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Mr. Brent St. Denis

Standing Committee on Industry, Natural Resources, Science and Technology

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● (1535)

[*Translation*]

The Chair (Mr. Brent St. Denis (Algoma—Manitoulin—Kapuskasing, Lib.)): Good day everyone.

[*English*]

Good afternoon, everyone.

I'd like to call to order this Monday, April 4, meeting of the Standing Committee on Industry, Natural Resources, Science, and Technology.

We have a good group of witnesses here with us today to help us continue our study on Canada's industrial strategy. Today we are focusing on the automotive sector, and we have the Canadian Vehicle Manufacturers' Association; I believe Mr. Nantais will also speak for CAPC. We have, from the Association of International Automobile Manufacturers of Canada, Adrian Coleman; and from the CAW-Canada, Jim Stanford and Jim O'Neil. I understand you two gentlemen will share the time.

Normally we ask witnesses to speak for five to seven minutes, give or take, so we have sufficient time for questions after. If you fail to make a point during your presentation, you can incorporate that, I'm sure, into one of your answers.

We thank you very much for being here.

We're going to go in the order you are presented on the agenda, which I think boils down to basically a first-come, first-served basis.

So Mr. Nantais, we'll start with you. Thank you for being here.

Mr. Mark Nantais (President, Canadian Vehicle Manufacturers' Association): Thank you very much, Mr. Chairman, members of the committee. I want to thank you all for the opportunity to provide our comments to you today as they relate to Canada's industrial policy.

The CVMA is the national association for Canada's leading automobile manufacturers, whose members include Daimler Chrysler, Ford Motor Company, General Motors, and International Truck and Engine Corporation.

I do understand the committee's interest particularly in the undertakings of the Canadian Automotive Partnership Council, CAPC, as it is known. Unfortunately the co-chairs of that committee, Mr. Michael Grimaldi, who is the president of General Motors of Canada, and Mr. Don Walker of INTIER Automotive, could not make it here today, but many of the perspectives I will present and be providing today will be those, in fact, of the Canadian Automotive Partnership Council.

In the interest of time I will not detail the economic importance of the auto sector, except to say that while our industry has a major manufacturing footprint in Ontario, our industry has wide-reaching impact on most parts of the Canadian economy in almost every region of Canada through our retail distribution and supplier base.

Let me begin by addressing Canada's overall policy framework. Strategic public policy such as the Auto Pact and free trade agreements have played a crucial role in developing this large and productive automotive industry. In terms of creating assembly and automotive parts jobs in Canada, these policies, along with economic and business realities, have resulted in an automotive sector that has become highly competitive, highly integrated, and truly global in nature. However, significant changes to the domestic and international policies throughout the 1990s have had an impact on the ability to draw new investment into Canada. The result is that Canada's automotive industry is indeed at a critical juncture. We cannot and we should not take new investment for granted.

In response to this reality, the then Minister of Industry created the CAPC in 2002. CAPC's mandate has been to develop a modern policy framework aimed at creating an environment that facilitates the strengthening and growth of the auto industry in Canada. In October 2004, CAPC released its strategic report, entitled *A Call to Action*, which outlines a detailed strategy for the Canadian automotive sector. I've brought copies of that document along for the members today in both French and English.

This strategy outlines priority policy areas and recommendations including large-scale investments, infrastructure improvements, innovation, regulatory harmonization, and human resources. Each of these areas is a target for the improvement or development of policies to attract and retain investment. The strategy also details specific industrial growth targets. These targets would include rebuilding the share of Canadian-assembled vehicles to 15% of the North American new vehicle sales market by 2010, expanding the total value of Canadian-made component shipments by $20 billion by 2015, maintaining total employment in the automotive assembly and components manufacturing at 150,000 positions or more, and improving Canada's automotive trade balance to $15 billion or better by 2010. To a large extent, these growth targets are actually regaining what we have lost over the last decade.

Today I would like to highlight some of the recommendations for both the CAPC and the CVMA that we believe will help meet these targets and should form the basis of a Canadian automotive strategy as we move forward. My comments will focus specifically on smart regulations and attracting inward investment.

Because North America is considered to be a single market with shared driving conditions and shared environment, coordinated product regulations make both good business sense and practical sense. Like the vehicle itself, the regulatory regime is mature, having developed over many decades, and it is highly technical in nature. Historically, there has been considerable and good cooperation between Canadian and the United States departments on technical issues, which drive these regulatory developments.

Rightfully as a nation, we have a sovereign right to develop regulation that best serves our public policy objectives, but, I submit, only when there is a justifiable cost-benefit to do so and in the context of a highly integrated North American market. On the other hand, there is virtually no practical reason for unique Canadian standards, yet regulatory differences have emerged that distinguish our market from others, even within North America.

In many cases technical regulatory differences may appear minor, but in aggregate they have a significant impact on the Canadian market. The small size of the Canadian market, combined with the massive costs associated with the design, development, and implementation of new vehicle programs that total many hundreds of billions of dollars, makes designing vehicles for unique-to-Canadian standards unrealistic. Unique-to-Canadian standards typically either increase the cost of a new vehicle or limit the product offerings available for Canadian consumers.

● (1540)

The end result of the increased cost to consumers is typically a decrease in the rate of vehicle turnover, which may in itself limit the desired benefit of the regulations specified. Additionally, this may limit vehicle production opportunities for Canada. If a vehicle cannot be sold in the market, it will typically not be produced in that jurisdiction. I might add that some of the very vehicles that would fall into this category are the very vehicles we would like to see for safety and environmental reasons, the advanced technology vehicles.

Given this reality, we have been pleased with the recent developments and the actions by the federal government to improve the Canadian regulatory environment, including the report by the External Advisory Committee on Smart Regulation; the commitment by the Prime Minister and President George Bush to a new partnership for North America, which was further strengthened in our view by the inclusion of Mexico at the most recent NAFTA summit; and the delivery of *Smart Regulation: Report on Actions and Plans* by the President of the Treasury Board, Reg Alcock, just two weeks ago. We fully support these initiatives.

We believe that Canada's priorities in these efforts should be aimed not only at the resulting regulations, but also at that reform of the regulatory development process itself to ensure that a smart, efficient, and coordinated approach is implemented for both existing and future regulations.

I'll turn my remarks now to attracting inward investment, trade, and infrastructure funding. As a highly integrated industry across North America, the automotive industry relies on seamless transportation between Canada and the United States to ensure that our facilities operate efficiently. With our close integration, the automotive industry accounts for roughly 25% of the two-way traffic with the United States. This includes roughly $150 billion annually in finished vehicles and assembly parts. As a result, the automotive industry has long advocated for strategic infrastructure investments to effectively process existing trade volumes between Canada and the United States, and to meet future trade growth demands for our entwined economies.

Another crossing in the Detroit-Windsor gateway is imperative, and the processes to establish this crossing must be expedited. Investors must feel confident that the border is not an impediment to trade. The Schwartz report, as it is known, has been completed by the City of Windsor and has received the support of the local community in Windsor and other groups, including our own. Now is the time for the federal government to engage cooperatively with its provincial and local counterparts to ensure this opportunity is not lost.

As for Canada's tax and innovation environment, multiple factors drive investment decisions by corporations, including market access, labour and other costs of production, political stability, and after-tax return on investment. Within NAFTA, the United States has the advantage of market size to encourage investment, while Mexico has labour cost advantages. One clear area for Canada to create an investment advantage and become a more attractive location for foreign direct investment is to create a hemispheric competitive tax policy that improves after-tax return on investment.

To say a few words on capital cost allowance adjustments, it is important for the government to consider measures that would assist Canadian businesses in improving and upgrading their capital stock. Measures such as accelerating the capital cost allowance for manufacturing equipment and production machinery would also assist in improving Canada's productivity.

On competitive corporate taxes, by leveraging the corporate tax system to encourage capital investment, Canada can maintain and create a large volume of highly skilled and high-wage jobs. While recent studies have indicated that Canada is performing well in international competitiveness on corporate tax rates, the competition is not stagnant, but a continuously moving target.

We were pleased to see that the federal government committed to reduce the corporate tax rate by two percentage points in the recent federal budget. This was done to maintain the 4.5% corporate tax rate differential between the United States and Canada, as a result of the recent changes announced by the United States to reduce its own corporate taxes by 2010. Nonetheless, much can happen between now and 2010, and it may be more advantageous for Canada to move more aggressively to reduce taxes to 19% in order to further stimulate domestic and foreign investment and generate and sustain economic growth and jobs.

Likewise, it is very much appreciated and entirely consistent with the CAPC recommendations that the federal surtax is being eliminated. However, a more expeditious elimination of this tax, rather than the 2008 timeframe, would provide Canadian businesses with a competitive advantage sooner.

● (1545)

The 2005 federal budget tax reduction announcements should also be complemented by an accelerated phase-out of the capital tax, which is currently scheduled for elimination again by 2008. This tax, more than any other, unfairly targets capital-intensive industries such as vehicle manufacturing and assembly operations, and it acts as a disincentive to new investment.

Innovation, and research and development. In the federal budget, the government acknowledged that the best way to increase national well-being is to improve Canadian productivity through an emphasis on new skills and knowledge, increased physical investment, effective markets, and commercial innovation. We fully support this assessment.

The key that will differentiate Canada as a jurisdiction to attract its fair share of investment, to build new and/or to modernize existing facilities, and to attract even higher-wage jobs will be our ability to undertake and become a source of corporate expertise for niche SR and ED automotive projects. This is underlined in our ability to work cooperatively with our universities and colleges, as well as our suppliers, to undertake research, cultivate knowledge, and bring that knowledge to fruition through the commercialization of products and processes that will be the staple of the next generation of motor vehicles.

In conclusion, let me emphasize the point that we've been making for several years now, the point that is the focus of our session today. Canada needs a modern, focused automotive policy that deals with the current realities of our industry and that focuses attention on attracting investment to this new, critical sector. We believe the work and recommendations of the CAPC strategic vision report, which I have provided to the clerk as I mentioned, should form the basis for this policy, and we're looking to government for action. Together, we believe we can drive investment, jobs, and growth and prosperity.

Mr. Chairman, that concludes my remarks. I'd certainly look forward to any questions the committee members may have.

The Chair: Thank you.

We'll move next to Mr. Coleman.

Mr. Adrian Coleman (Director, Technical Affairs, Association of International Automobile Manufacturers of Canada): Thank you.

I'd like to begin by thanking you, Mr. Chair and committee members, for giving me the opportunity to provide testimony today. I'm particularly pleased to be here because the subject matter being discussed is one that's of great importance to both AMC's members and the entire automotive industry.

Before I go on, I'd like to give you some perspective on who AMC is exactly, and one of the slides in the submission, which was distributed to the committee earlier, details our members. They comprise virtually all of the Japanese, German, and Korean automobile manufacturers.

