



House of Commons
CANADA

Standing Committee on Industry, Science and Technology

INDU • NUMBER 003 • 1st SESSION • 39th PARLIAMENT

EVIDENCE

Tuesday, May 16, 2006

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Chair

Mr. James Rajotte

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• (1105)

[English]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): We'll call to order this meeting of the industry, science and technology committee. Gentlemen, may I have your attention.

This is the first session of many studying the current state of the manufacturing sector here in Canada and the challenges facing this very important sector. We at the committee have identified four different areas, but the witnesses here are certainly free to address any other issues as well. First of all, there's the competitiveness of the manufacturing sector facing the appreciating value of the Canadian dollar; secondly, the increasing costs of high energy; thirdly, challenges faced by globalization; and fourthly, the availability of skilled labour.

We have with us here today some very distinguished witnesses, who will have up to 10 minutes for presentations for each group. If you don't want to take the 10 minutes, that's fine; it just leaves more time for questions and comments.

I'll list them all, but the first witness we have is from the Canadian Manufacturers and Exporters, Jayson Myers, senior vice-president and chief economist. Secondly, we have the Canadian Federation of Independent Business, with Garth Whyte, executive vice-president, presenting along with Corinne Pohlmann, director of national affairs, and Lucie Charron, policy analyst. Thirdly, from the Canadian Council of Chief Executives we have Mr. David Stewart-Patterson, executive vice-president, and, secondly Sam Boutziouvis, vice-president economics and international trade.

We'll start with the CME, then go to the CFIB, and then to the Canadian Council of Chief Executives. You have up to 10 minutes each, and then we'll open up for questions and comments. We have a full house here, so obviously there is a great interest by members in this issue.

Welcome to the committee. We look forward to your presentations.

Dr. Jayson Myers (Senior Vice-President and Chief Economist, Canadian Manufacturers and Exporters): Thanks very much, Mr. Chairman. My name is Jay Myers. I'm the senior vice-president and chief economist with Canadian Manufacturers and Exporters. I'm delighted to be able to come today and speak about the current status of Canada's manufacturing sector and some of the challenges as we move ahead in a very challenging global economy.

I've brought several pieces of information for you. I'm going to be talking to this presentation, which is an overview of the current

economic status of manufacturers. I thought we could maybe start with that to get the discussion rolling today. I've also brought this document, which is the executive summary of our manufacturing 2020 initiative. That initiative was launched about two years ago, and it involved over 3,500 manufacturers and community leaders across the country in 98 meetings, talking about the future of manufacturing in Canada. It summarizes some of the challenges, the changes, going on in the industry and what people told us was necessary to achieve a successful manufacturing sector in the country.

I'm also including this document. It's an inventory that's been prepared by 29 different federal departments, listing all federal programs for manufacturing. It has been prepared over the past year in response to our 2020 initiative, really taking stock of current programs the federal government has for manufacturing. So I want to table that information as we begin our discussion.

First of all, manufacturing is Canada's largest single business sector. It employs 2.1 million people. Two years ago it employed 2.3 million people. It's an industry with shipments of over \$610 billion. It's important not only because of the number of people it employs and the direct contribution it makes to the Canadian economy, which is about 18% of the Canadian economy, but for every dollar of manufacturing output there are over three dollars of total economic activity generated as a result in the primary sector, the services sectors, as well as in the public sector.

It accounts for two-thirds of our exports. It accounts for two-thirds of our private sector research and development in this country. It's made tremendous strides in improving productivity. It's made very strong strides in improving energy efficiency, and as a result, the sector has reduced its greenhouse gas emissions by 7.4%, below 1990 levels, as of the year 2003. So it's a sector that is in the midst of change and at the direct forefront of all the competitive pressures in the global economy today. The top priority right now, the top issue, is the appreciation of the Canadian dollar. But that's just the short-term challenge the sector is facing.

We have to look at issues like skill shortages, which is operating as a real production constraint today in the province of Alberta and western Canada. We have to look at the impact of China, of India, and the newly emerging industrial economies, not only as competitors but as very strong market opportunities for Canada as well. And we have to talk about this sector's readiness to adjust to those challenges.

This graph shows the growth of the manufacturing sector over the last 15 years. I began working with the Canadian Manufacturers Association 15 years ago, at a time when everybody said manufacturing was going out of business in Canada. That's what a lot of people are saying right now: who cares about manufacturing? Unfortunately, people were saying that just as manufacturing went into the strongest growth period it had ever witnessed in this country, doubling in size over 10 years.

During the 1990s, manufacturing was the top job creator in Canada. A lot has changed over that period. The low Canadian dollar accounted for about a third of that growth, but much of that growth came about as a result of the restructuring that took place in manufacturing. Companies were exporting more. In 1990 we exported one-quarter of what was manufactured in Canada. Today we export over 60% of what's produced in this country, and 50% of it is exported into the United States. The Canadian dollar is climbing against the U.S. currency. It has a big impact because it's a price cut; it's gone up by 50% and it's a price cut on export sales. If 50% of your sales are exports to the United States, it has a big bottom-line impact.

As a result of free trade, Canadian manufacturers couldn't compete on low cost and high volume; they had to compete on something different. They competed on specialization. They became much more specialized, much more customized, much more high value, much more service-oriented, and much more flexible in the way they were able to produce products and services in response to changing customer demands. I think that's given Canadian manufacturers an edge over their U.S. counterparts. Ninety percent of Canadian companies, Canadian establishments, are small to mid-size companies with fewer than 500 employees. In large companies, too, we're seeing change across the manufacturing sector. It's a very dynamic sector, but one that's faced with a lot of challenges, primarily today as a result of the climbing dollar.

• (1110)

For your information, the next three graphs just show the growth trends by province and by sector and manufacturer. This is from March to March. Overall we saw 3% growth in total shipments. The strength is in western Canada. The main challenge in western Canada is the lack of people. The lack of people today means that manufacturers cannot continue to grow as they have been over the past couple of years. Unless we correct that problem, and very rapidly, we'll see more product being contracted out, if we're lucky, to other parts of the country, but if we're not lucky, to the United States and China.

The real weakness in manufacturing is in Ontario. Right now, a large part of it is due to weakness in the automotive sector, where there is an over-capacity of product for some companies. But it's also weakness in a lot of the supply chain. Of course, if you're looking at automotive-aerospace, you're looking at some of the largest supply chains you can imagine. For every dollar of manufacturing output we're looking at nine dollars in extra economic activity.

You can see here, on the first page, sector by sector, the weakness in the textile sector, the weakness in the paper and wood products sectors, and on the second page you can see the transportation equipment sector. This masks weakness in the automotive sector,

where production was falling. The transportation numbers are up because of stronger aerospace production. These sector-by-sector growth rates I think right now—and it does differ across the country—are a mirror of what's happening in almost every manufacturing sector of the country.

I want to draw your attention to this other graph, though. It's one thing to get product out the door; it's another thing to make money on what you're producing. This graph shows the difference between prices and costs over a six-year period, from the beginning of 2000 to the end of last year. It shows that on average, prices are pretty much stable. The closer you are to your customer, the less likely you are to be able to pass costs along to your customer, simply because if you raise your prices, your competition is going to take your business away.

The fact is, when you get to the consumer products, the machinery equipment sector, prices in those sectors are falling. As I said, the rapid appreciation of the dollar is like a price cut on your export sales. A 50% appreciation is a pretty rapid price cut to adjust to. The problem is that there aren't very many costs of doing business that are falling. Labour rates are just keeping pace with inflation, but they're up by over 18%. The cost of raw materials, the cost of energy, and the cost of transportation are all rising, and very rapidly.

The only way companies can offset those rising costs at a time when their prices are falling is by becoming more productive or by going out of business. And companies right now are doing both. They are focusing on the bottom line, on improving efficiency, on cutting costs. That's why we're seeing the number of layoffs we're seeing. We're at record levels of manufacturing production in this country, but we're seeing approximately 150,000 job losses in the sector. A large part of that is because of the need to improve productivity.

I'm not going to take you through any more of these slides, but if you look through them, you will see the relationship between productivity and the rising dollar. Productivity has increased by about 5.5% over the last year. That makes manufacturers, on average in this country, competitive at approximately an 82-cent dollar. It's not necessarily the level of the dollar that hurts; it's how fast it has risen. Companies are really struggling to keep up to that rapid rate of appreciation.

• (1115)

I think we're going to see about 100,000 job losses in manufacturing this year. I think we'll see more production closures. We're already going to see a number of job losses as a result of companies deciding to close product lines simply because they're not economically viable in Canada.

But that's the short term, and as we go on here—I've provided an analysis and we can talk about it later—the long-term question is how we respond to the competitive challenges of China and India and Brazil and Mexico. How do we take advantage of this great investment opportunity in western Canada? How do we make sure we have people and organizations that can respond in an innovative way to make sure they are improving their productivity and innovation to drive higher-value business? Finally, how do we make sure we have the investment in technology, in innovation, in assets that's necessary to drive those productivity improvements? That's the challenge we're facing today.

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

We'll move right over to Mr. Whyte, I believe, who will be presenting on behalf of the CFIB.

Mr. Garth Whyte (Executive Vice-President, Canadian Federation of Independent Business): Thanks so much, Mr. Chair.

Welcome, everyone, and congratulations. It's nice to see everybody around the table. I think it should be a fun session, and we look forward to working with you folks.

I think most of you know that we have 105,000 business owners as members and that we represent independent business. We represent small and medium-sized enterprises. They're 45% of GDP and 60% of total employment. I don't think most of you know, though, that we have 11,000 manufacturing members, which makes us one of the biggest, if not the biggest, representatives of the manufacturing sector. And as Jay pointed out, 90% of the manufacturing sector is small and medium-sized enterprises. So it's not surprising that we have such large numbers.

We want to talk about the challenges facing not only manufacturers but also the small and medium-sized enterprise economy, because you'll find similarities between them.

Corinne and Lucie put together some graphs from several of our reports. You have this package before you, and I'd like you to go to the right-hand side, which is the deck I'm going to be presenting. I would also like you to pull out this...because it is the business barometer I'll be referring to, if it's okay—because it's important.

This first graph is of our business barometer, an indicator we use, and that is also used by the Bank of Canada. We release it quarterly. It's reported by Bloomberg and others around the world. It's an amazing indicator, based on business owners' expectations for their own business. Their assessment of the economy is as good a guess as anyone else's in this room. In their assessment of their own business, they're experts, and that has made them incredibly accurate in tracking the GDP. If you look at the last page of this report on the quarterly business barometer, you can see our indicator and you can see the GDP. It's been amazingly accurate in terms of employment and what GDP is doing. There's a little divergence, probably because of fuel costs and our having another minority government. There are some things here, but by and large the barometer has been incredibly accurate, and that's why Bank of Canada Governor Dodge wants to meet with us two or three times a year to discuss it, because they have a pretty good idea of what's happening.

