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# Standing Committee on Industry, Science and Technology

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**Thursday, June 1, 2006**

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**Chair**

**Mr. James Rajotte**

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Thursday, June 1, 2006

• (1200)

[English]

**The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)):** We are in the second half of our meeting today on the state of the manufacturing sector.

We have three witnesses before us today. We have two witnesses from the Canadian Auto Workers, Mr. Peter Kennedy and Mr. Bill Murnigham. From the Fédération des travailleurs et travailleuses du Québec, we have Monsieur Pierre Laliberté, *conseiller politique*.

Each organization will have up to ten minutes. You can take the full ten minutes or less than that. We will then immediately go to questions.

We want to thank you on behalf of the committee for appearing before us today and for your presentations.

We will start with the Canadian Auto Workers. Mr. Kennedy.

**Mr. Peter Kennedy (Assistant to Secretary-Treasurer, Canadian Auto Workers Union):** Thank you, Mr. Chair and members of the committee, for the opportunity to be here to discuss our views regarding the challenges facing Canada's manufacturing sector.

My name, as you know, is Peter Kennedy, and I'm the assistant to the secretary-treasurer of CAW.

I'm joined today by Bill Murnigham, from our research department. We're going to share our presentation, and Bill is going to kick it off.

**Mr. Bill Murnigham (National Representative, Research / Pension and Benefits Department, Canadian Auto Workers Union):** Thank you, Peter.

Thank you to the members of the committee.

[Translation]

I apologize to committee members for not having French copies of our presentations. We only have copies in English. We didn't have a lot of time before preparing for this meeting. I'll nevertheless be able to answer your questions in French. Unfortunately, for the moment, we only have copies in English. If you want a copy, we can see about that after the presentation.

[English]

As I said, thank you for the opportunity to present here today on short notice. We're very pleased to be able to be here.

Let me start off by saying up front that the manufacturing sector in Canada remains a crucial source of value-added exports and

productivity. This committee saw witnesses, I believe on May 16, from a number of important business groups, including the Canadian Manufacturers and Exporters Association, the Council of Chief Executives, and others. They went through a number of the key elements of the importance of manufacturing to the Canadian economy.

To mention a couple of the highlights—I won't go through them again, because I'm sure you were well-briefed in meetings in previous sessions—2.1 million Canadians call the manufacturing sector home for their employment; \$610 billion worth of shipments come out of the manufacturing sector in this country; two-thirds of our exports in an increasingly globalized economy and the vast bulk of the exports of this nation are coming out of the manufacturing sector; the highest source of R and D spending in the country comes through manufacturing.

So one of the first things we'd want to say, up front, is that we reject the general notion that Canada is developing a post-industrial economy in which manufacturing is no longer central. We need manufacturing to provide investment, productivity growth, and good-quality jobs for Canadians. I think what you'll see is that the sectors that are most under threat today in Canada are exactly the kinds of sectors every country in the world is eager to have develop in their nation.

The other thing that is not always recognized but is highlighted by the manufacturing sector is the role manufacturing plays as some of the "original dollars" in the economy, if I can use that term, providing both the upstream benefit for sourcing materials into manufacturing and the downstream benefits of good jobs and good paycheques that spin off jobs not only in the services sector but also in supporting the public sector. So again, manufacturing plays a critical role in our economy.

Today the trends in Canada's manufacturing are certainly very negative. The boom in global commodity prices, combined with the impact of the rising Canadian dollar, has sparked a historic reallocation within our economy away from manufacturing towards resource-based industries such as energy and minerals. This trend is visible in one of the exhibits in our presentation, which displays that most of our merchandise exports once again consist of unprocessed or barely processed resource and mineral products.

We've been concerned as a nation since Confederation about diversifying our economy. In many respects today, we are turning back to being hewers of wood and drawers of water. For the vast bulk, we see a shift of unprocessed materials leaving our country, and this is a backward development in the development of our nation. The important thing for Canada's economy and for the future is to continually focus on what some of your previous presenters referred to as capturing a greater share of the value-added in the economy. We don't want to be just shipping out wood and water, so to speak.

Canada's currency is obviously one of the chief concerns for the manufacturing sector today. It's been driven skyward since 2002. Our dollar is now up by 44% compared with the U.S. dollar during this three-and-a-half-year period. This is obviously the fastest appreciation in our currency's history. It partly reflects some global developments such as the rise of commodity prices and the weakness of the U.S. dollar, but it also reflects a number of very important made-in-Canada factors, such as the tough anti-inflation stance of the Bank of Canada.

They're jacking up interest rates even though inflation remains below their target levels. To many observers, it remains rather remarkable that if there's a lesson in basic economics to be observed over the last several years, it's the undoing of the supposed link between high growth, low unemployment, and low interest all feeding into inflation. That has been the primary theoretical underpinning of the Bank of Canada for at least the last decade and a half, and the recent experience tells you that this is not the way the economy is functioning today. There has been a high-growth, low-unemployment environment, and inflation remains low. That is something we should all be paying attention to. It is in fact engaged in somewhat of a false battle against inflation that isn't appearing.

This is a mistake. The Bank of Canada, in our view, must take a more balanced approach. The Bank claims that Canada is adjusting to change in a marvellous fashion. In our view they must not have visited many manufacturing communities lately. Manufacturing has shed 200,000 jobs since the appreciation began, and at least that many more will disappear in the coming years if they maintain this approach.

It's fascinating to talk about adjusting to change. Of course manufacturers will adjust to change. They'll adjust to change by moving the jobs elsewhere.

