

It is important that there be a supportive environment for these industries. As for the fiscal component, you have already referred to smart regulations, science and technology, and market access. At the highest level, these are components of our policies. Strategic investments in science and technology are critical to achieving our goals with respect to competitiveness and sustainability. This is something our own laboratories are working on, but where the industry is also focussing its efforts.

If you refer now to page 25, you will see that total private sector R&D expenditures are fairly stable or declining. To a point, this is a

concern we all have, especially in relation to the need to transform energy-related technologies. There is not the same R&D intensity in these industries as is the case for the telecommunications sector. Having said that, they all have a high dependence on leading-edge technologies.

On page 26, we talk about the role we can play in this regard.

• (1600)

[English]

To turn now to some of the key policy issues, energy and the environment I know is a central concern of yours, and of course it is of ours. There's been quite a significant change in the energy policy context.

The Chair: Are you going to touch on the Kyoto side of things too, Mr. Anderson?

Mr. George Anderson: Yes, I'm now into the policy area.

The Chair: Thank you.

Mr. George Anderson: In fact, you'll see right there on page 28 the words "climate change". This is becoming a central issue for energy policy-makers around the world. I was at the world energy conference in September, and that was the major theme, sustainable energy policies, with a particular focus on climate change. But we're also seeing with the newer high prices increasing concerns about supply and security issues. There are other environmental issues concerning the local footprint of industries, and we have some of those issues here in Canada. There are price concerns. One of you mentioned already the concern about what price might mean for the competitiveness of other industries as we go forward. In Canada we're very aware that we now have a largely integrated energy market with the United States, so as we think about energy policy, it's very important to bear that in mind.

What you'll see on page 30 is a list of current issue areas, all relating to energy, security, and supply. I won't take you through them all, but there are a number of pipeline, offshore, and electricity issues. We can come back to those if you like.

As we get onto page 31, a lot of the initiatives described here are very much a part of the measures the government has announced in relation to climate change. They're looking at new technology, renewables, next generation nuclear energy science and technology.

We have a series of major initiatives to reduce greenhouse gas emissions in all sectors of the economy—again, you'll see a list here, and we can take you into more detail—in the building sector, transportation, emerging renewable electricity, the industrial sector, etc.

The government has made a series of announcements over the last few years of measures to address climate change, and about 75% or 80% of that money ends up coming to our department for actual programs in the energy area, because that is where most of the problem lies.

Obviously, in the longer term a solution to climate change includes significant developments to support new technology. We are doing a good deal of that as well, and the federal government, in addition to putting money into our labs and the programs we have for cooperation with other partners in Canada, created Sustainable Development Technology Canada, which now has an endowment, I think, of \$550 million to make investments in this area.

We have had some recent successes. There are emissions from flaring of gas.

[Translation]

In the oil sector, they have dropped by over half since 1996. We have also focused to a large extent on forestry management, in order to arrive at a certified forestry management scheme. That is part of our renewable forestry management policy.

[English]

In the mining industry we have made great progress in relation to toxic metals and so on. We have a series of challenges to face there as well.

That is my introduction, Mr. Chairman. I don't know if it covered the ground you wanted, but we are well equipped, with the people we have here, to start responding to your questions.

• (1605)

The Chair: Thank you, Mr. Anderson.

We are going to start with John Duncan.

Mr. John Duncan: Mr. Chair, I'm going to split my time, and I've written my question as best I can so that I will minimize my time.

In an era of smart regulation, how can the government, under the umbrella of Environment Canada, proceed with a marine park proposal on the west coast that would pre-empt oil and gas exploration and development prior to lifting of the west coast moratorium, and what is NRCan doing about that?

Mr. George Anderson: There's always been a policy of designating lands for different purposes. As you know, we have marine parks, for example. Before marine parks are identified, there is an elaborate process to determine whether or not there is longer term oil and gas potential and what the balance of public interest is between the resource potential and the natural ecosystem qualities etc. On this particular question we are in consultation with the provinces. Mr. Jennings could speak a little further to the state of it, but I would just make the point that there's nothing contrary to smart regulation in every now and then designating some land for a purpose other than oil and gas exploration.

Mr. Philip Jennings (Director General, Energy Policy Sector, Department of Natural Resources): I can comment further.

I'm not sure if you're referring to the marine parks being proposed by the Department of Fisheries and Oceans, but we have been in discussions with them. There's also recently been a memorandum of

understanding between the Government of British Columbia and federal departments to hold consultation on any designation of marine parks in the B.C. offshore. There were recently some public hearings on the question of the moratorium, and the question of marine protected areas was brought up as one of the key aspects of the review. So in essence, if activity does ever occur in the offshore, it's which areas would be essentially off limits or under more stringent conditions in terms of allowing activity to occur.

Mr. George Anderson: We're expecting the report by way of the public consultations to be out very shortly.

The Chair: Mr. Schmidt, did you want to take over?

Mr. Werner Schmidt: Yes, please. Thank you, Mr. Chair.

Thank you very much, gentlemen and ladies, for appearing. It's really good to have you.

I'd like to refer you to page 23 of your presentation. In particular, it summarizes very well what my concerns are—what our concerns are. It has to do with the overlapping and disjointed regulatory requirements. If my memory serves me correctly, I think as deputy minister you also serve another role, as Northern Pipeline Agency commissioner.

Mr. George Anderson: Correct.

Mr. Werner Schmidt: So you're very familiar with what's happening in the Mackenzie Delta and so on.

Mr. George Anderson: I am, but just to clarify, the Northern Pipeline Agency only deals with the Canada-U.S. agreement for the pipeline across Alaska. It does not apply to the Mackenzie.

Mr. Werner Schmidt: Okay, but you still wouldn't be unaware.

Mr. George Anderson: I'm very much aware.

Mr. Werner Schmidt: You would still know something about the overlapping and disjointed regulatory requirements and the steps that need to be taken to "ease this regulatory congestion", using your words, "without compromising social environmental goals". My specific question is what are the kinds of things that should be done, that could be done, and that this committee could study and help with in the removal of the overlapping and the congestion and the conflict sometimes of the regulatory requirements?

Mr. George Anderson: Are you asking about the Mackenzie Valley in particular, or more generally?

Mr. Werner Schmidt: I'm asking the general question first because I think it will not only apply to the Mackenzie Valley, but it applies to a variety of areas.

Mr. George Anderson: This is a priority for the government. It's been made very clear. When you have the opportunity to meet with Mr. Efford, you'll certainly hear from him that he's made it clear it's a priority for him. He's hearing a lot about these issues with the industry. In the Speech from the Throne the government made reference to this, and in particular to getting its own house in order on consolidating federal environmental assessments and working with the provinces and territories towards a unified and more effective assessment process for Canada.

On the Mackenzie Valley we had one process to try to help ensure that the regime there would deal adequately and quickly with the project. We're also doing something on the east coast. Then I'll come back to some more of the generic issues. With respect to the Mackenzie Valley, the claims agreements that were done, and they were really a necessary condition for permitting the opening up of the gas development in the delta, did result in a very complex regulatory regime where each of the claims groups has their own regulatory role. They're now constitutionally protected. What was done was to bring all the regulators together—federal, territorial, and aboriginal—and to work out a cooperation plan, which everybody has signed on to, that includes timelines for managing this project.