I also want to refer you to page 2 of this business barometer, because on that page we break out expectations by province and

sector. This was done in March, and it includes expectations for the year. If you look at figure 4 and you look at manufacturing, manufacturing is actually tracking up. There are other sectors that are hurting more than manufacturing. Take a look at agriculture; look at wholesale; look at transportation. They're tracking down. So I just wanted to bring that to people's attention.

If I could move to the next graph, we asked our members, who are experts in this, about their employment plans. If I asked you about your office, you could tell me what you're going to be doing in your office; if we ask about their business, they can tell us what their employment plans are. You can see in regard to expectations for employment—anticipated employment plans—that in the entire small and medium-sized enterprise economy, 31% said they were going to increase their employment; 7% said they were going to decrease employment; and 63% said there'd be no change.

We broke out that number for the manufacturing sector, and we found that the manufacturing sector of small and medium-sized enterprises is even more optimistic about employment. This is where we're diverging with Jay. It might be a “large versus small” issue, but if you look here, 40% of over 300 respondents said they were going to increase employment this year, 8% said they were going to decrease employment, and 52% said they were going to stay the same.

We broke out some numbers for you, very quickly, on the dollar. Again, we looked at the general population, and as Jay pointed out again, it doesn't mean there aren't challenges, especially with the dollar. It's for the general population of small business. If you can see the red, 33% said a lower dollar would help them; 19%, in the white, said a higher dollar would help them, or one out of five; and in the yellow, 39% said it would have no effect. Well, if you look at manufacturing, there's no surprise: 62%, or double the full population, said that a lower dollar helps them. So the higher dollar is definitely an issue—though about 15% in the manufacturing sector said a higher dollar helps them. I agree with Jay on this. We've been saying over and over that it's not the level of the dollar, it's the rate of the increase and whether or not they can factor it in.

● (1120)

On the next page, when we asked all of our members, what are you basing your expectations for your business and your employment plans on, or what are the factors influencing you, graph 6 shows that most of the impacts affecting their performance have worsened. The conditions have worsened, particularly for interest rates, insurance premiums, energy prices, and other input prices.

I want to pause for a moment and talk about insurance. We asked this committee, when you sat on different sides, to look at insurance. Even now, when you have been told insurance is not a problem, 55% of our members are saying that cost and access are still a problem. We think this committee should at least look at what's going on with this.

Jay, we delve into this more deeply. In manufacturing, one of their big issues is insurance, its high cost and access to it. I don't see why this committee can't look at this as a non-partisan issue. We have lots of information to bring to the table. This is not to go after the insurance industry at all, but just to understand what's going on, just like you're doing with the manufacturing sector.

If we break out the factors affecting manufacturing performance, you can see that they are very similar to those affecting the general population, but the impacts are even deeper and have become harder. In particular, the impacts of market wages have become harder—much harder than for the general population—and the impacts of energy prices too.

Corinne has broken out some information on that from some of these reports, if you don't mind talking about those, Corinne.

Ms. Corinne Pohlmann (Director, National Affairs, Canadian Federation of Independent Business): Sure. Thanks, Garth.

To illustrate a little of the impacts of energy pricing on small and medium-sized firms and the manufacturing sector, I wanted to show you a survey that CFIB did last fall, following Hurricane Katrina, when the fuel prices suddenly spiked to a certain degree. A lot of firms were feeling the impact fairly quickly, and we wanted to get a feel at that point. We actually presented this information to the industry committee last fall. It is the second piece on the right-hand side of your folder, behind the QBB—that presentation.

I'm just going to pull out two quick ones here. First we asked them about what impacts those higher fuel prices were having right then, at that point, on their firms. You'll see on this chart that the red bar indicates businesses losing money as a result. For manufacturing, about 15% said that at that point they were losing money as a result, but the interesting thing was that 71% said they were still profitable, but less so, and another 9% were saying profits remained intact.

When you look at the chart, you can see that industries like transportation, primary, and agriculture were finding it much more difficult to deal with this issue at that time.

The next chart looks at it going forward. If those types of fuel costs remain going forward, how will you be able to survive in the future? Can it be sustainable? What was interesting here too is that the manufacturing industries, again, seem to be a little more adaptable than some of the other industries if high fuel prices continue to be in place, and we have found them to remain around the one-dollar mark, and higher, right across the country.

Manufacturing, the red bar, says businesses may not be able to survive if prices stay at today's levels. You can see 5% said that was the case. That is far fewer than in agriculture, where one in four said they would be struggling to survive if those prices remained high. However, 42% did say they would have to make significant changes in investment, employment, or costs in order to deal with the high fuel prices, so that is something to consider. That is in the industry average across all of the different sectors.

Finally, 51%—about half of them—did say they could deal with the current fuel prices with only minor adjustments to their businesses. They are able to adapt to that situation.

Now, we recognize that energy prices are more than just fuel costs. There are also electricity costs and other things as well. We just pulled out some data this morning; we asked our members about the significance of input costs to their businesses and actually pulled out electricity costs from fuel costs. Even there, among the manufacturing firms, we found that fuel costs have by far the biggest impact right now—even more than electricity costs, for example. I think this

is a fairly good indicator of how manufacturing firms—and all sectors of the economy, really—are dealing with this issue.

This isn't the only thing they're dealing with, of course. We also have a chart showing our members' high-priority issues. Two issues they have indicated are very important to their businesses are government regulations and paper burden, and the shortage of qualified labour. Those are the two fastest-growing issues our members are facing.

When you go to the bottom chart, you'll see that the concern over the shortage of labour has been broken down a little bit more. You get a better sense of how the skilled labour issue is being addressed across the country and across sectors. You can see it is obviously a much bigger issue in western Canada than it is as you move east. When you look at it by sector, you'll notice manufacturing is certainly within the top five, but again it is not the only sector feeling this issue is having a big impact on them.

Now these are perceptions, of course. We wanted to get some facts around how big this issue is. Could you look at slide 12?

Early this year we released a report called *Help Wanted*, which is also in your package. It's the last report on the right-hand side. Through that report we were able to determine that right now the vacancy rate among small and medium-sized firms is at 3.2%, an increase from 2.7% about a year ago.

That may not seem like a lot, but when you translate it into the number of positions, it actually results in over 255,000 vacant positions; when we say long-term vacant positions, we mean they've been open for more than four months, so this is a serious issue. When we ask the percent of firms with long-term vacancies, we see that more than one firm in four is actually dealing with this issue going forward.

The next chart looks at it broken out by sector. You can see that in manufacturing the vacancy rate is growing fairly quickly, but it is still not as significant as what we see in many other sectors facing this issue in the economy.

● (1125)

Mr. Garth Whyte: Could I have two minutes, please? I would like to skip to slide 15, because we're going to be talking about things that this committee really can't do much about, and I want to talk about something this committee can do something about today.

We've surveyed our members on productivity priorities in manufacturing and all businesses, and of course they talk about what would increase their productivity. But one of the issues that's there and that comes out on top over and over again is dealing with regulation and paper burden.

A major report we did, which has been cited, found that it's costing businesses \$33 billion to deal with all the levels of government. Eliminating this regulation and paper burden is a cost-effective way to increase productivity and to help businesses of all sizes and from all sectors, and you guys can deal with it right now.

We worked together with all of you, and you voted for a private member's bill, Bill C-212, the cost-recovery bill. It's law, and it's not being implemented. It could be implemented today. I think this committee should look at that and push it, because that would also really help enhance productivity and lower some costs to businesses.

Mr. Chair, I won't go over all those graphs, but I really encourage you to look at them. There's a template here that can be used; this report talks about it. We're co-chairing the paper burden committee with the industry department. You should call the minister before this committee and ask him to talk about it. I think he would. It's a non-partisan issue, and it's something that we can all work on together to really help alleviate the high dollar, high fuel costs, and all the other things.

Thank you, Mr. Chair.

• (1130)

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

Just for your information, we will likely have the minister at some point. We have officially written to him as a committee to ask him to appear before us on this and other issues.

Mr. Stewart-Patterson, you'll be presenting on behalf of the Council of Chief Executives.

Mr. David Stewart-Patterson (Executive Vice-President, Canadian Council of Chief Executives): I will. Thank you, Mr. Chair.

I think my colleagues have offered you a pretty detailed review of the challenges facing the sector, so I won't go into a long exposition here, but I would, if I may, offer a few comments to lead us into the question period.

The first comment I have has to do with a remarkable and somewhat troubling divergence within the Canadian economy. Essentially, the Canadian growth story has become a tale of two economies. We have the manufacturing sector and we have the resource sector.

For resource producers, of course, global demand is rising. As a result, so are prices and so are profits. For manufacturers, on the other hand, it's global supply that's increasing. The result, of course, is downward pressure on the prices they receive, and therefore lower profits—and in some cases no profits. For the resource sector, of course, high energy prices are a source of more profit. For manufacturers, they're a source of higher costs and therefore of lower profits.

The result is also a divergence between regions of Canada; I think that's significant to note. Much of the west, driven by the resource sector, has virtually full employment and severe shortages of labour in many skilled trades. Labour shortages I think are an issue for every sector in the country, and that's a long-term trend that's not going to change.

In the west, wages and other costs are rising particularly sharply. In central Canada, by contrast, the manufacturing sector has been shedding jobs. So far, those job losses have been absorbed by other sectors, so the economy as a whole still looks relatively healthy.

I think the point that's relevant here is that the inflationary pressures in the west have pushed interest rates higher than the economic situation in the industrial heartland, taken in isolation, would warrant. The point I'm making to start with here, Mr. Chair, is that I don't think we can look to the Bank of Canada to address the challenges facing the manufacturing sector, because of this regional split within our economy. I think we have to set monetary policy aside and look at what else governments could or should do.

The second point I'd like to address is the contrast between past performance, which has been pretty strong, and the future risks, which we think are considerable. The extent to which manufacturers in many industries have managed to keep their shipments growing despite the multiple challenges of intense competition from China or India, rising energy costs, the rising dollar, and those rising interest rates, is quite remarkable. Investment and the deployment of new technologies, new machinery and equipment, has been strong; it's been growing at double digit rates. Where Canadian manufacturers can find ways to compete, they are doing so.

The performance to date, however, is no cause for complacency. I think the risks, looking ahead, are significant. There is a lot of talk about the potential for the Canadian dollar to rise even further. It's of course a rise primarily against the U.S. dollar, not so much against other currencies. But as Jay has pointed out, when half of what we produce goes into the U.S. market, where we stand against the U.S. dollar has a big impact on how much money the manufacturing sector makes or loses.

