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**Tuesday, March 22, 2005**

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**Chair**

**Mr. John Cannis**

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Tuesday, March 22, 2005

• (1535)

[English]

**The Chair (Mr. John Cannis (Scarborough Centre, Lib.)):** Colleagues, I am calling the meeting to order. We have pressing business.

Before I introduce our witnesses, I would like to remind everybody that the bell is going to go around 5:15. With your permission, after we finish with our witnesses and our questioning, what I'd like to do is allocate at least 15 or 20 minutes for discussion of our travel issue, get some input, and pass on where we are today, so that we can maybe agree or agree to disagree on what our next step will be as we near the time of putting our report together. We'll go in camera at that time. We have the parliamentary secretary here as well, so we can get some input from him.

Ms. Jennings.

**Hon. Marlene Jennings (Notre-Dame-de-Grâce—Lachine, Lib.):** At what time did you intend on stopping in order for us to go in camera?

**The Chair:** It's now 3:35. We could stop at 4:45, or 4:50 at the latest. How would that be?

**Hon. Marlene Jennings:** That sounds good. That way we would have half an hour before the bells go.

**The Chair:** Is everybody in agreement with that, so that we can get into our questioning? Great.

With that, I would like to welcome and introduce our witnesses here today. Colleagues, we have with us Mr. Avrim Lazar, president and chief executive officer of the Forest Products Association of Canada; and Mr. Roger L. Larson, president of the Canadian Fertilizer Institute.

Welcome.

**Mr. Clyde Graham (Vice-President, Strategy and Alliances, Canadian Fertilizer Institute):** I'm Clyde Graham. Roger will not be with us today. He's very ill.

**The Chair:** I'm sorry, Clyde. Welcome.

You have ten minutes for statements. Mr. Lazar, will you be opening up with the lead statement?

**Mr. Avrim Lazar (President and Chief Executive Officer, Forest Products Association of Canada):** Sure, whatever you like.

First of all, let me introduce my colleague Joel Neuheimer, who is our director of trade.

Thank you very much, not just for inviting us but for taking on this topic. We think it is a topic that is tremendously important to the future well-being of Canada.

I'm going to start by telling you a little bit about the association and the industry, and then go into the details of emerging markets, what the opportunities are, and, most importantly, what the government can do to help us meet these opportunities.

Quickly, the Forest Products Association of Canada is the only national organization representing the industry. We represent about 75% of the industry, from Newfoundland right through to Vancouver Island. We have both pulp and paper and solid wood members. Our members are in 1,200 communities across the country, and there are 359 rural communities that depend entirely upon our members, meaning that when we shut the mill, the community shuts down. There are 900,000 jobs in Canada that depend upon our industry, and these are jobs that are very hard to replace because so many of them are located in rural areas. They're good-paying jobs. We pay about 50% above the average wage, and many of them are high-tech jobs.

We export about \$45 billion worth of product a year, which means Canada is the most successful forest product exporting nation in the world. No one comes close. Second is the United States, which does about half of what we do. The Canadian industry is, by far, the most successful player in the global marketplace in forest products.

We export a lot to the U.S.A.—the majority of it—which is why we find today's topic so compelling, because, one, we can always use new markets, but, two, we really need to become less dependent on the U.S. market. So what you have chosen as a topic really engages us and excites us, and we hope we're going to be able to work together.

What is the marketplace for forest products in this day of composite fibres, the use of the computer, and new construction techniques? Globally, the UN predicts that the demand for forest products will go up 3% a year every year for the next ten or twenty years, so there is an expanding marketplace. If you look specifically at the big emerging markets, China's demand is going up by 9% a year and India's by 5% a year. There's quite a big marketplace that could be exploited, and Canada could be taking a large share of it.

On the other side, the number of countries that are exporters of forest products has doubled in the last fifteen years. Many countries that used to be our customers, like Brazil, Russia, and China, are also becoming our competitors. The European countries have been very aggressive in getting a toehold in emerging markets, so they're also very aggressive competitors. So, yes, there is an expanding global demand, most of which is concentrated in emerging markets, but, no, Canada cannot take our share of that for granted at all. We're going to have to be very aggressive and smart to get any piece of that expanding pie.

● (1540)

**Mr. Avrim Lazar:** Our messages to you are basically three-fold, and all three messages are answers to the question of how we get a share of that expanding pie.

There are three things we have to do. One, we have to get into the market, which means we have to look at access, tariffs, non-tariff barriers, anti-dumping, and all of those things—and I'll talk about this for a couple of minutes. Once we get into the market, we have to get established there. That's where our foreign missions, our trade commissioners, and market intelligence become very important. The third thing is that we have to get competitive in Canada in order to be competitive in those markets. I'll take each of these in turn, starting first of all with getting into the markets.

Most of these emerging markets, like China and India, do have tariffs. They do try to find ways of keeping us out. Perhaps more importantly, they have high tariffs on value-added products. If we want to hew wood and draw water for them, they're quite willing to turn us into an economic colony, buy our raw materials, get the jobs by transforming the materials there, and then sell the finished products back to us. They use anti-dumping duties. They use every trick in the book to try to create the jobs in their countries and minimize the jobs in the countries that own the resources.

Our first recommendation is that we aggressively pursue the elimination of all tariff and non-tariff barriers for the forest sector at the GATT. We are quite precisely asking for the establishment of a forest sector table at the WTO that would look at all the issues relevant to free markets in the forest sector, such as the reduction of tariffs and removal of anti-dumping, while also looking at non-tariff barriers.

In addition, at the WTO, Canada is very dependent upon good rules. The rules that are a bit in the way of Canadian competitiveness are the rules on subsidies. China subsidizes its industry and creates new capacity, new factories, that would not otherwise be there without the subsidies. Europe also does it. There's a huge new plant in eastern Europe that has a subsidy in excess of 40%. India does it and Korea does it. So in addition to its sector table on forest issues to remove the tariff and non-tariff barriers, we need better discipline on the use of subsidies in the new round, if the WTO can achieve that.