We're keeping a very close eye on the critical path that was laid out under that cooperation plan. There were announcements made by ministers about resources that are being provided to the various regulators in the north to ensure that they have the adequate—

• (1610)

Mr. Werner Schmidt: With all due respect, Mr. Minister, the question is what can be done now, because the statement you made here is that there is still... You're not telling about what has happened. What can be done now to do the job, and how can this committee help you in fixing that problem? That's really the question.

Mr. George Anderson: I don't know to what extent this committee is going to look at how we do environmental regulation. We are a regulated department. Our industries are regulated by the Department of the Environment, by the Department of Fisheries. We've been working, for example, with the Department of Fisheries on a new approach to habitat regulation, which is designed to be much more focused with a risk-based approach to regulation. You put the resources where you think there is a relatively high risk and also a possibility of significant impact. The Department of Fisheries, working with other federal departments and the provinces, is actually doing quite a fundamentally new approach to how they manage habitat. This has been one of the major areas where there have been difficulties.

I just mentioned what the Department of the Environment is planning to do. It's planning to consolidate the environmental assessment processes. So there are many issues there.

On the Atlantic east coast, in the offshore area, we've been looking at the issue of getting more concurrency in our regulatory processes. One of the problems we found was that some regulators were waiting for other regulators to finish their business before they started. What we're getting is the regulators working simultaneously so that the timelines are accelerated. Ministers will be signing a memorandum of understanding on that very shortly.

We are working on a number of other specific areas in the Atlantic offshore. We're looking at the issue of what are called less prescriptive types of regulations and more—what's the term—

Mr. Philip Jennings: Performance-based.

Mr. George Anderson: — performance-based types of regulations that give more flexibility to industry to use modern technology as long as it meets the performance standards that are being indicated. So that's another area of work where we have a study underway. There are a whole series.

This area of regulation is obviously very broad and complex, so typically what we do is pick issues that are priorities and work on them. We just had a meeting this week at the ministerial level with the Atlantic Energy Roundtable, which announced a number of things and indicated further work to be done. But there are these broader cross-cutting issues, such as how do we do environmental assessments, how does the Department of Fisheries do habitat? And there we're working with them. It includes some of these kinds of concepts—risk-based, performance-based, concurrency. If they get integrated—and if you look at the smart regulation report, you'll see some of those types of concepts—all of those are the kinds of things that should permit us, in terms of protecting standards of environmental protection, to have an equally effective but lighter, quicker, more responsive, more transparent type of regime.

• (1615)

The Chair: Thank you, Werner.

Bernard Bigras, please.

[*Translation*]

Mr. Bernard Bigras (Rosemont—La Petite-Patrie, BQ): Thank you very much, Mr. Chairman.

I would like to come back to the purpose of our meeting today, which is to discuss the Kyoto Protocol's sectoral negotiations. What I have been trying to find out thus far—and I guess you will be able to shed some light on this—is whether the Canadian government has made a decision regarding the approach to take with respect to restrictive targets for large industrial emitters.

I have been reading the quite substantial and interesting information you have been posting on your Web site since 2003, asking Canadians and interest groups about the approach they favour. First of all, have you decided to go with an enforcement approach, using regulations? And if so, what is the status of those regulations? Are you still working on them or have they come to Cabinet? What stage are we at with them? And is this the approach you have decided to take?

Mr. George Anderson: The basic blueprint of the approach that has been announced is there, but the government is currently looking at the different aspects of that approach. No final decision has yet been made in that respect. We have made a lot of progress in our technical discussions with the industry as to how such systems could potentially operate. We have a much better understanding now than we did a year ago of the competitive situation of each of the sectors, which technologies are relevant to their performance, and so on. But so far, the government has made no final decision as to the approach it favours.

Mr. Bernard Bigras: Mr. Chairman, in the Deputy Minister's view, things are progressing well and progressing quickly. And yet in April of 2003, the Deputy Minister who appeared before the Committee—I believe it was Mr. Brown—indicated to us that most negotiations on sectoral agreements would be completed by the end of 2004. If I'm not mistaken, 2004 will be ending in two months' time, and I believe only one agreement has been negotiated thus far with an industry sector, namely pulp and paper. Correct me if I'm wrong.

How can you tell us that things are proceeding well and at a good pace, when your sectoral counterparts are dissatisfied with the way the negotiations have been going so far?

Last week, I met with representatives of the Aluminum Association of Canada, who provided me with some figures and stated that they are extremely disappointed with the approach you're taking. You are asking them to estimate their potential production between now and 2010. You have decided to use the intensity rule, and we certainly agree on that. However, it's important to realize that some industries, through past efforts, have managed to reduce their intensity rule. Proposing a reduction of 15% across all industry sectors will result in significant marginal costs for some sectors.

Will you consider the efforts that have been made by certain sectors, including the aluminum industry, since 1990?

Mr. George Anderson: Yes. As you know, we have stated what the general approach will be, but we have also indicated that two points in particular will be considered in these specific cases, including the impact on competitiveness. If you look at the information on the Web site, you will see some products that deal with this. We have already posted a document dealing with a possible approach in terms of recognizing past effort. We have received a lot of responses to that draft. We will soon be publishing a second document for discussion purposes with the industries. However, we have not made any final decision yet. We are waiting for the Minister to have an opportunity to review these issues.

• (1620)

Mr. Bernard Bigras: Do you intend to accept the arguments made by Hydro-Québec, for example, which is asking you to consider the efforts it has made since 1990? It makes no sense that a province, business or industry would have decided to take early action—because that is the concept you have developed—and that this would not include periods where some industries made a particular effort. It's like telling people that even though some of them may have made a special effort since 1990, that effort will not be considered.

The concept of early action is not a concept that relies on variable geometry and speed. It must involve the equity principle. And the equity principle demands that people be rewarded for past efforts. What we are asking is that the government adopt the Polluter Pays principle, as opposed to the Polluter Paid principle. I have the feeling you are leaning more towards the Polluter Paid principle, even though you have always asked the industries, and the provinces in particular, to make an effort. I am thinking especially of Manitoba and Quebec, who were the first to implement plans relating to climate change. Why will you not recognize those efforts?

Let me give you an example. Your working documents address the matter of credits to be given for hydro projects that rely on renewable energy. You intend to tell industries that use fossil fuels that if they move to renewable energies, such as hydroelectricity, they will be eligible to receive credits. And yet an industry such as the one in which Hydro-Québec is involved, the latter having decided to continue with hydroelectricity, rather than giving priority to the thermal power plant in Suroît, will not receive any credits. That's the issue here. It's a question of fairness. If we want to encourage fairness, we should be providing credits to those who are prepared to make an effort.

The Chair: Thank you, Bernard.

Mr. Anderson.

Mr. George Anderson: Thank you, Mr. Chairman.