Again, every company faces a different cost structure, but at some point every company hits the point where they ask, is it worthwhile to carry on? Can I make further investments that will make it profitable to continue from a Canadian base, or do I have to pack up shop altogether, or figure whether there's somewhere else that I can make what I need to make and do it profitably?

The other risk going forward is the macro risk, and that's in terms of where the United States economy is going. With such a large proportion of what we produce going into the U.S. market, it's not just the exchange rate that matters; it's how much American customers are buying.

It's fair to say that Canada has bitter experience with the consequences of long and continuing and rising government deficits combined with a high and rising current account trade deficit. That's where the U.S. is today. It's obviously a much larger, more resilient economy. There's no consensus about how long the current situation can go on, but I think it is fair to say that there is a significant risk for Canadian exporters looking to sell into the U.S. market. It's certainly foolhardy to assume that we can count on that demand carrying on at current levels.

Let me turn quickly to what we may want to discuss about what to do about the competitiveness challenge. The fact is, it's a complex problem. There's no silver bullet here; there's no one thing companies or governments can do that's going to suddenly make Canada the best place in the world to do business.

We produced a paper earlier this year called "From Bronze to Gold". It was distributed to all members. We have some extra copies here if people need a new copy. I can address it if you want, but the fact is we suggested that even in the current political context—a minority Parliament, where, for measures to proceed, we need cooperation across the floor of the House—there is a lot that can and should be done.

• (1135)

A lot can and should be done. We put forward ideas for moving forward on everything from families in communities, education and immigration, innovation, regulation—the kind of thing Garth was talking about, environment and energy policy, and of course infrastructure and taxation.

The recent federal budget made a very important commitment to spend a good chunk of the next year developing a comprehensive plan, strategy, for making this Canadian economy more competitive. We certainly look forward to working with members of the committee, with members of all parties in this House, in shaping that forward agenda and a broad strategy that is going to produce more jobs and higher incomes for Canadian families over the next generation.

I would, if you'll indulge me, Mr. Chair, just like to focus on one aspect of policy that is especially important to the manufacturing sector right now, and that's the corporate tax side. It matters to manufacturers now because now is when manufacturers need to make fundamental choices about major investments on whether to invest in growth. The issue for them isn't investing in new technology, in new machinery and equipment to stay in business; the issue is where they invest. The issue for this committee is to figure out how we persuade Canadian companies that they can continue to grow profitably in a global market from a Canadian base.

In that respect, we need to look at two things. The reality is Canada sells largely into the U.S. market. New manufacturing operations, expansions, are going to be concerned with access to the U.S. market and that means a continuing concern in terms of the potential for delays at the border flowing from the U.S. preoccupation with matters of security. We also have concerns about the state of border infrastructure, given the huge increase in flows north and south that we've seen over the last decade.

The point I'm making here is that the border constitutes a risk. If your business is built on selling to customers across North America, there's already a powerful incentive to locate your operation in the bigger of the two markets between Canada and the United States. That means Canada has to figure out how we establish something compelling that says to investors, that says to businesses, "Canadian communities are where you ought to be". Now there are lots of elements to that strategy, and I think the human resource side is one the committee may want to delve into in more detail.

In terms of making a compelling case to investors, the federal budget 2006 took a very important step forward. First, it acknowledged that in competing for investment with the United States, Canada needs to establish a meaningful advantage in the overall corporate tax rate with respect to the United States. We shouldn't just settle for something that's vaguely in the same ballpark. Second, it recognized that what matters to new investment is not just the statutory corporate income tax rate at the federal level, but the combined impact of all forms of corporate taxation at all levels of government, essentially the so-called marginal effective tax rate on capital.

Third, I think it noted that the federal government has done a lot of the heavy lifting in this respect. The previous government introduced a total of seven percentage points in cuts in the corporate income tax rate and proposed additional cuts over the next few years, which the new government has included in its budget and which we're hoping will go forward expeditiously. All of that is very important, and I want to recognize the progress that's been made.

But I think more needs to be done; provincial governments really need to step up to the plate at this time. The months ahead are going to see some extensive discussions on what's been called the fiscal imbalance. That essentially is the provinces saying they need help in terms of raising the money they need to deliver services Canadians are counting on that lie within their jurisdiction. In that discussion it's clear that both taxation and transfer payments are going to be on the table.

I'm suggesting it's critical for provincial governments to consider not only what they need, but how they can contribute to forging a stronger Canadian economy. The federal budget pointed out one item in particular, the continued use of provincial retail sales taxes in some jurisdictions that add to the cost of business inputs. The Atlantic provinces and Quebec have both switched to value-added taxes, and that's a major plus in terms of enabling and encouraging business investment. The remaining provinces with retail sales taxes need to follow suit as quickly as possible.

• (1140)

I want to conclude by suggesting that this challenge is most urgent in the province of Ontario. Ontario is the heartland of manufacturing. That is where, along with Quebec, the challenges of manufacturing are being felt most stiffly.

I think manufacturers need to make significant investments, particularly in Ontario, as well as in Quebec, if we're going to maintain and grow jobs in this sector nationwide. Yet research that's currently under way—and it's still at the draft stage, I have to say—at the C.D. Howe Institute suggests that Ontario has become not only the highest corporate tax jurisdiction in Canada, but it may be the highest tax jurisdiction among 32 countries worldwide in terms of the effective tax rate on business investment.

I'm mentioning it here today not because I'm expecting this committee to change the policy of the Ontario government, but because I note the presence of members of this House from more than one party who represent ridings in Ontario, whose constituents depend on a strong and growing manufacturing sector. I would simply encourage the members from Ontario around this table to consider talking to their colleagues at the provincial level, and giving this matter of the combined corporate tax burden greater attention at the provincial level and not simply looking to Ottawa to solve the problem for them.

With that, let me conclude my introductory remarks so we can move to questions.

The Chair: Thank you very much, Mr. Stewart-Patterson.

I thank all of you for your presentations.

I should say a special thank you for putting them together on such short notice. It's exceptional of all of you.

We will start with questions now. I believe we have Mr. Lapierre and Mr. McTeague splitting the first six minutes, with three minutes each.

Mr. Lapierre.

[*Translation*]

Hon. Jean Lapierre (Outremont, Lib.): Thank you, Mr. Chairman.

Ladies and gentlemen, thank you.

First off, in terms of jobs, we are hearing two different things. On the one hand, there were apparently 200,000 jobs lost over the last two years, yet on the other hand, those who are really responsible for creating jobs believe they will be hiring more people in the future than they have in the past.

Would the explanation for that be that you represent SMEs which will still be creating jobs in the future, whereas many jobs have been lost on the big business side over the last few years? If not, this is difficult to understand.

[*English*]

Mr. Garth Whyte: Yes. Following September 11, I sat with my colleagues here in March 2002, the day that Nortel said they were cutting 15,000 jobs. We came out and said we thought there were between 250,000 and 300,000 jobs that needed to be filled in 2002. We were wrong: 500,000 jobs were filled. That was based on our barometer, but the answer is different because of the particular sector.

As Jay pointed out, 90% of the manufacturers are small and medium-sized enterprises, but I'm not sure there are enough of them to pick up the slack for the large firms. When it's the total population, they're able to pick it up, but when it's in a particular sector they may not be able to. It takes a lot of small and medium-sized enterprises to pick up 15,000, or 20,000, or 100,000 jobs in manufacturing. That's one example.

The other reason, we think, is that it's also regional. We have a lot of members in Alberta, in B.C., on the Prairies, and in Atlantic Canada, and in some of those regions they're doing very well.

They're not hurting as much. They're not going to the States like Quebec and Ontario.

So those are two possible reasons. I think we might be in violent agreement.

• (1145)

Dr. Jayson Myers: I think there's another factor here as well, apart from the regional issue, which is very important. One of the common factors that we see associated with the job closures so far is overcapacity in that particular product sector. In just about every major closure that I know of, what we've seen is a consolidation of production outside of Canada. What's happening is that, in many cases, the small Canadian establishment of a larger global company is not being able to continue along with the product mandate, because a decision has been made that it's just not economically viable to keep that product in production in Canada. Many of the closures we've seen, we've seen in consolidation.

These employment numbers that we present are the net job figures. Behind this we're seeing job growth, and also many, many more job losses than we're seeing here, but we're just looking at the net figures. In fact, if you look up the job losses in Ontario and Quebec together, they're more than that total over that period of time. So again, you're picking up some of the regional expansion in the west.

[*Translation*]

Hon. Jean Lapierre: I have a second question, Mr. Chairman. I know that we'll be splitting our time, but I wanted to address the issue of regional differences. If we look at the various sectors, we see that there has been a decline in the textile and clothing industry, as well as in softwood, paper and furniture, which are significant sectors for Quebec. So, there is a regional difference there.

Our committee is considering the manufacturing sector, but I personally think we should do so from a sector-by-sector standpoint rather than a regional standpoint, as we may be off on the wrong track. I'm wondering whether the government should also consider... We tried to create an aerospace policy, for instance, but that seems to be on the back burner, and we never came up with an automobile policy.

So, based on your experience, do you think the committee should consider the issue on a sector-by-sector basis? We shouldn't bite off more than we can chew, and the differences are so major that it may be difficult to have a clear view of the issue if we do not proceed on a sector-by-sector basis.

[*English*]

Mr. David Stewart-Patterson: I think the answer is both. There are broad conditions, and what we're suggesting is there are ways that governments can improve competitiveness conditions for doing business across all sectors.

But I agree that each sector has its own particular challenges. If you're talking about aerospace, obviously one of the big challenges is the fact that it's a global industry in which a lot of the competitors are heavily subsidized. How do we deal with that? If we're talking about automotives, there's a global over-capacity issue.

As manufacturers worldwide are figuring out how to get capacity down, into line with global demand, Canada's strategy to date—and I think quite intelligently—has been to shift to looking at not just plant production jobs and how many of those we can hang on to, but whether we can get a bigger share of the design work and the intellectual content, as opposed to just the physical content, within automobiles.

That really is the broader challenge. We have to figure out industry by industry where it is that Canada can compete. What jobs are we trying to compete for, and what does it take for us to be the right place to make those investments?

Dr. Jayson Myers: I think we need a more common strategy as well, though. As we were travelling across the country talking to manufacturers in communities, everywhere we went we were told the business was different, that the communities were different, that “we're unique”. Every business sees the problems only according to their business or business sector.

Believe it or not, on the west side of Toronto we were told that we have to prepare a different business strategy there, because business in Etobicoke is not the same as business in Scarborough, and heaven forbid if anybody is the same as Toronto; that just doesn't happen. And business in la Beauce is different from business in Vancouver.