I think one of the things that's hidden today in the rise of the Canadian dollar is that we're seeing that people are not generally aware of the time lag in the manufacturing sector, particularly in some of our more value-added areas, such as the automotive industry and auto parts.

• (1205)

The dollar rises by 44% in a short period of time, and you don't pull your tooling and your products out of a plant tomorrow. The decisions about product allocation for 2007-2008 and beyond are being made today. A few years out, you'll start to see the impact of these decisions. They'll hit the unemployment figures, and there'll be a decline in production. Again, we should not be surprised to see the dramatic drop-off in some of these sectors in a few years.

Only one in five of the jobs that were lost to manufacturing in this recent period have been offset by new jobs and resources. So again, it's a myth that manufacturing is down but resources are booming, so therefore everyone's got a nice new job to go to. This is certainly not true. All the rest can only hope for a job at a Tim Horton's or a Wal-Mart, and I would say that's not exactly the kind of new economy we are looking to build.

Thanks in large part to the hard line taken by the Bank of Canada, our dollar has increased more against the U.S. dollar than other currencies, even though Canada is far more dependent on the U.S. market than any other country in the world. This means that our products are less competitive, not only against U.S. producers, but against other global producers.

Again I would think that this committee would be familiar with the fact that the Canadian dollar has risen faster against the U.S. dollar than the euro, the yen, or the Korean wan. Yet at the same time, the American economy is most central to ours.

Against Japanese producers, for example, our products are one-third less competitive than they were in 2002. Yet in Japan, the government and the central bank actively managed their currency to preserve the competitiveness of their exports. If it works for Japan, why can it not work in Canada?

It's quite fascinating when you review the recent history of the Bank of Canada. The bank has been very willing to prop up the dollar when it's considered to be too low. The question remains, why not intervene when the dollar has risen too fast and is too high?

I'll pass it over to Peter.

Thank you.

• (1210)

**Mr. Peter Kennedy:** The auto industry is still Canada's most important export industry. Every day 148,000 Canadians go to work in the auto sector. They build more than 7,000 vehicles every day. They produce \$290 million worth of products. They earn \$26 million, and pay \$6.3 million in income and property taxes.

We've had a mixture of both good news and bad news in this critical sector. Thanks largely to proactive measures by the federal and Ontario governments, we've won at least \$7 billion in new major investment projects in the last three years, and this is essential to keep us in the ball game.

However, there are disturbing negative trends as well. The dollar, the problems at the Canada-U.S. border, rising energy costs, and structural problems at both Ford and General Motors, by far the largest auto companies in Canada, have all hammered this sector.

Despite these investment announcements, overall employment has been heading downward, and the forecasts are it will continue to decline over the next period of time. The assembly sector has a net loss of 8,000 jobs since peaking in 1998. The parts sector is currently experiencing the worst pain, losing 10,000 jobs since 2003, again largely because of the rising dollar. And it's not just the old unionized companies that are feeling the brunt. It's happening all across the sector. And as Bill indicated, the order books going forward make it appear even worse down the road, because you don't just remove that tooling as soon as the dollar rises. Unless something is done very, very soon, we are going to see at least 10,000 more jobs lost in the auto parts sector in the coming years.

We'd also like to draw your attention to one other urgent matter. At this very moment when manufacturing, and the auto industry in particular, needs all possible support from government, the federal government is charging ahead to negotiate a free trade agreement with Korea. Our negotiators want an agreement by the end of this year, and there are no major sectors in the Canadian economy that see the Korean market as a major opportunity. Many sectors are opposed.

The auto industry—not just the big three, but Toyota, Honda, the parts industry as well, and CAW—have all expressed our opposition to this deal. I think the committee heard recently from Jayson Myers of the Canadian Manufacturers and Exporters, who expressed a similar viewpoint.

Our trade with Korea is already one-sided. Since Korea's financial crisis in 1997, its exports to us are up 90%. Its auto exports to us are up an incredible 600%. For every dollar's worth of automotive products we sell in Korea, it sells \$150 here in Canada. It is blatantly unfair and has already destroyed thousands of Canadian jobs. The Korean government has used exports as a source of growth for its economy, and we cannot allow this one-sided relationship to continue; free trade with Korea will make it worse.

Korean imports are tightly controlled through a range of measures, including macro-economic tools, currency management, non-tariff barriers, and fierce national loyalty. No one seriously believes our exports to Korea, which are mostly resource-based products, will increase under free trade, yet it will use tariff elimination in the context of our more transparent market to substantially expand its sales to our market.

**A voice:** We're over ten minutes.

**Mr. Peter Kennedy:** I would just summarize by leaving you with four recommendations we would like to put on the record.

The first is to encourage the Bank of Canada to relax its interest rate policy to reduce the upward pressure on the Canadian dollar. The second is to continue the recent federal practice of offering support for strategic major investments in the auto industry by participation in the Canadian Automotive Partnership Council, which has helped to facilitate that support. Third is to work with your Ontario colleagues and U.S. counterparts to quickly enhance the physical infrastructure at the Canada-U.S. border in Windsor, including the timely construction of a new crossing. And fourth is to withdraw from free trade negotiations with Korea and work instead to develop a fair-trade agreement in conjunction with U.S. officials

to ensure North American exports to Korea, including strategic industries such as auto, rise proportionately with growing Korean exports to North America.

• (1215)

Again, thank you very much for the opportunity to present our views.

**The Chair:** Thank you, gentlemen.

We will now turn to Monsieur Laliberté.

[*Translation*]

**Mr. Pierre Laliberté (Political Advisor, Fédération des travailleurs et travailleuses du Québec):** Thank you, Mr. Rajotte.