None of these is a simple issue to deal with. That's the reason that very early on in the process, we presented these industries with an initial document for discussion purposes, and then a second draft.

And yet in looking at past efforts or investments by the industries, it is also interesting to consider why these investments were made. Were these things they could have done or would have done because it was cost-effective to make those investments at a given point in time, or were these things done to actually address the problem of climate change with the means available to them?

For example, Dupont has made significant investments in order to reduce emissions. It is clear that those investments were made for the sole purpose of addressing this problem, because it did not receive a normal rate of return on that investment. That is the kind of thing that should be taken into consideration.

You talk about fairness. Yet is it fair to treat companies who spent money to that end the same way as companies who made extremely cost-effective investments?

And there is another thing that should be considered. If we adopt an extremely broad and generous policy with respect to past investments and if we want to meet the kinds of targets we have set out, we will have to find another way of doing that. So we are seeking to develop a policy that will be equitable.

However, this issue of past investments is a complex one. Every company has its own reasons as to why the approach taken is not an equitable one. That is why we presented industry with something generic. We have made no decision with respect to Hydro-Québec or other companies.

As to your specific question about renewable energies, we did address this in the discussion documents, but no decision has yet been made. However, in the documents themselves, we looked at ways of providing an incentive to industries that go a little further than what we might have been able to expect had we simply imposed a charge for coal emissions.

Furthermore, we have talked about the possibility of providing incentives with respect to new renewable energies. So, small-scale hydro is different from large-scale hydro. Some people are saying that this is already too much, in the sense that a completely fair system will amount to nothing more than a system of taxing coal emissions, as opposed to a system of incentives.

That is something we will be discussing at a later date, but in this area, none of the issues are easy to resolve. I invite you to take a look at the rest of the arguments.

• (1625)

[English]

The Chair: Thank you, Mr. Anderson and Monsieur Bigras.

I'm allowing a little extra time on the first round because of the double nature of our witness today, the energy and Kyoto.

Denis Coderre and then Brian.

[Translation]

Hon. Denis Coderre: Thank you very much, Mr. Chairman.

Mr. Anderson, it's a pleasure to see you again. I will not be quite as specific as my colleague, Mr. Bigras. I want to take an approach that involves combining energy and industry and where we might consider a more integrated way of doing things, at an international scale. Allow me to explain.

Obviously, we're talking about the Kyoto Protocol. I like your approach to energy policy. However, I was struck by what I read on page 22, where it talks about the competitiveness of the sectors—because that is the issue we really have to talk about—and where you refer to corporate social responsibility. It is indeed fitting that you should consider that.

In my opinion, this Committee has to focus—and I believe there is some consensus on this—on Investment Canada. And in terms of Investment Canada, energy, and corporate social responsibility, we can't only be looking at what is happening in Canada. A certain trend is evident in terms of takeovers of certain companies owned by certain countries. There will need to be a debate on the potential repercussions of this for our own energy policy. I will not refer to any particular country, but simply to countries with businesses that are interested in acquiring property here. So, we will be doing some work in relation to Investment Canada.

That's my first question.

[English]

It is not political but it is about policy. We all know your reputation, Mr. Anderson. You are very candid on that.

[Translation]

Also, how is Natural Resources Canada working with Industry Canada? For example, given that the Department of Industry has to

make a decision and that this decision is within its purview, how can we ensure that your Department will work closely with Industry Canada, while at the same time adhering to the Investment Canada Act and fostering future corporate social responsibility?

Mr. George Anderson: That is not in fact difficult. At the present time, if we see that there is a possibility somewhere where there is no application, nothing would prevent the ministers or officials from freely discussing policy issues related to the problem. The legislation kicks in once there is an application. So, the Minister himself is stuck in a kind of black box where he has no opportunity to discuss the matter with colleagues. As a result, he has to make the decision himself. So, he provides advice with the assistance of senior officials. That person has the right to consult anyone he or she likes within the system regarding points to be considered. So, if there is some question of a plant closure, environmental responsibility or the location of the head office, all those matters can be discussed freely among experts. The officer responsible to the Minister within the system can report on what his colleagues have told him.

Hon. Denis Coderre: If a foreign, publicly owned company wanted to buy another company here in Canada, would you have analyzed the impact on our ability to comply with the Kyoto Protocol? For example, if that country is not a signatory of the Kyoto Protocol, broadly speaking, that will have a major impact on our ability to honour our own commitments. Have you done any analysis of this within the Department, since it is related to the energy sector? If we're talking about Canadian companies operating in the energy sector, the political impact will not only be felt at the Canadian level, because they are required to obey the law. We're talking about the global village. At the international level, in terms of our own social responsibility as a country, we must ensure that we not only obey our own laws, but that we also find a way for other countries to comply with the Kyoto Protocol.

Is there not a link missing between what is occurring at Investment Canada and your Department and the impact of such a transaction on our own way of complying with the Kyoto Protocol?

• (1630)

Mr. George Anderson: At this time, I am not aware of a case where we have done that. In fact, I am not even certain that it's part of the policy framework under the legislation. The legislation is laid out in terms of net benefit for Canada. It refers to things that will provide net benefits to Canada. So, as regards the behaviour of a company here in Canada, and the impact of that at the environmental level, where an ownership change has occurred, review of this could be warranted. We have another way of controlling these things. It is possible that with respect to a company making an investment, there would be some concern regarding the obligation to clean up and restore a mine site, for example. Under the circumstances, it would be a matter of determining whether the company had the funds to do that. That sort of thing could be included in the conditions underlying the investment.

Hon. Denis Coderre: My question really relates to compliance. The fact is, our jurisdiction is at the international level. So, increasingly, even when we talk about smart regulation, we are necessarily talking about all these things. There is an international impact.

If we want the Kyoto Protocol to be rigorously enforced, and for there to be an impact on departments as a whole, and for everyone to be required to take certain responsibilities, and if we want to do away with silos...

Mr. George Anderson: Are you talking about the potential behaviour of new buyers in Canada or elsewhere?

Hon. Denis Coderre: No, I'm talking about people from countries that do not comply with the Kyoto Protocol coming in to make acquisitions in Canada...

Mr. George Anderson: But if they buy a plant or a site here, we have ways of regulating such things here in Canada, if there is a need for that to happen. If the company making the acquisition has sites elsewhere in the world or is behaving in a particular fashion, are we talking about what it is doing in Brazil or in China?

Hon. Denis Coderre: Not necessarily China, but if you want to talk about China, I'd be pleased to.

Mr. George Anderson: No, but I also mentioned Brazil, right?

Hon. Denis Coderre: Because the problem is that we will need to have some discussion about the application of binding regulations. In that sense, if we want to find a way of being compliant, not only at the local or national level, we will also have to play a specific role and take our responsibilities at the international level.

In that connection, if we're talking about compliance with international conventions, has any thought been given to that?

Mr. George Anderson: I think it would be more appropriate to address that question to people with the appropriate expertise regarding the legislation.

Hon. Denis Coderre: I see.

Mr. George Anderson: Ordinarily, our role is to provide our views on a series of questions. The person who makes the final decision as to the relevance of all these different elements is the minister responsible.