While I'm sure you're all familiar with a lot of the fine products they bring into the marketplace, you may not be aware of the degree of success we have had in Canada and of our increasing investment here. I'd like to point out a few figures as well to familiarize you with AMC's members' accomplishments.

Last year, in 2004, AMC's members sold over 650,000 new vehicles in Canada, representing 42.5% of the market. If we focus on passenger cars specifically, we captured 59% of that market. While our sales have grown, so has our investment in this country. AMC members have invested over $6 billion in manufacturing facilities alone and last year produced a record 811,000 new vehicles, over 675,000 of which were exported out of this country.

Although I've tried to highlight some of the good-news stories for AMC, as my colleague has pointed out, the industry is facing challenging times. The rest of my discussion will focus on some of the areas that require improvement.

Infrastructure: Urgent action is required to address congested border crossings and to secure an alternate crossing in the Windsor area. This is vital for both infrastructure redundancy and to accommodate projected North American trade growth.

Regulatory harmonization: I can't stress enough the importance of the integrated nature of the North American vehicle market. The industry has invested in all three countries to maximize economies of scale and to produce specific models in each country to be sold in the other two and beyond. For perspective, Canada represents just 8% of that North American sales market, and as a result, the need to coordinate regulations with those of the United States is paramount for providing Canadians with the widest vehicle selection, with the highest standards, at an affordable price.

Other key issues include cultivating an attractive investment climate and global overcapacity.

Given the above-noted challenges and our mutual interest in developing a strong and vibrant automotive sector in Canada, it's worthwhile to look at some of the factors that affect investment decisions. These include strength in the local market, the regulatory environment, economic factors, global production capacity and utilization, and human capital and productivity. The remainder of my remarks today will provide additional detail on these vital factors.

A strong Canadian market for new vehicles is necessary to both attract and to keep the massive investments in vehicle assembly operations. As AMC's members have grown, our investment in the country has grown as well. With increasing market share, AMC's members are potential future investors in Canada. The current regulatory environment, however, can be a constraint to innovation, competitiveness, investment, and trade, and as such, smart regulation is imperative to the future strength of the Canadian automotive industry.

Unfortunately, we have seen an increasing trend in recent years toward Canadian-unique regulations, and this places an unnecessary cost burden on our industry and on Canadian consumers. If there's one recommendation from the External Advisory Committee on Smart Regulation that I can impress upon the federal government, it is to align regulatory differences between Canada and the U.S. where differences are not warranted.

In the supplement to the presentation that was provided to committee members, there is a slide that lists numerous examples of Canadian unique standards, including disharmonized standards for rear bumpers, unique Canadian occupant protection requirements, and the lack of Canadian fuel quality or a national fuel standard, another regulatory issue that has been a serious concern for many years.

The commercial regulatory environment can also act as a constraint to doing business in Canada. This is particularly true when differences exist between provincial and federal requirements, creating duplication and increasing the cost of doing business. There are several examples where commercial policies are having detrimental effects on our members. These include vicarious liability legislation, which threatens the automotive leasing business in Ontario and Alberta; the cost of credit disclosure requirements, which has led to immense legal expenses to defend opportunistic lawsuits of questionable merit in Quebec; and disharmonized environmental reporting requirements between the federal government and Ontario, which is creating needless and costly duplication for those companies that manufacture in the province.

● (1550)

It would be remiss of me to discuss the future of the automotive industry without looking at the economic factors that ultimately impact on investment decisions. These factors include infrastructure, including roads, border facilities, and ports; rising operating costs, including electricity, of which surety of supply is now becoming a growing concern; and taxation and the need to accelerate the phase-out of the federal and provincial capital taxes, as these discourage investment.

AIAMC also believes it's important to eliminate the 6.1% import duty, which inhibits the importation of low-cost fuel-efficient vehicles. This duty also adds an additional cost penalty to most hybrids, because the current volume for these products is insufficient to justify local production. I must say we are very disappointed there was no provision in the budget to incent consumer uptake of advanced technology vehicles.

AIAMC believes that if Canada is to remain a competitive player in new vehicle manufacturing, it is important to develop progressive investment strategies as well as the more traditional ones. Examples of these include R and D for advanced technology vehicles, including hybrids and ones with fuel cells.

As well, skilled worker shortages are already an issue, and many companies are having to look outside the domestic labour supply to secure skilled tradespeople.

Lastly, efforts such as AUTO21 that encourage manufacturing-related research and development are critical if Canada is to stay at the forefront of manufacturing excellence.

Earlier in my comments I also mentioned global production overcapacity as an important factor. Today it's estimated at roughly 20 million units worldwide, equating to approximately eighty high-volume assembly plants, and in North America it's estimated at 2.5 million units. In a market facing overcapacity, less-competitive facilities are at risk, and human resources and productivity become even more important in such an environment.

To conclude my remarks today, I'd just like to highlight some key recommendations for the committee's consideration. The first is the adoption of the World-Wide Fuel Charter as a Canadian national standard. The second is harmonization of current and proposed technical standards for vehicles, i.e. safety and environmental. The next is to minimize negative economic factors. And last, we believe there should be an increased focus on progressive investment strategies that will ensure Canada remains competitive well into the 21st century.

Thank you for your time. I'd be pleased to entertain any questions.

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

We'll move now to either Jim Stanford or Jim O'Neil. Mr. O'Neil.

Mr. Jim O'Neil (Secretary-Treasurer, CAW-Canada): Thank you.

My name is Jim O'Neil. I'm the secretary-treasurer of the Canadian Auto Workers. I'm joined today by Jim Stanford, our union economist.

We'd like to thank the members of the committee for the opportunity to participate in your hearings on industrial policy, especially as it relates to the auto industry.

The CAW is Canada's largest private sector trade union. We represent 265,000 members working in 16 different sectors of the economy. One-third of our members work in the auto industry and the auto parts industry. The others work in a wide range of other manufacturing, resource, transportation, and service industries.

We have a deep concern with industrial policy, not just in the auto industry but in all high-value-added sectors of the economy. We have been arguing for years that Canada needs more aggressive, proactive development strategies to stimulate and develop high-value industry. Leaving it to the private sector through free trade, deregulation, and tax cuts is not enough.

The evidence is clear that Canada is regressing in terms of our industrial makeup. Last year, for example, natural resources and raw commodities made up over 50% of our total exports. That was the first time that had happened in over a decade. Our resource industries are booming, but our high-tech value-added industries are struggling, including auto but other high-value sectors too, such as aerospace and telecommunications equipment.

We have to become proactive by identifying the industries where we want a strong presence and implementing policies that will achieve that for us. The auto industry is an obvious place to start. The productivity, the technology, the intensity, and the huge economic spinoffs that result from automotive production and employment make it a jewel among industries.

I do want to say a few words about the Canadian Automotive Partnership Council, which we believe has been very successful in taking the initial steps required to address the challenges faced by our most important export industry.

You've had all the major players sitting at one table identifying the main problems, making crucial policy recommendations and then advocating for those policies with one voice. The CAPC participants don't agree on everything, of course, but we all agree the auto industry is essential to Canada's economic future and we all agree we need an active strategy to get there.

CAPC has been crucial in some of the important innovations we've seen relating to the auto industry in the last couple of years, such as the Ontario and federal auto strategies, which have been crucial in nailing down historically important investments at Navistar, at Ford, and most recently at GM. There may also be one or two other investments in the wings.

CAPC has also been important in focusing attention on the infrastructure problems at our border crossings, especially in Windsor. But despite CAPC's excellent work, there remain some important challenges facing the industry. We are not out of the woods yet, not by any means.

At this point I'd like to turn it over to my colleague Jim Stanford to address some of the remaining challenges.

● (1555)

Dr. Jim Stanford (Economist, CAW-Canada): Thank you, Jim, and thank you, members of the committee, for the chance to visit with you today.

We want to leave a couple of items with you. One is a paper that is available in both languages. This was our major auto sector strategy paper from CAW. It's a couple of years old now, but it outlines in detail the economic rationale for why we need a proactive strategy in this industry, making the case that because of the productivity, the technology intensity, its importance in international trade, and the high incomes in both direct and indirect jobs, you get a situation where the social benefits of this industry exceed the private benefits to the particular companies that invest here. That's what motivates and justifies a public role in strengthening the industry.

We make these arguments in detail in the paper and we think they're still valid. That's why we're leaving it with you. It's also interesting that as I went through it today, I saw that a number of the recommendations we made—this was before the CAPC process even got started—have actually come to fruition. That, I think, is a positive sign, although despite that progress, as Jim mentioned, in areas such as fiscal measures on major investments, human resources strategy—CAPC and the federal government have helped set up this new sector skills council for the auto industry—and so on, there are three big problem areas where I want to make a few comments and where I think your committee's recommendations moving forward will be important.

One is in the whole area of international trade. The second handout I've given you is a table, English on one side and French on the other, with the most recent data on international automotive trade for Canada, both bilaterally with the United States and then for all other countries. It includes both finished vehicles and parts.

Canada maintains a significant trade surplus in automotive products, but it is a lot smaller than it used to be. In 2004, for example, our trade surplus was a little over $6 billion—important, but about one-third the size of the trade surplus in 1999.

Our overall trade balance in automotive products is being undermined by a very large and growing net trade deficit with countries other than the United States. I circled the two key numbers on the table for you. With the United States last year we maintained our traditional large trade surplus in automotive products, rooted mostly in exports of finished vehicles, of over $21 billion. But that is now mostly offset by a large and growing trade deficit with countries other than the United States, a deficit that exceeded $15 billion last year.

The resulting margin is our overall trade surplus, and it's getting smaller over time. It relates to very lopsided automotive trade relationships that we have: with Japan, more than a $5-billion trade deficit; with Mexico, about the same amount; with Korea, a $2-billion trade deficit now and growing.

And we will have a very large and growing trade deficit soon with China in the automotive industry. We're already experiencing it in terms of imports of parts. For example, they recently closed an important facility in Brantford, Ontario—the Wescast plant, with 400 workers—directly as a result of imports from China of the parts they used to make. We're going to see it in vehicles soon in a big way as well. In China the companies involved can make and deliver a relatively high-quality vehicle to our market for about half the price. That may look good in the short run for consumers, but in terms of the future of our industry it's a very negative development.

The other thing you'll see from this table is that our trade relationship with the other countries, in contrast with that with the U. S., is virtually a one-way street. We imported $16.8 billion and we exported to those other countries $1.7 billion worth of automotive products. In other words, for every dollar we buy from Japan, Korea, Mexico, and soon China, we export 10¢.

That's how our trade with the other countries is qualitatively so different from our trade with the United States in automotive, where we have a substantial trade surplus, but it's a two-way street. They sell an awful lot of automotive products, about $60 billion worth, here.