The second thing we learned, though, is that everybody is unique in extremely similar ways across this country; that the issues are the same. They are issues of skills, and high business costs, and the dollar, and taking advantage of those new market opportunities, and building a flexible, highly trained workforce.

Those are all common issues, and in a sense they're issues that the automotive industry, the aerospace industry, the machinery and equipment industry, and the textile industry are all facing.

The third thing we learned, though, is that people are looking for a local solution. What may be one of the most challenging parts of this strategy for manufacturing that we have to come to grips with is that while we need a national vision for a competitive and prosperous manufacturing sector in Canada, we need local institutions that are competitive. Whether they're the colleges or the investment and the R and D centres, that's where the real difference is at the local level.

• (1150)

The Chair: Mr. Whyte, you had a brief comment. Then we'll go to Monsieur Crête.

Mr. Garth Whyte: I believe if you go sector by sector you're cutting out our sector. You're cutting out half the economy.

You mentioned aerospace; you mentioned automotive. I think there are generic policies you can focus on. We didn't get a chance to say it, but 40% of manufacturers said the border was a major issue. Regulations are a major issue. Shortage of labour is a tidal wave coming at us.

One we didn't talk about is a shortage of entrepreneurs, with people passing on their businesses—a huge issue. In the next five years, 40% of our members want to sell their firms. Who is buying those firms?

So I think there are more broad-based issues that will help everyone, rather than just trying to target a particular sector.

The Chair: Monsieur Crête.

[*Translation*]

Mr. Paul Crête (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, BQ): Thank you, Mr. Chairman.

Thank you for your presentations. They were very clear, and enlightening. I found that you gave us an interesting overview of the situation, especially when Mr. Stewart-Patterson referred to the world as being divided into two: the energy industries, other sectoral industries and the western regions versus the rest of Canada.

We have here a very revealing table from the Canadian Federation of Independent Business indicating when SME owners could begin retiring. Apparently, 71% of SME owners will be out of the market in 10 years' time. These people are 50 or 55 years old today and they wonder whether they are going to hand over the company to their children or to other people, whether they will shut down or whether they will sell their companies to the Americans, given the current context.

If I've understood you correctly, you've all said that there needed to be a clear policy and clear political will with regard to the manufacturing industry.

I would like a response from each group to my question. If you were the industry minister or the Primer Minister of Canada, in what direction would you like to see the government go?

Let me give you an example. Earlier on, Mr. Stewart-Patterson said that as we do not have much influence over the Bank of Canada, we need to find other solutions.

The Canadian Manufacturers and Exporters have an important page on the role of government, but I would like each one of you to tell us what you feel is the most important thing that is needed in order to have a strong manufacturing sector, not only from a global perspective, but in all regions of Canada.

[*English*]

Dr. Jayson Myers: Maybe I could start off. If you don't have investment you don't have innovation, you don't have employment, and you don't have a successful business. If you don't have investment you don't have the ability of small companies to grow into medium-sized companies or to manage the growth they have right now or to take advantage of all those market opportunities.

I agree with what David said, the first priority has to be the investment climate. I would go one step further by saying that in the face of a high dollar we should be looking at taking steps like the Americans did when the American dollar was at record highs against other currencies and move on to an accelerated depreciation system, because this goes to the marginal effective tax rate on investment. It goes to the issue of cashflow, which is the major issue for investment, and it's the major thing that's under pressure today with the high dollar.

And we should be doing something, even if it's on a temporary basis, as the Americans did three years ago when they went to the bonus depreciation system. I think we should consider going back to what the capital depreciation system was for Canadian industry, which was a two-year writeoff.

If we did something like that it would respond to the short-term pressures and would provide that incentive for investment that I think we really need right now and that we can.... There are all sorts of other issues that government can touch on that are also very important, but unless we repair that investment situation, then we don't have to talk about skills and we don't have to talk about innovation because we'll have fewer and fewer companies that are actually doing that in Canada and fewer companies that are in a position to grow that industry or to buy out those companies as the entrepreneurs retire.

•(1155)

Mr. David Stewart-Patterson: I would have to agree on the broad thrust of that. As I say, if you don't get the investment environment right it doesn't matter whether you're a small business person in a small community or an executive in a multinational that's based somewhere else. You make decisions about where can we make money in our business.

[Translation]

Mr. Paul Crête: Are we doing enough right now?

[English]

Mr. David Stewart-Patterson: In what Jay is talking about, it's clear that to date we've seen strong investment by manufacturers. They're saying, "We're doing our best to grow our businesses." But if we look at the longer-term future, how are we going to handle a situation where the global economy is not as healthy as it has been for the past decade?

We've been enjoying a long period of very strong growth globally. That has helped Canadians cope with a lot of factors that might otherwise be more difficult. So, looking forward, we do have to look at both the short term and the longer term in terms of what makes Canadian communities places where people want to grow business. I think that applies to large businesses and small businesses alike.

In the longer term, it's not just about taxes. I think the human resource side is very, very important. As Garth said, where will the next generation of entrepreneurs come from? Are we growing those?

If I can just pick up on something else Jay said, it is true that countries compete for investment, but it's also true that communities compete, and every community has unique aspects. That's why I think it's not just a matter of trying to impose top-down policy. We need to talk about how to empower communities to foster that entrepreneurial energy and to offer whatever unique factors they have to attract businesses in any sector.

Mr. Garth Whyte: There are two answers.

First, don't do anything to make it worse. If I were minister, I wouldn't put policies in place to make it worse. I know that sounds funny, but we do. So the first thing we should work at is, how do we alleviate the regulatory burden, not add to it? I don't know if there's a willingness, but that's easily done, and I think that would help all of us, small or large. That's the first thing.

But the second point I want to put in place is that I agree with the investment side of it. But it reminds me of Bill. Bill is an entrepreneur who has 100 employees. He has been going to China for 15 years. He operates out of New Brunswick. He has a high-tech communications firm and he won the lottery: a major international

firm said, "We're going to buy your firm for millions of dollars." Bill was ready to sell, and he said, "What are you going to do with this?" "Well, we just want your product and your markets. We're going to do it from the States, not from New Brunswick." Bill said, "It's not for sale."

The investment was there and it is a global market, but what about the local market? What about half the GDP? What about total employment?

You need two strategies—and this issue is about Bill. Seventy percent want to sell their firm in the next 10 years and 40% in five years. Two million jobs are in play. You can create a new business—it takes a lot of effort—or you can continue growing one that's in existence. Eighty percent of these people do not have a succession plan.

I know the government was looking at rollover provisions. These people want to pass on their firm. We have to look at things like that to allow Bill to pass it on to either his employees or to find people who want to buy these firms. If I were industry minister, this is a strategy where we'd have to bring everyone together to figure out how to do this. It's not just a government strategy; it's educating Bill.

He'll be happy I'm telling this, but anyway....

It's getting the investment community together. It's getting groups such as the CFIB together, and the rest of us. It's not just a shortage-of-labour issue that we're facing, it's a shortage of entrepreneurs.

The Chair: *Merci, monsieur Crête.*

We have Mr. Carrie, for six minutes.

•(1200)

Mr. Colin Carrie (Oshawa, CPC): Thank you very much, Mr. Chair. So many questions, so little time.

You mentioned something about trade. I'd like to talk about trade barriers and get your comments.

Recently, I believe, B.C. and Alberta came out with an interprovincial trade agreement, which I thought was wonderful. So I want your comments on interprovincial trade barriers and how it would help if we could lower those for the manufacturing sector.

I'd also like a comment from Mr. Stewart-Patterson. He mentioned that if we can't count on the U.S., what should we do?

I want your comments on international free trade agreements. I know we're discussing Korea right now, but could we have your comments on those two issues?

Thank you.

Mr. David Stewart-Patterson: On the global trade side, we've always seen an advantage for Canada in supporting the strong rule of law multilaterally. The fact is, multilateral agreements help the smaller countries deal with the bigger ones. Obviously we've also seen a huge impact from our bilateral and trilateral deals within North America. I don't think anybody disputes that those have produced huge benefits, despite the immense difficulty we went through in the adjustment phase in the early nineties.

I think we are at a dangerous point in terms of the global trade regime. There's a sense that negotiations have been bogging down at the multilateral level. There's interest in pursuing stuff at the bilateral level, but progress has been painful at best—and Canada's experience is not unique in that regard.

So I think Canada needs to keep focused on the importance of the multilateral regime and keep making an active contribution to bringing down barriers globally, because the fact is free trade has worked for us. We have done very well the more open we are and the more we've taken part in both regional and multilateral regimes.

In that respect, coming back to your first question on internal trade barriers, yes, the agreement between Alberta and British Columbia was a great example. We had all governments sign agreements on internal trade a long time ago. Unfortunately, we haven't seen the concrete follow-through commitment that we should have.

This comes back somewhat to what Garth was talking about in terms of simplifying regulation. The fact is that taking away rules, simplifying what it takes to do business, and reducing the number of times people have to fill out forms can seem like penny-ante stuff, but those pennies add up. If you look at the experience of other countries in that regard, the Netherlands, for instance, has done a spectacular job of addressing the paper burden side of regulation. It may be easier for them because they're a unitary country, rather than a federal system. The fact is a lot of our regulatory burden flows from the fact that we have multiple layers of government. That puts a premium on governments working together.

Again, I think we are moving into a period in the coming months during which almost everything regarding fiscal arrangements will be on the table between the federal government and the provincial governments. That should be a broader and more comprehensive discussion about how to make the Canadian federation work better and enable companies to flourish more easily—in communities large and small and in every corner of the country.

Dr. Jayson Myers: I'd like to start with the international trade agreements.

In this deck, one of the slides a little to the back shows some of the constraints in export development. The trade barriers, or the constraints on our ability to do business internationally, are to some extent constraints in the marketplace, but they're also very much operational constraints. If you look at the constraints on exports, the constraints of bringing new products to market, the constraints on improving operations, you'll see a lot of them are the same—lack of resources, cashflow difficulties, lack of skilled personnel. They reflect the fact that most of the companies in the manufacturing sector are small companies.

That said, there are certainly obstacles we have to overcome if we are going to sell to the rest of the world. Canada is a small market. Our interprovincial trade barriers make it an even smaller market. We're five fragmented markets at best.

Yet the secret to success today in business, particularly in manufacturing, is to become more specialized, more highly technologically sophisticated, and to give better service and more customization. The more specialized you become, the bigger your market has to be. That's why NAFTA was so beneficial to Canadian companies of all sizes—because it allowed them to specialize and gave them the ability to expand in the high-value businesses to take on the American market.

Now the issue is that we've done that; now it's a global economy—global competition, global opportunities. How do we ensure security of access into those markets for our exporters, for investors, and for companies looking for partnerships? I think the best way is through a multilateral approach, but that's not going to go very far very fast.