Hon. Denis Coderre: Thank you.

[*English*]

The Chair: Thank you, Denis and Mr. Anderson.

Brian, please.

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

On the diagram on page 7 there are a couple of interesting things I want to ask about.

Looking at 1993 and then comparing it to 2001, the energy sector has had three times foreign direct investment. It is not the same as minerals and metals and forests. Could you explain why it has spiked up so considerably? Minerals and metals have doubled. It appears that energy has tripled and apparently forests are fairly constant. Can you give us indications as to why spiking in that sector is more predominant? And what is anticipated in the future?

• (1635)

Mr. George Anderson: Mr. Chair, I cannot in great detail, but if you look at the chart that looks at the total level of private investment, on page 5, you'll see that the energy sector is the big investing sector.

So I think it may have something to do with the absolute size of investments in the sector, not with what is going on relatively between the sectors.

Mr. Brian Masse: It means large investments in particular projects, then.

Mr. George Anderson: Yes.

Mr. Brian Masse: What do you anticipate in the near future? Taking off from my colleague here, I know that the Chinese foreign minister has expressed an interest in our oil industry. Have there been any other indications of other investment coming from abroad?

Mr. George Anderson: Yes. As you know, we have an open investment regime now. As I was saying, Canadian companies are big investors abroad. There has been a big restructuring.

The five companies called the super majors—there was a lot of swallowing of companies and we now have five huge companies internationally—look for what are called material investments. Internationally they are looking for the very biggest properties. So there are a few areas in Canada that interest them, but they are pretty well out of the western sedimentary basin now. They are interested in oil sands, maybe bigger properties in the north, and the bigger properties in the offshore.

There is a second tier of companies, which is where you find most of the Canadian companies. These are the big independents. We now have a number of very large Canadian independent companies, which we didn't used to have—Petro-Canada, Nexen. There is a series of them that have grown up. These are big companies. They are not anything like as big as the super majors. They have investments outside of Canada and in Canada. They have different strategies.

What you've seen at the lower level—the very small companies—is there has been a lot of consolidation of them. There is always the possibility that a foreign investor will come in and buy a major property or buy a Canadian company, just as Canadian companies are buying foreign companies. Encana recently bought a significant company in the United States.

On the general story, I don't have the numbers. We can get them for you in terms of foreign ownership of the Canadian oil and gas business. It's been fluctuating up and down, but it's not particularly high at the moment.

Mr. Brian Masse: With R and D—it's another chart on page 25—I notice it's at 0.6% for energy at the moment. How does that rate with other countries, and is that satisfactory to you? I know there has been criticism of, for example, our drug industry for not meeting its targets in R and D, and that's about the ninth percentile, if I recall correctly. You're suggesting here that right now energy is providing 0.6% of their revenues into R and D. Is that satisfactory, in your opinion, and how does that rate compared to other countries?

Mr. George Anderson: There's no easy answer, but I think our general view is that it's something that is on the watch list. It's hard to get precise comparisons, but we have had some of the private industry labs in Canada close. That being said, there are areas where there is significant research being done, particularly around things like the oil sands.

We have a consultative mechanism with the provinces and industry on a series of issues, one of which is science and technology. We are preparing a report with the provinces and industry on science and technology investments in Canada; it will include what we're doing federally, what the provinces are doing, and what the private sector is doing.

Mr. Brian Masse: Do you find that satisfactory? I think Canadians would be astonished, especially given the recent marketing of alternative fuels and newer technologies, that only 0.6% of the revenues are going back into developing strategies for sustainability. In your opinion, is that an acceptable figure?

Mr. George Anderson: The question is, who should make what investment? Our view is that we are going to need, globally, to see much higher investment in energy, science, and technology to get the transformation of technologies that we need.

You should bear two things in mind. One is that you would not expect to see, in a business like the oil and gas business—a big commodity business—the same level of R and D investment you get in high technology. A lot of their innovation in these businesses is done through capital spending, and there's imbedded technology in the capital. A lot of that technology is invested in by people who are not actually in the oil and gas business or the forestry business. They're not the owners, they're equipment providers, engineering specialists, and what have you.

Should the oil companies be doing more research in relation to oil? Arguably. Should the oil companies be doing research into renewable technologies? That's a company's decision on whether or not they want to get into that. Some of the large ones are getting into it, but a lot are saying, no, that's not our business. But there is a need for more energy R and D one way or another, and that's something we're going to see not just being discussed in Canada, but discussed internationally.

• (1640)

Mr. Brian Masse: I know the investment in R and D for fuel sustainability technology in the auto industry, for example, carries a lot of progressive benefits for all of us.

I want to switch to a different subject matter. I guess the discomfort I've had with the way things have been going is that it doesn't seem to be that there's an industrial strategy to take advantage of solar and wind technologies. I come from an area where we have an incredible manufacturing capacity and have all the infrastructure necessary, and I'm not convinced we've done even a good enough job or a decent job of making sure those two things happen. Why, for example, are we not pursuing that like we did for oil sands and fuel cell technology? Why are we not pursuing a wind strategy like that so that the manufacturing base is done here? We'd do it for our own domestic consumption and distribution, but also exportation abroad, because there could be some fantastic markets we could tap into. If

we have some great strategic locations, they can move some of those technologies quite well.

Mr. George Anderson: In businesses like these, we have always imported. Whether it's oil, gas, forestry, mines, or whatever, we've always imported a lot of technology. In the wind business at the moment, the leading companies are Danish and German. That being said, we have some companies in Canada that have important niche technologies and what have you.

As we develop our wind industry—and you've seen the announcement the government made in the Speech from the Throne—there is a question of whether that will lead to the creation of some manufacturing plants in Canada. There's a fair chance of that, and there have been discussions with some of these companies about those possibilities. They're also facing a very high euro, so they're interested in establishing a manufacturing capability in North America.

Typically, our department doesn't do industrial development in quite that way, but we are mindful of some of those issues. We keep ministers informed of the things we're hearing that could affect things such as the design of the wind program.

Mr. Brian Masse: This shouldn't be a niche market for manufacturing for our country. That's my opinion. This is an incredible opportunity that we're missing out on. What greater role can your department take specifically, in addition to what it's doing now, to ensure that it no longer is a niche and that we actually do the manufacturing and distribution here?

Thank you, Mr. Chair.

The Chair: Thanks, Brian.

Mr. George Anderson: If we got manufacturing here, it would probably be a foreign-owned company if we're talking about these big turbines. Those are the companies that dominate the big part of the business. We have some Canadian companies that have special expertise, but they are not the big builders of turbines. None of the Canadian-owned companies are in that line of business at present.

Canadian companies are amongst the world leaders in some areas of energy technology. We are big spenders internationally on hydrogen R and D. We have a significant number of companies in a whole series of areas in hydrogen. There's a lot of debate about the future of hydrogen and what strategies should be and so on.