I think it will require hands-on measures by the federal government, more interventionist measures in the trade policy area, with each of those countries and with the important companies that are based there, to make sure people don't view Canada as a one-way, unilateral, open market to sell their products to without making a commitment here, in terms of either investments in Canadian facilities by those companies and countries or purchases of our products from them.

● (1600)

What is not needed is more open-door policies, and this is where I have to express considerable concern about the current flirtation, it seems, with the idea of a free trade agreement between Canada and Korea. Our automotive trade deficit with Korea is, again, completely a one-way street. They buy virtually nothing from us, yet they now have 5% of our domestic market. It has destroyed already tens of thousands of jobs. Rather than an open-door free trade agreement with Korea, what we need is a trade strategy where we'd sit down with the Koreans and say, by all means, sell stuff here, but you have to either invest in our economy or buy from us if you want that trade flow to continue.

The second area of concern, which is related, is around the dollar, the appreciation of the Canadian dollar over the last two years. When the CAPC initiative started, our dollar was trading at 65¢. Today it's above 80¢. That appreciation, unprecedented in our history, has undermined the good initiatives that CAPC and the cooperating governments have brought about.

In terms of assembly, it has undermined the competitive advantage that we have traditionally had. It's still there, but it's much smaller. In terms of parts, on average our parts industry is not competitive at an 80¢ or higher dollar, and that's why we've lost 5,000 jobs in the parts sector.

Many factors, of course, are driving that appreciation, many of which are not in our control within Canada, but that doesn't mean we should just shrug our shoulders and let the dollar do what it will. We have a situation now where rising global commodity prices, especially the oil price, are driving up the value of our currency, since Canada is still viewed as a commodity exporter. That is associated with a boom in our resource industries but a downturn in our manufactured industries.

This used to be called by economists the Dutch disease, where a resource boom can squeeze out your manufactured industry. Today I think it's more appropriately called the Canadian disease, and it behooves the Bank of Canada to think proactively about the impact on our industrial makeup of an unfettered approach to letting the Canadian dollar go where it will. I think it would help if the Bank of Canada heard that message from your committee.

Third and finally, very quickly, I want to mention the issue of Canadian content in our parts industry. It's also related to the trade and investment decisions, which are kind of the flip side of the coin. Like it or not, Canada's auto industry remains very dependent on the future of the traditional big three manufacturers, which still account for over two-thirds of our assembly, about three-quarters of our employment, and an even larger share of our total parts production. Between 85% and 90% of the automotive parts and components produced in Canada are purchased by GM, Ford, and Daimler-Chrysler.

It's going to be very important for us, first of all, to do what we can to support the continued purchases of Canadian parts by those three companies—and that's where the investments with government participation at Ford and GM have been so important—and also to push the other automakers that are active in North America, or need to become active in North America in terms of their production, to purchase more Canadian components. One of the CAPC recommendations was to push all automakers, not just the big three, to establish Canadian components purchasing offices and other initiatives, to put pressure on companies like Nissan or Hyundai or Kia, which sell billions of dollars of product in Canada every year, and you'd be hard pressed to find a single manufacturing job that they have created—not directly through their assembly, none of which is done here, or even indirectly through their parts components purchases. And that's where a proactive role by government, again stepping back from the hands-off, “leave it to the free market” strategy, is going to be very important.

So I'll leave you with those three concerns—the dollar, Canadian content in parts, and the growing international trade imbalances—and likewise, I look forward to the questions and discussion that we can have.

Thank you very much, Mr. Chair.

● (1605)

The Chair: Thank you, Mr. Stanford.

I have John Duncan, followed by Paul Crête, Jerry Pickard, and then Brian Masse.

John, please.

Mr. John Duncan (Vancouver Island North, CPC): Thank you very much for your wide-ranging discussion. There is a lot to try to digest here, and you've obviously brought some different views to the table.

I would like to focus a little bit on smart regulations, because the committee did try to focus on that quite a bit. I don't think we need to go into technical detail, as you describe, but I think we're completely unaware of this fuel quality discussion that you've entered into here. I'm not even sure what the World-Wide Fuel Charter, which was brought up by Mr. Coleman, is. Maybe you could just give us a flavour for this. This is all to do with refineries, and we know there are difficulties in the North American marketplace, so maybe you could fill us in there a bit.

Mr. Adrian Coleman: I'd be happy to, and thanks for the question, Mr. Duncan.

Essentially, the World-Wide Fuel Charter is the automotive industry's bible when it comes to technical fuel specifications. It details the technical specifications that are necessary to both permit the manufacturers to introduce the most advanced technologies into the marketplace and ensure that the environmental potential of those technologies is realized. So this is the pinnacle of what we think fuel quality should be.

Mr. John Duncan: You're saying Canada does not have the standards—

Mr. Adrian Coleman: Canada doesn't have a national fuel standard. As a result, the fuel quality here has tended to lag behind that available south of the border and in Europe, impacting, especially now...pardon me?

Mr. Werner Schmidt (Kelowna—Lake Country, CPC): How big is that differential?

Mr. Adrian Coleman: It varies from market to market; however, it's becoming a much more significant issue now as we enter into the new, very stringent tier-two emission standards. As tier two comes into effect, the quality of the fuels available becomes much more important, because the standards are so stringent. In California they have very stringent standards, and throughout much of the United States they have reformulated gasoline. They have restrictions on additives that are allowed to be placed in the gasoline. So it can have quite a significant impact on our ability to introduce the technology here.

● (1610)

Mr. John Duncan: Thank you.

In your presentation you have satisfaction tables that would indicate that your membership represents the cars the consumers are the happiest with, in a wide variety of categories.

Jim Stanford focused quite a bit on what we often call the North American automotive sector. He also talked about China being able to produce cars at half the price we can. This is actually the tip of a very huge concern, not just for us but for the U.S. It's something we're going to have to grapple with, and not just in the automotive sector. The Chinese can buy fish off the east coast—I'm from the west coast and it's even more dramatic there—take it to China, put it in a can, and sell it back on the east coast for less than it costs us to do that in Canada.

This kind of economics is just a huge concern. I don't think this committee started off thinking we wanted to go there, but do you have some practical approaches to this?

I know you were talking about trying to get them more involved in Canadian content and Canadian operations, but isn't that tied together? North American consumers are quite dissatisfied, in many cases, with North American products. Somehow that undercuts our appeal to people to be patriotic or North American in their purchases.

Dr. Jim Stanford: Thank you, member.

In terms of the quality of North American-made products, I think there's a lot of mythology out there in terms of the actual quantitative measures of quality such as the J.D. Power quality index. The perceived quality gap between the big three and the imported vehicles has narrowed to the point where you can't even tell the difference by those measures.

At any rate, we don't have to be patriotic about quality, because with one exception, there are no Canadian-designed or Canadian-engineered vehicles on the road. Even the big three are not designed in Canada, with one exception, which is the Equinox, the new General Motors sport utility vehicle. It is not only manufactured in Canada, it is the first vehicle since the Bricklin to actually have been engineered and designed in Canada, and it has won rave reviews actually. It won a prize that comes out from J.D. Power in terms of consumer response to it.

We can't control the quality of the vehicles that are made. We've always been dependent on foreign companies to make the investments in Canadian facilities and then capture the jobs and benefits that come with them. So for us to say we won't get any jobs because the companies that happen to have invested here didn't sell the more high-quality products and therefore we lose out, and shrug our shoulders, doesn't make sense. We've only got an auto industry here because we went to those companies and said that if they wanted to sell here they had to make something here. That basic lesson is one that we still have to use with the Japanese, with the Koreans, and soon with the Chinese.

Korea right now has a virtually closed domestic market. They sell here; they buy nothing from us. That is not the mutual free trade relationship that the economists imagined when they said free trade would be a good thing.

Pragmatically, what can we do? I don't think we have to tear up any free trade deals or pull out of the WTO or anything. I would think very seriously before signing a free trade agreement with a country that, through all of these other cultural, structural, and institutional means, keeps our manufactured products out.

What we can do, though, as a government—and there's lots of leeway in the trade legislation—is sit down with them and say, listen, we're not going to tolerate a trade surplus where you sell to us and buy nothing from us. We can negotiate how we offset that. It could be investments here. Why doesn't Hyundai or Kia make an investment here? It could be purchases of components from Canada by their plants in North America. Or it could be purchases from us so that they open their market to the things that we make. Any of those approaches can be done incrementally and legally within the framework of trade agreements and simply says to these other countries that it's not a one-way street.

● (1615)

Mr. Mark Nantais: Mr. Duncan, perhaps I could supplement that response, which was a very good one, from Jim.

I certainly underscore all his remarks as it relates to good quality improvements from the big three. We have a history to deal with, and I think that's what we're dealing with. A great deal of progress has been made.

I could perhaps put together an illustration for you as it relates to the trade imbalance. If you take finished vehicles—Canada versus Korea—the number of Korean vehicles imported into this country, I believe, at the last recording here was 129,000 units. The number of Canadian units imported into Korea was 429. So there's a huge imbalance there. We're now, of course, looking at things like non-tariff barriers to trade and things like that, which of course I'm participating in next week in Europe. Clearly, there are many instances that are like that. It truly is a one-way street in many instances.

The Chair: Thank you, John.

Yes, Mr. Coleman.

Mr. Adrian Coleman: I would like to make one comment on that. [*Technical difficulties—Editor*]...not all Hyundai and Kia. Some of the traditional big three are involved in the importation of those vehicles. Second, I would like to say that I certainly wouldn't try to undermine the significant investment and role that the traditional big three play in this marketplace. But from my members' perspective and that of AMC, as the association, what we think is important is to make sure we have the appropriate climate in place so that as different companies may grow or shrink in market share in the future, we ensure that Canada is an attractive place to invest for those companies that do capture increasingly large portions of the vehicle market, so that we do have a strong and vibrant auto sector in the future.

Thank you.

The Chair: Thank you, Mr. Coleman.

We can come back to you, John, if you have more.

Mr. Paul Crête, please.

[*Translation*]

Mr. Paul Crête (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, BQ): Thank you, Mr. Chairman. Thank you as well to the witnesses for their presentations.

The document entitled *A Call for Action: A Framework for a Canadian Automotive Strategy* was released in October 2004. It sets out the stages in the strategy's implementation. Among other things, mention is made of providing “broad distribution” of the report offering a “proposed basis for an automotive strategy for Canada”.

In your opinion, does the federal government have at this time a clear strategy for developing the automotive industry in Canada?

[*English*]

Mr. Mark Nantais: The report *A Call to Action* outlines a number of very clear recommendations that are all intended to formulate an overall automotive strategy moving forward. I would submit, by virtue of the report card that goes along with the report, that the government is making progress on an automotive strategy. I don't believe it has actually coalesced yet, but there are many elements here that are very solid recommendations that would form the strategy moving forward.