My name is Pierre Laliberté and I am a policy advisor to Henri Massé, President of the Fédération des travailleurs et travailleuses du Québec. As you know, the FTQ represents nearly half a million workers in Quebec, two-thirds of whom work in the private sector.

On behalf of the FTQ, I'd like to thank the committee for taking the initiative of trying to see what is going on in the manufacturing sector and of starting a debate on what measures should be adopted, because it is high time that was done.

It must be said that the manufacturing sector in Quebec has borne the full brunt of a destructive combination of three factors. The first is rising exchange rates, which we talked about a little earlier. Those rates have risen 40% in less than three and a half years. The second is the rise in energy costs, more particularly fuel costs, which increases operating costs. The third is foreign competition, which is all the fiercer because our businesses are handicapped by a currency that is too high relative to its usual value.

In Quebec, approximately 600,000 persons work in the manufacturing sector, approximately 75,000 less than three and a half years ago. That shows the impact of what has happened since the value of the dollar began to rise. Quebec also has a lot of sectors at risk. Here we're talking about the forest products industry, the textile and clothing industry—which has lost nearly 40,000 jobs—and the furniture industry, which has also come under a lot of pressure in our regions. I could continue reading the list, but that sums up the sensitive points.

We can console ourselves with the thought that the situation could be even worse. Fortunately, the global economic growth rate has been encouraged by accommodating monetary policies, which has saved us. We heard relevant comments on that subject a little earlier. This sustained demand for consumer goods also guarantees demand for capital goods and raw materials in countries such as China. The steel industry, which experienced problems a few years ago, is not in good health. Multinational steel companies are fighting to buy assets, whereas they were in a troubling situation a few years ago. The situation isn't disastrous yet, but things are a bit shaky.

The increase in raw materials and energy prices, and the rise in the dollar have put companies in a difficult position. Things are worse in some sectors, such as the forestry industry, which has suffered the after-effects of U.S. trade policies and of the change in logging systems. There are grounds for concern.

I'd like to respond to what my colleague from CAW said about monetary policy. I read a report on Governor Dodge's presentation a day or two ago, and it seems to me he was talking a bit like Marie-Antoinette when she said of her subjects: let them eat cake. I believe Mr. Dodge is washing his hands of his responsibilities. Of course, the situation isn't easy, but, as we've noted, he's addressing a problem that, in a global sense, is virtually non-existent. The regional economy is definitely overheating in Alberta and neighbouring regions because of the oil and gas industry. However, Canada's monetary policy and high interest rates won't be able to prevent the Alberta boom from continuing and can't stop the overheating. That's an intellectual conceit, and it affects us. Not only do we have to cope with increasing exchange rates and energy costs, but we'll also have to deal with rising interest rates. The vice is tightening around the manufacturing industry.

•(1220)

Although we agree that David Dodge doesn't control the level of the Canadian dollar, the interest rate gaps between the various currencies are nevertheless major factors. We know that the exchange market is 90 percent based on speculation. It would be desirable, at least, for the governor to try to downplay these speculative elements and to ensure that, on the whole, the Canadian economy and monetary policy foster a climate conducive to the industrial restructurings that are currently under way and are hurting a lot of people.

We've already heard the view that Mr. Dodge has expressed because it prevails in Bank of Canada circles. These people don't seem to think it's a problem that our economy is turning into an economy of hewers of wood and drawers of water, as my CAW colleague said. For them, if commodities prices are high and exchange rates are rising as a result, that means that's our role in the global economy.

For all the reasons put forward by the employers groups that, I believe, have emphasized the manufacturing sector's contribution to the Canadian economy, as well as what you've just said, we think that's an irresponsible attitude, and I hope we'll send him that message in every possible way.

For us, at the FTQ, what is going on right now should snap us out of a certain torpor. Since the late 1990s, Canada's industrial policy has been to rely on the free market as much as possible and to liberalize trade. We crossed our fingers and hoped that businesses would thus become more productive, more competitive, and that, ultimately, all that would result in an increase in the standard of living for Canadian and Quebec workers. We can see that things have not exactly worked out as planned. We've been saved, or greatly aided, by the fact that the Canadian dollar lost a great deal of value in the early 1990s. That enabled us to take advantage of our proximity to the market that was then undergoing the highest growth in the world, the United States. In addition, our currency was below its normal value, which made us highly competitive. That gave us

room to manoeuvre, but we unfortunately observed shortly thereafter that, when we compared productivity rates between the U.S. and Canadian economies, we weren't making the grade. I'm sure you've already seen all those figures. When we consider the capital invested per worker in the manufacturing sector, you see that what we're doing here at home represents approximately 60 or 70% of what's being done in the United States. The same is true with regard to occupational training and R&D investment.

We have some catching up to do in the area of investment. It must also be said that we in Canada are more oriented toward SMEs, which requires special attention. If only because of that, we must create tools to help businesses and our regions climb out of the hole. Complacency was definitely not acceptable in the 1990s, but we were able to get by. We can't do that anymore because everything's happening at the same time. We think something really has to be done.

In all that, there are of course international factors, and the federal government has to address those. Rather than try increasingly to liberalize markets, the Canadian government could show some leadership and try to find a way to stabilize the currency market and financial markets to make currencies more consistent with their actual value.

•(1225)

Let's take the example of the United States. Our dollar should be worth between 82 and 85 cents. If it's higher than that, we find ourselves in a dangerous area.

On this point, I'd like to emphasize the fact that China is manipulating its currency and taking advantage of that to engage in dumping. It is a mercantilist policy, and it's insulting. In Canada, we're accepting it like good boy scouts of international trade. The Americans have made some noise on the subject, but they haven't gone any further. This is a major disruption which, at a time when the big multinationals have to make location decisions, tips the balance to one side rather than the other.