But when you start working your way through the whole spectrum of energy technologies, do we go equally into all of them? Or do we ask, are there areas where, through good luck or good management, we have companies that have particular strengths we can build on, or where we have particular Canadian needs that are associated with the nature of our resources and can build a bit more on those? I think one of the things we have to avoid is trying to be in everything.

It's not obvious that Canada will be big in solar, although if you get down into it, we have some companies that are very good in certain aspects of solar technology. We have a company near Waterloo that is coming up with some really creative new solar technologies for shingles on roofs.

• (1645)

The Chair: Thank you very much.

Mrs. Margaret McCuaig-Johnston (Assistant Deputy Minister, Energy Technology and Programs Sector, Department of Natural Resources): If I could add something, Mr. Chairman, I was just at our lab in Varennes on Friday, and they have some very interesting research that they're doing with a number of small Canadian companies on wind equipment and components, as well as on solar panels, including panels that have a textile kind of fabric, as well as research for wind-diesel combinations in the north. If you're interested in what Varennes is doing in that area, we'd be happy to provide you with information on it.

The Chair: Thank you very much.

We're going to go to Michael Chong, and then Andy Savoy—and I'm going to be a little tighter with the times for the second round.

Mr. Michael Chong (Wellington—Halton Hills, CPC): Thank you very much for coming.

I have a couple of questions. The first is on the 240 million tonnes of greenhouse gases that were announced for reduction. What approximate percentage does that represent, below 1990 levels, or below 2010 levels?

Mr. George Anderson: What we announced was minus six, relative to 1990 for 2010.

Mr. Michael Chong: But the 240 million—

Mr. George Anderson: These numbers will move around according to what's actually happening out there, but the 240 million tonnes was calculated on the basis of what our 1990 emissions were and what we thought we would have to do to get to minus six, given our forecast for 2010.

Mr. Michael Chong: So does it represent 15% of the 2010 forecast, or 30%?

Mr. George Anderson: This forecast hasn't been updated for a little while, but the 2010 forecast was 808 megatons, so it's about 30%.

Mr. Michael Chong: What's the status and the likelihood of Canada getting recognized by the United Nations for credits for exporting clean energy?

Mr. George Anderson: That has not been very fruitful to date.

Mr. Michael Chong: It seems to me that part of the Kyoto strategy, from my understanding, is that we are banking on the 70-

million-tonne credit out of the 240 million tonnes for clean energy. There are 96 million—

Mr. George Anderson: In nothing in the calculations put out by the federal government were we counting on clean energy credits against the 240 million. I don't know where you got that number.

Mr. Michael Chong: These are reports I have read from the CBC and from other research.

Mr. George Anderson: You trust the CBC, do you?

Voices: Oh, oh!

Mr. Michael Chong: I didn't say that.

There are existing policies that were announced by the government to make up for this 240 million. There are carbon sinks. Maybe you could tell us a little bit about the breakdown of the 240 million tonnes.

Mr. George Anderson: Yes. To date, the government has announced a series of things that, at the time they were announced, were thought would get us to 160 megatons of our 240-megaton target. I think the last time those numbers were put out publicly was in August of 2003, when Mr. Chrétien and the then ministers of the relevant departments made a series of announcements in terms of new measures.

The first set of announcements, which was "Action Plan 2000", was 80 megatons. Step two was 100 megatons.

Excuse me, but I had my numbers slightly wrong. It's 180 megatons—is that what I said?—toward the 240 megatons, so there are 60 megatons that have not been accounted yet.

Obviously there are different things going on. We are into a higher price environment. We have not yet worked through what that might mean, but normally higher prices would suppress certain kinds of demand. But we're also seeing a very robust growth in the oil and gas sector—probably more than we expected—so that's going to put emissions up. We're learning more as we do some of these programs, so we're going to have to look at what the numbers will be for those.

These are issues we're taking to ministers in terms of where we will be, and in due course there will be a public accounting of where we are and the government will announce what additional steps it proposes.

•(1650)

Mr. Michael Chong: There seems to be a big gap between our targets and reality. One of the things that struck me is that your department is responsible for Atomic Energy of Canada Limited, and in all the things we've been talking about today, there doesn't seem to be any emphasis on using nuclear energy as part of the strategy to reduce greenhouse gases in this country. If I go to Europe, to France, over 70% of their electricity is generated by nuclear. We're nowhere near that in Ontario.

I see that you're also responsible for examining the electricity market in North America, and Canada in particular, regarding stability and supply and what not. Why is there not more of an emphasis on nuclear?

Mr. George Anderson: The Government of Canada actually has done a number of very concrete things to support the development of nuclear technology. We've been putting money into the engineering of what's called the advanced CANDU reactor. We just had a supplementary estimate for \$35 million in that regard.

This advanced CANDU reactor was expected to have about a 40% lower capital cost than the current CANDU 6 reactor, and lower operating costs as well. Actually, quite an interesting study was just released by the Canadian Energy Research Institute in Calgary, which was looking at the economics of different types of electricity generation, including comparing the older type of CANDUs with the new type of CANDU, with coal, with gas. The new type of CANDU looks as though it's going to be quite competitive.

AECL is the vendor of that technology, and they are very actively talking to possible buyers within the province of Ontario. As you know, there are two utilities now that have nuclear technology in Ontario. And we have government-to-government discussions with the province as well.

Mr. Michael Chong: I have one more quick question.

It just seems strange to me that we have AECL selling this wonderful technology, whether it be generation three or four, to countries like China because the technology is so wonderful, but we're not selling it to ourselves. We do have a big gap in the targets that we need to meet, and we also have a big problem with electricity supplies, particularly in Ontario, so it strikes me as very odd that there doesn't seem to be any emphasis in the Kyoto policy to include nuclear as part of the—

Mr. George Anderson: The investments in AECL were not included as part of the action plan, but there were references, in some of the climate change documents, to nuclear as part of a possible solution.

We have other potential areas. Hydroelectricity interests a number of you here. We calculate—conservatively, we think—that there may be another 35,000 kilowatts of hydroelectricity available in Canada. We have big projects like Churchill Falls. There's still a lot of undeveloped potential in the James Bay region, in northern Manitoba. I was at a meeting in the last few weeks with Ontario and Manitoba about the possibility of the Conawapa project and things in that part of the world.

So we have sources of low emission or zero emission electricity in Canada other than nuclear, but our belief is that nuclear has a place in the mix.

The Chair: Thank you.

Andy Savoy, please.

Mr. Andy Savoy: Thank you, Mr. Chair.

In terms of energy, if we could bottle all the energy of expectant fathers in Canada, we would have a lot of it.

Frank, I just want to wish you good luck. And it's five to five, my friend.

The Chair: You're excused.

Mr. George Anderson: I may have the time a little wrong, but it's today, anyway.

Mr. Andy Savoy: I would like to go back to some comments by Brian on non-renewable energy sources. It's obvious to everybody, I think, that fossil fuels are a non-renewable source and that we have a finite timeline in terms of our reliance on it.

In looking at moving forward with renewable energy technologies, whether it be hydrogen, the wind, hydro, micro or large hydro, same with wind, we obviously will need to move forward in the near term. It's obvious to me that the first in, or the people who develop clusters in these areas in terms of countries, will be the best climates for investment, climates for growth, for the various technologies.