Of course, through the CAPC, at least on industry's side, we will be working through the federal government—Minister Emerson, for instance—as well as his provincial colleagues, to develop a federal-provincial automotive strategy. That's what's very important here: that we also bring along with us the key provinces, as well as overall industry, labour, and academia. I think we are making progress in that direction, and I believe we're going to have a fairly solid basis to move forward in a very short time.

[*Translation*]

Mr. Paul Crête: A request was made to arrange annual meetings between the Prime Minister, the premiers of Quebec and Ontario and their respective Ministers of Industry. The first such meeting was slated for the fall of 2004. Did the meeting in fact take place last fall and if so, will the parties continue to meet regularly?

[*English*]

Mr. Mark Nantais: Yes, that meeting in the fall of 2004 did take place. Those meetings are held regularly. The next meeting is actually in May of this year, as I understand it. While I haven't seen the agenda yet—I don't know whether you have, Jim—that agenda will again look to these recommendations and how they can put them forward and act upon them following a more coordinated strategy.

● (1620)

[*Translation*]

Mr. Paul Crête: In my opinion, the paper contains some very interesting recommendations. However, I do not get the sense the federal government has expressed the clear political will to act on the recommendations. The government's reaction seems to be the same in so far as the aeronautics industry is concerned. Investment announcements are made in piecemeal fashion. There have been some announcements regarding Ontario's automotive industry. The federal government's position is less clear when it comes to the aeronautics sector, however. Would you not agree that announcements are being made sporadically, when in fact there is no apparent political will to act on this matter? I do not recall the federal government announcing publicly that it has embraced this policy, either in whole or in part, or that it has set a deadline for formulating such a policy.

My question is directed either to Mr. Nantais, or to the other presenters.

[*English*]

Dr. Jim Stanford: Let me just follow up on that end of it.

I think the federal initiatives have clearly been important, and there has clearly been movement from the federal government that's helpful as the industry grapples with the situation it faces. On the other hand, that movement has been in different envelopes, if you like. Some of it has been ad hoc and announced as they've gone along, without an actual policy framework to guide them.

In the short run it's important that they continue to move. If they had sat back and said "We don't have a full-fledged policy and therefore can't do anything", then things would have got worse. On the other hand, there would be benefits, I think, to having a more integrated and complete automotive policy framework at the federal level.

They have announced they're working on it at Industry Canada, and we at the CAPC table have been interested in how that's happening, and perhaps a bit perplexed that's it's happening separately from the CAPC process itself. If, as they come forward with that policy, it turns out that they didn't more or less take the advice and the recommendations all the stakeholders came up with at CAPC, then there's going to be a lot of disappointment and people wondering why they went through the exercise.

I think the jury is out on whether or not the federal government will be able to bring forward an integrated policy.

Let me give you one example of how it is so important to bring the different envelopes together. This regulation or non-regulation around auto emissions, as part of the government's Kyoto strategy —on which apparently they're going to announce something tomorrow—is obviously something of huge importance to the auto industry. We've been arguing, from the CAW's perspective, that if you're going to go forward with things like that, you have to connect the dots in terms of the implications of those initiatives for investment and production in the Canadian industry. Yet in this case you had one group of policy-makers going in one direction, not necessarily hand in hand with policy-makers looking at the investment issues.

We think there could be great potential to leverage movement forward in environmental standards for the industry, as long as you were also doing it on the industrial development side to make sure we got investments in hybrid technology or other advanced fuel technologies, so that we could capture the industrial benefits as well as the environmental benefits moving forward. But if you don't have an integrated auto strategy, it's going to be hard to make those links. That's where in the next few months we'll be waiting with interest to see how the federal government moves forward to enunciate more clearly this strategy that so far has taken place in a less formal or more ad hoc fashion.

Mr. Mark Nantais: As well, if I might add, on the issue of connecting dots, we've referenced the World-Wide Fuel Charter, for instance. This is one of the things that need to be in place to connect the dots. Reference was made to our announcement tomorrow as it relates to greenhouse gas emissions for motor vehicles, which we will indeed be announcing, and we're pleased to do that with the federal government and make our contribution to help meet its agenda and obligations under the Kyoto plan.

But for instance, on the issue of fuels, it's very difficult for us to bring forward technologies, as Mr. Coleman pointed out, in the absence of certain quality of fuel. In addition—and this relates to smart regulation as well—we have probably four different departments that have a role in regulating the motor vehicle, and if each of those departments does not have a common understanding of the motor vehicle and a common understanding of the overall objectives, what happens, as they operate in their own silos, is that they develop conflicting regulations.

I'll give you a perfect example. As one department, Transport Canada, introduces new safety regulations that add weight to our vehicle, it impedes our ability to improve fuel efficiency. If Environment Canada, for instance, introduces a regulation on vehicle emissions as it relates to smog-related emissions, as was referenced in the tier-two emissions regulations, that impedes our ability to bring forward clean diesel technology and also the clean diesel fuel as well. So it limits our ability to bring in these very advanced technologies, in contrast to Europe. For instance, where they've made considerable progress on reducing GHG emissions from vehicles, and clean diesel has played a very big role there in helping them make progress, we are very constrained by virtue of conflicting regulations. So when we talk about smart regulation, we're not talking just about Canada and the U.S., we're talking about regulations even within our own government, in the various departments that have a role in regulating the motor vehicle.

● (1625)

[*Translation*]

Mr. Paul Crête: Mr. Stanford, I'd like to focus for a moment on the table that you have drawn up which shows that we ran a trade deficit until 2004. If governments continue with their present course of action, are you not concerned about the possibility of our trade deficit with producers in countries other than the United States increasing? I note the figures quoted, namely $12 billion, $12 billion, $15 billion, $14 billion and $15 billion. Do you see a trend emerging? What steps need to be taken to reverse this trend? Obviously, we're talking about major strategic components, but isn't there a danger that our deficit could continue to increase for several years if the government does not move in short order to adopt an adequate integrated policy?

[*English*]

The Chair: Are there any takers on that?

Mr. Stanford.

Dr. Jim Stanford: I think nothing dramatic will happen overnight, and there are a number of different factors that go into those trade balance numbers. For example, our trade balance in 2004 was somewhat better than it was in 2003, largely because, in a way, of luck. We happened to have some facilities in Canada, I mentioned the Equinox, which is made in Ingersoll at the CAMI plant, and the Chrysler 300C made at Brampton. Those are two of some other models in Canadian facilities that just took off, were very popular with the consumers, for which there was a very full demand, and that boosted our trade balance numbers for last year.

So there are kinds of momentary things that happen as well as the longer-term structural things. Nothing dramatic will happen overnight, but the longer-term drivers are clearly negative, both in terms of our exports to the U.S., which are very important, because, as I mentioned, both assembly and parts are still very dependent on the big three. That has diversified somewhat and that's positive, but it's still very dependent on the big three, and their market share numbers have been negative.

Then in terms of our imports from offshore, we've seen the expansion of low-cost imports from offshore, particularly from Korea in the last three or four years. As I mentioned, soon—not tomorrow, but soon—we will be importing very low-cost vehicles from China, and we export nothing to China in the way of automotive products. We actually export something right now, which is parts for the General Motors Buick, which is assembled there, but that is going to stop imminently because General Motors is building their own plant in China to produce those parts.

Mr. Paul Crête: We're exporting jobs.

Dr. Jim Stanford: Every time we import products, we're exporting jobs, because that $15 billion trade deficit with other countries other than the U.S. clearly translates into tens of thousands of lost jobs compared to those vehicles or parts being produced here instead of there.

Again, you'll never have a perfect balance in trade with every single country you trade with; that can never happen. But what we can't tolerate is the sort of one-way street that is obvious in those numbers, where we open up our market to the rest of the world but demand nothing from the rest of the world in terms of what they either buy from us or what they invest here. That story in Ottawa is going to be very similar to other sectors, whether it's textiles—which I know the industry committee has looked at—or other sectors where we've been I think naive in throwing open our market without demanding reciprocity from our trading partners.

The Chair: Thank you, Mr. Stanford.

Jerry Pickard, please.

Hon. Jerry Pickard (Chatham-Kent—Essex, Lib.): Thank you, Mr. Chair, and to all of you, I want to say thank you very much for coming in.

Obviously the auto industry is very important to Canada. It is extremely important to central Canada as the driver of our economy. There is no question about that.

When we start looking at Canada's share of auto jobs and auto manufacturing in North America, the numbers that I have been led to believe are relatively accurate for our share of North American-produced vehicles come to approximately the same, if you look at year after year across the last 10 years. Canada produces approximately 16% to 17% of the vehicles produced in North America. Yet we get these fluctuations where there might be high sales at one period of time and low sales at another. Some of those comparisons aren't necessarily the proper ones to look at the industry, although if we had high sales in 1999 and lower sales in 2000, you could say our deficit or differences aren't the same. I believe it is critical that we look at all the variables within the industry.

First, I would like comments from each of you having to do with where we stand as a percentage of vehicles produced within North America and how that can be viewed as Canada's position at this point in time. I believe we are still at 16% to 17%, through North America, over the last 10 years.

● (1630)

The Chair: Who wants to start?

Dr. Jim Stanford: I don't mind jumping in.

In fact, our share of North American production has been relatively stable, and in fact, it increased slightly last year, again because of that good news from two or three of our assembly plants.

In fairness, I should mention that Toyota's Cambridge plant—and the Lexus they produce there—was another huge success story, driving up our numbers, and the expansion of production at the Honda facility, likewise.

So our share of North American production has been okay. The problem is that the ratio between North American production and North American sales has declined because of this flood of imports from offshore North America, which hasn't just come to Canada. It's not just the trade deficit numbers with Canada that I'm concerned about, frankly, but there's also an even larger trade deficit in the U.S. market that squeezes out the types of products that we produce here.

So our share of North American sales is our true market share. For every 100 vehicles that are bought in North America, how many of them were made in Canada? That's my true ratio. That would be Canadian production as a share of North American sales. It has fallen significantly, by about 4 percentage points, since 1999 at peak. That decline explains why our total vehicle output has fallen by about 15% since 1999.

You can say, relative to the Americans and the Mexicans, we've been par at keeping our share. We haven't been worse hit or better hit than them, but the fact is that North America's overall auto industry is failing in its effort to protect its market share.

Mr. Mark Nantais: I don't think there is any difference of opinion here. I'd be very surprised if there were.

Jim is exactly right, and this is why I mentioned earlier that the objectives or targets for CAPC are those things that we are really trying to regain, as opposed to brand new targets. These are things that we've lost, and the 3% loss there in terms of that ratio is indeed what we're trying to regain here. The only way we can do that, we believe, is through some of the various recommendations as have been outlined in the CAPC strategic vision report.