In Quebec, the clothing industry is hemorrhaging. Only two days ago, we heard that Procycle, in the Beauce, and Raleigh, in Waterloo, Quebec, were going to close their doors. Even though the Canadian International Trade Tribunal had determined that additional customs duties should apply, the decision was made not to adopt measures to at least provide some respite. As long as Canadians, Quebecers and workers feel that the terms of international trade are fair, you can expect a lot of resistance to any talk of liberalization.

Before closing, I'd like to talk about measures which we think could be beneficial. We often don't agree with management organizations, but for once we agree on one suggestion made a little earlier by the manufacturers and exporters. They talked about accelerated depreciation for equipment and technology investments. These kinds of tax measures are absolutely perfect for us. This would help us modernize our businesses at the exact time when they can explore foreign markets in order to buy more efficient equipment at lower cost, which is moreover one of the only advantages of having a strong currency.

I'll stop here. You can ask me questions.

Thank you.

•(1230)

[English]

**The Chair:** We will start with Mr. Holland, for six minutes.

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

Thank you to the delegates for coming today.

I have a couple of things.

First of all, at this point we've heard from a number of different associations and groups on the issue of manufacturing. I think we've heard there are areas of weakness and concern. It's certainly one of the reasons the committee has undertaken the process of reviewing the sector and looking at how we can help manufacturing.

For example, I would certainly agree that textiles, which was mentioned earlier, and auto manufacturing are areas in particular. But there are others where this committee has concerns and where there are obviously weaknesses.

I would point out that some of the delegations—for example, the Canadian Manufacturers & Exporters—referenced the fact that things are actually going quite well in other areas, and there are actually going to be more jobs created than lost in different areas within manufacturing sectors.

It's important for the purposes of this committee to recognize where the weaknesses exist and what we should do in going forward.

I also have a concern that the economy has been very adaptive and the manufacturing sector has been adaptive. We've been relatively successful, but there's a question of how much it can take. How much do things like the dollar and the slowing U.S. economy impede that?

I'm only going to ask one question. I don't know if it's possible to ask the question, because I know that I only have one round, and give Mr. Lapierre an opportunity to ask a question after that.

**The Chair:** It sure is. I'll allow that.

**Mr. Mark Holland:** I'll just get to the questions, because I have a number of them.

I think that agreements like Beacon were exceptional—which I reference because it was in my neck of the woods—and extremely helpful.

I'm interested in two particular aspects. To Mr. Murnigham and also Mr. Kennedy, what are the nature of those kinds of relationships, investments, or strategic partnerships, and the extent to which they've been able to help in ensuring Canada remains competitive and is successful, as it pertains specifically to auto manufacturing?

Secondly, with respect to the dollar, whether or not it would be... We've heard from a lot of individuals who've stated that it's really the speed at which the dollar has appreciated, not so much the height of the dollar. I can see doing more about the speed than I can about the ultimate level of the dollar, because trying to set your currency at a particular level and keep it there is a futile exercise. You can perhaps do some measures to abate the speed at which it increases or to slow the decline.

So I'd just like your comments on those two factors.

**Mr. Peter Kennedy:** Let me deal with the question of investment and projects like Beacon, and all of that. I will let Bill deal with the monetary and fiscal policy aspects.

They've been very successful. The reality is that up until projects like Beacon and the investment at Ford of Oakville, we were dealing with what might be considered... I wouldn't want to say it was antiquated technology, but it certainly was not current technology. With Beacon and the investment that the province and the federal government partnered in at Ford Oakville, we're now looking at flexible manufacturing facilities for the future, which will allow the automakers to be even more productive than they were previously. In particular, I think that's worth highlighting as it relates to Oshawa, because that was the number one facility in terms of productivity and quality in North America, even including the transplants into those ratings.

So I think it's important that government sees the benefit of investing in sectors of the economy that have paid dividends to the economy. As I say, it obviously helps us going forward, in terms of keeping abreast of technologies.

**Mr. Bill Murnigham:** I'm just going to add to that, and I'll address the question on the dollar that you raised as well.

Again, the list is quite long. Obviously, in addition to the Beacon and Oakville projects, we have Toyota's announcement, and International Truck, and we saw a major parts manufacturer, Linamar, and so on. This type of focused investment is critical, and I think there's a significant policy difference between a focused investment and a scatter-shot approach, for example, with some tax measures and so on, from which you're not really sure what you're recouping. There are studies making the rounds these days, particularly within the Ontario government, that show that the costs of those focused investments are recouped in tax dollars within two to three years, from the added economic benefit of having these operations go ahead with that help.

I think there'd be no doubt in anyone's mind that some of these key investments simply would not have happened without that kind of focused investment. Again, I think I would just add to Peter's comments on the importance of those.

On the question of the dollar, I think you're right on one point, in particular: the speed of the dollar's adjustment. It's not that someone would suggest that the dollar should not move around a certain range over a period of time, but it's the fact that it ramps up so incredibly quickly and does not allow people to have the time to adjust and make those changes.

Again, I think the central mission, for example, of the Bank of Canada... The argument that we'll just adjust to any dollar loses some of its focus. Why not \$1.20? Why not \$1.30? At what point is it just about adjusting to a new level? I think the Bank of Canada has to take a greater responsibility for managing the speed of it and also for getting a clear idea about the range within which the dollar benefits the most critical sectors of the economy.