Finally, there's dispute settlement. How we deal with anti-dumping and all those other difficult issues has to be addressed. Recommendation number one is that we use the WTO Doha round to create open access for forest products in global markets. That's number one: getting in.

Number two is getting established, and here is where the government can really be our partner. These are difficult market-

places. The Chinese are extremely capable of shutting us out, of exploiting us, of taking our money and running. It's very hard to establish ourselves in these markets. Sometimes they are international partners, are self-interested, and we need local intelligence, local information, and local support if our companies are going to get a toehold in these markets.

The staff in China and India now are first class, but there aren't enough of them. If Canada wishes to have a real chance to penetrate these markets, to create jobs in Canada by selling into these markets, we are going to have to up the number of people we have on the ground in these emerging markets. Having one or two people running this way and that way, covering a couple of continents, is just crazy. The payback for Canada, if we had enough people, would be in many thousands of jobs here. So our second recommendation is to strengthen the Canadian government's capacity on the ground in emerging markets so that it can provide market intelligence and support to companies that are trying to establish themselves there.

So the first thing was to get in, and the second thing was that we need support for getting established. The third thing is to become competitive, because we are not the only country trying to sell in these markets. The business climate in Canada has a big effect on our competitiveness in these markets.

● (1545)

Let me give you a few examples of the sorts of things we're concerned about in the business climate. I'm going to start with taxes. Of course, industry always whines about taxes. However, the U.S. industry did a study comparing the tax rates of the forest industries around the world, because they were convinced that they were the most heavily taxed. A week later, the head of U.S. industry called me and said, "Avrim, you take the study. You are the most heavily taxed." It makes a difference, because in order to sell into India and China, you have to invest in plants in Canada, and investment goes to where the tax rate dictates that you're going to get a return on investment.

The second thing is regulations. We applaud the smart regulations move that the government has announced. We think it's the right thing. We worked very closely with the government on that report, and we think it really reflected the sorts of things that have to be done. But having that report and having those good intentions is useless unless you do it.

I've been around regulatory reform for 25 years of my career, and it reminds me very much of new year's eve. Every new year's eve people make their new year's resolutions and three weeks later nothing has changed. This last report is the best new year's resolution I have ever seen, but it's not going to help Canadian competitiveness unless it's implemented. So let's not just talk smart regs, let's be unrelenting in doing smart regs and implementing that report.

The last thing I want to talk about on business climate is competition policy. Canadian competition policy requires the Competition Bureau to make sure there's not too much concentration in Canadian companies because that might lead to higher prices in Canada. But we export 88% of what we make. It's a global market. You can buy paper from anywhere and wood from anywhere in Canada.

Unless we get big enough, we will not be successful. The European industry is more concentrated and bigger than we are. The U.S. industry is more concentrated and bigger than we are. Singapore and France have bigger companies than Canada in the forest industry. Big isn't always better, but when you want to export, big is almost always better. If you want to have a small niche market here and there, sure, you can do it with a small company. But unless the Competition Bureau gets out of our way so that we can consolidate and become world-sized, we will not succeed in the competition.

Competition requires that you invest, and you can only invest when you reach critical mass. The type of staying power you need to hang out in China for ten or fifteen years or to develop the market in India requires companies of sufficient size. The type of research you have to do to understand what that market needs in order to specify and to specialize your products so that they work in those markets requires companies of sufficient size.

Let me quickly recapitulate. It's a great marketplace out there. It's growing every year. We're the most successful forest products exporting nation in the world. We can do it, but we have to get in, which means we have to improve the world trading regime. We have to get established, which means we need more bulk on the ground to help us do it. And we have to become competitive, which means we have to speed the improvement of the business climate in Canada.

Thank you.

**The Chair:** Thank you very much, Mr. Lazar.

We'll go to Mr. Graham.

**Mr. Clyde Graham:** I'm Clyde Graham, vice-president of the Canadian Fertilizer Institute. I would like to thank Avrim for making a lot of points we would agree with in terms of development and protecting the market share that we have in emerging markets.

The Fertilizer Institute is the unified voice of the Canadian fertilizer industry. It represents manufacturing and the larger distributor retail aspects of the industry. It is involved in issues on policy development, knowledge development and education, product stewardship, and industry services.

The major manufacturers in Canada include Agrium, CF Industries, Mosaic, Nitrochem, Orica, Pacific Ammonia, Potash Corporation of Saskatchewan, Saskferco, Sherritt, Simplot Canada, and Terra Industries. In retail and wholesale distribution, our members include Saskatchewan Wheat Pool, McCain Fertilizers, Imperial Oil, Cargill, Sylvite, International Raw Materials, Co-opérative fédérée de Québec, Agricore United, and Agronomy Company.

We develop industry positions on issues affecting the entire life cycle of fertilizers, from the manufacturer to application on the farm. We have a vested interest in the health of the agricultural sector in Canada and around the world.

There are 24 major production facilities located across Canada, although they are concentrated in Saskatchewan and Alberta, with some potash production in New Brunswick and some nitrogen and phosphate production in Ontario. As well, we have some ammonia production in British Columbia.

Canada is a global player in the fertilizer industry. We produce approximately 24 million tonnes of nitrogen, phosphate, and potash in Canada per year. Of that, 18 million tonnes are exported. Canada supplies roughly 12% of all the mineral fertilizer used in over 70 countries around the world.

In terms of our contribution to the Canadian economy, every year Canadian farmers use about \$2 billion worth of fertilizer products, which are largely produced within Canada. Annual international trade exports amount to about \$4 billion a year. The industry employs about 12,000, and the potash industry alone pays \$300 million per year in federal and provincial taxes.

As a result, there are jobs in related industries. For example, we consume 9% of the natural gas consumed in Canada to make our products, particularly nitrogen and potash. We are the third-largest commodity shipped by rail. Natural gas is a critical feed stock, and its supply is critical to the production of nitrogen. Sulphur is also a plant nutrient, usually in association as an ammonium sulphate product. Phosphate and potash are mined in Canada and are directly processed into finished fertilizers.