Mr. Adrian Coleman: The only thing I would add is that I agree with the comments of my colleagues. However, I would add that I do believe there is still value in looking at the percentage of North American production, regardless of where the vehicles are sold, and if we look at that relative to the size of the North American market, we are at roughly 16% of North American production, whereas we have only 8% of North American sales.

That's about all I can add to that.

Hon. Jerry Pickard: Carrying on with the CAPC issues, I think it's very critical that government, industry, and labour work together to try to resolve problems that we see. When we look at the overproduction issue around the world, I like what you're talking about, Jim, in terms of forcing not only corporate interests but also national interests to come to the plate together. But again, vehicles that may be produced in other countries can move back and forth if they're under the name Ford, General Motors, Chrysler, Toyota, Honda, or anyone.

With more free flow, should we not only be monitoring that overproduction and the production that's coming into North America on a basis of national interest? Should we also be looking at corporate interests as they move in? There are a lot of cars made offshore and sent into Canada, the same as ours in North America in general. That seems to be a growing problem for us, particularly on the issue of overproduction, which I believe CAPC targeted as the most critical issue we face.

● (1635)

Dr. Jim Stanford: Thank you.

In terms of the difference between the country that a vehicle comes from and the nameplate that's on the vehicle, let me clarify. I don't feel any better about a vehicle coming in from Korea under a GM nameplate—they import vehicles that are sold under a number of different brand names in North America—than I do about one coming in as a Kia or a Hyundai. In that sense, I think we have to be dealing with the companies as well as the country.

The difference, of course, is that General Motors has extensive production facilities. They employ 20,000 manufacturing people, and they produce far more value-added in Canada than is sold in Canada. That is not the least bit true for Hyundai and Kia, since they don't produce anything in Canada.

So that's where what we have to do as a country is take a look at companies that are making a commitment back to the country where they're selling it, and work to strengthen such commitments. With companies that aren't doing that and are viewing us solely as a market, not as a place to produce, invest in, or buy from, we have to sit down and do some tough talking. That tough talking can, in a way, be very informal.

A good example of that would be the sort of negotiations the U.S. government undertook with the offshore automakers in the early to mid-nineties, when Clinton was the President. You had a situation in which you had a surge in offshore imports and a decline in the trade balance. He sat down with the companies and the countries involved —in particular the Japanese-based automakers—and said he wanted to see some investments in America.

The threat that he had was some kind of unspecified intervention on the trade side, particularly aimed at these new luxury models that those companies were starting, like the Infiniti, the Lexus, and so on. Behind the scenes, he had some commitments to some very substantial investments, so you've seen those companies open up several new plants, employing tens of thousands of American workers.

It's always easier for the Americans to talk tough in trade than it is for us, but that doesn't mean we have to simply roll out a red welcome mat.

Hon. Jerry Pickard: Can I just take this question to one other level? As Canadians, we produce twice as many cars, trucks, or vehicles than we sell in Canada. Are we going to get a backlash from those to whom we sell those vehicles if we start taking corporations to task over...?

There is some ground here that I'm not really sure about. I guess I would like the broad spectrum here. I like what you're saying about a corporation or a country not investing in Canadian products, and therefore we have to talk turkey to them. That's a good suggestion. But at the same time, we may be creating some other problems for our own industries. We're putting money into trying to get that....

Look at General Motors investment, Ford investment, or international investment, which you mentioned a little earlier. Those are great things, and I think we're moving in the right direction to attract those jobs. But I would be worried that if we get too aggressive at intervention, it might hurt us.

Could you give me a comment on that?

Dr. Jim Stanford: Some folks would say, “What are you complaining about in the auto industry? You've still got more than your share”. It is true that we produce more vehicles than we buy. We assemble about twice as many, but that's misleading because you have to look at the value-added ratio. In our parts industry it's still disproportionately small. But even when you account for that, we still have more production, assembly and parts, value added, and jobs than we “deserve” in the auto industry, relative to our sales.

The problem is that the auto industry is a very rare example of a high-value-added industry where Canada produces more than it consumes. In most high-value-added industries—whether you look at electronics, consumer electronics, business machining, pharmaceuticals, etc.—we actually have large trade deficits. This is one of the only cases where we produce more than we consume. The only other example is aerospace, where we have a trade surplus in a high-value industry. Otherwise, our trade success is still very much focused in those resource-based industries that offer jobs and income but aren't enough for a country to develop on.

That's why I think we shouldn't feel apologetic at all about going to other countries. We won't get a backlash from them against our automotive products, because they don't buy any of our automotive products. We might get a backlash in some other area, and that's the problem, of course, with that kind of strategic trade intervention. You have to be careful about how the game is going to unfold.

But I would submit that our role in recent years, which has been to open it up.... We boast about being the most open country in the world, and we do have the most open auto market in the world. Offshore imports account for a larger share of our market than any other major industrialized country in the world. I suggest that approach hasn't served us well. We need to have more of a hands-on effort to promote our national interests—carefully, but actively.

● (1640)

The Chair: Thank you.

Brian, please.

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

I'll touch first on a topic that hasn't been discussed yet. It's really a point of concern for some of the smaller shops that may not be unionized—mould makers, and tool and die makers. The industry has been very successful in my region of Windsor and Essex County, but there are questions about sustainability, as it's losing more auto parts manufacturing development.

Maybe I could get some comments on that, especially in terms of having no parts contribution overseas in manufacturing of vehicles, and how the challenges of that industry are going at this time.

Mr. Mark Nantais: Mr. Masse, could you be a little more specific about what you're asking here?

Mr. Brian Masse: We're losing contracts in China, quite frankly—it's some of the smaller parts producers for General Motors, Chrysler, and Ford. They're watching that because of environmental standards. Production costs are also lower in China. It's not just the standards of workers, but also the disposition of the materials post-production as a subsidization...witnessing that.

In terms of vehicle parts manufacturing, what is going to be the legacy if all of that production moves overseas?

Mr. Mark Nantais: Certainly it seems to be a common occurrence that where there's an assembly hub, the suppliers, the parts makers, will follow. That's why we have enjoyed a great deal of success in the Canadian parts industry. On the new plants that have gone down to the southern United States, we see not so much Canadian parts makers playing into those new plants in terms of suppliers necessarily, but we find that some of those assembly plants, those new investment plants, are actually working with local suppliers.

You might think we have an opportunity here in Canada to expand our parts-making capacity—investment here to service some of those plants. The fact of the matter is that we actually see a shift. Certainly the large parts makers in Canada have the ability to make that shift and either set up plants in those locations or have the logistics and what not to supply those plants. But when we start talking about offshore in countries like China, one thing is certain: the capital now is entirely fluid. It can be moved anywhere in the world. As has been pointed out, there's nothing here in Canada that requires us to produce here. Parts or assembly plants can go anywhere in the world now to get their supplier base in place.

Perhaps parts makers should be specifically asked how they are going to respond to the challenges of low labour costs, perhaps lower environmental standards, and what not, as they play into these other suppliers offshore, and the advantage they may gain from that. It's very important.

Again, those who have the ability to set up shops in some of those jurisdictions will enjoy some of those advantages. We have a situation where some fairly significant parts or components are now being produced in China for some products built here in Canada. I suspect that may grow.

● (1645)

Mr. Brian Masse: I recently went with an organization of members of Parliament to Washington. I was with a Republican senator, and he actually said he wished he hadn't voted in favour of allowing China into the WTO. That's the sentiment that's changing, even over there, as they're watching all their manufacturing base disappear.

How important is it for this country to...? Maybe I'll use Japan specifically as an example. What are the barriers that we're facing in exporting our vehicles, other than just the...? Quite frankly, I think it's mythology that our products are inferior and that's why they won't purchase over there. What other barriers are preventing us from penetrating Korea and Japan, other than just the perception of the vehicle itself?

Mr. Mark Nantais: Some of those barriers include what we call non-tariff barriers to trade. For instance, there may be certification requirements on vehicles from outside the country that are discriminatory; or for instance, it's a certification process that, because of the nature of the vehicle the host country produces, doesn't really apply to their vehicles, so there's kind of a discriminatory effect there. It could be things like various taxes on engine displacement, for instance. Again, the nature of the types of vehicles one might ship into that country would not necessarily apply to the types of vehicles that are being produced in the host country.

So there are various things like that, and we've been working on a document that I believe we submitted to Canada's negotiators, who are in the early stages of deciding whether or not to proceed with a free trade agreement with Korea. There's a list of what we believe are non-tariff barriers to trade that we could provide the committee, if you are interested.

Mr. Brian Masse: That would be helpful.

If I could move more domestically here, tomorrow there will be an announcement in Windsor on emissions and the voluntary aspect of this that the government has reached with the auto makers. But ironically, it's within not even a kilometre of the international crossing that a lot of grief is being created for us in the auto industry.

I think a lot of people in the public don't know that about 40% of our nation's trade, actually 42%, goes through the Windsor-Detroit corridor, and a significant portion of that is controlled by a private American citizen who owns the Ambassador Bridge. We've had considerable grief on our side, because there have been situations where people have been, for example, fighting with the Department of Transportation in Michigan about the number of booths on the American side, and that has created backups in the auto industry and created pollution in my community.

In fact, the Windsor-Detroit border is one of the few places that doesn't have a border commission or authority. We just had representatives from Fort Erie and from the Peace Bridge who articulated the models they have—coordinating and having some public ownership and involvement in management of the corridor that they have. It's binational, and it's a lot more progressive than the free-for-all we have at the moment.

I know that all the organizations here spoke about the importance of it. Maybe you can highlight, in terms of the importance of your industry, getting the proper investment—not only just infrastructure-wise but also procedure-wise—on the border to move vehicles through the corridor, and the just-in-time issues that are faced. People don't understand that a vehicle might actually cross six times between Windsor and Detroit before its final assembly.

There's been unanimous support in the community of the Schwartz report, between the municipal council and that, and we still have yet to hear from this government about acting on those recommendations to date. I think that's why tomorrow's announcement is completely tainted, because it's not even a prioritization, in my opinion, in terms of what we need to do to move the industry forward.

Mr. Mark Nantais: I must admit you raise a lot of very good points, and indeed the border issue is one that is absolutely critical to our just-in-time delivery system, as is the customs facilitation—I mean the infrastructure itself but also customs facilitation.

In fact, what we're seeing now is that for many of the security-type customs facilitation programs such as FAST, the auto industry was the leader in Canada—and in the United States, for that matter. But now we find the United States imposing new requirements on us that go far beyond those original requirements, actually placing us at a bit of a disadvantage relative to those companies that have the ability to operate solely within the confines of the United States. That's a real problem; it's a problem for us and it's a problem for parts suppliers.

You're absolutely right. We need customs facilitation for low-risk goods to move across the border basically unimpeded, because they do go back and forth four to six times in some instances in a single day. Within four hours engines produced at the Essex engine plant are coming off the line in a plant in Detroit, for instance. So the whole bridge and customs infrastructure and the processes are in fact now part of our just-in-time delivery system. If they go down, we go down.

