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Chair

Mr. James Rajotte

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• (1530)

[English]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): Members, could we ask you to take your seats?

We are here at the 24th meeting of the Standing Committee on Industry, Science and Technology. The orders for today, pursuant to Standing Order 108(2), are to continue our study on the challenges facing the Canadian manufacturing sector.

We have three witnesses before us today, each for forty minutes. I would encourage witnesses and members to be brief in their presentations and their questions and answers.

I would just remind members at the outset that if they have any suggestions for the week of November 20 to 24 with respect to options for site visits or for witnesses, to get those into the clerk as soon as possible. We have a full committee meeting Thursday morning from 9:00 to 9:45 to discuss the work plan for the week of November 20.

Right now we will go to our first witness. This witness will appear until 4:10. I understand he's come all the way from British Columbia to be with us here. He is Russ Cameron, president of the Independent Lumber Remanufacturers' Association.

Welcome, Mr. Cameron. You have about forty minutes, so in order to allow as much time as possible for questions and answers, we'd ask you to try to keep under ten minutes for your presentation, and then we'll go to questions and answers from the members present.

Mr. Cameron, go ahead, please.

Mr. Russ Cameron (President, Independent Lumber Remanufacturers' Association): It should be under ten. I'll just read this and then have the questions.

I thank you for inviting the Independent Lumber Remanufacturers' Association, which I will refer to as the ILRA, to appear before your committee. Our 120 member companies represent the majority of British Columbia's non-tenured forest products sector. Non-tenured means that we do not harvest public timber that has been administratively priced by provincial governments. We pay market price in competition with the Americans and the rest of the world for all of our input wood fibre. We are small, family-owned companies employing over 4,000 employees. Annually we do \$2.5 billion in sales on four billion board feet. We sawmill; we remanufacture; and we wholesale. Our markets are all over the world, but our primary market is the United States.

The constitution of the ILRA directs our group to maximize the socio-economic benefit per cubic metre of Canadian timber harvested by promoting business conditions that result in the further processing of wood products in Canada. We are the only growth opportunity in the forest sector, as we are the companies that employ more Canadians to do more work to less wood fibre by adding value to it. We're a collection of Canadian entrepreneurs who are used to having hurdles placed in front of us. In one way or another we always seem to find our way around or over supply problems, currency fluctuations, market swings, foreign competition, and the like.

Today, my members want me to tell you about a new hurdle that we may not be able to get around. As you know, a group of our competitors in the United States, known as the Coalition for Fair Lumber Imports, has used the U.S. Department of Commerce to impose conditions upon us to make us less competitive in the U.S. market. We have jumped this hurdle before and we knew that we could do it again. The trick is to survive to see the victory. Most of us did survive, although just barely, and we ultimately won this fight on all fronts. Even the U.S. government attempts to circumvent the NAFTA and WTO victories were thwarted by the U.S. Court of International Trade, which recently ordered the withdrawal of the duties and the return of all the deposits. Not only that, we finally had the coalition on the ropes. They've lost half of their original membership, as measured by their ability to fund future cases. They even had to resort to recruiting small timber landowners and remanufacturers with the promise of money via the Byrd Amendment, but now they have lost even that tool.

With yet again no return on investment, the prospect of the coalition's being able to launch and fund a fifth softwood lumber case was looking very poor for them. Even if they could get a petition together and funded, it is doubtful if they could ever get another finding of injury and a punitive level of CVD or anti-dumping. They had just confirmed to NAFTA that the actual CVD rate should have been zero all along, and they can no longer use zeroing in their calculations of anti-dumping.

We also must remember that the U.S. government is seeking to be the big guy in this series of binational free trade agreements instead of being just another name plate and a chair at the WTO. As you know, they are in the midst of negotiating a bunch of these FTAs. The administration's appetite for another round of softwood lumber is waning, as they know that these other countries have been watching them try to skate around their NAFTA obligations while wondering what, if the U.S. disrespects their agreements with their friends, they will do to them.

This in itself begs the question of why anybody would make a deal with someone who does not freely abide by the one they already have. But Canada has done just that, and we now face a hurdle that we may not be able to pass. The Canadian government has joined forces with the coalition and the U.S. government in their fight against us. They seek to moot our legal victories. They are taking our money from us and using it to provide funding and a return on investment to our U.S. competitors. They are imposing commercially unworkable business conditions on us. They are taking over the role of the U.S. Department of Commerce, ensuring that our products will be uncompetitive in the United States.

The objective of the U.S. coalition in this agreement was to have our government impose taxes and quotas upon us, which would make us uncompetitive in the U.S. market. Getting their legal fees paid and a return on investment was just a bonus. With Canada's help they have succeeded. The vast majority of our U.S. competitors use U.S.-grown wood fibre to produce duty-, tax-, and quota-free, value-added products. We cannot compete with them if our federal government taxes the products that we make in Canada for export to our primary market.