Nitrogen fertilizers are not generally exported to emerging markets. They're either used in Canada or exported to the United States. About 60% of the nitrogen fertilizers in Canada are exported to the United States. I think we can probably agree that's not an emerging market, although it's an export success story.

The area in which Canada does export primarily into emerging markets is potash. Potash is a product mined in Saskatchewan primarily. Canada has some of the most significant reserves in the world. There are also two mines in New Brunswick. We do use potash in Canada, and there are significant amounts exported to the United States. But the most important markets for Canadian potash are overseas. Of the potash produced in Canada, 95% is shipped outside of the country. Only 5% is used in Canada. That's how significant our reserves are.

● (1550)

Canpotex is the export arm of the three potash producers in Canada: Potash Corp., Agrium, and Mosaic, which used to be called IMC Global. Canpotex works with those three companies as the export arm for potash fertilizers.

World potash production totaled over 45 million metric tonnes in 2003. Canada was the most significant producer of potash in 2003, at 14.2 million metric tonnes.

Long-term factors affecting potash demand are the increasing world population and rising incomes, which create demand for higher-quality food products; the decreasing available agricultural land; and the role of fertilizer in increasing crop yield on that existing farmland. As well, the economic expansion in China, India, and Brazil in particular is increasing demand for agricultural products and higher-value agricultural products. As a result, farmers are responding by using more fertilizer to ensure that they have the yields and the quality crops that consumers are now demanding.

In the shorter term, factors affecting potash demand include government subsidies on potash production in our competitor countries; political and economic conditions, of course; commodity prices; and, of course, world grain stocks and the buyer inventories of potash that may grow from time to time.

The four largest offshore buyers for Canadian potash are China, Brazil, India, and Malaysia. Those countries account for 70% of world trade activity in potash. Our major competitors in the export market are Russia, Israel, and Germany.

Canpotex maintains an overall market share of 30% in the markets where it is active. That share varies significantly from market to market, but obviously Canpotex is a very significant player in any of the markets where it finds an opportunity. Trade activity in those markets totaled about 22 million metric tonnes in 2003.

There's currently a boom in potash demand. Commodity markets are expanding for potash. There was, I think, an underestimation of the demand that would be there. The burgeoning economies in China, Brazil, and India are buying a lot of potash. There are strong commodity prices and there are record world grain stocks, and they are also reinforcing signals to farmers to increase their yields through the use of fertilizer.

Potash trade reached record high levels in many countries in Canpotex markets in 2003. Those records were set in countries such as China, India, Malaysia, Indonesia, Vietnam, and Brazil. Potash trade in 2004 is estimated to have exceeded 24 million metric tonnes.

It's interesting that the topic today should be emerging markets. In many of the markets that are being discussed today, Canada has been a significant exporter for a long time. China, for example, has been what you could call a mature market for potash since 1984. Canada's potash industry has been an early adopter, an industry that has recognized the importance of emerging markets and has been a player in them.

One of the most significant reasons that Canada's potash industry has been successful in emerging markets is that it has done an awful lot of market development. Currently, Canpotex spends about \$1 million a year in markets throughout the world, promoting the use of its products among farmers through agricultural departments and through extension services.

The industry itself in general also supports the Potash and Phosphate Institute, a science-based research organization that is engaged in extension services around the world. Again through agricultural departments, but even directly through particular field days in markets, the institute is telling them about the value of potash, how to use it properly as a fertilizer, and how to get the most out of the product in terms of yields.

• (1555)

Mineral fertilizers are in some ways a relatively new product. I can tell you that when I was a child growing up on a farm in Saskatchewan in the 1960s, my uncle and my father had a debate at our kitchen table about whether it made sense to use fertilizers. In many countries of the world, mineral fertilizers are not universally accepted. There is a tremendous opportunity to advance those

markets, and we certainly have to maintain the ones we already do have.

I recently met with some trade commissioners who were at the Prospectors and Developers Association of Canada meeting in Toronto. They were there to talk with the mining industry. Potash is a product that is mined underground in Saskatchewan—I didn't give you a lot of the background on the product—and it was very heartening that they were very keen to help support the product, as you would expect. In some cases, they were quite knowledgeable. In other cases, I think they did need to understand more about the product.

In terms of potash, it may be different from other products. In order to create the market, we may actually have to tell people about the product and how to use it. That may be a different case than it is for some other products. In that kind of extension service, knowledgeable trade commissioners are very important in developing those markets and in maintaining them.

I think Avrim talked very well about some of the competitiveness concerns that every member of Parliament has been hearing about from industry in terms of competitive taxation rates, in terms of smart regulations, and in terms of giving businesses the ability to operate and to become globally competitive. Those are all important, but I'm not going to go over them again here.

For us, Kyoto is a particular competitive concern. Our industry is a large final emitter of CO<sub>2</sub>, and we certainly need a Kyoto regime that allows us to remain internationally competitive. That is important to us.

In terms of the WTO, we are a supporter of zero tariffs, not only for potash but for all fertilizer products. We also think there are ways in which the dispute settlement mechanisms could be improved. We have been the subject of side-swipe retaliation, particularly in the case of the trade dispute in Brazil. We think there have to be better ways, and I think there is some consideration being given at better ways to look at retaliation when countries have been found wanting in their WTO obligations.

We also believe that when other Canadian industries promote their products abroad, they have to be careful that they are sensitive to the impact that promotion could have on other products. The Canadian Fertilizer Institute supports the efforts the organic agriculture industry has been making in terms of developing a market niche. In today's environment, farmers have to seize every marketing opportunity they can, and we certainly applaud the gains they've made in developing market share. But in promoting that industry, particularly in countries around the world that are not familiar with our products, there has to be sensitivity that claims are not made regarding, let's say, the environmental benefits of organic agriculture or the health benefits that are based only on science and not on marketing.

Those are the key points we would make. The industry in general, but potash in particular, feels it has had good support from government in terms of developing emerging markets over the years.