We do have to focus on bilateral agreements and on regional agreements, but we have to ensure those bilateral agreements actually provide effective market access. The big constraints today are regulatory barriers, customs barriers, and transportation logistics barriers; they are not necessarily tariff barriers. In our agreement with Korea we don't see effective market access in the removal of non-tariff barriers in the Korean market. I don't think it's worth pursuing that agreement and reducing our tariff barriers. We've got a pretty open marketplace here. The objective of that agreement, of others, is effective market access for goods and services.

We're not talking about companies competing in the manufacturing sector; we're talking about supply chains. Unless you have a competitive services industry, a competitive supply base, you're not going to be competitive if you're a global exporter. We've got to go beyond. This is one of the reasons we have to have a broader strategy for manufacturing and for services exports as well.

On the interprovincial trade side, I could not, because of varying transportation regulations, drive a large truck across this country. As a professional, I cannot easily go from province to province, and yet our marketplace in this country is small. We really do have to rationalize that marketplace.

However, looking at the positive side of this, we're seeing changes not only with the negotiations going on in the Canadian marketplace, but also in the logistics, in the opportunities of connecting Canadian industry with China and with the United States, in the development of the Alberta oil sands, and in the energy developments in western Canada. These are opportunities I don't think we can afford to miss, but if we approach these opportunities with the same siloed approach—a sector-by-sector basis, an institutional basis, a province-by-province basis—we are going to miss these opportunities.

I really applaud the agreement between Alberta and British Columbia. I hope it's the basis for future agreements that we see—particularly in regulation, particularly in labour market ability—across the country.

• (1205)

The Chair: Mr. Whyte, do you want to make a comment? Then we'll go to Mr. Masse.

Mr. Garth Whyte: I want to support what they've said. We ask our members about obstacles to international trade. Global financial risk is number one; regulation and non-tariff barriers, number two. I hate sounding like a broken record here, but I think there's a theme.

Border issues are huge. I'm on the Canada Border Services Agency advisory committee. It's not just the rules; it's knowing the rules. The rules are changing; we're not sure what they are. So it's not just alleviating the burden; it's educating people about what is required. We have a whole bunch of cases. We're meeting with the minister's people after this meeting to talk to them about the fact that the rules have changed, and there is stuff being held up at the border because the rules have changed and they didn't realize it. So there are some really fixable things that can be done.

It's funny. When you talk about internal trade barriers, we all take a breath and say, yeah. I remember talking to a series of ministers from different parties who said, yes, it's a top priority, but I'm not sure if I'm willing to charge the barricades one more time without getting the provinces into the same room to do it yet again.

It's very frustrating. Take, for example, labour. The shortage of labour is a huge issue. Labour mobility is a huge issue. At one time we had the federal government and all the provinces lined up with a set of principles to deal with this issue, because the shortage of labour is not just a federal issue; it's a provincial issue and a business issue, and we have to work out a strategy. But it's like corralling cats. It's really hard to get people together to work on a strategy. You almost have to have the one-offs—the Alberta-B.C. type of approach—and then Saskatchewan is going to say it wants in. That's almost the way to do it.

But we do need some sort of overall strategy or set of principles on how to deal with the shortage of labour issue in particular. And these regulations...a truck.... It's brutal going across the country. So we're hurting ourselves.

I don't know how we do it.

• (1210)

The Chair: Mr. Masse.

Mr. Brian Masse (Windsor West, NDP): I'm going to focus my questions on two issues to start with, the first on energy, the second on the border.

First on energy, I'd like to hear from all members here. Slides 6, 7, 8, and 9 from the CFIB are rather interesting, because they talk about the issue of fuel prices and energy prices in particular. I'd like to know from your positions.... There are a couple of different things happening relating to energy prices. We've seen an incredible fluctuation, part of it due to the market right now having speculation in it. That has had a significant impact upon manufacturing. What would you advocate for? Should we allow continued speculation to dominate energy pricing as part of the current system, or should that be brought under control?

Further to that, as well, is whether any intervention strategy should be introduced into the Canadian economy or the North American economy. It's been done in provincial jurisdictions. As well, the Bush administration uses state intervention on numerous occasions to actually increase reserve capacity. There's debate about the effectiveness of that, but the reality is that he actually uses state intervention to affect a commodity price, or at least an attempt to affect it. That even has an effect on our exports as well.

So there are models out there to at least temper the price of fuel, and I'd like to hear from the panel how they would advocate for some type of change in the system. Or are you happy with the status quo, what we're living through right now?

It's interesting to note, through these panels, that energy and transportation issues are really the highest-end priorities.

Dr. Jayson Myers: Let me start off. I think the uncertainty around the energy market is one of the big factors driving volatility. If there is government intervention, whether it's concerning OPEC or the amount of reserves at hand, the key objective is to diminish that uncertainty. That's key; that's what is going to get rid of that speculation. Deciding how we might be able to do it in a concerted, coordinated way, I think, would be a very complicated process, but it deserves some thought.

As for trying to dictate prices, I think we're in an era of continued high energy prices, simply because of international demand for energy and because of some of the political problems around the world and the supply problems. I don't think we should be regulating prices; the market should be adjusting accordingly.

Manufacturers since 1990 have increased their volume of output by about 65%. They've increased their energy efficiency by over 50%. As a result, in 2003 manufacturers were using only 5% more energy than they were back in 1990. They did that largely through investments in new technology and the turnover of capital and the replacement of old, inefficient production systems by new technology. But they did it in response to market forces and market prices, and I think if we're looking at the ability of Canadian companies to continue to respond, by all means help them make those changes and make those investments and bring in the best of technology. That's what they're doing.

But I don't think we get very far by trying to manipulate the market price.

Mr. Brian Masse: I have a quick follow-up question.

What do we do for states that actually do that and that have manufacturing? They use subsidies, in terms of state intervention, to allow for lower energy costs for production. Do we contest those states that do this?

Dr. Jayson Myers: We should certainly contest those governments that do it. It is a subsidy. It is certainly not something that is going to assist companies in the long term in being competitive. There are other ways of assisting industry and making those adjustments—part of what we've been talking about before—and making sure that we have a tax system that doesn't act as a disincentive to those investments, or for that matter a set of environmental regulations that don't punish companies for making the progress they've been making in energy efficiency and greenhouse reduction, for example. Those are positive steps we could look at to facilitate some of that transition, some of the efficiency improvement here.

But we get into big trouble if we're trying to manipulate a global marketplace. It's like the issue of trying to control the price of the dollar. The price of the dollar is not really being set by many forces we have control over; it's being set by international commodity/energy prices, and above all by the weakness of the U.S. dollar. There's not a lot we can do except make sure the adjustment process is as easy as possible for Canadian business.

• (1215)

Ms. Corinne Pohlmann: We would agree with what Jayson had to say. But another element of this, of course, is the tax situation we have on fuel in Canada. Proportionally, Canada's fuel prices have twice as much tax in them as those in the United States, when you combine the federal and the provincial components in the fuel prices we have here. When you think about the fact that we have taxes federally and taxes provincially, we have an excise tax of 1.5¢, plus a tax-on-tax situation where the GST is then applied on top of that, it adds up to quite a bit of the fuel pricing we're dealing with.

Mr. Brian Masse: How do you explain, then, that we've had reduced corporate taxes over the last several years and the profits for the oil and gas industry have exponentially and significantly increased? How do we guarantee that if we lower taxes the difference is going to go to businesses and consumers?

Currently the profits are rising significantly, and I haven't seen that passed on to the manufacturing industry. I haven't seen it passed on

to the consumer. I would assume the profit margin would remain stable or depreciate if they're going to pass it on to the customers.

Mr. Garth Whyte: One thing is we definitely don't agree with regulating the industry, but we think you should monitor the industry. That's not regulating, but you have to look at what's going on, and just take a look at...I don't know about the pricing, but at least understand more of what's going on internationally and have a better handle on it. I don't think the Competition Bureau does that.

Mr. Brian Masse: There doesn't have to be collusion where there's no competition.

I guess what you are asking is how you take the uncertainty out of—the comment was in terms of the pricing element. How do you do that? Do you support speculation? For example, are there more paper barrels that are traded per day than barrels pulled out of the ground? Is that extra cost something that is beneficial to the manufacturing industry, or is it detrimental to it?

Looking at what you're presenting here, your members seem to be indicating that energy pricing is one of the most significant things affecting them, and many are even suggesting it affects their ability to go on. I'm looking at transportation, and they're not only losing money but also saying that 20% could go out of business. That will affect everybody else in the distribution system.

The Chair: Could we have a quick response? Then we have to go to Mr. McTeague and Mr. Fontana.

Is there anyone who would like to respond to that?

Dr. Jayson Myers: Just to make a point, if we are going to try to take that uncertainty and the speculative effect out of the market, it's a global market, and we have to do it in concert with the global players who are controlling supply, such as OPEC and the U.S.; we'd have to do it in concert with them. It's not something we should try to do by coming up with a made-in-Canada solution, trying to regulate prices. The price is the best signal of supply and demand, even with the speculation.

What we should be doing, though, is looking forward. If we are truthful, the future is one of constrained resources and constrained energy use. How do we manage that situation? It's going to be an economy of high energy prices, and manufacturers and industry have to adjust to that over a period of time.

• (1220)

The Chair: We'll go to Mr. McTeague. He is sharing his time with Mr. Fontana. We're down to five minutes now.

Hon. Dan McTeague (Pickering—Scarborough East, Lib.): Mr. Myers, thank you. To Mr. Stewart-Patterson and to Garth and to everyone here, thank you for coming so quickly. Thank you to our researchers.

I can only suggest that if there is to be some oversight in the energy industry, we would want to look at the disparity between Canada and the United States in international prices for wholesale gasoline, which remain 5¢ to 6¢ a litre above international prices. There have been no significant investments in that industry, further to what Mr. Whyte has said; he's correct. We don't just need to monitor the situation; we need to look at it because of its wider impacts. We shouldn't be punishing ourselves. We're a self-sufficient nation.

I'm concerned about the issue of energy simply because it's a blessing for some regions of the country and a curse for others. It's almost like a tale of two cities.

In this we have two problems; one, higher valuation, has been rightly pointed out. Mr. Myers, you pointed out a little earlier that it's not where the dollar is, but the rate of its rise. At the same time, Canadians have not seen a corresponding decline in the cost of imports. I don't know if we're seeing this at the retail level, but I know it's a concern. It's a double whammy for consumers, whether you're in Edmonton, Alberta, or you're in Oshawa or Pickering or Scarborough or Ajax. Regardless of where you are, the fact is that energy prices are having a tremendous impact on the bottom lines of all your members.