• (1535)

It must also be remembered that we are not the only country producing value-added wood products for sale in the United States. We cannot compete in the U.S. market with countries such as China, when our government taxes our exports and their government does not tax theirs.

We had been suffering under a 10.5% duty that allowed us to ship as much as we wanted. Instead of negotiating a deal that led to free trade, or taking our legal victory—paying no duty and getting all our money back—the Government of Canada has apparently decided that our industry is better off being forced to pay 15% to 22% and to give away a billion of our dollars to our competitors. This is to ensure that they will be sufficiently rewarded this time, which will virtually guarantee a next time.

Even the Canadian Lumber Trade Alliance, which is the umbrella group for Canada's major forest companies, recognizes this. On Friday they filed a response to the U.S. Court of Appeals opposing the U.S. and Canadian governments' efforts to have the coalition's constitutional challenge of NAFTA chapter 19 vacated. In supporting the coalition, the Canadian Lumber Trade Alliance stated:

While we vehemently dispute Petitioner's baseless characterizations of the reasons for the softwood lumber dispute and the conduct of the Canadian parties, we do agree that there is almost certain to be future lumber litigation initiated by the Petitioner, and the parties inevitably will end up before NAFTA BNPs again in the future.

Given that this agreement makes another case almost certain, they're saying let's find out now if it is worth bothering with NAFTA, or maybe we should just go straight to the Court of International Trade.

The ability to even do business under this agreement is very questionable. Depending on a composite price, there are eight different possible tax percentages and three different values for calculating it. There is the possibility of actually turning the shipment around if one of three different shipment levels has been exceeded. And it could apply either regionally or individually. These tax rates or quotas will change every month. One of the taxes will even be retroactive.

Our members are extremely discouraged. Let me read a comment from one of them to illustrate. You need to know what a "surge mechanism" is first. The 10.5% duty is now a 15% tax. But if a region ships over its quota in a given month, the tax goes to 22.5%. That's called the "surge mechanism".

So here is his comment. I've received many, but this one's very illustrative:

The new fundamentals are just starting to be realized by most people. I just had my first experience. My last cut made a very small profit if the tax is 15%. I lose if we surge. The interesting part about this is that it feels kind of like the lottery. I will find out next month if I won or lost. Further, I find that it leads to a very interesting business decision. Do I double down? Repeat the process and double my profits, or double my losses? I don't know if I am making money or losing money while trying to make this decision.

We can't do business like this. We buy wood fibre at arm's-length market prices, and we manufacture it to serve niche markets with custom products. It takes time. We cannot even quote our customers if we do not know at what level our government will tax our shipments when they're ready to ship or if they will retroactively want more tax at a later date.

The uncertainty and lack of stability inherent in this agreement is already resulting in questions from our increasingly nervous bankers. Our members believe their already stressed businesses will suffer further negative impacts if this agreement proceeds. They believe it will result in further decreases in Canadian value-added processing and that there will be further employment losses and business failures.

The Independent Lumber Remanufacturers Association urges you to recommend convening international trade committees again, so that the parties affected by Bill C-24 may appear as witnesses and express their views on this pending legislation.

We realize that sessions were held earlier in this process, as we appeared at them, but things have changed a great deal since that time. For example, we were originally assured that all our interest would be returned to us, but now Canada will take some of it too. We were originally told in writing that we would get all our money back if we elected not to sell to the EDC at a discount, but now Canada is imposing a special charge and will take that money from us too. We were originally told that 95% support was required, but when it was not there, Canada changed this requirement. We were originally told that all litigation must be dropped, but when it was not dropped, the Government of Canada changed that requirement too.

• (1540)

We have yet to even see the much-changed final agreement that the GOC plans to force upon us, and yet we are currently operating under it. We now have experience with this agreement and what it will do to our industry. We need the opportunity to relate this new knowledge to the trade committee.

At the July 31 trade committee's meeting, a motion by Mr. Julian was passed to take the committee to the affected parties and hold meetings in B.C., Quebec, and Ontario.

The Chair: Okay, Mr. Cameron.

Mr. Russ Cameron: This has not occurred, and we ask you to recommend that the House follow through on this motion before passing Bill C-24.

The Chair: Okay. Thank you.

Monsieur Lapierre.

[*Translation*]

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

[*English*]

Mr. Cameron, welcome to the committee.

If I hear you well, you don't really have much time for that deal. You know, we were told that the vast majority of the industry was happy and that they were celebrating. Even today we were told that they were all having a Halloween party tonight because they got \$900 million back. So this doesn't seem to be your experience.