• (1600)

The challenge going forward will be to maintain the footholds we've made in those markets and to ensure that government policies continue to support the development of those footholds, from the mines in Saskatchewan through to the rail system and ocean freight; to ensure that there is continued access to those markets; and to ensure that farmers around the world understand the benefits of mineral fertilizers.

**The Chair:** Thank you very much, Mr. Graham.

We'll go to questions immediately, starting with Mr. Menzies.

**Mr. Ted Menzies (Macleod, CPC):** Thank you, Mr. Chair.

Thank you very much, both of you, for your presentations.

Mr. Lazar, I commend you for not spending most of your time talking about the softwood lumber issue, although I'm sure that's front and centre.

• (1605)

**Mr. Avrim Lazar:** If I have an opening...

**Mr. Ted Menzies:** I'm sure you will jump right in.

We realize that has certainly kneecapped your industry, but I applaud you for looking beyond it. We've had many discussions about it at this table, and we are certainly making our best effort to ensure that situation is resolved, and the sooner the better, of course.

The WTO is something I've been a big promoter of as the way we're going to see these new markets opened up. You talked about market access as being very critical. It's the same in the grains and oilseeds industry. Tariff escalation is certainly an impediment. Tariff escalation for everyone means higher tariffs on value-added products, and we see that in a lot of other industries.

On non-tariff barriers, can you give us a bit of an indication of what non-tariff barriers your industry is dealing with?

**Mr. Avrim Lazar:** Certainly.

Non-tariff barriers mostly occur in codes and standards. A country develops a building code, and very subtly, without really meaning to, it manages to say that builders can build with the wood they have, but they can't build with the wood from a competing country. The sizing and specifications sometimes come in city codes or provincial codes, but a lot of them come in codes and standards.

The other way those barriers sometimes come is in environmental requirements that favour the manufacturing process in the country putting up the barriers while discriminating against the process in another country. Whereas the environmental impact is the same, they specify the stuff of their competitors.

Someone said tariffs are like heroin for industry, because once you have them, you want to hang on to them.

**Mr. Ted Menzies:** Like subsidies.

**Mr. Avrim Lazar:** Exactly.

For a political leader to remove a tariff, it's very hard. Non-tariffs are the methadone. You remove the tariff and then you find some other way of blocking. Some of the environmental rating codes basically discriminate against Canada, because an environmental

registry in Canada isn't given the same weight as an environmental registry somewhere else.

So they're disguised as technical things, and they're very hard to get at unless you are in the committee room, on the ground, seeing them while they're being developed. What we're therefore asking for is an examination of the WTO rules on non-tariff barriers, so as to give us recourse and encourage discipline so that they're not used in a discriminatory way. We clearly respect that every country should insist upon high environmental standards, that they should have codes and standards that protect their citizenry, but not in a way that discriminates commercially.

**Mr. Ted Menzies:** You talked about Canadian taxes being out of line with those paid by your competitors. Can you give us an example of how far out of line we are?

**Mr. Avrim Lazar:** We're only slightly more taxed than the U.S. I don't have the numbers at my fingertips, but I could send them to the committee. We're highly taxed compared to Brazil and Indonesia. Then again, they don't get a heck of a lot of service for the money they don't pay, so I don't want to say we should be taxed at the same rate.

However, I'll make two specific comments. One, a more rapid reduction in the level of taxes would clearly make us more competitive. Two, a more careful look at what we're taxed on would help as well. Improving the speed of capital cost write-offs would make a big difference. Paper machines cost between \$800 million and \$1 billion. You don't buy them every year. But your competitors around the world are buying big, fancy machines that are faster and cheaper to run. If we had a capital write-off that was as rapid as that of many of our competitors, we would be buying machines just as quickly and would be more competitive.

So it's not just how much the taxes are. If you're going to reduce taxes, the place to reduce them is in things that incent capital turnover and new investments and innovations. We do have a technical report that we've written on this, and we'd be happy to send it to the committee. We've obviously sent it to the finance committee.

**Mr. Ted Menzies:** Yes, we'd sure like to see that.

Do I have a couple of minutes?

**The Chair:** Can you just send that report to the clerk? We'll make sure it's distributed.

**Mr. Avrim Lazar:** Sure.

**The Chair:** Thank you.

**Mr. Ted Menzies:** You talked about a 3% increase per year. Will our reforestation projects keep up with that?

**Mr. Avrim Lazar:** Our reforestation projects in Canada are netting out at zero deforestation. Right now, we crop 0.25% of Canada's forests each year. We only operate on 25% of the forest land base. According to the UN and according to the World Resources Institute, which is a global NGO, Canada's rate of deforestation is zero. We still have 92% of the original forest cover that was here if you had come here when it was still run by first nations. We've lost 8%, most of it to Toronto, Sudbury, and, I'm afraid, to agriculture. The impact of forestry is zero. We make a living by regenerating the forests, so deforestation in Canada is not there.

We have some problems. We have some areas where the cuts may be bigger than some would want. We got a little bit out of balance in Quebec, but things are being put back into balance. But if you look at us compared to any place else in the world, we're clearly as good as anywhere, better than most, and getting better every year. And if you look at actual deforestation, there is none in Canada.

If you were to ask that question globally, could the global forest supply at 3%? Yes. There are still a lot of unexploited forest resources in places like Russia. As long as the replanting keeps up, the global supply of trees will be fine.

In other places, like Brazil, they're treating trees like crops, and they're just replacing coffee and fruit trees with eucalyptus trees. They grow them like a crop, seven years later they chop them down, and then they plant another crop. So there is no global shortage of fibre.

• (1610)

**Mr. Ted Menzies:** That's a good-news story that needs to be spread more. I'm sure you try, but that's not what a lot of people hear.

Mr. Graham, it's wonderful to see you again. We haven't crossed paths for quite a while.

You talked about the WTO again. What does Canada need to do for your industry to be able to expand its markets? At the WTO, what positions do we need to take?