But what that does, of course, is present an unknown. It reflects a reliability issue in terms of our operations, and that's something that from an investment standpoint is looked at very negatively when one is considering future investment, for instance. It's one of the key items that is being considered here, because the border is being seen as a risk. It's a risk that in some cases either a parts manufacturer or perhaps even a vehicle manufacturer may be unwilling to take in the future because they have the capacity—I'm speaking of the overcapacity situation—to use plants in the United States to satisfy the demand here in Canada or elsewhere.

● (1650)

The Chair: Mr. Stanford.

Dr. Jim Stanford: I think it's been quite universally recognized within the industry and by all the stakeholders at CAPC that the border has become a negative on the investment decision and cost balance sheet, even for an assembler but especially for a parts maker that's going to set up in Canada and try to service a customer in the U.S. With just-in-time, your reputation with the customer you depend on for your life is going to be utterly destroyed if they ever have to shut down their assembly plant because you couldn't deliver your parts on time. That is a substantial risk for a company to consider, and it goes totally against Canada as a location.

So we absolutely have to fix that problem. We've been encouraged by the speed with which governments have recognized it as a problem and committed financial resources, but we've been perpetually frustrated with their ability to get it done. Perhaps that's where your idea of a border commission could be a real breath of fresh air in terms of bringing the players together and trying to establish a long-term way of doing business that's more efficient.

I don't think we need anything radical, such as a common security perimeter or whatever. This is all about incremental, sensible improvements in the physical infrastructure and the processes, and there's no reason we couldn't do it. The governments have committed the money; now we just have to have the vehicle that will get us to making the changes that are needed.

The Chair: Mr. Nantais.

Mr. Mark Nantais: I agree with those remarks; I might go a little bit further, however. If you look at the CAPC report and the report card as it relates to infrastructure, you'll see a red, meaning we're not there yet. We certainly feel that way at the CVMA.

In fact, if an assembly plant shuts down, it's about $1.5 million an hour. Not only do we need the proper infrastructure to take us from the 401 to the U.S. interstates over the border crossing with all the customs facilitation there, but we also need to ensure that those parts move freely and that our industry is not in a situation where they're failing to meet production schedules.

Right now I am a little concerned that perhaps this issue is not getting the attention from the government it should be getting. I think we've slowed down, and I'm concerned about that.

The Chair: A very short comment.

Mr. Brian Masse: I want to get to Mr. Coleman too and encourage him to answer that.

Also, Mr. Nantais, I would like to know from you, would you agree to the idea of a border commission or an authority of some type as part of an overall strategy to coordinate our four crossings, as is done everywhere else in Ontario, pretty well? Sarnia, Buffalo, Niagara Falls, and Fort Erie all have some type of coordinating body that manages the border like a business on a regular basis, based upon the interests of the greater good as opposed to our current situation, which is according to individual needs.

● (1655)

The Chair: Thank you, Brian.

Mr. Nantais.

Mr. Mark Nantais: That's a notion we think might have merit. I think it certainly needs to be explored, because as you rightly point out, if something does happen again, whether it be a major security issue or whatever, we need contingencies. Right now I don't think we're satisfied that there are proper contingency plans in place. We're working on that and hopefully we're going to get there, but in that context I would think perhaps what you're suggesting here does have merit.

The Chair: Did you want to jump in, Mr. Coleman?

Mr. Adrian Coleman: Yes, I did, and it touches on both, I guess. It's not really to add anything new, but for the record, this is such an important issue that I want to make clear that AMC shares the concerns already expressed. The border congestion is a critical issue and a disincentive to investment. Just-in-time delivery systems are critical to competitiveness. And it's all been said already, but our government needs to work the United States via a commission or some other body to ensure the free flow of goods without compromising security.

The Chair: Very good, thank you.

Werner.

Mr. Werner Schmidt: Thank you, Mr. Chairman.

Thank you very much, gentlemen.

Mr. Chairman, every time we have a series of experts sitting at that end of the table, we learn a whale of a lot more than we thought we would. The ramifications of what you have said are all over the place, and you've run all the way from infrastructure, to taxation, to R and D, to smart regulations.

I think, Mr. Nantais, you mentioned at one point that this has to be resolved at the very highest level. Many of the things we've talked about recently here are very detailed, very specific, on particular issues that have immediate political implications on that particular area and the workers who are employed in that area. It seems to me that what we're dealing with, with an industrial policy, is the point I think you made earlier, that a national issue has to happen—a new national industrial policy, an automotive policy. The free flow of goods and services across the border is very significant indeed.

But the question I would like to ask is this. One of the bug-bears in this whole thing seems to be the non-harmonization of regulations. It's one thing to talk about the infrastructure. It is one thing to talk about border crossing. It's another thing to talk about all the other elements of infrastructure. But if our competitiveness isn't in place, and if investment is being discouraged because we have an intrusion into the smooth operation of whatever it is by government regulation—regulation that contradicts from one department to another, that is not coordinated from one nation to another.... I believe the words you used were unwarranted and unjustifiable regulations and differences between one nation, one department, and another. I would like to ask you this. What is the mechanism that could be put together by government to bring about a harmonization among departments, among countries, so that indeed the competitiveness of both nations, one to the other, could be enhanced and all of the people would benefit?

Mr. Mark Nantais: Thank you very much.

We probably need to look at this at different levels, as you suggest, and certainly in terms of those comments and how things relate to product standards, for instance.

As I mentioned, we have a highly integrated North American market. We develop vehicles for the entire North American market. Vehicles coming in from offshore are developed to one standard for all the North American market. When we don't have consistent or harmonized standards, we need to look at whether it's justifiable in the context of there being a cost-benefit to Canadians in terms of meeting the public policy objectives. If there is no cost-benefit that's specific to Canada, why would we even consider anything other than consistent or harmonized standards within the North American market, within our North American trading bloc? It makes absolutely no business or practical sense to do so, yet for whatever reason, in various departments we still find....

To give you an example, we have the ability to submit U.S. EPA certification data and records on vehicle emissions to satisfy Canadian requirements for certification. We went through great gyrations on the tier two standards to make sure we do something that is consistent, that still allows us to use the same common reporting for certification purposes. As I said, though, we still found various people in the department who were trying to do something different. Why? It makes absolutely no sense. All it does is add to the cost of that vehicle, which means consumers are going to pay more.

The cost is indeed going to be passed on to the consumer. Given that we already have an affordability challenge in Canada for new vehicles, people will defer their new vehicle purchase. They'll hold onto their vehicles longer, which means the environmental benefits of these two new technologies will be delayed. If you look at the affordability, if you look at the personal disposable income for an average vehicle now, it's roughly 148% of a Canadian's personal disposable income. In the United States, it's 98%. So unless there's a very clear and justifiable cost-benefit to Canadians, it makes no sense to do something differently from our counterparts, who all operate within this North American market.

If I had Utopia, we would be developing standards on a North American basis in cooperation with the United States, and perhaps Mexico at the right time. We're moving in that direction to some extent. Through our respective company representatives in the United States, we do try to coordinate our efforts, try to coordinate our responses to the regulatory agencies in both countries. We're now entering into discussions with the very regulatory agencies that are also having discussions with our counterparts in the United States, for instance, to try to get us to a point where we do take a common and coordinated approach to vehicle regulation.

That's a very tall order. We all have regulatory agencies that have their own specific objectives in mind and feel their way may be the best way to do it. The fact of the matter is that when it comes to vehicle safety, for instance, the mechanisms that hurt a Canadian are the same mechanisms that hurt Americans, and the outcome is the same. Therefore, there's no reason why vehicle standards should be different in Canada from what they are the United States. The same thing applies to emissions standards.

● (1700)

Mr. Werner Schmidt: What's the biggest impediment?

Mr. Mark Nantais: The biggest impediment is the costs associated with trying to do something unique to Canada when Canada plays such a small part of the overall North American market. The size of our market in Canada is insufficient to drive vehicle design. That's the big issue.

Mr. Werner Schmidt: I would also like to direct that question to you, Jim, because I'm sure you have an opinion about this.

Dr. Jim Stanford: If there is no reason to have a regulatory standard that's different for a Canadian vehicle as compared to an American vehicle, if there's no benefit to us in doing so, if it doesn't somehow reflect Canadians' preferences, then there's no reason to have the difference.

Mr. Werner Schmidt: That's the logical answer, but why is there a difference?

Dr. Jim Stanford: In some cases, there will be a dispute over whether there's a benefit or not. The fuel efficiency regulations are one of them. The industry has said fuel efficiency regulations are an example of a proposed regulatory standard in Canada that would be different from what's in the United States, and that it would be too costly. We have argued and others have argued that we have to compare the other side of the ledger as well, which is that Canadians might be a bit more concerned about the environment and global warming than our colleagues to the south.

You can't make a blanket statement that we should harmonize all our regulatory standards with those of the Americans. There may be examples of where we want to do it differently, but I would agree with Mark in saying that we have to have a good reason to do it differently, one that will benefit Canadians, given our preferences, before we decide to go that route.

The Chair: You need to wrap up, Werner.

Mr. Werner Schmidt: Okay, thank you.

Harmonization doesn't mean adopting one particular standard. It means coming together on something that makes sense, that's logical, and that's of benefit to everybody. That was really the whole direction of my question. It's not an either/or proposition, but rather, what can we work together on?

Dr. Jim Stanford: In the North American setting, where the Americans are not in any foreseeable future going to cede their authority to do this, harmonization means adopting the American standard—similar to the currency union thing, which means adopting American interest rates.

The Chair: Very briefly, Mr. Nantais.

Mr. Mark Nantais: There are instances—and I'll give you one example—where Canada made the case to do something that was unique to Canada. That was on daytime running lights.

We proceeded to do that, which created a real problem on the U.S. side, but—and this is very unusual—we were able to get the U.S. government to put in place what they call a permissive regulation, which would allow daytime running lights but did not require them by regulation. That allowed us to get around some of the local types of state regulations, as well, that prohibited them. So there have been some instances of that.

When we talk about harmonization, we're talking about a regulatory regime in Canada and the United States, in North America, that allows us to supply the same vehicle to both countries.

● (1705)

The Chair: Thank you.

That's very good, Werner.

We're on our second round. I'm going to try to ration the rest of the time among Michael, Paul, Jerry, and Brian.

Michael, please.

Mr. Michael Chong (Wellington—Halton Hills, CPC): Thank you, Mr. Chair.

My questions are going to focus on the border crossings, particularly in Ontario, because they seem to be a topic that keeps coming up, and nothing seems to get addressed about this issue.