Again, as my colleague Pierre mentioned as well, the oil boom is not going to be helped or hurt by some fluctuations in the dollar in the same way; it's not related. That boom is going to continue on its own global dynamic, regardless of what the Canadian dollar is doing.

I think that might address some of your questions.

• (1235)

**The Chair:** Well, we're already over time, but I think Monsieur Lapierre has a question.

[*Translation*]

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

I'd like to ask Mr. Laliberté a question. When you address the question of measures that should be considered, you mentioned industrial restructuring. I think we should talk about industrial disappearing instead. In general, a plant leaves, a sales office is kept here and the product is manufactured in Asia, or something like that. We're talking about 40,000 jobs lost in the textile and clothing industry. In the furniture industry, at the major Quebec retailers, approximately 80% of the furniture on the floor comes from elsewhere. I'm also concerned about the aerospace industry. Series C isn't moving forward. We're only keeping our old products. As for the lumber industry, in addition to all its troubles, it's experiencing cuts and stumpage fees. Even the pharmaceutical industry, which is supposed to be a major industry, is experiencing a lot of job losses. The word "restructuring" applies to the automotive industry, but less so in the sectors we're familiar with. When you look at the views that were presented to us by other witnesses a little earlier, you see we're headed toward more job losses. You were short of time and couldn't tell us what measures you were proposing. Apart from the amortization measures, we don't have any policy for the aerospace industry, and we don't have a program to support the logging industry. Could we do something practical to try to stop the hemorrhaging?

**Mr. Pierre Laliberté:** On the other hand, every sector has its own problems. Right now, a lot of players in the pulp and paper industry—those sectors intersect one another—are drained. We need resources to modernize a number of facilities. They were modernized in the early 1980s, as you no doubt remember, because there was a wave of modernization. The Quebec government had developed a program to encourage modernization. That's not being done right now. Businesses have suffered a lot from what's happened in recent years. Chance factors, such as stumpage fees, add to all that.

Some flexibility is needed in order to adjust. Your government had proposed loan guarantees, which is still appropriate. We think the government should consider forms of direct participation, because there are a lot of those. That could be direct subsidies for concrete things like purchasing new equipment. It could be convertible capital investment. In Canada, as in Quebec, we could use the money from the Canada Pension Plan to make investments to help capitalize SMEs, which need investment capital.

You're right. In fact, I raised the issue of China because it's an exemplary case, but there isn't just China. We see that we need a government that moves to the front and defends us, and that shows it isn't afraid. If we need protective measures for three years, let's do it;

let's protect our industries as long as that's necessary. Others are doing it. Why deprive ourselves?

You know the Beauce region. Procycle has been there for years, and we've managed somehow to have those customs duties imposed which give them a little respite. Now the government has decided that's no longer appropriate. I really wonder why. Perhaps they can explain that.

I also think there's a problem that...

• (1240)

[*English*]

**The Chair:** We have about 15 minutes left. We have at least three more members who want to ask questions. The witness time has to be allotted within the member's time as well, so whatever your response time is, you're doing that within the member's time.

We have Monsieur Malo, Mr. Van Kesteren, and Ms. Chow.

Could we try to be brief in our questions and brief in our responses? Thank you.

Monsieur Malo.

[*Translation*]

**Mr. Luc Malo (Verchères—Les Patriotes, BQ):** Gentlemen, thank you for being here this morning.

You said earlier that we are now seeing the impact of the monetary policy of the Bank of Canada, but that we could be feeling it over the longer term. You even seem to be saying that it might be too late. I'd like you to give us some more details on the subject, by telling us why it might be too late and what could be done now to reverse this trend.

**Mr. Bill Murnigham:** Let's take the example of the order books in the parts industry. Yesterday, we had a meeting with the people from the Automotive Parts Manufacturers' Association. They emphasized that new research had been conducted specifically on the type of books of members in this sector and on investments. This is a key point for analyzing the impact of the increase in the value of the dollar. I don't think it's too late to change things because not everything has escaped us, but it takes time.

For Mr. Dodge and the others, everything's fine in the economy, everything's perfect and it's working well, even with the dollar at its present value. That's not really the way things are working in the key sectors. That's the point I wanted to raise.

**Mr. Luc Malo:** Mr. Laliberté, you seemed to want to propose a few potential solutions and put forward a few options for the government, in particular to increase business productivity. As you know, we won't be able to stop globalization or international trade. What potential solutions would you wish to propose?

**Mr. Pierre Laliberté:** There's no magic solution. We have to live with the situation we have. As I said, there's the variety of businesses that make up the manufacturing sector. Of course there are the giants, like the big automotive companies, but there are a lot of small and medium-size businesses that are often poorly equipped to deal with shocks like the ones we're experiencing. You have to take that into account.



We definitely won't be putting up walls around Canada. However, we must implement safeguards for a few years to protect industries in transition. We're supposed to introduce trade safeguards when there is a shock, that is to say when there is a significant import penetration, for whatever reason. If we don't raise those reasons in the clothing, furniture, consumer goods, sports equipment or any other industry now, I really wonder when we will. That's why I'm sorry to learn that the government isn't going to intervene in this matter.

So structures must be created. We think that's how it should be. There are sectoral manpower training committees looking for solutions to the skilled labour shortage in certain fields.

There are also programs. For example, there's the Industrial Research Assistance Program of the National Research Council of Canada which has expertise. Not all companies can afford engineers for very specific matters.

Why not invest resources in given sectors? Why not have expert technical resources to provide advice at reasonable cost to enable these businesses to modernize so that they can continue operating?