**Mr. Clyde Graham:** The elimination or reduction of tariffs is certainly important to our industry. There are tariffs out there, but there are also some non-tariff barriers, like anything in the area of phytosanitary issues. I think Avrim is correct that when countries lose their tariffs or reduce their tariffs, they often do find other ways to restrict trade. It takes a constant effort of vigilance to make sure tariffs are not replaced by other trade measures as well.

The other area in which we'd like to see action is in terms of dispute settlement mechanisms. Retaliation is a difficult way to enforce the WTO. You're generally causing somebody else some grief. For us, although we're an export success story, we can be subject to side-swipe in these disputes, as we were in the Brazilian Embraer case.

There are some proposals out there. I'm not entirely familiar with them, but they essentially look at other ways to penalize countries that are not following the WTO rules. That kind of system would be very helpful in the softwood lumber dispute, for example. Supporting those kinds of measures through the WTO would be helpful to our industry.

**The Chair:** That's almost a couple of seconds before ten minutes. You're fantastic.

**Mr. Ted Menzies:** We're good.

**The Chair:** We'll go to Madame Deschamps, please.

[Translation]

**Ms. Johanne Deschamps (Laurentides—Labelle, BQ):** Thank you very much.

My question is directly specifically to Mr. Lazar.

Forestry is a very important industry in my home riding of Laurentides—Labelle in Quebec. My constituency is located in the

Mont-Laurier region, in the Abitibi, north of Mont-Tremblant. You stated that 350 rural communities were dependent on the forest industry. It's also likely that industries in these communities are smaller in scale.

What can be done to make these types of markets more accessible to SMEs? Do SMEs have a greater number of concerns? Are they as well equipped? Do they have ready access to information? Often, accessing the Internet in rural communities is a slower, more complicated process. Could these small businesses benefit from the services of smaller missions abroad, so that they too could benefit from the situation? Do you understand the gist of my questions?

• (1615)

**Mr. Avrim Lazar:** I certainly do.

Ultimately, as I see it, small businesses are dependent on big businesses. The economy in a rural community is similar to an ecosystem. One component is dependent on another. When big businesses succeed, all small businesses that depend on them succeed as well. The advantage for SMEs in rural regions is that if companies like Domtar, Abitibi Consolidated and Tembec are successful in foreign markets, this success creates business opportunities for all small businesses that depend on the health of the economic ecosystem.

It's easy for most people to say that the government must support SMEs because of their relatively small size and more limited capacity, but the truth of the matter is that large businesses generate sufficient economic activity to sustain all other businesses. It may be possible for some small businesses to find small niches in China and in India, but in point of fact, it is unlikely that they will succeed in the long term.

When one visits a town that is home to a large plant, one comes across people who may either recycle waste to create energy, manufacture elbow joints, or have a cafeteria maintenance contract. Even hotels depend on people who visit the plant for business. We see an entire economic ecosystem at work. Therefore, if we want to support small businesses, we need to support the people who create the wealth distributed by this ecosystem.

[English]

**The Chair:** Thank you very much.

Madam Jennings, the floor is yours.

**Hon. Marlene Jennings:** Thank you.

I just want to touch on the issues you raised concerning becoming competitive. You talked about how there was a study done in the United States on the taxation systems across the board. The U.S. thought their industry and their country would be the most taxed, when in fact Canada's industry is.

I'd like you to describe a couple of issues in more detail. You talked about capital write-offs—the need to be able to have access to and invest in the latest high-quality technology, whether it's machinery or otherwise—and how the capital write-offs that exist in Canada are not competitive when compared to those in the countries you're competing against. I'd like you to give us a little bit more information on that, Mr. Larson.



In going through your document, I've noticed that you talk about one of the problems—

**Mr. Avrim Lazar:** I like Roger Larson a lot, but I'm not him.

**Hon. Marlene Jennings:** You're actually Avrim Lazar.

**Mr. Avrim Lazar:** There have been times when I wished I was him, but I've gotten over that part.

**The Chair:** Mr. Graham is here on behalf of Mr. Larson.

**Hon. Marlene Jennings:** I noticed that in your brief you're talking about the signs that consolidation is required if our industry is going to be able to compete in the global market, and how our legislation in some cases, whether it's from the Competition Bureau or not, is an actual impediment to further consolidation in our forest and paper industries in order for them to achieve economies of scale, etc. I'd like you to give a little bit more information on that piece of it. What is the legislation that's blocking it? Is it federal? Is it provincial?

In that document it also mentions something about the resources. Some provincial legislation on access to resources acts as an impediment to consolidation—mergers, in other words—in order for companies to be able to adhere to provincial legislation. I didn't quite understand that, so I'd like a little bit more information on that.

And I have one question for you, Mr. Graham. While you were talking, I was actually reading your document. I found it to be really fascinating reading. I'm someone who actually tabled legislation calling for a ban on the cosmetic use of chemical pesticides. At that time, a lot of the agricultural industry was quite concerned, and I had to reassure them that I wasn't talking about industrial use or agricultural use. I'm really pleased with and have to congratulate your industry for the work that has been done on the fertilizer side to make it environmentally safe, etc.

That's my only comment for you. Sorry I don't have others.

• (1620)

**Mr. Avrim Lazar:** They're super questions, and the two of them interweave. I'll do one and then the other, and then the interweaving, if that's okay.

**Hon. Marlene Jennings:** And if you want to start on softwood lumber, go ahead.

**Mr. Avrim Lazar:** I'm going to discipline myself.

**Hon. Marlene Jennings:** Why? I don't.

**Voices:** Oh, oh!

**Hon. Marlene Jennings:** I always agree with our expert witnesses. It was their suggestion.

**The Chair:** Everybody who comes to this committee is so excited that they get very hyper. We can appreciate where you're coming from, though.

**Mr. Avrim Lazar:** In order to compete, we always have to do things differently, because our competitors are finding ways of doing things differently. In our industry, which is capital intensive, doing things differently means you need cash. You need big mountains of cash. Cash moves. It's the most mobile factor of production.