You've talked about wind and hydrogen. What are we doing in terms of fostering those clusters? In other words, what's our strategy in terms of fostering clusters? Number one, what should the clusters be in? You've identified hydrogen, and you've identified wind. What other clusters should we be developing? What should we be focusing on, and why? What strategies should your department play in that?

•(1655)

Mr. George Anderson: It's an interesting question, and there's not a straightforward answer. We've been working with a number of industries on what are called road maps. There's one being done right now with the hydrogen industry, and we're talking about doing something similar with the wind industry.

You do get into the issue of to what extent one wants to get into the kind of industrial policy where you sort of choose particular industries. Our R and D programs to date have been a bit of a mix where programs have certain broad criteria but where companies can apply for money. We haven't actually developed a strategy for a sector. We have money available to let companies compete for the money and then let the market work out who's going to get ahead of the pack.

On hydrogen, we've announced about \$180 million. On wind, you're aware of the announcement of the 1,000 megawatts, and the government said we're going up to 4,000.

So some areas are significant. Others I think deserve some further look outside of the more conventional ones. Geothermal has some interesting things potentially, and ground heat pumps. Manitoba's a bit of a leader in this area. There's another...

Sorry, I've lost my thought.

Mr. Andy Savoy: I'll continue on this vein. If you're looking at renewable energy production, I think there's enormous opportunity in rural Canada. Obviously, that's where the fossil fuels come from. Now I think there's additional opportunity to in fact look at issues like wind, methane encapsulation, and micro-hydro. Even on the farm, in the agriculture sector, I think there's enormous potential to look at ethanol as well, of course.

In those technologies or that type of frame, methane encapsulation and things that would be conducive to farming operations and rural operations, in terms of product life cycles and net energy balances, what are our most lucrative, and what's the potential of each? I'm talking about micro-wind, micro-hydro, methane encapsulation, ethanol, bio-diesel.

Mr. George Anderson: Personally, I can't give you all that, but I can make a few observations. I don't think we can really answer the question in the detail that perhaps you would like today.

We've looked at some of this. There's been a big debate around ethanol, as you may know, on net energy balance. There's a professor at Cornell who's made himself famous saying it's a negative net energy balance.

Mr. Andy Savoy: What's your thought on that?

Mr. George Anderson: With ethanol, it depends a lot on how the ethanol was made and where the electricity comes from. In the United States, you can get ethanol that.... It gets very detailed. How did they plow the fields? How did they grow the crop? Did they turn the soil or didn't they? Once the corn or the grain gets to the factory, how do they make the electricity? Does it come from coal or does it come from a zero emission source of electricity?

We say that typically the emissions associated with grain- or coal-based ethanol are somewhere between 65% and 80% of the emissions associated with gasoline. If we went to cellulosic ethanol, and this goes back a bit to the question about more strategic approaches, we have a company here in Canada, as you know, that is a world leader in terms of this technology. There you could get to something where you have close to zero net emissions because of the closed cycle, or potentially closed cycle, nature of the thing. They actually get their own energy source from the fibre that they're separating.

• (1700)

Mr. Andy Savoy: My next question—it's why we're actually here, I guess—concerns the new energy strategy the minister has talked about. Could you give us a bit more of an overview on that? Looking at the issue of a new energy strategy for Canada, he talked about various things. Could you give me a quick overview on maybe the pillars of his new energy strategy?

Mr. George Anderson: I think he may in due course be doing a bit of that himself. I don't want to go too far and scoop him. What I can say is that this is taking shape out of a series of elements. We've had, as I mentioned, a good forum, which comes out of the Council of Energy Ministers, the federal-provincial forum. It has been focusing on a series of issue sets—regulation of these industries, and energy efficiency. We have teams working on these now.

I think the interest in the area of energy efficiency is up substantially from what it was. Hydro-Québec just made a billion-dollar announcement on what they're proposing to do on demand-side management. B.C. Hydro came up to the energy ministers meeting and made a terrific presentation on what they are doing in the area, on what they call "Power Smart". I think Ontario is keen, and Manitoba. If you work your way across the country, all of a sudden there is a much higher level of interest in efficiency work. So that's part of it.

In terms of renewables, there actually was a reference in the Speech from the Throne to working on something in the area of renewables. As well, I mentioned that we had a federal-provincial group working on a report to ministers on science and technology.

We will probably add a few other elements to this package. As to exactly how it all gets played out and so on, the minister himself hasn't made all his determinations about that, so stay tuned.

The Chair: Thank you, Andy.

Unless Serge has a question, I have nobody else on the list after Bernard. Let me know if you do have a question.

Bernard.

[*Translation*]

Mr. Bernard Bigras: Thank you, Mr. Chairman.

You're going to think I'm persistent, but I want to come back to the matter of early actions or measures.

I fully understood what you said earlier. It's clear, because it has to do with the very principle associated with the final large emitters group. Insofar as early action has been taken, with no financial disadvantage, the view seems to be that there is no reason to provide any recognition for what has been done. In reality, that is the exact opposite of the principle we are trying to develop, which is that environmental protection can be a source of innovation and growth. That is the fundamental principle behind sustainable development. I don't understand the principle presented to the final large emitters group, but whatever.

If what you are saying is true, have you estimated the implementation costs? What the federal government has guaranteed the emitters is a cost of \$15 per tonne of CO² emissions. Knowing that every barrel of oil produces some 100 kilograms of greenhouse gases, have you assessed the price of a barrel of oil in terms of these costs? What is the cost of such a reduction?

Mr. George Anderson: Have we calculated the burden in terms of the cost of a barrel of oil?

Mr. Bernard Bigras: Yes, exactly.

Mr. George Anderson: Yes, we have.

Mr. Bernard Bigras: And what did you come up with?

Mr. George Anderson: It depends on what kind of barrel of oil we're talking about. Depending on the type of barrel, it is about \$15 a barrel. If it is a conventional barrel, it's something like 7¢. If it is an oilsands barrel, it's about 20¢ or 25¢. It's in that order of magnitude.

Mr. Bernard Bigras: I have 23¢ here as the cost. Is that possible?

• (1705)

Mr. George Anderson: Yes.

Mr. Bernard Bigras: At a time when a barrel of oil is selling for more than \$50, do you consider that to be an exorbitant cost?

Mr. George Anderson: We presented those figures to the industry because at some point in the debate, we felt it would be useful to talk about this in terms of the cost per barrel. We felt it would be more manageable.

Mr. Bernard Bigras: So, we're talking about something which is, if not « insignificant », at least marginal, in terms of the cost, considering the price of a barrel of oil. This isn't an exorbitant cost. That is what I have understood you to say.

According to the Department of Natural Resources, this is something manageable to the extent that the federal government guarantees \$15 per tonne of emissions and given that the emissions are not that significant, as we all know.

Mr. George Anderson: Yes, we believe that to be manageable.

Mr. Bernard Bigras: Thank you very much.

[English]

The Chair: Merci, Bernard.