Were you consulted directly by the government? Has your group been in direct contact during the whole process of these negotiations?

Mr. Russ Cameron: No. I would say that we have not been consulted to the extent that we wanted to be consulted, either federally or provincially. Like I say, we're the small, non-tenured guys. I don't even know if the remanufacturers were on the map until five or six years ago. People are aware of this now, but we don't quite fit the bill on that.

We were sent drafts of things that generally had already occurred for comment, and I can't say that we had any success when we commented back on getting anything changed. It seemed to us that there was an overriding desire to have a deal at whatever cost.

We would say this doesn't work; this has to be changed. We'd get an answer back: Yes, well, you know we asked that, but they said no, so too bad.

Hon. Jean Lapierre: What will this deal do to the employment level among your member companies? Are you going to be worse off or better off than the status quo before, when we were having a lot of litigation and so on, but nothing was solved? How do you qualify your status today?

Mr. Russ Cameron: Yes, we're going to be far worse off. We took our first hit under the softwood lumber agreement of 1996, when there was quota, and our quota was insufficient. But at least at that time, if you had more shipments to make, you could pay 2.5% or \$50 a thousand. You'd get 2.5%, then \$100 a thousand after that, and keep on shipping.

We took a really severe hit this time around, but that's okay. Our guys say we'll stick it out. We'll pay 27% to see this thing through and beat the Americans, because we don't think they'll get another case together if we actually finish this thing.

Yes, we took quite a beating, and employment has been down about 25% among our members. Our shipments into the U.S. are down about 30%.

What this agreement does is kind of institutionalize the penalties the Department of Commerce has been imposing on us for the benefit of the coalition. It takes a 10.5% tax duty or duty anti-dumping thing, which we've been paying, and makes it 15%. The prospect is there of making it 22.5%. And if we ever go onto a quota system, God help the little guys, because there is no mechanism to ship one more board foot than the quota you have. By definition, you know that you're not going to have enough quota.

There's no more saying we'll just pay an extra \$50 and we can get it across. If you have order for 110,000 board feet and you have 109,000 board feet, you don't ship it, or you leave that 1,000 feet sitting in your yard.

It's really bad, and we're going to see more business failures. People are just going to give up, people who were hanging on by their fingernails through this fight. We were assured that we were going to finish it, and we didn't. A lot of people are just going to wrap it up, and a lot of them are going to be taken down.

• (1545)

Hon. Jean Lapierre: If I hear you well, then what you are telling this committee is that in all practicality we have to reconsider some of the parts of that deal, or what? Because you know this thing has kind of been rammed through. And practically as an industry, you haven't seen the final copy of the deal and you're supposed to apply it?

Mr. Russ Cameron: No. As far as I know, they're still negotiating some of the clauses in it. As far as I know, the agreement had the 95% required, then apparently there was a change on the 12th, then there's the litigation, and that's still going on. As far as I know, the Court of International Trade has not even seen the final copy referred to in the motion the U.S. government put before them, and they gave the government eight to ten days to come up with a copy. I haven't seen it. I've seen drafts, lots of them.

Hon. Jean Lapierre: Okay. But how are you supposed to be able to implement it and respect it?

Mr. Russ Cameron: The thing has gone so fast that nobody really knows how to do it. The companies operating under the thing, there's supposed to be a first-mill provision in there. Some of them have received the nod that yes, you're a first mill, and other guys have no idea whether they are or not. Do they calculate their tax on entered value or first mill? It's evolving. The litigation hasn't even been withdrawn; there's still an injunction on the liquidation of the funds from the first year; that's before CIT. The coalition is still challenging the validity of the NAFTA chapter 19.

Hon. Jean Lapierre: Thank you.

The Chair: Okay, thank you.

We'll go now to Monsieur Crête.

[Translation]

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

Mr. Cameron, with respect to the implementation of the agreement, there are two options: option A and option B—

Do you have access to simultaneous interpretation?

[English]

Mr. Russ Cameron: Sorry, I must be on the wrong channel or something. How do I get this in English?

Number one, okay.

[Translation]

Mr. Paul Crête: According to the agreement with the Americans, option A and option B are both possible.

[English]

The Chair: Are you getting it? Are you hearing any of this?

Mr. Russ Cameron: Yes, I got it. I can hear, yes.

[Translation]

Mr. Paul Crête: Can you hear me?

[English]

Mr. Russ Cameron: I'm not getting a translation.

[Translation]

Mr. Paul Crête: There is no simultaneous interpretation.

[English]

The Chair: They're both on.

Okay?

Mr. Russ Cameron: Yes. I'm hearing one, two, yes. Great.

[Translation]

Mr. Paul Crête: The agreement with the Americans provides for two possible options: option A and option B. As I understand it, option A is to impose a 15% tax. That is what British Columbia would prefer. Option B, Quebec's choice, is a 5% tax and quotas.