Within Abitibi, for example, they have to decide if they'll put the capital they have in Canada, in the U.S., in Chile, in China, or in

Europe, because they have operations everywhere even though they're a Canadian company. The same thing is true of Weyerhaeuser, Tembec, etc. The Canadian plants have to compete for capital within their companies, and those companies have to compete for capital globally.

Where does capital go? It goes to the places where it gets a return, so the first thing is whether or not the business climate is such that you're going to get a return if you invest. These guys are rational beings for the most part, and they're going to look at the cost of regulation, the labour situation, the tax situation, and how quickly they can write things off. They do the calculations. So business climate has a direct impact on future competitiveness and therefore on an ability to hold on to jobs. If you can get a better rate of return elsewhere, you put your money elsewhere.

We don't see it right away. When that decision is made, no one talks about it. They don't announce that they're going to put most of their capital into China next year. But five or ten years later, we notice that our jobs are declining and their jobs are increasing. This is a result of all the regulatory taxes and all the other costs of doing business.

The other part of it that is often ignored is that investors are not entirely rational beings. Like any other humans, they are influenced by reputation, so how we talk about Canada influences them.

**Hon. Marlene Jennings:** Is that a message for the opposition?

**Mr. Avrim Lazar:** That's a message for all of us.

**Hon. Marlene Jennings:** I'm having fun here. Go ahead. Be serious.

**Mr. Avrim Lazar:** I'd be willing to bet that more damage to our reputation has been caused by the uncertainty around Kyoto than by the actual cost of implementing Kyoto. We have had more damage done to our investment by the lack of clarity between federal-provincial regulators than by the actual overlaps. Our reputation as a good place to do business is just as important as our costs as a place to do business.

Now I'm going to talk a little bit about size, why size matters, and what's stopping us.

First of all, why does size matter? It gets right back to the cost of capital. A \$1 billion company gets capital cheaper than a \$500 million company. A \$50 billion company gets... And it doesn't matter how good a company you are. Your market capitalization gives you the rate. Big companies can invest more because capital is cheaper.

Why else is it good? Well, if you want to develop new products, experiment, work for a long time in new markets, or try to convince the Chinese that the new middle class should have wood frame houses because brick houses are for the old-fashioned Chinese, then you need to be large enough to make those sorts of investments.

The Competition Act says you can't get so big that there's a threat of it affecting prices in Canada. That's a legitimate public good. But the threat is very small when weighed against competing public goods, like having jobs in Canada, like having jobs in all these rural communities. One, it's a global marketplace. Two, the purchasers of our products are huge companies that are more consolidated than we are. The printing industry is much more consolidated than the paper industry. The Home Depots are much more consolidated than the timber industry. So we are selling to people who have more market power than we do, and they have complete access to the global marketplace. For example, I was in the offices of Tembec, which is a very patriotic Canadian company. They're using copying paper from Brazil because it's 20% cheaper. Anybody can buy paper and wood from anywhere.

To constrain our ability to get big enough to be competitive because of a phony risk to pricing in Canada is to shoot ourselves in the foot. It's to take a theoretical public good and pursue it at the expense of a real public good, which is jobs in Canada—and it's the act.

•(1625)

**Hon. Marlene Jennings:** May I suggest that the fact that the Competition Act talks about the public good and pricing in Canada may not be phony, but that events and the development of the world and our economic system have maybe rendered some of it obsolete?

**Mr. Avrim Lazar:** Absolutely.

**Hon. Marlene Jennings:** Therefore, what you're proposing is that the government should re-look at the Competition Act and determine whether or not the criteria on which the bureau and the tribunal determine whether or not a merger is in the public good may need to be widened. Part of that widening may be whether or not an industry competes globally. In some other industries, it may not be a global market, it may be simply a North American market. That may be something you're proposing that the government should be looking at in terms of possible changes.

**Mr. Avrim Lazar:** Right on the money.

**Hon. Marlene Jennings:** Thank you.

**The Chair:** We're moving so efficiently that it allows me to maybe add a comment or question as we close, if I may.

I'm sorry, Mr. Julian. I just noticed you. The floor is yours.

[*Translation*]

**Mr. Peter Julian (Burnaby—New Westminster, NDP):** Mr. Graham, you mentioned existing markets. Mr. Lazar, you alluded to the importance of market diversification.

What share does each industry currently have, in percentage terms, of the five leading markets? I'm talking about the United States, Brazil, India and other countries. What is the volume of exports, in percentage terms, of your respective industries to the five major markets, including the United States?

[*English*]

**Mr. Clyde Graham:** It might be difficult for me to give you that on a percentage basis. I can certainly get you the detailed data. Certainly the largest market for nitrogen fertilizers is the United States. About 60% of our production goes to the United States. We export practically no nitrogen outside of North America just because

of the nature of the product. A lot of it is anhydrous ammonia, which is not easily transported by ocean and tends to move by rail. That's the nature of that product, although there is some urea that does come into Canada on the east coast, based on freight rates.

In terms of potash, again we export significant quantities to the United States, but really the largest markets are in emerging markets. China, Malaysia, India, Brazil, I believe, and Southeast Asia are major areas for potash. But I can get you the actual trade data.

•(1630)

**The Chair:** Excuse me, Mr. Graham, but could you give us that data through the clerk, please?

**Mr. Clyde Graham:** Yes.

**The Chair:** Peter.

[*Translation*]

**Mr. Peter Julian:** When we talk about China, India, Brazil and Malaysia, are we talking about the majority of current exports, or do a number of other countries also have small shares of the market?

[*English*]

**Mr. Clyde Graham:** Yes, those would be the dominant importers. After those, the other importing countries would be much less significant on a percentage basis.

So, yes, when you look at China and the size of the agriculture industry in China, their ability to consume fertilizer is phenomenal. The opportunities in China are such that Chinese agriculture is changing very dramatically from rice and wheat. Because there are so many farmers in rural areas in China, they are looking for higher-value crops and crops that are more labour intensive. For example, they're getting into greenhouse production. They're producing flowers for export, things that will use a lot of labour, because they have to consume a lot of the labour that's available in China. Fortunately for us, when you're producing a lot of those higher-value crops, you're more likely to use more fertilizer—at appropriate levels, of course—in order to get the production you need. It's more attractive to use proper agronomic practices.