There are avenues, but we have to have the will to bring everyone along together. We don't do that in Canada. Unfortunately, we've left the industries to themselves. For example, Mr. Lapierre mentioned aerospace, which is a good case. We are one of the top four countries in the world in that industry. And yet we're not taking the necessary measures to continue in this leadership position.

• (1245)

**Mr. Luc Malo:** Lastly, I'd like to know whether Canada can do something to help the bicycle manufacturers survive. I'd like to hear your comments on that subject.

**Mr. Pierre Laliberté:** The only thing that could be done would be to accept the measures suggested by the Canadian International Trade Tribunal. That would already be a good start.

In addition, we know that bicycles sold in Canada have value-added. Although the workers in that industry often earn only \$12 or \$13 an hour, we can't claim to compete with those who are paid an hourly wage of 60¢. In that sense, we have to help businesses develop new niches; that's for sure. I believe that's part of the natural order of things. It's possible to keep those jobs, but we have to evolve.

I'd like to speak briefly about older workers, who are in a way prisoners of this dynamic. Often in these sectors, particularly in the regions, people can't retrain. When you're 55 years old and you've worked at the same place for 30 years, the situation isn't an easy one. There used to be programs, including the Program for Older Worker Adjustment, or POWA, but it no longer exists.

Workers are asked to embrace free trade and everything that comes with it, but they're not given the tools that would enable them to adjust when they're hit hard.

[English]

**The Chair:** Okay.

We'll go to Mr. Van Kesteren.

**Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC):** Thank you, Mr. Chair.

Thank you, gentlemen, for participating.

I can testify to what you stated earlier, Bill, in regard to some of the government incentives that have worked. My riding is Chatham—Kent—Essex, and we make a good truck. I think that is testimony to the fact that we're making 200 trucks a day. We almost lost that industry. And because of the incentives and the working together with the union—

**A voice:** The Liberal government.

**Mr. Dave Van Kesteren:** Yes. I think everybody agreed that this was money well spent, and the result was as I said.

However, I'm in the car business, and I think of the competition that the Japanese have brought into the scene. I think back to the 1970s, when we produced this iron—we used to call it iron—and I look today and see the innovation. I see the technology that's come largely because of the Japanese. It's forced the North Americans to produce a better car. Ultimately, the consumer is the one who benefits from that.

I want to ask this question. When I look at southwestern Ontario—I live right along the 401, I and see these trucks humming by, just plowing this stuff into the United States—I really think we make a good product. For whatever reason, they like North America, the auto manufacturers.

Correct me if I'm wrong, but isn't a lot of their productivity shifting to the Asians, to the Toyotas and Hondas? Do we not produce as many cars now as we did at one time? And should we be afraid of that type of competition, which ultimately results in a better product for the consumers?

I don't have much time, and I don't want to spend all of it as an intro, but leading from that to the Koreans, I agree that presently it doesn't look like.... It's a one-sided agreement—I agree with you. But is the possibility not there that if we open up our markets, the Koreans will have to start building their products here? I would suggest that this would happen, because their plant in....

To finish that off, I look at an example like Britain, which stuck its head in the sand regarding its auto industry for so many years. Ford bought Jaguar from British Leyland, BMW bought the Mini, and so on. There's nothing left of it, which resulted from the fact that they didn't allow the free market to drive their market. Correct me if I'm wrong, but was there a protectionist government that tried to save it at that time, and the end result was total destruction.

Can't we build a good car? Don't we have the possibilities? Can't we allow the free market to let that happen? And will we not in the end produce more cars and have a better product?

●(1250)

**Mr. Peter Kennedy:** Well, we do build a good car. There's no question about the quality and the productivity of the Canadian auto assembly industry, and there's no question that the penetration of the market by the Japanese producers has forced the North American producers to be much more cognizant of design and quality and fit.

But they come into that market with the direct opposite of some of the factors we're experiencing today. We talk about the value of the Canadian dollar. Well, the Japanese government has controlled the value of the yen for decades. They were able to bring vehicles into this market and sell a lot of product on this market because of the distinct advantage they had with currency.

All of that aside, our auto production is in decline; we peaked in production in Canada in 1998. But it is acknowledged we build more vehicles for export, primarily to the U.S., than we do for sale here in Canada.

To get back to your basic point as to whether or not we can build a good-quality vehicle, I think that's a given. If you take a look at the J. D. Power awards and the Harbour studies, Oshawa is the number one shining example of both quality and productivity in North America, which includes the offshore producers, the transplants.

**Mr. Bill Murnigham:** Again on that point, the Canadian workforce has proved itself not only for the big three traditional manufacturers, but with Toyota's selecting Ontario as the site for its new plant. That would speak to the fact that of course we can build a good car—in fact, among the best in the world.

The one point I would add is that sometimes there is a debate about the nationality of the home producer. That's never been the source of debate for Canada. Canada's never had an auto industry domestically. We've had an American industry, and now we have an American, a German, and a Japanese industry.

Certainly Japanese vehicles can be built here and sold here in Canada in an open market, but the issue is that the market is not open. North America has the most open penetration of any major vehicle market in the world. Over 20% of vehicles sold in North America are built outside North America, and that includes Mexico. In Japan it's 5% and in Korea it's under 1% of vehicles that are built outside those countries. Again, it's not a question: Japanese consumers I think would like to buy North American-made vehicles, frankly, but they have not been allowed in. That has been the history. In fact the automakers have abandoned that strategy, largely.

So it's not a question about that. Certainly global trade can help foster productivity and innovation in an industry, but the question for a nation is, what are you going to do to balance that trade for the benefit of your economy? Obviously it involves jobs, and that's employment for the nation. So I think it's partially that.