Brad, a short question, unless anybody else wants to go after Brad.

Mr. Bradley Trost (Saskatoon—Humboldt, CPC): One quick question. When I was looking at page 31 of your presentation, I noticed you had hydroelectric listed under renewables. Lower down, you listed renewable energy as a source to reduce greenhouse gas emissions.

Now, for a little bit of background for people here who are not aware—

Mr. George Anderson: I'm sorry, I didn't quite hear you. What was the second thing you were saying?

Mr. Bradley Trost: I was just noting that you first had noted hydroelectric as a renewable, which it is, of course, and then renewable energy as a means to reduce greenhouse gas emissions. I thought that was curious. And here's why, for the information of everyone around here.

When you have a hydro dam, one of the problems is that you have increased amounts of methane emissions. An example is a dam in Brazil that gives out methane emissions—due to rotting vegetation washed up from downstream, etc.—equivalent to what you'd get from a major coal-fired plant.

This is something that people don't always understand. It's not just the destruction of the carbon sinks with the hydropower, it's the methane. For the people who are real fans of climate change, methane is much more active than carbon dioxide.

So I was curious as to why it was in some way implied here that hydro, which increases methane into the atmosphere, is being viewed as something that will help to reduce the overall emissions net effect, and has not really been included.

Mr. George Anderson: I don't know if any of my colleagues here are more expert than I am on this particular issue.

You have to distinguish... because there are two kinds of hydro projects, broadly speaking. There are the run-of-the-river projects—Churchill Falls, for example, and Conawapa is close to a run-of-the-river project—where you don't have any of those effects. Then there are the projects where there's extensive flooding. The amount of greenhouse gas emissions that comes from that flooding depends a great deal on what's flooded. If you flood a lot of rocks, you don't get the emissions. If you're flooding certain kinds of vegetation, you do.

Carol, do you have some numbers on this?

The Chair: Carol Nelder-Corvari.

Mrs. Carol Nelder-Corvari (Director General, Energy Policy Sector, Department of Natural Resources): I don't have much to add except for the fact that I understand this is a discussion under Kyoto. They're working on a means for accounting for large hydro in an appropriate manner.

Mr. George Anderson: I think it's fair to say that it's a rare hydro project—I don't think there'd be any in Canada—that would be in anything like the same league as a coal plant.

Mr. Bradley Trost: Admittedly, it wouldn't be like the Brazilian plant, but it's something we need to be concerned about, particularly when you start to look at some of the projects in Quebec and in a few other places. I understand the difference between high and low, etc., but it's something that maybe should be noted, that hydro is not the blanket solution.

The Chair: The last word goes to Michael.

Mr. Michael Chong: I have the same concerns about hydro and this 35,000 figure that we could potentially dam. If you go to northern Ontario, rivers have been dammed to the detriment of the environment. Hydro is not a clean energy. As a matter of fact, there are restrictions in the northeast U.S. as to the type of power that's generated by hydro. So when I hear a lot of emphasis on hydro as being renewable, clean energy, without any concern for the impact it sometimes has... But then on the flip side we hear all the concerns about nuclear and how dangerous it is, concerns about the waste generated by it, but nothing about the benefits. I think sometimes the approach is a little skewed. That's just my comment or question.

• (1710)

Mr. George Anderson: I take that as a comment.

The Chair: Frank, are you okay?

Mr. Anderson, should we let him go?

Mr. George Anderson: Yes.

The baby will be able to read Hansard years from now and see what a fuss was made.

The Chair: When Mr. Pearson, who was the MP for my riding a couple of terms ago, would come to the riding and go to a school, he'd always make the rest of the day a holiday for the kids. I don't have that right as the MP now, but we can at least give Frank a couple of minutes relief. So feel free. We don't want to be responsible for anything going wrong.

Mr. Werner Schmidt: Send us a picture, Frank.

The Chair: Colleagues, don't move. We're going to take a couple of minutes to see where we are on future business.

We thank Mr. Anderson and his team for being here. You can feel free to be excused.

Mr. George Anderson: Thank you very much. We look forward to working with the committee, and should you have issues for follow-up, we're there to help.

The Chair: Thank you.

I'm not certain that I can express a consensus, but I'm going to try. Dan's been beaver away, and I have something I will read to you. I haven't read this; it is straight from our researcher. I do know it will address the question of an umbrella industrial strategy study. I don't think it's going to satisfy Brian's or Andy's particular interest in Minmetals, so if you'll let me take that as a separate question, I'll do the industrial policy question first. I don't think this is a motion to vote on right now, unless there's consent to do so, so let's call it a notice of motion.

It is that the House of Commons Standing Committee on Industry and Natural Resources, Science and Technology study Canada's regulatory and foreign investment policy framework with the aim of maximizing the country's socioeconomic potential. The study will focus on, first, inward foreign investment initiatives such as the Investment Canada Act, Technology Partnerships Canada, and tax measures; second, outward foreign investment, including outsourcing and offshore activities by Canadian corporations; third, the regulatory framework, including environmental health and safety, labour standards, and reorientation to the smart regulatory approach. The study will apply primarily to the energy and manufacturing

sectors, the latter to include apparel and textile industries and the automotive sector.

That's Dan's first crack at an overall study.

Werner.

Mr. Werner Schmidt: I would like to suggest that the order should perhaps be reversed, because many of the things among the inward-outward stuff are directly related to the regulations pertaining to those very things, and that's exactly the point here.

The Chair: I'll take the chair's prerogative and change the order there for you. I leave the Minmetals thing aside for a second.

Are there any comments?

Let's just count that as a notice of motion. For the first meeting back Paul suggested we have our own brainstorming session, maybe with our researchers, or we could actually have witnesses. Do you want me to take a crack with the researchers at witnesses, or do you want to have a vision thing among ourselves?

Mr. Werner Schmidt: I think we need a plan of attack.

Hon. Denis Coderre: Yes, exactly.

The Chair: So let's do that together, form a plan of attack.

Hon. Denis Coderre: Let's do that among ourselves and have an action plan with fine-tuning.

Mr. Werner Schmidt: The researchers can take this next week and look at it. If that is the order we're going to go with, what is the work plan we can engage in? Then perhaps we can put some witnesses into each of those areas.

The Chair: Exactly. Members could come with witness ideas. It would be brainstorming in camera.

Mr. Werner Schmidt: No, it would be more than brainstorming. It would be actually dealing with the work plan.

The Chair: Do you propose witnesses the first day?

Mr. Werner Schmidt: I'm not sure if we could do it.

The Chair: It would be hard to imagine a witness who would be helpful to us, other than our researchers.

Mr. Werner Schmidt: I think our research staff are our best witnesses.

The Chair: We will put them down there.

•(1715)

Hon. Denis Coderre: I believe we need that kind of discussion among ourselves, because it is about fine-tuning the action plan. It is also about focusing on what we believe we should discuss. We have also to understand that there will be some legislation that will come up. I believe we did not really have that first discussion among ourselves. It is more to know what we are aiming at and perhaps to put some meat on the bone, and after that promote some witnesses. We need that consensus first, and we will pick it up from there.