Is there is a way that you see in the foreseeable future...? Mr. Stewart-Patterson, you talked a little bit about having what appears to me to be all our eggs in one basket with respect to trade with the United States, almost to the exclusion of all others. At the same time, energy is being consumed by other nations around the world. What are we doing, what can we do better, other than cutting our programs like EnerGuide, in terms of efficiency here at home, which the government is doing? What do you believe we can do better to increase our trade, to increase our manufacturing, without punishing Canadian consumers for the cost of energy, for which we pay dearly in taxes over the years?

Mr. David Stewart-Patterson: There are a number of elements to that. As you say, high energy prices are both a blessing and a curse, depending on where you sit. On the one hand, we've got to recognize, as Jay Myers was pointing out, that a lot of the fluctuation, the volatility, that we've seen in energy prices worldwide flows from the fact that a lot of the major producing regions are facing highly unstable situations. Canada has a competitive advantage in that sense, because not only are we next door to a major consuming market, but we're also remarkably reliable and stable as a country. That's a huge advantage for a country anywhere in the world that is looking for a long-term supply, not just the Americans. The fact that our oil sands are such a long-term resource is important in that regard too.

What does that mean in terms of domestic policy? Again, the fact is we've tried interventionist policies on that and we know they don't work. You mentioned the connection to environmental policy. Well, there's no better signal, whether to a business or to a consumer, to spend some money investing in better energy efficiency than letting the prices be high. I think we've got to keep in mind, even if your priority is a matter of policy, or we're trying to reduce emissions, pollutants, greenhouse gases, and so on, that high prices, however painful they may be, make a contribution to those goals.

When we talk about national objectives, we've got to define what particular problem we're trying to solve, because a lot of these pieces interlock, and what's a problem in one direction can be part of a solution in another.

The Chair: Mr. Fontana is next.

Hon. Joe Fontana (London North Centre, Lib.): Thank you.

That was an excellent presentation.

I think you've got it right in terms of where the problems are and where the challenges are, especially in relation to capital and investments and some of the things we need to do. I know you've essentially said there's not much we'll be able to do on the monetary side in terms of the dollar, or even interest rates, for that matter—or even, as you've indicated, on energy costs. Yet, as you've indicated, there are a few things we might be able to do to stop this tidal wave that may in fact be a promise for us, or even an additional curse. Let me talk about a couple of things.

I believe in these things in terms of deregulation, innovation, immigration, and making sure we attract the investment. I think all of that side you have done. I get a little concerned when I hear some notion from the NDP that we ought to nationalize, have nationalization, or that there's something wrong with profits, as if profits aren't in fact return for investments, and so on. But let me just ask you, in terms of deregulation, and we've talked about it and everything else, or to mitigate against the dollar, or the fact that we need 250,000 positions today or in the next ten years we may not have the human resources—labour mobility, absolutely—what can we do as a federal government? The problem is there are an awful lot of provincial regulations that preclude us from doing all of these darn things that are important.

Are we to move quickly on deregulation? We don't have a lot of time to do this because this tsunami is heading this way. Second, if depreciation is the short-term answer to a rising dollar if we are to remain competitive and not shed any more dollars, what do we need to do on the human resources side to make sure those jobs are being filled by the people who are still unemployed or whom we need to bring into this country?

• (1225)

The Chair: You're a minute over.

Mr. Whyte.

Mr. Garth Whyte: On the regulation side, being the chair of the paper burden committee within Industry Canada, we've set out some guidelines. Our report hasn't been released yet—hopefully it will be released soon—but with our report on the regulatory side, we've come down to saying, as we've done so many times, here are the principles that need to be followed, which were started by your government of the day and which I hope, and am pretty sure, will be continued by your government.

First, you've got to measure the regulatory burden; you've got to measure and understand the extent of it. We've said that it's costing the economy \$33 billion. Is that acceptable? And then you say, no, it's not, so you set targets.

Next, you have to institutionalize the measurement and reporting of it. We can't have just one office and a committee chair saying quickly, these are the things you should do, and then we list five quick hits. It's like weed whacking; you knock down a few weeds, but 10 more grow up over here. You need to have a concerted effort.

Third, you should be a role model and you start it off yourself. Provinces are already doing some stuff: B.C. reduced the regulatory requirements—not regulations, but the number of steps—by 40%, and they're measuring it, and they're committed to continuing to do it.

We've got a list of 10 things here, but you need commitment from the top; you need commitment right from the top and from all parties.

I think this is a very doable, winnable issue. It takes some time, but it's also about giving the perception to people that it's improving, that the climate is improving, that you're committed and that it's a concerted effort.

Imagine not having an ongoing budget process. Some municipalities have a budget bigger than that of P.E.I., bigger than that of some provinces, and they don't have a budget process. It sounds ludicrous. Well, I'm saying, we don't have a regulatory review process and it's just as ludicrous. I think we have to start setting that up and doing a report on a regular basis.

Someone else was talking about labour issues, and that's another hot issue—

The Chair: Mr. Whyte, I'll have to cut you off there.

At this point, I would just step in to advise members that we're in a five-minute round, with five minutes for questions and answers.

Especially to the witnesses, if you do take up a lot of time, basically you'll take up all of the members' time.

At this point, we're now at eight minutes in a five-minute round, so we're now moving to Mr. Shipley. There are five minutes for questions and answers, so I encourage you to be brief in your questions and brief in your responses.

Mr. Shipley.

Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC): I'll do that.

Thank you, Mr. Chairman. I also want to thank the panel for coming today. It's been very interesting as a new member to sit on this panel. Actually, I'd like to continue the discussion that Joe started in terms of the regulatory issues. I think they are really important, and I want to ask if you could give us some insight in terms of what, as a federal government, we could look to in terms of working towards that.

I also want to touch on one of the things you talked about as significant. It's a little aside from this, obviously, but it's about insurance. Not to put words in your mouth, you basically said it was a no-brainer that we should be doing something about it. So I would ask for some direction and help in terms of understanding that part of it.

Thank you.

Mr. Garth Whyte: Slide 17 of our presentation talked about the burdensome federal regulations that could be looked at, and we are working closely with the Canada Revenue Agency, with Agriculture Canada, and the Border Services Agency, and there are a lot of good things.... I'll give you the report on the regulatory side.

Yes, insurance is an issue that is here to say. If you want to talk about manufacturing, one of the issues we haven't talked about is export insurance—and liability insurance is very difficult—but it's the case for all sectors and it's not the insurance community's fault. There are some international issues at play. But we need to

understand this better, because the problem is not being alleviated. If you ask who's responsible, the common answer we get, whether from the provincial or federal levels, is, "It's not me." Yet it's hitting the entire economy.

We have 25% of our members say that if they can't get financing, it's an issue, but 100% of our members will have a problem if they can't get insurance. If you want to expand and you can't get insurance, it's a problem. If you want to build a building...it used to be the case in Manitoba that you could get five different insurers who would cover 20% of the costs. Now they can only get three to cover 20% of the costs. What's happening? I don't even think the community knows what's happening, and I think this committee could really look at this issue.

• (1230)

Mr. Bev Shipley: Is this insurance a Canadian issue?

Mr. Garth Whyte: Property and casualty is a Canadian issue, in particular—but, yes, it's a worldwide issue.

The Chair: Mr. Stewart-Patterson, you wanted to make a comment.

Mr. David Stewart-Patterson: I wanted to address your question about regulation, because Mr. Fontana raised it as well. I want to come back to the example of the Netherlands, because this is not a matter of deregulation; it's not a matter of taking away, or reducing standards, or anything like that. It's simply reducing what it takes to comply with the regulations.

Garth talked about measurement. That's what's important. What the Netherlands did is come up with a basic methodology. How many people, at what wage rates, have to fill out how many forms, for how long, how often? That gave them a number to start with. Once they had that number, they said: we want to reduce that paper burden by 25% over four years. That's scheduled to be up next year, in 2007.

The estimated savings to the economy of the Netherlands is 4 billion euros for businesses, a 1.7% increase in labour productivity, and a 1.5% rise in GDP. That's saying that measuring what you're making people do, finding out ways to make it simpler for them to do it, and then bringing that burden down over time can have a really meaningful impact on competitiveness and on economic growth.

The Chair: Mr. Myers.

Dr. Jayson Myers: This is on the trading issue, because I think it is really very important. There are three issues here: there's access to labour, there is training, and there is the type of curriculum that's being offered in our training establishments, in our schools. I think there are things to say on each of these.

On access to labour, there's the immigration process, the selection of the types of skills that are actually needed by industry, and speeding up the process for bringing those people in and making sure immigrants are integrated into the workforce. Manufacturing has a big stake in this; 30% of manufacturing workers are recent immigrants. This is the sector that is the most integrative of all of the sectors.

There's the aboriginal community—making sure that aboriginal workers are well integrated in the industrial workforce. The major problem there is not the ability to integrate well-skilled aboriginal people into the industrial workforce. The major issue is the communities young people come from and the whole aboriginal community base. That is an issue that is very important, if we're looking at how to bring aboriginal workers into industry.

There are the issues around accreditation and the recognition of credits across educational training establishments. Institutional issues are one of the biggest barriers to labour mobility. But there may be ways of tying funding to the institutions.

On the training side, the onus for making these adjustments rests on entrepreneurs. It rests on business; it rests on manufacturers. At the end of the day, government is not going to solve these problems for manufacturers if manufacturers themselves aren't world-class in their management. But with training... If cashflow is under pressure, training budgets are the first to be cut. Maybe there are some ways companies that are providing training for employees can offset some of that against other payroll taxes, such as EI. There's a possibility there.

On the education system, we have to make sure we have the best business and technical education in the world in this country. We don't now. In colleges and universities we are not training or educating people to the requirements of modern manufacturing. We have to make sure, for instance, that our research projects go into research into the types of facilities that are actually required by the future, by modern manufacturing and modern business going forward, and not into the research agendas and the types of education that perhaps thesis supervisors and professors were looking at 20 years ago. We have to make sure this is a very forward-looking curriculum that actually responds to the needs of industry.

• (1235)

The Chair: Thank you, Mr. Myers.

We will go to Monsieur Vincent, *pour cinq minutes*.

[Translation]

Mr. Robert Vincent (Shefford, BQ): Thank you for having made yourself available on such short notice.

We understand that the cost of energy is a very serious issue. Do you think it would be a good idea to create a gasoline prices review board? It may serve to explain why there are or are not price increases. That is my first question.

Second, industry representatives often say that emerging countries in Asia or elsewhere flood our markets with counterfeit products. I don't think you mentioned that problem. Industries carry out research and development to create new market niches here and elsewhere, but there is industrial espionage going on and our technology is being stolen from us, which means that quasi-identical copies of our own products are flooding our markets, but they come from other countries.

I'd like to hear your opinion on these two issues.