On the point about the future and whether we will be building as many cars, the latest predictions are that despite the announcements we've seen, we're going to have a net decline of around 7% in auto production by 2012. A lot more of it will be transplant production—Honda, Toyota, and maybe others—which make a lot fewer and buy a lot fewer domestic parts still to this day, so the employment impact will be down.

●(1255)

**Mr. Dave Van Kesteren:** We were presented with some statistics, and one of them was the relationship of our productivity with that of the United States. I'm curious. What happened in the period between 2000 and 2005, when we dropped...or actually, we didn't drop so much as they rose. They had a significant rise, and we had a significant drop.

Can you comment on that?

**Mr. Bill Murnigham:** I know some of these aggregate figures for the whole economy; maybe we'll come back to them in a second. In the automotive industry you get aggregate figures that come from measurements from the national accounts of nations, and so on, and it's a little bit abstract.

One of the most detailed studies that exist on productivity in the automotive industry is the Harbour set of studies. They send an army of people into every auto plant in the world to measure widgets, and how many bodies there are, and how long everything takes, from brushing your teeth to putting the screws on. In their study, which is the bible in the industry, Canadian plants come out at the top not in Canada, not in North America, but in the world. The Oshawa plant was I think down somewhere below 17 hours per vehicle, and that made it the most productive plant, likely, on the planet.

So you see these countercurrents. You see that these aggregate figures will tell us that Canada's productivity in relation to the Americans may be declining. That might have to do with investments in other sectors. In the auto sector, that line of thinking doesn't go too far. As to the reasons behind some of those broader figures in Canada, I would suggest again, as my colleague mentioned, that finding proactive ways to support investments in new technology in manufacturing and other sectors would maybe change and reverse some of that trend. But again, and on the whole historically, Canada's productivity is mounting. Perhaps America's is mounting that much faster.

**The Chair:** We'll go to Ms. Chow.

**Ms. Olivia Chow (Trinity—Spadina, NDP):** We know the rising cost of energy is a problem. What do people think of the east-west grid question, the building of it? And second, investing in manufacturing alternative-energy sources, whether it's solar panels, wind power, green cars, etc., is that an area where we should focus, and if so, how? Particularly to export to India and China, because they need these kinds of energy sources too.

What about the east-west power grid, plus this kind of investment?

**Mr. Pierre Laliberté:** You're raising an interesting point, because it's clear that one way to ward off some of the pain is clearly to be less dependent and use less energy per unit of production. On that score there's plenty of room for government to provide incentives and expertise, to the extent it can be pulled together, to allow industrial producers to become more efficient. That's win-win-win all the way. If anything, this should be a moment where those sorts of things are being taken forward.

On the east-west grid, what I find amazing about Canada is that we are an energy-rich country, but we don't have an energy policy. Our neighbours to the south need energy, and they have an energy policy, which is essentially based a lot on what we send them. I was amused this past weekend when the Premier of Quebec was boasting, "We can be winners too. We'll export some hydroelectricity." We too can export energy to the U.S.

Why the hell would you want to send to your competitors down south something that could be the basis of a comparative advantage? Of course you get some revenues out of it, but then again you don't add any value to it. In Quebec the aluminum sector is energy-dependent, but it provides good jobs; it provides spinoffs and all of that.

We need to start pulling those elements together. Certainly the grid should not just be about power. It could be about power, but it could also be about gas and oil and all those things. We need to start a Canada-first thinking about these things, to think of the future, think of what we could do with it. When it comes to gas, we're going to be using gas to get some oil out of the tar sands. We could have many more derivatives from gas than that.

Again that requires a certain leadership and a certain management, a husbandry of the resource. In Quebec, you can bet your pants that if you suggest they ought to send their electricity to Ontario rather than the U.S., you're going to get some resistance. However, you could pull it all together and say "This is going to be a win-win. There will be some oil for you too."

We have the basis for something that could be very productive and forward-looking, but we don't because we're in Canada.

● (1300)

**Mr. Bill Murnigham:** Thank you for the important question.

On the question of an east-west grid, I'll echo the points of my colleague Pierre to some degree. It becomes a question about energy sovereignty and sovereignty of the two nations in the Canadian Confederation. It's very important that we're not just allowing our resources to be dominated by another nation. We're talking about manufacturing. This will become important as we go forward.

Why can we not envision a certain kind of national policy on energy that would be directing our natural resources towards building the economy, rather than getting back to this argument about sending all of our resources south of the border? Why not use them to the maximum advantage, as we have here, to build an economy?

On the question of alternative energy and so on, I can speak about green cars and developments in the automotive sector in particular. I cannot imagine why Canada and all of its leaders would not see this

opportunity for Canada to get in front of this sort of technology, hoping that it's not almost too late in some areas. I don't know. If the world is going to move to wind energy, why shouldn't Canada position itself to be the greatest manufacturer of turbines, if we're going to be producing other kinds of alternative energy sources?

Whether or not we have some of the world's largest engine-building facilities, why are we not ensuring that we're on the leading edge of those new technologies? If the world is going to move towards hybrid engines or some other sort of thing in the auto industry, why wouldn't we be in front of that?

I think it's these sorts of manoeuvres or moves. The market itself doesn't necessarily allocate in a way that's going to be favourable for Canada. It requires government leadership and intervention to make that happen here. It would be a lost opportunity. We have that experience.

One of the specific sectors in the automotive sector is in light materials and manufacturing. We have the base for this in Canada in the aluminum sector, and at the same time the automotive parts industry and other secondary manufacturing in that sector, and in aerospace. This kind of thing takes somebody to help screw those pieces together and ensure that Canada is working to reap the benefits of this change in the economy.