If we have quotas, that means there will be a distribution based on the historical value of export rights to the United States. However, some producers who have not necessarily exported over the past few years would still like to have a share of the market because they have a product to sell.

What do you suggest we do to ensure that these people get a reasonable share?

• (1550)

[English]

Mr. Russ Cameron: Yes, the quota is certainly a problem. The United States has just been on one of the longest big consumption things that we've ever seen. The consumption has been a record for the last four or five years. Canada has been supplying about 35% of that market. Under this agreement the option B thing for quota allows Canada 34% of that instead of 35% if the price is over \$355 U.S. on this composite and then it scales down from there. Right now we're way in the basement. The lowest price that has any benefit at all is \$315, and we're below \$300. In the share that is allocated to Canada the price we're at right now is 30%. Therefore one-seventh of the available shipments to Quebec and any other region is gone. Quota by definition implies that you're not supposed to have enough.

In 1996, when we had the last quota system, as I was saying earlier, you were able to ship more. You could pay \$50 and ship some more, you could pay \$100 and ship some more, plus the amount of quota you had for which there was no fee at all. Under this one here you would expect that Quebec companies and any region that elects option B is going to be allocated a share based upon their shipments in the last year or two, and that will be their history. That by definition is going to be lower than what they have been shipping by say 30 over 35 type of thing. There is no provision whatsoever for them to ship a single board foot more than the quota they've got unless they go out and purchase quota from somebody else. They can't pay more money or whatever.

It seems to me, and I'm not from Quebec or anything, that the only hope Quebec has is that I hear that you are reducing your overall annual allowable cut by 20% or something like that. I can only assume this is why Quebec would have selected the quota system, that they're thinking, yes, we're not going to be putting as much wood out but it's okay because we're not going to have as much wood. I guess that's the logic behind it.

The other thing is that you're still going to have to pay a 5% tax, whereas under the old quota regime that we had you paid no tax.

[Translation]

Mr. Paul Crête: My question was specifically about people who do not have that history. What do you think should be done?

Should the Government of Quebec or the federal government reserve a share for them? They want to sell and they are in a position to participate in the market.

[English]

Mr. Russ Cameron: The provincial governments and the federal government have an option to withhold some quota. In 1996 the federal government withheld I believe 600 million feet of the 14.7 billion that was allocated to the country, and they asked for expressions of interest from new entrants who needed quota. They received requests for 8 billion feet, which they were unable to fill with the 600 million. I would suggest, of course, that if there is anything held back by the federal-provincial governments it just means that other people are going to get less. Will they be able to withhold enough to allow for any new entrants? I don't know; I guess that remains to be seen. That has not been decided, as far as I know.

• (1555)

[Translation]

Mr. Paul Crête: Thank you.

[English]

The Chair: Mr. Carrie.

Mr. Colin Carrie (Oshawa, CPC): Thank you very much.

Thank you very much for appearing at committee.

In my notes in front of me I have a statement that Canada's furniture industry had experienced tremendous growth from 1993 to 2002 as a result of rapidly growing exports to the United States. Do you know how much that growth was?

Mr. Russ Cameron: I'm sorry, I know nothing about the furniture industry. I think that was perhaps another witness who was going to appear here.

Mr. Colin Carrie: All right.

Mr. Russ Cameron: The only thing I know about it is that the U.S. furniture manufacturers seem to be having quite a time with Chinese imports and they've piled a bunch of duties on them as well. How the Canadian guys are faring in Canada against the Chinese competition or in the United States I really don't know.

Mr. Colin Carrie: Okay.

You discussed the agreement. I'm curious to know, do you see this agreement as bringing you stability and access to the U.S. market?

Mr. Russ Cameron: No.

Mr. Colin Carrie: So you don't see any...?

Mr. Russ Cameron: It's not going to bring stability, no. I read to you the opinion of the Canadian Lumber Trade Alliance—that's all the big guys, the B.C. Lumber Trade Council and the whole bunch of them—when they did their submission to the U.S. Court of Appeals. They see that, yes, we're going to be back into this again. I don't know why this is sought to bring stability. As I said, it simply institutionalizes an uncompetitive position for Canadian industry.

I really don't know very many people, big or small, who were in favour of this deal. Some guys went along with it because they were going broke and they had to have the money. Some were intimidated, frankly, by all the phone calls they got from the

Canadian government. Some of them got up to six individual phone calls urging them to sign on to this deal.

Mr. Colin Carrie: My understanding is that the majority of the companies did support it. Why would they support it if it's such a bad deal?

Mr. Russ Cameron: I don't know that they did support it. My understanding is that the companies turned it down initially, on April 25. They didn't want to do this deal, at least in B.C. They were subsequently...talked to, maybe?