[English]

Dr. Jayson Myers: Mr. Chair, may I respond to Monsieur Vincent's second question about counterfeit product and intellectual protection?

This is a major challenge. For Canadian companies, it means having adequate surveillance and security systems in place. For our security systems, it means we're ready to challenge any industrial espionage that's taking place. But it also means we need much more effective implementation of our trade rules at the border. In 2004, the United States customs agency made 65,000 seizures of counterfeit product coming into the United States; we made six coming into Canada.

The fact that we are not policing the border and effectively implementing the trade regulations that are there, not to protect Canadian industry but simply to provide the adequate IP protection that is necessary for any business to run—including Chinese businesses, by the way—has meant that Canada has been placed on the watch list of the U.S. Trade Representative's office as one of the major exporters of counterfeit product into the United States. We export more automotive castings to the United States marked "Made in Canada" than we manufacture in Canada, and that's raised some red flags in the U.S. trade administration.

If we don't get this right, we're not only... And we are losing. It's a health and safety issue; it's a consumer protection issue; it's an issue for business. It's losing business to counterfeit product, but what's going to happen is that our major trading partner is going to close the border to certain products that they cannot trust coming in to the United States via Canada, because they think they're counterfeit product. That is a priority I think our trade and our customs administration has to respond to at the border.

[Translation]

Mr. Robert Vincent: If I understand correctly, we here in Canada are not doing everything we can to stop counterfeit production. Meanwhile, the Canadian International Trade Tribunal is another poorly managed or improperly used tool when it comes to ensuring the protection of Canadian industry.

[English]

Mr. David Stewart-Patterson: I agree. The rules are there, both multilateral rules and Canadian rules. It's a question of how rigorously we try to enforce them.

Another point that flows from Mr. Myers' comments is that it reinforces the importance of our not only protecting, as Canadians, our own borders and the health and safety of Canadians by enforcing our own standards, but also doing so in the context of our North American relationship. The fact is we want trade to flow freely north-south, Canada to the U.S., which is where so much of our business comes from and so many of our customers are based. We have to make sure they have confidence in the integrity of our borders and of our intellectual property protection, as well as that Canadians have confidence in it.

[Translation]

Mr. Robert Vincent: I'd like to know what you think of the possible creation of a gasoline prices review board.

• (1240)

[English]

Mr. David Stewart-Patterson: I've lost count of how many inquiries there have been into the competitiveness of gasoline pricing in this country. Not one of them has ever come up with a suggestion that there's a problem, at the end of the day, so I don't see much point.

Dr. Jayson Myers: I think one inquiry—and it's a part of what you're looking at here—that would be very useful is an inquiry into why we're not seeing more investment in the supply of refined petroleum products in Canada, and perhaps in North America. Part of the problem in the North American market is that demand is high and there are lots of uncertainties around supply, particularly during hurricane season in the United States. The fact that we have not seen investment in modern manufacturing and petroleum refining facilities is I think one of the major reasons we're seeing some of these spikes in prices.

That would be a very useful inquiry, I think, because it would raise a number of issues not only about that industry but about the state of investment in manufacturing and processing in general.

The Chair: Mr. Van Kesteren.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you for your excellent presentation. I want to tell you, too, that I have been a member of your organization for many years, and I've filled these things out.

My first question was about which government agencies are the most burdensome. I see you've pretty much answered my question in number 17.

For the second part, I want to get your feelings on.... You've spoken to us about entrepreneurship and the lack thereof in our country today. I have a sneaking suspicion I know the answer, but I want to have your input into this, and I'm going to give you a little bit of a leading question here. Is there a healthy relationship, and has your organization determined this, between the private and the public sector?

Mr. Garth Whyte: Is there are healthy relationship between us and the private sector?

Mr. Dave Van Kesteren: Yes, and is there a ratio? Have we gone beyond that? As we attract people into the public sector, have we...?

Mr. Garth Whyte: We have another presentation; it's not based on our research, but a Leger public opinion poll on where people want to work in the future. And it's flipped from when I graduated many years ago. It used to be that you'd work in government or in big business. Today, 41% say they want to own their own firm and be self-employed; another 28% say they want to be in the professions or in the trades, which means 70% in terms of our membership. So we have these young people saying they want to own their own business and we have these older folks who say they want to sell their business. How to bring them together is one of the big challenges.

There are two things that came out of that, though. One was disconcerting, and that is that there's a succession problem in the public sector. I'm very concerned about this. I worked with the Canada Revenue Agency for many years, but the corporate memory

has diminished to the point that the experience level in the CRA—I'm in big trouble again—is about three or four years at the deputy commissioner level. All of the old guard have moved on; even the people who set up the registry have moved on, and that's just one case. I've seen it in other departments. If you look at Industry Canada, you'll see the rotation of the senior levels, so all of this corporate memory is moving on. We find ourselves being the corporate memory. So I'm concerned about that side of it.

I don't know if I'm fully answering your question, but the succession issue is not just one for our members, but also for the public sector and large firms. It's a big issue that we have to address.

Dr. Jayson Myers: I think that answers part of your first question, too, because where the problems arise in the interface between business and government is usually where you have regulators who really don't understand the business. What we've lost I think as part of that corporate memory is a tremendous amount of technical expertise in the public sector, the people with business experience in the public sector. You don't find as many of those people, or as many people who are knowledgeable about what the impact of regulation, or the impact of regulatory compliance requirements, might be on industry. I think that is a challenge for good public policy, as well as for industry, of course.

Mr. Garth Whyte: That's another thing we've discovered. We'll work together and develop a great policy and walk away, but it's the implementation of that policy that's important. Often the people implementing it aren't involved with the policy development, and as a result you run into problems, because it's the compliance with the policies, not their development, that's the problem.

• (1245)

The Chair: Mr. Stewart-Patterson, you had a brief comment.

Mr. David Stewart-Patterson: Mr. Chairman, I have a brief comment in terms of entrepreneurship. I want to make a point that entrepreneurship isn't just a career that's in private sector; I think entrepreneurship is an attitude, and it's just as important for Canada to have creative or innovative entrepreneurial people working in public services as it is for them to be out running businesses.

Mr. Garth Whyte: And in government.

Mr. David Stewart-Patterson: Yes, that's what I'm saying.

Mr. Garth Whyte: In terms of elected officials as well.

Mr. David Stewart-Patterson: Yes, that comes back to social attitudes and the question of whether our communities welcome entrepreneurship as an activity or a calling. Do we welcome creative people, no matter where they work? Do we welcome creative people in our communities, even if they get rich doing it? Or do we only welcome them if they work in the public sector?

So that's a broader thing. It's not a matter of public policy, but I think it is an important element in terms of where the Canadian economy is going to grow.

The Chair: You have five seconds, Mr. Van Kesteren.

Mr. Dave Van Kesteren: That's very encouraging to hear. So there's a disconnect; you're saying that in the civil service, the people who are implementing these regulations just don't understand the private sector. Is that correct?

Mr. Garth Whyte: I wouldn't paint them all with that brush. Often there's a—

Mr. Dave Van Kesteren: But it's going in that direction.

Mr. Garth Whyte: Yes, often that's the case.

The Chair: We're back to Mr. Masse for five minutes.

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

It's good to hear some positive comments about the public service. I can tell you that in Windsor we witnessed a lack of positions being filled. Some of the attacks on the civil service over the years created a significant morale problem; and people have moved on because there has literally been attack after attack on individuals who have actually bridged a lot of industrial development together through government programs—HRDC, for example, and you also have the research and development programs, which are very important. We're losing those individuals.

I would like to move towards the border and get an idea from the panel members about the new legislation coming out: the WHTI, the western hemisphere travel initiative; the passport requirement, which is still progressing at this point in time; and impacts of the additional regulations placed upon Canadian exporters and importers. How should we as a government deal with those initiatives put forth to us from the United States?

We talk a lot about productivity, and we often place that too easily on individual workers' shoulders, but when you have papers and documents delayed by inefficiencies, as well as line-ups, that gap is just as significant, at around \$9 billion a year.

Mr. Garth Whyte: That's a very good point. We're moving a little bit out of the manufacturing world into the hospitality and tourism world, and in a way, there's a perfect storm brewing: there's the western hemisphere travel initiative; there's also maybe a flu pandemic; and there are fuel prices. Can you imagine? We tend to look at these policies in isolation. We tend to look at the flu pandemic and prepare for that. The WHTI, let's prepare for that. And, oh, we have fuel prices. On these we go to different committees talking about three different things, when actually, if all these elements came together, they could be disastrous.

How should we handle the WHTI? There are two approaches. One approach you would have noticed Premier Charest taking yesterday, or the day before, when he was down visiting some northern state congressmen and senators, who were saying, we should stop this thing. We tend to think that's not the approach that should be taken, because we wouldn't like it if people came up here and told us how we should do our policies, and, quite frankly, the Americans aren't going to listen to us. All we're doing is reinforcing the fact that Canada doesn't care about security. I think we have to accept that this initiative is coming. What we want to see, as quickly as possible, is an understanding of what the rules of the game are going to be—and they're not developed yet.

The problem is the delay. If you talk to the tourism community, they're concerned about the travel initiative and what documents are going to be in place, but right now they're losing business because of the uncertainty. And if we drag this out two, three, or four years and play rope-a-dope, we'll have three to four more years of uncertainty. Already, they're losing up to \$1 billion to \$2 billion in lost

convention and hotel business because of the uncertainty and visitors' view that, "I don't know what the rules are going to be and I'm not going to go to Canada". That's their own estimate.

So I think the problem is going to be with the details of implementation, and I'm pretty convinced that they're going to have to delay it, because they're not prepared to implement it. They're going to run into problems, but for us to say, stop it, I think we're just causing ourselves problems.

● (1250)

Dr. Jayson Myers: On the border issues, we're seeing a lot of regulatory programs coming, particularly from the United States, that are, frankly, in some cases, being used to protect American industry from offshore competition.

I think the only way we can ensure that these don't become more burdensome is, number one, to make sure we do have security systems in place at the border to alleviate some concerns there. But this isn't just a Canadian issue; right across the Great Lakes states, this is a major issue for manufacturing. The Great Lakes Manufacturing Council has made this a priority issue, so there's a tremendous amount of concern on the American side as well. In the Great Lakes, in the western hemisphere travel initiative, or in making sure that we have FAST and NEXUS systems and expedited trade systems in place, our greatest allies are probably the manufacturers in the Great Lakes, the businesses there whose livelihoods also depend on making sure the border is working extremely efficiently, as well as being secure.

I think we should—and I know all of our business groups are—work very closely with our counterparts, particularly in the Great Lakes states, making sure the word does get down to the legislators in the United States that Canada is not only secure, but also that if there are problems at the Canadian border, they are going to be problems for U.S. industry as much as they are for Canadian industry.