The Chair: I'm assuming it will be an in camera session, so we can speak freely.

Hon. Denis Coderre: Yes, I would like that.

The Chair: Dan.

Mr. Dan Shaw (Committee Researcher): I could have for the next meeting an overall work plan that will include the issues we will study and potential witness lists, round tables, and other things, and you can add and subtract when you see that and modify it.

The Chair: Andy.

Mr. Andy Savoy: On that motion, Mr. Chair, I do not see something I wanted to see, which is skills and innovation and the whole blueprint moving forward. That may get a little too big, I understand, if we do not try to itemize it a little more closely.

Mr. Dan Shaw: It is already pretty big.

Mr. Andy Savoy: We can adjust it so that it becomes workable.

The Chair: I will give this back to Dan. He will try to work people's comments in. I think that's fair.

Mr. Dan Shaw: I can add something on the economic potential, including higher productivity and competitive innovativeness, something like that.

The Chair: And this will be circulated in both languages as input for our discussion.

Hon. Denis Coderre: Beforehand?

The Chair: Yes.

I want to deal with Andy and Brian, who both raised specifically the Minmetals-Noranda thing. As your chair, I have to say I feel I'm in an awkward position in demanding that Noranda or Minmetals or anyone come here before there's an application. I don't know that we even have the right to do that.

Mr. Werner Schmidt: Don't mention Minmetals.

The Chair: No, we can't be mentioning specifics, but that is the driver of the question.

I would like to make an undertaking to Andy and Brian that based on political, economic, and other imperatives, we will tackle that as a specific question, but at least for the first short while, we'll do it from an Investment Canada point of view in the context of the motion we are looking at.

Brian.

Mr. Brian Masse: I think it's an Investment Canada issue to begin with. This particular situation has precipitated the need to review things. So it's not that it's just this one situation. There are others potentially forthcoming. I don't understand why we can't bring that up when it is public knowledge and information, even discussed by

the company itself. I think, if we don't do it, it exposes us more than if we actually do talk about it. It's not just about that, it's about any other issue or any other country. It is about our act right now having the capability to deal with significant problems that have arisen from the public about our current situation and our current legislation.

Hon. Denis Coderre: I would like to make a gentleman's point of order. We cannot talk about Minmetals specifically, because we have to also respect the law. That is why I have said since the beginning, Brian, that we should focus. I've said since the beginning that like you and like Andy, I am annoyed by what might happen if a company wants to buy some Canadian stock or enterprise. That is why we have to play it smart. We should have an in-depth discussion about foreign strategy regarding property. During that time we don't have any problem discussing and mentioning names. Within the law it is not applicable, because those companies do not have to be here if they do not want to be. The way the law works, from that last briefing, is pretty clear. The only way they can come is if they agree themselves to go public and discuss that issue. Before that we cannot even apply it.

The Chair: How would this be for a—

Mr. Brian Masse: On that point of order, it doesn't even make any sense, because first of all—

The Chair: I think it's a debate, but go ahead anyway.

Mr. Brian Masse: Okay, sorry.

The context is that they're discussing this out there. It's up to them to have the conviction to come forth with legislation that might affect something they're doing. They can be invited, but it's not just about them. I don't think—and I would be appreciative of an independent legal opinion—that we would actually be at risk. I don't believe so, not from the lawyers I've talked to. I don't think this is a valid way, that we can openly... especially when even the foreign minister of China is openly expressing that he would like other acquisitions of Canadian resources.

If it would satisfy to have an independent legal opinion, it might be the way to go about this. I don't think it's valid. I think we really can talk about it.

•(1720)

The Chair: How about this for a compromise? We could probably stay for a couple of more hours on this. We are going to have a meeting on that first Tuesday, and this issue is still under the umbrella. It's just how much of an issue it is under the umbrella of industrial policy and how much of it is a political imperative outside that. Can I just propose that we get into that and be prepared to deal with it in terms of a plan on Tuesday?

Hon. Denis Coderre: Just for the record, and I don't want to create a debate here, I don't think it's good policy and politics to focus on one corporation itself.

Mr. Brian Masse: I'm not suggesting we do.

Hon. Denis Coderre: No, but perception is reality. I believe that the purpose of our own committee is to discuss the principle and the overall of foreign property or enterprise owned by states and the impact on any international conventions. We're kind of saying the same thing, but I believe, for the sake of our own productivity and competitiveness, we have to be careful. We have to be efficient at the same time, but I don't think it's good—and I'm even ready to have a vote on that eventually—to focus on the principle instead of saying it's that company and it shouldn't be there.

The Chair: Werner and then Jerry.

Mr. Werner Schmidt: We can get into a long drawn-out discussion here. I thought we had an agreement that the work plan was going to be presented by Dan and that we are going to be looking at that next Monday. Then, when we do that, we should be able to address these kinds of questions at that time.

The Chair: That's what I've proposed.

Mr. Werner Schmidt: Let's not deal with that now, because we're talking about stuff that's just not appropriate at this point in time. It's premature, and it's prejudging something that Dan might present to us. I just don't think that's appropriate.

The Chair: Then, Andy and Brian, you can make your case at that particular meeting.

Mr. Werner Schmidt: Absolutely.

The Chair: The last word to Jerry.

Hon. Jerry Pickard (Chatham-Kent—Essex, Lib.): I would very much agree with Werner. I believe we can discuss the concept without discussing the specifics and the names. I think that would satisfy you, Brian, in where you want to go. The concept could be incorporated in the discussion without specifically naming corporations.

I believe we could investigate the implications of the law and the implications of trying to change the law at this point in time with regard to all of the legal perceptions around. What you're asking for

can be met, I believe, but we're probably very wise in not nailing it down to a specific corporation.

Mr. Brian Masse: My motion, which was originally rejected, was specifically that. It was specifically that. It has never been suggested, but I think that without legal advice we can't stand up and say that we can't do it.

I also have an issue. We know what's being talked about in the backrooms and behind the scenes and everything like that. I think that also sends a message to the world in terms of how we deal with business here.

Hon. Denis Coderre: But, Brian, you put the motion when we said among ourselves that we agreed in a way because we needed the four briefings first. Then you went to the press and said that the Liberals voted against it.

Mr. Brian Masse: No, I didn't, actually.

Hon. Denis Coderre: If you want to play politics, Brian, I'm an expert. I can have fun.

Mr. Brian Masse: Actually, I didn't say that.

The Chair: Order, please. We're all getting out of the line, the sequence.

Mr. Brian Masse: I didn't say that.

Hon. Denis Coderre: Well, that's what it says.

Mr. Brian Masse: Do you believe everything you read in the paper?

The Chair: We're getting out of sequence, colleagues.

Brian and Denis, please.

Mr. Brian Masse: No, if he's going to say things that aren't true based on his own opinion—

The Chair: I'm going to adjourn our meeting, and we're going to resolve this once and for all, in one way or another, on the Tuesday when we come back.

Have a good Remembrance Day break in your ridings, colleagues.

Thank you very much.

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