**The Chair:** Thank you.

Thank you, Ms. Chow.

I know we're over time and we're imposing on your time. Mr. Fontana has asked for a very short question. I have never heard a very short question from Mr. Fontana, but I'm willing to.

**Hon. Joe Fontana (London North Centre, Lib.):** I appreciate that we're running over time, colleagues and Mr. Chairman.

I agree with 90% of what you said. It's very insightful; we ought to look to an energy policy and an industrial policy that encompass a lot of what you've indicated. Now that the work has been started, I would hope that this committee may find some value in exactly those kinds of opportunities that exist for the Canadian economy.

I have one question with regard to the auto sector. It is very competitive. I think we are the world's best. In fact, we could look at production and the cost of production here. Could we open up our exports into the Japans, and so on? I'm sick and tired of our being the only one that allows everybody in, and then when we try to get a Canadian product into Japan or anywhere else, we're restricted—maybe not by tariffs, but by non-tariff barriers that don't allow the Japanese to buy good Canadian-made cars. They want to, I know. Korea is a good example.

I think we ought to stick to our guns and say that we get reciprocity or you get nothing. At the end of the day, I think it's important, because they want that rich \$350 billion market of North America. I think we ought to push back and essentially tell them to let us start selling our goods, and then we'll consider whether we ought to open up totally.

If we're going to continue to be the most competitive in the world in terms of the auto sector, I know on the human resources side that in seven to ten years we'll have 30% or 40% of our workforce retired, yet we've heard from the Chamber of Commerce and many others that although we can talk about capital or talk about technology, the fact is we have to be talking about human resources in this country.

What do you believe we need to do to make sure we can continue to be competitive through having the people and the skills we need to move forward?

• (1305)

**Mr. Peter Kennedy:** One of the most frustrating things I encounter is the catchphrase that people use about their employees being their number one resource. You heard presenters earlier today talk about the fact that we are in a crisis today, as it relates not only to skilled trades, but to certain other semi-skilled trades. As long as I've been involved in the labour market—going back to 1972—we've been talking about the exact same things.

It seems to me that all governments in that intervening period of time have taken a somewhat different approach in trying to resolve a fundamental problem. I don't think it's been for lack of trying, but I do believe it might have been for lack of focus.

One of our recommendations here today is to continue participation in the Canadian Automotive Partnership Council. Aerospace was mentioned, and we had a similar endeavour up and running in Canadian aerospace partnerships, which brought the stakeholders together to deal with these very issues. I think it's important that this continues. But until we're prepared to put money on the table for legitimate training, I'm afraid that we're going to be talking about it again 30 years from now. There has to be a definitive commitment in terms of funding for bona fide e-training programs.

**Mr. Pierre Laliberté:** I can add to this. It's as if everyone wants trained and skilled workers, but no one is really willing to go ahead and train a buffer of skilled workers, if you see what I mean. And when you need them, they're not there. Also the problem we have is a junction between the school system and the trades.

In Quebec, we see increasingly that skilled training goes on parallel to the school system. It is essentially forcing the school system to adjust, because as you know, a lot of it is a matter of credentials. As long as the school system doesn't recognize some of the skills that people gain on the job and find ways to make that happen, and until we find a way to free people off the line to go and get some more training, we will have that problem.

A lot of it is a matter of resources. There's no reason why it should not all come from the three sources that we know: the company itself, the government, and the person being trained. I can share your frustration. I feel like I've heard about this for twenty years now.

Maybe now is the time to move on it, since there's a crying need, but many suggestions and recommendations are being made.

• (1310)

**Hon. Joe Fontana:** We had about \$3.5 billion on the table for training. I'd like to think that the Government of Canada, and maybe the industry committee, might want to talk a bit about that.

I'm eternally hopeful.

**The Chair:** Monsieur Malo asked for a brief follow-up.

Again we're imposing on your time. Is that okay for a brief follow-up?

[*Translation*]

**Mr. Luc Malo:** Some people around this table have suggested that money from the employment insurance fund should be used to improve training programs.

What do you think of that?

**Mr. Pierre Laliberté:** The CLC made that proposal at least five years ago.

Ultimately, we observed that workers wanted to have access to training, but that it wasn't easy. Why would they agree to devote three months, six months or a year to development training, when they had to feed their families and there weren't necessarily any job opportunities? There's always uncertainty.

Consequently, in our view, employment insurance becomes a natural mechanism for motivating people. And leave is already offered for various reasons. So why not consider introducing training leave within the employment insurance system, to which workers would be entitled after contributing for a minimum number of years? In any case, we could find an arrangement that corresponds to that. We've calculated that every worker could accumulate a training leave bank that could be used for personal development.

In addition, employers could use that bank by offering training opportunities to workers who, at the same time, would receive an income paid by the employment insurance system. In such cases, an employer could perhaps add to that by granting a supplementary benefit, as is done in the case of health insurance and maternity leave.

So the benefit of that arrangement would be that it would offer flexibility. In addition, we would be able to provide tools for workers who, in some instances, don't necessarily have the flexibility to take charge of their own occupational training.

I believe the previous government was beginning to show that it understood this issue, but it didn't go very far. We hope to get more interest out of the new government, in view of the needs that are now so obvious. That's definitely a good way to use an existing tool, that we can equip with new accessories.

[*English*]

Thank you.

**The Chair:** Thank you very much for your presentations. Thank you for staying the extra time; we really appreciate it.

If you have anything further... I know you both have presentations; they will be translated for all members and distributed to them.

The meeting is adjourned.

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