Mr. Brian Masse: Does your association work in assisting members in accessing NEXUS?

The Chair: Mr. Masse, I'm sorry, but we're running very short of time. There are 10 minutes left.

I have Mr. Holland, Mr. Carrie, Mr. McTeague, and Mr. Crête, and we have 10 minutes.

Basically, Mr. Holland has not had a chance for questions and I think he deserves five minutes. What I'm proposing is that the other three members ask a question when Mr. Holland is done and allow the witnesses to answer the questions at the end.

Mr. Holland, you have five minutes.

Mr. Mark Holland (Ajax—Pickering, Lib.): Thank you, Mr. Chairman.

I'm going to start, if I could, with Mr. Myers. I just want to explore a little bit the comment you made toward the end of your presentation, which Mr. Lapierre referenced, with respect to 100,000 jobs being lost in the near term. I do so partially because of what Mr. Whyte said in terms of the expected increase in jobs.

First of all, where is that 100,000 figure coming from? Is that a net figure? Maybe you could just expand a little bit on it, so that we can have a better sense of what it means. When you say a loss of 100,000 jobs, over what period of time will that be and in what sector? What's driving your analysis to think that's going to occur? Is it net?

Dr. Jayson Myers: Very briefly, it is net, and it's the employment in manufacturing that I'm projecting will fall by about 100,000. We've seen 36,000 net job losses already on the books because of closures already slated for this year but which have not yet taken place. So we know there are going to be jobs lost over the course of the year.

Employment in manufacturing is cyclical. August is the peak; January is the bottom of the cycle, but it will pretty much be in any part of that. I think we'll see the weaknesses in the fabricated metal sectors and the suppliers into the automotive sector, particularly in Ontario and Quebec; and in the textiles sector in Quebec; and in the highly energy intensive sectors like paper, chemicals, and metal refining, in some cases. Those are the key sectors. The strength will be in western Canada. That's where the jobs will be.

Mr. Mark Holland: Thank you. I appreciate that. I think it will help the committee focus in terms of some of the issues and priorities.

I just wanted to come to the dollar, if I could. It was interesting to note that it perhaps isn't as major a concern for you as I would have thought it would be, coming into the presentation. This was stated in some way by all three of you. In fact, in the presentation by the CFIB, on pages 1 and 7, where you were talking about major business factors affecting performance in the last 12 months, I didn't see the currency listed as one of those major concerns. I don't know if it has been included in something else or if it's a separate concern.

I appreciate that your principal concern with the dollar is the speed at which it appreciates, so perhaps you can tell us.... I think we have a sense that the industry is coping with that and that there are other priorities for you.

What happens in the next year or 18 months if the dollar hits par or \$1.08, as some are projecting? Of course, if we knew this with any degree of certainty, we'd all be playing the commodity markets. What kind of impact is that going to have on the manufacturing sector in terms of level of concern?

• (1255)

Dr. Jayson Myers: I can tell you that if the dollar hits par in the next year and stays there, we are going to see far more closures than the 100,000 job losses. Companies are improving productivity in line with the dollar, but, frankly, a dollar over 90¢ is.... As David was saying, you've got companies that can produce anywhere in the world today, and 90¢ is pretty close to taking Canadian operations out of that competitive list altogether. In fact we're seeing the closure of some of the most competitive, most productive, production facilities in Canada, and that production is moving to Mexico simply because the return on investment is better in Mexico than it is here, even with the productivity improvements we've seen.

So a dollar much over 90¢ means considerable problems. It's going to speed up those job losses and we're going to see more product lines closed. That's not to say that manufacturing is going out of business. The changes are going to accelerate, but we're seeing

many, many more companies now that may have had plans to increase production in the United States, or to outsource to China, doing so over a five-year period. They are making those investment decisions today, and they're making them on the basis that the dollar is probably going to remain very high. If the dollar looks like it's going to be significantly above 90¢, then that offshore movement of product is going to accelerate, particularly in the automotive sector and those fabricated metal sectors. Unfortunately, once that production leaves, it's not coming back.

Mr. Garth Whyte: I just want to comment. The tendency is to cluster it all into one issue and there's no other message, but there are different subsectors within there, large and small, indigenous versus international. The international subsectors will relocate their plants to Mexico. Well, there are a lot of guys in Alberta who have one plant feeding the Alberta sector right now, and they're doing okay and are going to grow.

So it's not just the dollar; it's also where the markets are, and it's also the whole package. If you're going to start a business, you're going to wonder, am I going to be taxed more and am I going to be regulated more? There's also the dollar. And where are interest rates going? Can I get people? It's the whole picture; it's not just one issue.

Mr. Mark Holland: One last question?

The Chair: I'm sorry, but we're about 30 seconds over, Mr. Holland.

We've got three members who want to ask three questions, so can I ask you, Mr. Carrie, Mr. McTeague, and Mr. Crête, to put your questions succinctly, and then we'll ask the witnesses to answer succinctly. Then you can make any final wrap-up comments.

Mr. Colin Carrie: I come from Oshawa, and that's exactly the situation there. We build the best quality cars in North America and we're still seeing a contraction of the facility. Here in Ontario we could have huge manufacturing job losses, but what can we do as a new government to allow or maybe help somebody who's a tradesman, for example, and who loses his job in Ontario, to relocate? Do you have any ideas that would help as far as human resources are concerned and moving the people we have here in Canada, who are already trained, into other areas of the country, and that would make that happen a little better?

Hon. Dan McTeague: Chair, thank you.

There is a concern that has been raised that volatility in our currency is inextricably linked to energy. The question is not so much, in my view, whether we have a dollar at parity with the U.S. dollar, but whether we continue to see these rises in energy prices. How are your associations, or the organizations you represent, prepared to combat that and to respond to it, rather than throwing up our hands and saying there's nothing we can do?

Second, in a \$20 billion industry like pharmaceuticals, there is very little in the way of manufacturing. Can you explain to us how we can do a better job in those industries, from a regulatory point of view, to promote the manufacturing that we need desperately in this country, rather than the \$6 billion trade deficit we see in pharmaceuticals?

Thank you.

The Chair: Mr. Crête.

[Translation]

Mr. Paul Crête: In my riding, there was a 10 million dollar investment under Technology Partnerships Canada which was very successful for Premier Tech.

Mr. Stewart-Patterson also asked this question. There is international competition in certain sectors, namely in the aeronautics sector, where other countries systematically subsidize production.

Do you think a federal government industrial strategy should include a support program for industrial research which would of course be well managed and deliver results? Could this possibly be a tool in the government's arsenal which would allow it to adequately support industrial development?

• (1300)

[English]

The Chair: Fortunately, there is a great deal of interest in these issues. We could go on for another two hours, I am sure, but we're restricted by time. I know some of the witnesses have to go to catch flights, so could you respond to those questions as specifically and briefly as possible, and then provide any wrap-up comments you want to provide?

And if there is any further information you want to provide to the committee, please do so to myself or to the clerk, and we'll be happy to distribute it to the members.

Mr. David Stewart-Patterson: Let me try to deal briefly with Mr. Carrie's question with respect to labour mobility and what we can do to help people who may lose their jobs in one part of the country move to another part.

I think there are two paths to it. One is the enabling part, and that tends to be the interprovincial thing: is the tradesperson qualified, are their credentials recognized, do they have the ability to move to where the jobs are from where they happen to be right now? Second, is public policy doing anything to persuade people not to move? That gets us into the question of how income support programs, such as employment insurance, are designed. Are there disincentives built into things like employment insurance that should be looked at?

I don't want to take all of the time, but if I could just deal with the question Monsieur Crête asked me.... Again, I come back to our general approach, which is to say that when you've got a situation where large industries that are important to Canada are facing competition that is subsidized internationally, our first line of defence is the multilateral trading system and to try to do away with those subsidies in other countries. Given that that takes time, we also have to look in the short term at what does it take for Canada to stay in that business if we believe the business is competitive, all other things being equal, and makes a valuable contribution to our growth?

Dr. Jayson Myers: Let me do a quick round.

There is one program that you might want to consider, which is what could be done to offset some of the costs for people who are moving from central Canada to Alberta, and perhaps going back and forth, as people are doing right now, between Fort McMurray and Edmonton, on one hand, and St. John's on the other. It's pretty costly. It's a cost that people pay out of their own pocket, and it is not

necessarily picked up by business. There may be some form of tax relief that you might consider there.

On the issue of the pharmaceutical industry, I think that's one area where speedier regulatory approvals could really have a major impact on the type of business that's being done here. I think the work Garth has mentioned, the user fee act that we worked on together with members of Parliament to pass.... The average time for pharmaceutical product approval over the past five years is something like 480 days. The regulating body committed at one point to make it 180 days, but it has been off that target for ages. The average in the United States is about 200 days.

I think the most egregious example of this was Singulair, a product where all of the R and D and clinical testing was done in Montreal. It's an anti-asthma therapeutic product. Though we did all the research, by the time it got to the market here, Canada was the 28th country in the world to approve it for use in our own market. The U.S. was number two; Sweden was number one. Why do we have to go through a separate regulatory approval system if we have 27 other countries that have approved it for their own market? Couldn't we have sped up the process? Over half of the time for product approval of that drug was not product approval time, but was waiting time in a queue for a regulator to look at it. So I think one thing we can do is to speed up that regulatory product approval process.

On the energy and the dollar side, I think the best thing associations like ours can do for our members, apart from advising you about some of the policy approaches you might take to offset some of the costs of the dollar, is to assist our members in managing it, either in hedging or investment strategies and product sourcing strategies, or in simply encouraging them to do business better, and to provide them with some of the services and support that enables them to get those productivity improvements we're seeing.

• (1305)

The Chair: Mr. Whyte.

Mr. Garth Whyte: We could talk about labour all day, but the shortage of tradespeople is a big issue in Ontario as well. We've talked about that.

I want to address what we are doing on the energy policy issue.

One, we use our economies of scale. We have 105,000 members. We've tried to leverage that to get lower prices for our members. We've looked at different ideas. We've done that in Alberta, of all places.

The other thing is we're trying to push the provinces to come up with a better long-term strategy for energy. How do we speed up the environmental approval process? It could take five to ten years. If we don't have enough capacity now, how are we going to make sure we have capacity five to ten years from now?

We're pushing that, and we're trying to understand it more. We're trying to call on experts to get in on this file, because we've got to get a better handle on it. Hopefully, we can come back and give you more information.

The Chair: Thank you very much to all of you for appearing before us to give your presentations and answer questions. We look forward to working with you on this study and seeing where it goes.

Thank you very much for coming.

The meeting is adjourned.

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Publié en conformité de l'autorité du Président de la Chambre des communes

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