I am a member of the Conservative caucus, and we spent a lot of time in January, actually, touring your plants, both the domestic ones—the big three—and the Cambridge plant as well. I know Colin Carrie, MP for Oshawa, has been working very hard at trying to build bridges there and understand the issues your industry is facing.

In particular, I went to the Oakville plant. One of my constituents is chair of your CAW council there, Dave Thomas, who I've talked to on a number of occasions about these issues.

As I said, I want to get more information from you about these border crossing delays. In Ontario, is it just the Windsor and Niagara crossings that are experiencing these delays? Are we also seeing them at Sarnia, Buffalo, and eastern Ontario, for example, or is it primarily the Niagara and the Windsor crossings?

Mr. Mark Nantais: Most of the traffic or volume is through the Windsor, Niagara, and Sarnia areas.

At Sarnia, of course, the crossing has the ability to give us a dedicated lane that we would qualify for as a FAST participant. That helps us immensely, but if that lane is clogged by others who have been given pre-processed clearance, then that defeats the whole purpose of the FAST program.

If the infrastructure isn't there to provide the dedicated lane, for instance, for those of us who've invested literally millions of dollars in the FAST program to be FAST-qualified, then that's problematic. We see that primarily at the Windsor-Detroit crossing, where most of the volume is.

I will say this, though: the delays have improved, but it's erratic in some cases.

Mr. Michael Chong: Did you also mention Sarnia?

Mr. Mark Nantais: Yes.

Mr. Michael Chong: So you are experiencing delays at those two points.

Mr. Mark Nantais: Not as much, because Sarnia was the first one to put in place a dedicated lane for FAST participants.

Mr. Michael Chong: Okay, so it is primarily the Detroit-Windsor crossing, and then the Port Huron-Sarnia crossing.

Mr. Mark Nantais: It could also be at Buffalo, the Peace Bridge crossing.

Mr. Michael Chong: So the Buffalo one is also a bit of a problem.

Mr. Mark Nantais: We use it, but when you look at it, most of the traffic is primarily through Windsor-Detroit.

Mr. Michael Chong: I'm not so concerned about the volume of traffic. I'm just wondering about the delays, because if you have high volume without delays, there is no real issue.

Mr. Mark Nantais: Windsor-Detroit is still the primary—

Mr. Michael Chong: Is it? Okay.

Do you agree with that?

Dr. Jim Stanford: Our understanding is that the Windsor-Detroit crossing is the only one where the delays are acute. At the other ones, we could work on them, but I don't think they would be a factor working against investments in Canada. It's the Detroit-Windsor one that's the key problem.

Mr. Michael Chong: On the Detroit-Windsor crossing, there was recently the Schwartz report that came out. I haven't read it. That report calls for some significant changes to the way Highway 401 is terminated and the addition of a new crossing. Maybe you could tell the committee a little bit more about this, but isn't that years off in that report? There is no immediate solution in the report, is there?

My understanding is that the report called for a solution that is quite a few years off. So what do we do in the interim to address this problem?

Mr. Mark Nantais: Clearly the Schwartz report is a longer-term vision of what needs to take place, but I believe there are some medium-term recommendations in there as well.

The point here is that money has been allocated for these improvements to infrastructure and so forth. It's severely underspent at this point in time. We've got to make a decision to move forward and we need to move forward in a way that thinks about the future and is more forward thinking in the future. To do this in piecemeal fashion is not going to serve us well in the end, because aside from the very high volumes of auto-related goods that go back and forth across that border, we are also participants in NAFTA, and the volume of shipments under NAFTA has also exploded. So we need to think about the longer-term vision.

The good thing about the Schwartz report, I think, is its comprehensiveness and the fact that the local community and industry are all supportive of this—

● (1710)

Mr. Michael Chong: How much money—

Mr. Mark Nantais: —which was a problem, locally speaking. The local government and the local support was always a problem, and the Schwartz report, I think, provides us with some means to try to get around that.

Mr. Michael Chong: So the Schwartz report has widespread buy-in?

Mr. Mark Nantais: Out of all the documents that have been produced to date, from what I can determine, this probably has the most support that I can see.

Mr. Michael Chong: Do you agree with that, Mr. Stanford?

Dr. Jim Stanford: Yes.

Mr. Michael Chong: In this Schwartz report, how much money are we talking about to address the problem in Windsor?

Mr. Mark Nantais: I'd have to look that up. I think we're talking billions.

Mr. Michael Chong: Okay, because in your—

Mr. Brian Masse: About a billion.

Mr. Mark Nantais: About a billion to start.

Mr. Michael Chong: Okay, because in reading your report, it's suggested that the provincial and federal governments need to cough up approximately a billion dollars—$500 million each—to address the infrastructure issues around the border. You mentioned upgrades to the 401 between London and Windsor. You mentioned upgrades to the crossing itself. Does your number include the money needed to upgrade the border crossing at Windsor, or is that just for other stuff?

Mr. Mark Nantais: The billion dollars was associated with the Schwartz report. The other $300 million I think, thus far, has already been allocated.

Mr. Michael Chong: It was $1.3 billion in total that—

Mr. Mark Nantais: Well, I'm not sure if it works that way, but $300 million has been announced. It hasn't been spent.

The Chair: Does either Jerry or Brian want to clarify that? Is there a clarification?

Mr. Brian Masse: There's been no real complete analysis of how much the Schwartz report would cost. He estimated approximately a billion dollars at that time.

That's what they want to do. They want to move on to hard costing in terms of what that actually would be. So that's the number that was used in the presentation.

The Chair: Thank you, Brian.

Hon. Jerry Pickard: Before going on to make some clarifications, I think everyone realizes that the Windsor crossing has been very critical and that different processes have been put in place. The binational process, which is absolutely ridiculously slow, and I think everyone involved realized that—

The Chair: I just want to let—

Hon. Jerry Pickard: This comes to the Schwartz report. I just want to put this on the table.

You have a group of people looking on both sides of the border, and you have both the provincial and federal governments and municipal governments involved on both sides of the border. Schwartz did a report for the City of Windsor that was released in January. I think you have to be realistic about this. Releasing a report in January...we're a very short time away from that. In the interim, has anything happened? Have there been discussions—

The Chair: Excuse me, Jerry, I want to let Michael just finish his time. We'll come back to you.

Michael, do you want to finish your turn?

Mr. Michael Chong: Sure.

You mentioned in your notes to us that Highway 401 between London and Windsor needs to be widened from two to three lanes on each side. I've driven down that highway many times and I don't recall ever being bottlenecked in that portion between London and Windsor. It was only when I got to Windsor that I hit the traffic lights and really slowed down. Is there a huge need, or have things changed significantly in the last short while so that we really do need to upgrade that to six lanes across?

Mr. Mark Nantais: You may recall that the 401 services the branch to Sarnia as well there, and then from London to Windsor. The bottlenecks, when they happen at the border, tend to really back things up. We've seen it as long as almost 26 kilometres when things are really bad.

The fact of the matter is, that highway has been in service a long time. Again, the volume of traffic has increased manyfold, given what it was originally intended to service. It's all part of the NAFTA highway, and our view is that we need to upgrade it on that basis.

● (1715)

Mr. Michael Chong: And my last, very short—

The Chair: Very, very short, okay?

Mr. Michael Chong: With all the recent talk about continental defence, about an integrated customs union, etc.—and my question is for each of the panellists—do you ever see a time when we would move to a European-style border, where traffic moves right through the border without stopping?

I'm not talking about changing the rules about goods and services or about the mobility of the workforce. I'm simply talking about a time when we might move to such a situation, if you even think we should move to a situation in which goods would move across that border without even stopping, either using some sort of electronic technology or other methods?

The Chair: Thank you, Michael.

Any takers?

Dr. Jim Stanford: If the goal genuinely is to get traffic to move across the border without stopping, we could do that tomorrow. We don't need a common security perimeter, a common defence policy, or a common immigration policy. All we need to do is agree with the Americans on some pre-clearance stations, similar to an airport. When you fly to America, you go through a pre-clearance thing at a Canadian airport and then you get in. We could do the same thing with trucks here, and it would be no violation of our sovereignty. All it takes is a concrete incremental step forward. But if we go the other route with the bigger discussion, I think we'll be in a mess internally, and the Americans, let me tell you, have no appetite for it.

So if our goal is actually to facilitate better traffic, we should stay away from those big-bang issues and focus on incremental improvements, because we could do a lot.

The Chair: Thank you, Michael.

Paul, then Jerry, then Brian.

[*Translation*]

Mr. Paul Crête: Thank you.

I'd like to talk about the parts and components sector. The report mentions three ways of expanding or maintaining the market, namely: growth in the Canadian assembly sector — obviously, if there is growth in this sector, more parts are likely to be manufactured in Canada — ; an increase in the average Canadian content of parts purchased by Canadian manufacturers and; an increase in the total value of Canadian-made components shipments. With respect to the last two areas, people do not buy components for their beauty, but for their lower price and sound quality. Is it important, in terms of a future course of action, to invest in university R & D in order to be able to produce quality components at a competitive price for Canadian manufacturers and for the export market? Should we be investing substantial sums of money in this area and making the new economy the focus of current R & D programs, all the while maintaining a specific component for sectors such as the automotive and possibly the aeronautics industries?

[*English*]

The Chair: Who wants to start?

Mr. Adrian Coleman: I'll start.

To be fairly brief, I think the answer is yes, we do need to focus on educational programs. The AUTO21 project at the University of Windsor is a good example. But we certainly haven't done enough. We should look at doing more, because if we want to continue to be leaders in automobile manufacturing, we're going to need to be at the forefront of manufacturing efficiency and technology.

Mr. Mark Nantais: Also, we need to remember that in the new automotive world, assemblers are looking to their suppliers up the supply chain to take on more of the actual research and development and design. The ability to enter into those areas is ever more critical, and that's the only thing that will position us positively in the future, I think. It's the ability to actually research and develop and commercialize technologies that will ultimately make us more competitive, both domestically and abroad, I agree.

And I certainly think DaimlerChrysler, Ford, and General Motors, which are the only ones with research and development facilities and programs in this country, are certainly looking in that direction, and they certainly are relying more heavily upon parts makers—as parts makers will attest—to actually do some research and design and take on some of that actual activity on their behalf, if indeed they want to be tier one suppliers.

Dr. Jim Stanford: Just to echo and expand on that, in our view, those are the reasons why the federal auto investment strategy, once it is fully announced, should include cutting-edge innovative investments that are done in the parts sector as well as in the assembly sector. Yes, you need those keystone investments in assembly plants to attract the clusters of parts makers around them, but you also need to support advanced, cutting-edge technology in some of the major parts producers as well. The government has a role to play there.

● (1720)

[*Translation*]

Mr. Paul Crête: Currently, automobile manufacturers, specifically the Asian manufacturers, are offering consumers products of excellent quality, by all accounts. Therefore, this kind of R&D is perhaps being done elsewhere.