I wasn't there, I don't know. But we were certainly talked to, I know that. We just said, no, this doesn't work for us.

Mr. Colin Carrie: In terms of your industry, I think over the last 10 or 15 years the Canadian dollar has been at 65% to 75%. How much did you rely on that low Canadian dollar for your productivity?

Mr. Russ Cameron: With regard to currency fluctuations, when we have a low Canadian dollar it's great for export. In the mid-eighties we had a slide down as far as 64%, I think. We're back up again. Or was it 20 years ago our dollar was higher...?

It moves around. You just adapt, eh.

Do we like a Canadian dollar that's low? I think anybody who exports does.

Mr. Colin Carrie: Has your industry made significant investment in new equipment in the last ten years? Ultimately, of course, the dollar goes up and down. Do you have any numbers on any investment your industry has made over the last ten years?

Mr. Russ Cameron: I think you could say that the large companies in B.C. have made a fair bit of investment, and they continue to do so. There was quite a round of investment to try to get around the anti-dumping duty. I think the companies in the interior of British Columbia found that the more they produced, the less the component of their fixed cost was, which helped them in the dumping calculation as far as the zeroing goes.

On the B.C. coast there's been almost no investment. It has been more regional in British Columbia.

• (1600)

Mr. Colin Carrie: With regard to stimulating more investment or purchasing newer equipment, do you have any suggestions for the government to follow?

Mr. Russ Cameron: Yes, I do.

I suggest that we finish this softwood lumber case, get all our money back, and have free trade. We take the legal precedents we have, we take the fact that the coalition is really getting beaten up—once again they lose and get no return on investment—and we take the fact that the United States has lost their ability to use zeroing in calculating their anti-dumping. All you do is change that on a spreadsheet and there is no dumping.

We should also take the fact that the British Columbia government has made a bunch of forest policy changes. Even prior to their making the changes, the U.S. Department of Commerce had to admit that B.C.'s subsidy was negative \$430 million.

So just finish the case. We've already got it won. At some point you have to say "Look, you're going to lose every time, so give up."

As I said in here, I think the U.S. administration is losing their appetite for it, and I don't think the coalition has the membership to do it again—unless we provide it and the funding.

Mr. Colin Carrie: Thank you, Mr. Chair.

The Chair: Mr. Martin.

Mr. Tony Martin (Sault Ste. Marie, NDP): I represent a constituency in northern Ontario. We recently spoke with some of the leadership in northwestern Ontario. They are being decimated and blame some of it on the agreement. They often refer to it as the perfect storm—high energy prices, duties, and the dollar. In my own community, just this week a paper company went into bankruptcy protection. Some of that, a good percentage, is the high cost of energy and the dollar.

Have you done any analysis on the dollar? Do you have any thoughts on what we as a government could do to make the situation better?

Mr. Russ Cameron: I think the industry in the east is in big trouble. This softwood lumber thing is going to make it a lot worse. B.C. produced 58% of what went into the United States, and at least three-quarters of that comes out of the B.C. interior. B.C. has that beetle kill. So for the next few years you're going to see the stumpage in the interior of British Columbia go down, down, down. They're going to be selling blue wood that isn't going to command the same price as before.

We put in this market pricing system. That's where the little guys are supposed to go out and bid on timber, and then there's an equation that will take the prices paid and set the stumpage for the major licensees in the B.C. interior. These little guys are not going to be paying much, if anything, for that timber, because they're not going to make money. So you're going to see that stumpage go down.

At the same time, you've got the large companies—Canfor, West Fraser, and Tolko—ramping their production up. They now have their ability to run three by seven curtailed, because we just dumped all the wood we had in the province across the line to try to beat the tax. You heard the Americans squawking about that.

That lumber will get consumed. There's a theory I subscribe to—though I won't know for sure till it happens. You've got to figure that the CEOs of these big major licensees in the B.C. interior are talking to the CFOs. They're saying they know they're going to pay a 15% tax. They're looking at a smaller share of the market. If they increase production, they're going to go over what they're allowed with this 30% plus 10% type of thing, and they're going to have to pay 22.5%. So the question is, do they operate on a curtailed basis, so that they maintain themselves at 15%, or do they go flat out, three by seven, and try to lower costs by 7.5%?

If the CFOs come back and say, "With the declining stumpage, if we go three by seven, we can lower our costs by more than 7.5%", then that's what they'll do. You'll see more wood coming out of the B.C. interior than you've ever seen before. Any vacuum left there by curtailment from Quebec and Ontario will be filled by the B.C. mills. Once they're paying 22.5%, which happens if they exceed 10% of their quota for the region, it doesn't matter if they do 150% or 200%, they're still at 22.5%. Once you're at 22.5%, the more you produce the better, because you're going to cut your fixed-cost component more. I think that's a very likely scenario. It's going to make things real tough on Quebec and Ontario.