[*Translation*]

**Mr. Peter Julian:** Do you have any figures?

**Mr. Avrim Lazar:** I don't have the exact figures, but I could get them and pass them along to the clerk.

We're dealing with a complex situation. The pulp and paper and forest industries encompass a number of different products. The circumstances are different for hardwood, paper and pulp. Russia exports a significant volume of raw materials such as wood and lumber to China. China then processes the wood and sells the finished product to Russia and to the United States. China is also a leading exporter of goods. It is now the world's second biggest exporter of furniture crafted mainly with wood from Russia.

We also export large quantities of pulp to China and to India. Between 1990 and the present, we have increased our pulp exports tenfold. The value of our exports has increased from \$100 million to \$1 billion. As for the paper sector, growth is very slow because of the tariffs which lend an advantage to plants in China. They want our wood and our pulp, but do not want us to keep the jobs associated with the processing of these resources into products with a higher value added.

[English]

**Mr. Peter Julian:** Thank you for that.

The next question I have is on the savvy of consumers. On the Internet, consumers are increasingly comparing notes on products and making sure the products are environmentally sound. For both of your industries, you mentioned Kyoto. I share your concern around the uncertainty of having a Kyoto plan. We've certainly been raising it in the House often enough.

What I'd like to know is what you've both done in your industries, aside from the fact that we're awaiting a plan from the government. What have your industries done to respond to Kyoto commitments? Also, what is the branding with Canadian products in these two areas? I'm thinking particularly of an "environmentally sensitive" type of approach on the branding of our products. That's certainly something that's increasingly becoming an important area with consumers.

• (1635)

**Mr. Avrim Lazar:** That's a great question. Do you want me to go first?

The forest products industry has reduced its greenhouse gas emissions by 28%, relative to the 1990 year of Kyoto. I think Kyoto requires 6%. At the same time, we've increased our production by about 20% to 23%. I don't remember the exact numbers, but they're actually in the book. So we're well on the way to having improved our greenhouse gas efficiency by 50%. We are the only industry...no, actually steel has done it too. We signed an MOU with the government, saying that we're going to reduce our intensity by 15%, and we're going to meet that commitment. It's a stretch for us, but we are going—

**Mr. Peter Julian:** I wish the government would do the same thing.

**Mr. Avrim Lazar:** Well, the government hasn't been hugely forthcoming on its side of the commitments it made in that MOU, but we don't have to get into that because it's not relevant in terms of emerging markets.

So have we done it? Yes, we've done it, and we've done it primarily through fuel switching. We have moved from fossil fuels to the use of biomass. Just in our plants, we now produce the same amount of electricity that you'd get from three nuclear reactors. We produce enough electricity on a constant basis to provide for all of Vancouver's needs. We're not going to give it to them because we use it to run our mills, but we are a huge producer of electricity in an entirely renewable, green, Kyoto-neutral way, and we're planning to double our output.

We're planning to become energy self-sufficient and we're planning to start servicing the rural communities that depend upon

us economically. We're planning to start selling them electricity so that there's no need to run these long lines that basically leak a huge amount of power. And to give the government credit, the last budget started treating biomass the same way it treats wind, which is going to speed this up. That was actually a very good move.

Have we done enough to brand it? We never miss a chance to, but let me go back to recommendations for the government. There is something the government could easily do to help jobs in Canada.

**The Chair:** In emerging markets?

**Mr. Avrim Lazar:** In emerging markets, sure. Something the government could easily do is be there to say that the Canadian forest industry is a climate change champion.

Canadian forests are not being reduced. We had a study done by a professor from Yale. That study compared us to all the other forest industries, and the professor said our regulations are as stringent as those of any place in the world. There's no place more stringent than ours. We're better than most, and we're getting better all the time.

We need the Canadian government to be out in all these markets and saying this. We say it, but when we're saying we're good, people half believe us and half don't believe us. We don't use any statistics. All the stuff that proves we are good is either from government statistics or NGO statistics. We don't use our own statistics. So they're credible statistics, but if it were the government out there branding Canadian products as sustainable, branding them as environmentally preferable, it would help our image in those markets.

So far, we've been damned with faint praise. There's a Canadian reluctance to say, damn, we're good. The French go out and the Americans go out and—I won't say they don't tell the truth—they're not very modest. They brag about their products. The Canadian government comes along and is hesitant and says our products are appropriately good, and the customers assume the Canadian government doesn't like us. That's because of the Canadian lack of capacity to brag.

**The Chair:** Does the Minister of the Environment know this, Mr. Lazar? It's my understanding that he will be appearing before the committee soon.

**Mr. Avrim Lazar:** Minister Dion knows what our record is on greenhouse gases, and he has praised us for it. He also knows what our record is on water quality, and he has praised us for that. He knows what our record is on air quality, and he has praised us for that. He has also said we should get better on air quality. He's right, and we plan to get better on air quality. The environment and natural resources ministers know what we've done on forest stewardship, and they've praised us for that.

On all these things, we have accepted the praise. But we've also committed to getting better, because that's what keeps us competitive.

**The Chair:** Could you wrap up, please? I know Mr. Julian's waiting for a response from Mr. Graham.

**Mr. Avrim Lazar:** This is all in response to asking me about softwood.

**The Chair:** Mr. Julian is just over eleven minutes, and I want to go to Ms. Deschamps and then try to get to Mr. Menzies later.

**Mr. Clyde Graham:** I'll try to give you a few key points.

Our industry has also made dramatic reductions in greenhouse gas emissions. I can tell you that we meet a lot with our colleagues in other industries, and everybody in industry has made those kinds of reductions.

I'll get you the specific numbers on the production of nitrogen fertilizer. I just didn't bring them with me. They're slightly lower than those for forestry, but I will provide them to the committee.