How can we get people to engage in this kind of R&D, whether it be for the benefit of manufacturers or of society in general? If I'm not mistaken, in Canada, the parts and components sector is more scattered, geographically speaking, than the assembly sector, which is heavily concentrated in Ontario. Quebec, however, does have a significant share of the parts and components sector. Correct me if I'm wrong on that.

Are manufacturers responsible for carrying out R&D? Could universities have chairs in mechanical development engineering, for instance? Would you be in favour of one such option?

In the textile sector, all that remains is just-in-time marketing. Here in Canada, we produce only those products that the Chinese cannot get to our market quickly. In my view, this is not a solution for the future of the automotive industry. We must be able to produce large quantities of products on a permanent basis. We don't merely buy automobile parts to cover a two-month shortfall.

Could you elaborate further on this approach?

[*English*]

The Chair: Thank you, Paul.

Mr. Stanford.

Dr. Jim Stanford: In terms of the incentive to get them to do more research and development, the experience has shown clearly that a tax incentive alone is not sufficient. Canada has the most generous tax treatment for R and D spending by private companies of any major developed country, yet our R and D performance is the second worst, next to Italy's.

I want to highlight some of the features of this recent announcement with General Motors and the so-called Beacon project. If you use a carrot and a stick at the same time, you can leverage a lot of commitment from a company like General Motors. In order to make their package more appealing to the federal government and the provincial government, they included many of the things you're talking about: new investment in training in automotive engineering, in which we're actually very weak in Canada; new R and D commitments in partnership with several universities, including two in Quebec; and a commitment to buy more cutting-edge Canadian parts, including some from producers in Quebec.

That's where the government, in a way, had some power with General Motors in terms of defining this overall package, and they used that power quite effectively to get some features of the project that are very appealing. I think more of that, rather than just relying on tax incentives, will allow us to qualitatively move the industry forward.

The Chair: Thank you, Paul.

Mr. Nantais, a brief comment.

Mr. Mark Nantais: If I could, I'll just supplement Mr. Stanford's remarks. Being global industries, we design vehicles globally now from both research and development standpoints. We exchange electronic files via satellite; one component may be designed in Stuttgart, another in Detroit, and another in Oshawa, for instance. That's how we do business now.

In Canada we do have some very good opportunities, and we as an auto industry, particularly the big three again, which have research facilities or other programs in place now, have the ability to actually do some research and development. They are incorporating centres of excellence, for instance. When we speak of Quebec, it's because they have real expertise in magnesium, aluminum, and things like that, and we capitalize on that. So we have here in Canada many opportunities we can continue to exploit, and we need to do that via the education system, the university system, engineering chairs, and so forth.

But one of the biggest problems we're having right now in terms of design engineers is being able to keep them. In Canada a design engineer fresh out of school, a good one, can start at $100,000. Guess where they go. Outside the country, to the United States or elsewhere.

● (1725)

The Chair: Thank you, Mr. Nantais.

Jerry Pickard, please.

Hon. Jerry Pickard: To follow up on this one really quickly, I'm glad Jim mentioned the Beacon project, but on the Oakville project we have basically the same ratio of investment by the Ontario and federal governments. In turn, the corporation boards invested nearly a billion dollars for flex manufacturing and other opportunities at the plant.

At International in Chatham, I believe $30 million was invested through Technology Partnerships Canada. The return from International is in the neighbourhood of $290 million. That's a ten-to-one ratio again.

What I see happening is that if governments do step up to the plate and try to help those corporations move forward on technology, that technology money will come back. Particularly with International looking at bringing diesel operations to Canada, that's really a great move forward for us, and very positive.

Back to the Schwartz issue as well, I think it is critical to understand that the federal government did not have access to the Schwartz report and information on the Schwartz report, in writing at least, until January. At this point in time, we're very preliminary at making decisions on implementation and how that can be done.

I certainly would support, without question, the environmental analysis of all of the lead-up that we have going. Now, there's some $300 million on the table, as was mentioned, and we need to do environmental assessments of all of that work surrounding the in-ground structure, the infrastructure in Windsor, to move that forward. That can be done without making a final decision on the Schwartz report, but we have to still include the binational as part of a process that's ongoing.

So there are complications there. I believe it is critical for the federal government, the provincial government, and the municipal governments in Canada—particularly Windsor, Ontario, and Canada—to get together and develop that infrastructure through Windsor to alleviate the problems we have moving traffic from the 401.

It was mentioned that the 401 itself, as I think all of us at the table here should know—possibly not people who don't live in the area—has already been open to three-lane traffic for the first 10 kilometres, and they're moving through major contract, opening up that 401 highway into Windsor as we speak now. The second phase of that project is under way starting April 1.

A voice: [*Inaudible*]

Hon. Jerry Pickard: Actually, they're working from Tilbury to Windsor first. The other phases, I assume, will be announced at a later date, but that's being done at present.

The major bottleneck, though, is one crossing, and we have to make sure we get all the ducks in proper perspective before we make a decision on exactly where that crossing will be. There is wide acceptance of the Schwartz report. I like many of the things they've put on the table. Still, all of the environmental assessments must be done before we can move ahead with provincial and federal dollars. I think that's critical, and that everybody at this table understand that.

To do environmental assessments you're not putting out hundreds of millions of dollars to get those complete, and you can't go ahead with the work without that. So to put a shovel in the ground, you have to have other actions already completed—agreements between the municipality, the province, and the federal government, and the environmental assessments—and then you might go forward with construction.

So would you agree that those are the steps that need to be taken at this point in time?

The Chair: Thank you, Jerry.

Comment?

Mr. Mark Nantais: Clearly there are some initial steps that have to be taken, and we certainly agree with that. An environmental assessment, once it's initiated, can move along fairly quickly. We're hoping we can get them started soon.

All of this started with 9/11, and that's four years ago now. We were promised very swift movement, and we obviously didn't foresee a lot of local problems—the political problems and so on. This is not an easy thing to do, obviously, particularly when you have to relocate another bridge crossing or other crossing. Indeed, you do have to go through those environmental assessments; you do have to consult with the community, and these are tough issues at times.

So yes, we agree, but things have to start moving. They should start moving quickly, we hope.

● (1730)

The Chair: Are there any other comments on Mr. Pickard's remarks?

We're going to give the last bat to you. I think, Mr. Nantais, you have a flight issue here.

Mr. Mark Nantais: No, I'm fine.

The Chair: Good.

Are you finished, Jerry? Are you okay?

Hon. Jerry Pickard: Yes, I'm fine.

The Chair: Brian.

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

I'm glad you mentioned the Beacon project. It also notes the complexity of this, because it was a very good project announced, but unfortunately, the very next day I lost 400 people at General Motors, who were laid off. The agreement the province had made that they wouldn't have any plant closures in Ontario for this was really moot, because in Michigan they laid off a plant, which cost me 400 jobs of transmission workers in Windsor, Ontario. So it shows the complexity of dealing with the issue and why a national policy is needed.

Perhaps I can conclude on the Schwartz report, which is really interesting in terms of where we can move forward, and get your opinion on this. Right now the government could drop a legal case against the truck ferry service. What's happening is that the Windsor-Detroit crossing has the tunnel and the bridge, which have a grandfathered effect where they get the provision of customs officials. So any new crossing like the ferry service, which right now they have to pay for, creates an increased cost. So it's hard to grow an operation, and any new crossing is going to face this obstacle, as well.

In fact, the ferry was the only redundancy—I know Mr. Coleman mentioned a very important term, “redundancy”—in that during 9/11 the ferry service actually moved vehicles across that couldn't get there. It actually has a grant from the Homeland Security department, because it has to do pre-clearance and all that.

To get to the point, if there was a competitive cost reduction of the ferry service, an expansion of service, would the industry support that increased immediate capacity, which can happen within a matter of months, to create the redundancy that's necessary, provided it was cost-effective in terms of what the other crossings have as cost features, and had service levels similar to the bridge and the tunnel? What do we do if any new crossing is going to have to have this competitive disadvantage of not getting a free customs service and will have to incur that cost in terms of the new crossing?

The Chair: Thank you, Brian.

Dr. Jim Stanford: That's an issue where clearly you need an integrated look at the whole thing, where the private interests that are associated with one particular crossing or another, especially where private ownership of the infrastructure is involved, are just another wrench in the works of what is already an incredibly complicated situation.

So anything that brings more capacity on stream faster is obviously going to be an advantage. Also, I think anything such as this—again, this border authority idea—that would allow us to take a look at the whole system and design a system that is internally consistent would be a huge step forward.

Mr. Adrian Coleman: I think we'd be supportive of any cost-effective ways we could get redundancy into the system. With only one crossing, everyone's aware of the problems we can run into.

Mr. Brian Masse: This one has actually won awards in the U.S.

The Chair: I think John had a comment.

Mr. John Duncan: Yes. I just have this business about the grandfathering of customs services. Any new facility that's either taking passengers or freight internationally that's new since 1994-95 now requires the local authority or business, whatever, to pay those costs. It's actually showing up in a lot more areas than redundancy at the border. It's led to cancellation of a new air service between Kamloops and Seattle and it's led to other cancellations because the cost is so high. What it's doing is penalizing communities, in this case, that are trying to be innovative and trying to improve themselves, and it's creating a very discriminatory system. I have two adjacent communities in my riding. One has all their customs services paid for and the other one has none.

So I think this committee might want to look at it from a bigger standpoint than just the issue you brought forward. This has been one of my major aggravations for some time, so I didn't want to miss the opportunity to bring this in.

● (1735)

The Chair: Thank you, John. So done. Thank you.

I want to have one quick comment on the schedule, colleagues, before you go.

I want to thank the witnesses on all of our behalf for your great help today. Hopefully this and the other pieces of the strategy puzzle will all come together, thanks to your help. You're excused.

I want to mention, colleagues, that you've received a letter from the minister on the reappointment of Peter Clark to the Standards Council of Canada. I'm asking you if you want to see Mr. Clark or not. Do you?

Mr. Werner Schmidt: Yes, I do.

The Chair: I propose that we would see him on April 13, because I don't think we're going to have Bill S-18 anyway. Is there a consensus on that?

We can do that later.

Mr. Werner Schmidt: With regard to Alcock and the implementation of the smart regulations, are you going to bring that up?

The Chair: Yes.

Werner and I shared notes. That wouldn't be until later on, but on May 9, on our industrial strategy day, we will have officials in to brief us on the smart regulations announcement. It's a precursor to the minister's visit this fall.

I'll bring up the other items at another meeting.

Mr. Werner Schmidt: On that April date, it is not going to be a long meeting with Clark, is it?

The Chair: No. We might be able to put something else in there. We'll see.

Mr. Werner Schmidt: Yes, I think so, because my question is a short one.

The Chair: Okay, with that, we're adjourned.

Thank you.

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