• (1605)

Mr. Tony Martin: So in other words, it's going to get worse.

Mr. Russ Cameron: In my view, yes.

Mr. Tony Martin: You hear from the government side that we need to be more efficient to compete better. I know the company that has gone under protection in my community is producing more paper, at a higher quality, more efficiently than they have ever done before. Yet they're under protection, even without the scenario you just described.

We have another company, Flakeboard, in the community. In meetings I've had, they have indicated that they're doing everything in their power to become more efficient. They're making new investments in technology, so that there's less transporting of raw materials. They're doing more themselves, and making their operation less labour intensive. But even with that, they are not sure if they're going to survive, because they're in the furniture business and it's very competitive.

The Chair: About 30 seconds, sir.

Mr. Tony Martin: I think we're working as hard as we can, as smart as we can, but we're still not getting anywhere. It's like Alice and the looking-glass.

With the dollar, is there anything we can do about the dollar?

Mr. Russ Cameron: I don't know if you can artificially peg your currency, like Australia has done in the past type of thing; it goes where it goes. I think we are all facing developing pulp industries in other countries, eucalyptus with 15-year rotation ages, which affects the price of the fibre. What's negative for Ontario is that the cheapest chips you get are sawmill residuals. If the sawmills are not running, you don't have residuals and you're going to have to chip roundwood, and roundwood is probably double the input fibre cost. They can tell you better than I, because I am not a pulp guy, but I have calculated it in the past and those were the numbers I came out with.

The Chair: Thank you.

Thank you very much, Mr. Cameron. I know that was very short, but we appreciate you coming all this way to be with us here today.

I have a question. You did have a presentation, and I think we will endeavour to have that translated for members. But if you have anything further you would like to distribute to members, anything at all with respect to manufacturing, please do send it to the clerk and we will distribute that to all members.

Mr. Russ Cameron: I left a dozen copies with Jim.

The Chair: Okay, thank you very much.

Mr. Russ Cameron: Thank you very much for having me out here. I will take every opportunity I can to try to get you not to pass Bill C-24.

The Chair: Thank you.

If Ms. Maloney could quickly come to the table, we'll go right into her presentation.

Members, we have three 40-minute sessions today, so we'll go very quickly in.

The second witness today on the challenges facing the manufacturing sector is Ms. Sharon Maloney. She is the executive director of Polytechnics Canada.

Welcome, Ms. Maloney, to the committee.

Ms. Sharon Maloney (Executive Director, Polytechnics Canada): Thank you, Mr. Chairman.

• (1610)

The Chair: Thank you for being with us here today.

We have a maximum of ten minutes for a presentation from yourself, then we'll go right into questions and comments from members.

You can start your presentation.

Ms. Sharon Maloney: Thank you, Mr. Chairman and members of the committee, for inviting me here today.

As the chairman has said, I am the executive director of Polytechnics Canada, which is an alliance of Canada's eight leading public polytechnic institutions. Collectively we annually train over half a million Canadian skilled workers, essential to sustaining the mid-level infrastructure that supports the innovation, research, and productivity fundamental to Canada's competitiveness.

Located in the regions that drive the Canadian economy and that reflect our country's workforce diversity, they offer a critical mass of educational, training, and research resources focused on resolving industry problems.

Polytechnics are positioned to respond quickly to industry needs for new or modified programs and curricula, as well as applied research. For example, Conestoga College—our member—and Toyota developed the multi-skill maintenance program that is designed to train Toyota's technical staff in the skills required to keep state-of-the-art automated assembly lines operating effectively and efficiently.

The applied research conducted at polytechnics assists manufacturers in improving products and processes to ensure their

competitiveness. Their research is focused on current opportunities and problems. It is completed quickly, with results that can be immediately implemented.

Canada's manufacturers have identified skill shortages and the need to enhance productivity as key challenges for the sector. For example, in the 2006-2007 management issues survey conducted by the Canadian Manufacturers & Exporters, respondents identified limited resources and the lack of qualified personnel as key factors limiting business performance and inhibiting innovation.

The 2006 World Intellectual Property Organization report provides more recent evidence of the weak performance of Canada's research investment. Since 1995 there has been a significant increase in the number of patent applications by residents of developing countries, including the Republic of Korea, China, India, and Brazil. Canada is not in the top 15 patent offices for patent filings by residents. Canada ranks 30th in the world in the number of patent filings by Canadian residents per \$1 million of R and D spending, putting us at the bottom of all industrialized countries, slightly ahead of Israel, Mexico, Turkey and Belgium.