In the production of nitrogen fertilizer, however, 70% to 80% of the cash production cost—eliminating the capital—is natural gas. If you look at the cost of natural gas today, it's roughly double what it was about five years ago. The cost of natural gas is enormous. If you owned shares in any of our publicly traded companies and you asked if the plant managers of those companies had not made every possible effort to use every efficiency in terms of natural gas, and the answer was no, you'd sell your shares. It's such a significant cost to our industry that every effort has been made to implement efficiencies and reduce the use of natural gas as much as we can.

One of the specifics about nitrogen fertilizers is that we actually use nitrogen as a feed stock. We take the hydrogen out of the natural gas and combine it with nitrogen to make ammonia, which is the basis of all nitrogen products.

I have a couple of other quick points. We have been in negotiations on an MOU. There has been some uncertainty about where government policy was going in recent days. Minister Dion has been trying to clarify that a little bit. We'd certainly like to conclude that MOU as soon as we can. We've done an awful lot of work with NRCan to define our industry and the obligations that we should be expected to commit to. We'd like to get that MOU done as quickly as possible.

Just as a couple of other quick points—I don't want to get in trouble with the chair—

• (1640)

**The Chair:** You're over fourteen minutes. I must apologize, but we have to go in camera on our own little business afterwards.

**Mr. Clyde Graham:** Sure.

In terms of the environmental friendliness of industry, one of the reasons that forests are not being gobbled up is that we are able to produce a lot more food on the same agricultural base. We're getting maximum production out of the existing agricultural lands.

**Mr. Avrim Lazar:** I want to support that. One of the major reasons that Canada's forests aren't shrinking is that less and less land is being used for agriculture and the forests are growing back.

**Mr. Clyde Graham:** Yes, and marginal lands are actually now being returned to marshland and, in some cases, woodlots and other kinds of production.

The other thing is that we believe fertilizer plays an important role in sequestering carbon in soils. That is in our report. Our products are very significant that way. We made that point at the COP 10, and we'll make it again at the COP 11.

**The Chair:** We'll now go to Madame Deschamps for a question. She left us with plenty of time, so she deserves it.

[Translation]

**Ms. Johanne Deschamps:** My question is for Mr. Lazar.

Earlier, you made a suggestion. I'd like to turn the tables and ask you what principal advantages the creation of a forestry table at the WTO would bring to the forestry industry.

**Mr. Avrim Lazar:** At present, the industry is almost totally dependent on exports. Some countries are impeding our activities through the imposition of tariffs. If the WTO moves to lower these tariffs without also setting up a specific issue table to deal with the forest industry, such an initiative might not be viewed as a priority.

Since Canada is a nation greatly dependent on its forest industry, the creation of a table at the WTO should be a priority for us, to ensure that the details of any tariff reductions are spelled out clearly. That shouldn't be too difficult, since the real tension at the WTO is between developing and industrialized nations. A number of developing countries export their natural resources. We could forge alliances with these countries and get some support from them. That might not be quite so easy when it comes to more contentious issues such as intellectual property and agriculture.

• (1645)

**Ms. Johanne Deschamps:** Thank you.

[English]

**The Chair:** Thank you.

I'm just going to add a comment as we close. As much as this isn't the Standing Committee on the Environment, you talked about meeting commitments on Kyoto. There are international rules, but not everybody is abiding by those rules. We are making efforts as a country to abide by these rules, but our competitors out there, like the United States or other countries, for example... Do you not see that as impeding on our ability to be as competitive as we hope to be?

Just as another comment, Mr. Lazar, you said we need good rules with respect to the WTO. We know some of the issues we face today. As good as the rules are and improving as they hopefully will over a period of time, if there seems to be no enforcement of or compliance with the rules, we get into appeal after appeal. How do you see it working down the road?

You can respond to that too, Mr. Graham.

Rules are good and we should have them. We all benefit if everybody abides by them. But what happens if we cannot enforce those rules?

**Mr. Avrim Lazar:** Those are good questions. I'll answer both.

On Kyoto and competitiveness, it depends upon the industry. Each industry has a different situation. Our industry has combined energy efficiency, clean air, and maybe Kyoto targets in a way that actually let's us make money. If we buy a new boiler and switch to clean, renewable energy, we usually get back our costs in about seven years. After that, we're actually making money in terms of energy efficiency. At the same time, we reduce air pollution and we meet the Kyoto targets.

You might ask why we need the government to help us with this, because we've asked for government's help. The answer is competition for capital. So there is some private good there, but there are better investments than the new boiler. If the government wants to pursue the public goods of clean air and meeting our Kyoto targets, we're asking the government to give us some leverage so that investment will favour others.

But overall, are we disadvantaged in the forest industry by meeting Kyoto? No, we're not. We've managed to make whole cloth. When you become more efficient, you save money.

The second question is a lot harder. What's going to happen? First of all, why care about the rules when some countries, like one whose name won't be mentioned but whose first letter is U and last letter is A, flagrantly ignore them—

**Hon. Marlene Jennings:** Just across the border?

**Mr. Avrim Lazar:** Yes, it's a little south of Canada.

When rules aren't enforced, why would you want them? The answer is that if we didn't have the rules, we wouldn't have a leg to stand on.

When we go to negotiate with the U.S. now, when our ambassador goes there and the Prime Minister goes there, and when we sit down with the industry, we can say, "You guys have lost every single challenge. The WTO and NAFTA panels have said that, one, there's no subsidy and, two, there's no injury." If we didn't have that, all we could do is say, "Please don't beat up on us." So, yes, a bully always has the advantage, rules or no rules, but rules really help.

Where is the world going, given that people don't obey the rules? It's not a huge change. Those with power have always beaten up on those without power. The industrialized world does it to the developing world. The U.S. does it to us. I'm certain Canada has always been innocent, but probably not. So you do the best you can, but I'm not despairing.

**The Chair:** I want to thank the three of you for being here.

With that, we'll suspend for a couple of minutes, and then we'll go in camera.

*[Proceedings continue in camera]*

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