Several emerging economies and countries in transition have high rates of filings per GDP, particularly those that have embraced polytechnic education. Canada ranks 26th in the number of filings by Canadians per \$1 billion of GDP, with a rate of 4.3. Clearly, past investments in post-secondary education, skills training, and pure research are not resolving Canada's current skill shortages or adequately enhancing the country's productivity.

Polytechnics Canada recommends that the following actions be taken to enhance the productivity of Canadian manufacturers and strengthen the Canadian economy: first, implement a national people and skills strategy, overseen by a high-level council with representatives from business, government, colleges, and universities, that is responsible for establishing short- and long-term goals to ensure we have the requisite workforce in place, to monitor progress, and to report national results.

Second, develop and implement a national credit transfer system to serve the mobile population, and prior learning and recognition standards to enable adult learners to fast-track their learning requirements and their credential opportunities.

Third, enhance Canada's e-learning capacity, both in delivery and content, to allow access for adult learners.

Fourth, maximize and leverage the cross-jurisdictional critical mass of applied education, training, and research available through the Polytechnics Canada alliance to produce the skilled workers necessary to diffuse technology and enhance the productivity of Canada's manufacturers. The recent announcement by our member NAIT, Shell Canada, and the provincial government to launch a campaign for the construction of the Centre for Applied Technologies and thereby increase its apprenticeship training capacity is an excellent example of what we need to be doing.

Fifth, invest in more applied research by supporting those institutions that have the ability to work with industry and provide solutions to industry problems while equipping students with the requisite technological skills. While a solid foundation has been established for basic research, we have not invested enough in applied projects leading to improved quality and productivity in manufacturing by using students and faculty of polytechnics as resources.

An example of what I am talking about is the integrated manufacturing centre recently established by our member, Humber College. The centre provided all the labs and technologies relating to everything from design through manufacturing processes to the customer in a single integrated location, which also acts as an integrated learning platform for technology learners.

Thank you.

• (1615)

The Chair: Thank you very much, Ms. Maloney. I appreciate the brevity and also the substantiveness of the recommendations.

We will go now to Ms. Kadis, for six minutes.

Mrs. Susan Kadis (Thornhill, Lib.): Thank you, yes.

Ms. Maloney, I have met with you briefly, and I agree there's tremendous potential within the polytechnical institutions, in terms of us being more productive and the competitiveness of the economy.

What do you think have been the impediments? We're hearing about some positive models, such as Humber College, which I'm very happy to hear about. What are the impediments to ensure that this linkage is made with governments, as well as business? And along the same lines, how did the Humber College one come about?

Ms. Sharon Maloney: The impediment that Polytechnics has experienced, as well as colleges, is a systemic bias in favour of one particular form of education and seeing it as superior to others. By that, I mean university education. And I'm not here to suggest a university education isn't a valuable education; of course it is.

I am here to say we have to be looking at all the available options. We need to be looking at what is complementary, what provides the kinds of skills and training that reflect the skill depths we have. Unfortunately, we are still living in a society and a culture where parents continue to say to their young people that they wish they'd go on to get a university degree, without recognizing that may just be the opening gambit with respect to being able to be properly trained and properly placed in the workforce.

One of the biggest issues is that systemic bias, which then has influenced key decision-makers of all governments, both political

representatives as well as bureaucrats, because they come to it with a predisposition and with a lack of understanding of what the value is and what the value offer is in this type of education.

It's a challenge for people of my generation to be able to be more responsive to younger people and to recognize what they need to be properly employed and benefit from being in a very competitive economy.

The reason Humber and the other institutions I've mentioned in my opening remarks have been successful is that they have been at this for a while. These institutions really are leaders in their field. They are distinguished by the fact that they provide applied learning as well as applied research, meaning they have a ladderized comprehensive offering that goes all the way from apprenticeship training right through in some cases to masters degrees, and they do applied research, so they have really completed the circle. Their students learn in the classroom and then they learn with industry, and they also conduct research, so they're helping industry solve problems at the same time they're learning.

When we talk about diffusing or being a knowledge-based economy, we are creating students who are trained to diffuse technology in the workforce. And Humber and BCIT and Conestoga and Seneca have been very good at that, because they've built those relationships with the private sector.

Mrs. Susan Kadis: Do I have any more time, Mr. Chair?

The Chair: You have two and a half minutes.

Mrs. Susan Kadis: You've given us some of your outlines, some of your recommendations. In a nutshell, what do you believe the federal government can do at this time to strengthen that relationship and the benefits that would accrue as a result?

Ms. Sharon Maloney: The federal government has started to do many things. The recent budget was very positive in the sense of recognizing dollars for infrastructure for post-secondary education. That's an important ingredient. Recognizing the value of apprenticeship training with tax credits is a positive thing. That's not enough, though. Even before getting into funding, as a country we have to identify education as a national priority, and that means leadership, and that means saying we need to be looking at where we want to be in the future; how we are going to be competitive; how we capture that 50% of the population that is not pursuing post-secondary education, not just students, but the underemployed, aboriginals, the disabled.

Education is the great liberator, and the greatest thing both federal and provincial governments can do is to start working together to get rid of the institutional barriers and in some instances jurisdictional barriers, which need to be respected but should not become inhibitors for us to be competitive as a country. When Canada goes out into the world, it does not compete as Saskatchewan; it competes as Canada.

Somehow, we have to be able to agree collectively that this is a priority and put in place some steps that would respond to that.

• (1620)

The Chair: Okay, thank you very much, Ms. Kadis.

We'll go now to Monsieur Vincent.

[Translation]

Mr. Robert Vincent (Shefford, BQ): Thank you for being here today.

I would like to ask a few questions. You talked about a national strategy, labour, a credit transfer system, concepts and skills. What type of labour is most problematic in your area? What is there a shortage of? What kind of people and skills do you need in your kind of operation?

[English]

Ms. Sharon Maloney: I think it's a full range. There are deficiencies in the energy sector. There's a crisis that people are experiencing in Alberta with respect to having skilled workers in the petroleum trade. There are deficiencies in British Columbia with respect to the construction trade. The mining industry is reporting that they have serious skill shortages.

I really think there are a number of sectors that this cuts across that are lacking in the skilled people they need—and even beyond that, the next stage when we talk about infrastructure, when you're working, for example, as a doctor, and you have a team that's probably made up of eight other technicians, radiologists, and technologists who support that role. Those areas are in need of skilled workers, and we're really not producing them at the rate that we actually should be.

[Translation]

Mr. Robert Vincent: How would the government be able to help you?

I understand that the government began to help, but can you give me a more specific answer? We hear about people coming out of university and even CEGEP with debts. What can we do to help them go farther?

People who complete their studies \$50,000 in debt are not tempted to go farther. Starting life with a \$50,000 debt is not easy. If, on top of that, there is a spouse in the picture who also went to university, how does the couple get out from under a combined debt of \$100,000?

You mentioned a credit transfer system. What can be done at the government level about that?

[English]

Ms. Sharon Maloney: Let me explain the issue with respect to transfer of credits. What I'm getting at there is that notwithstanding the fact that these eight institutions provide applied degrees, all of which are recognized by their provincial jurisdictions as bachelor degrees, they cannot come to the province of Ontario, for example. And if they want to go and do a master's degree at Queen's University, those degrees are not recognized by Queen's University, because Queen's does not recognize any institution that is not a member of the AUCC. So the fact that they have recognized applied higher learning at a bachelor level is no guarantee of access into post-graduate work by our universities in one of the largest provinces of the country.

The outcome of that and in fact the reason the whole structure of polytechnics and colleges was begun with respect to the applied degrees was because the universities would not allow their graduates

from diploma programs or certification to move into the university stream, so they went ahead and developed their own applied degrees. The challenge now is that Canadian students who can't get access to post-graduate work are leaving the country to go to the United States to pursue their graduate studies—unless they go to BCIT, which actually has a graduate program. So now our members are actually starting to look at graduate programs.

The point of this is that if we actually want to be competitive, we should be opening doors and not closing them. And we have to stop thinking in silos. We have to start thinking in terms of what's complementary. We describe it as the third pillar. How do we actually encourage somebody who may come into the work stream as an apprentice trade and decide that they actually would like to go further than that and end up with a diploma, and maybe go on to a BA and ultimately become an engineer? That's the kind of thinking we should really be encouraging, and we don't think that's in fact what's happening.

• (1625)

The Chair: Merci.

We'll go now to Mr. Shipley, for six minutes.

Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC): Thank you, Mr. Chairman, and thank you, Ms. Maloney, for coming out today.

I find this discussion really quite interesting. To follow up, I think you mentioned that parents say “Go out and get a university degree.” I think that's true. Within our family, had we said that to all of our kids, those who now have degrees wouldn't have them if they hadn't had the opportunity to go to college and develop those skills early.

Some of us met with the president and some of the people of Fanshawe, just outside of London. The question is, how do you market? Quite honestly, where do the people who come into the high schools to promote further education come from? University. I think all of us build a sense that that's the way.

I'm wondering about ideas. How do we market this so we can fill these slots with skilled people we need so much in the country?

Ms. Sharon Maloney: There are a couple of things. I couldn't agree with you more that it starts in the school system. Some of the schools are starting to adopt that. Some of the school counsellors are starting to think more broadly about the kind of post-secondary education on offer. Sometimes people think it's a lesser standard to go into these institutions, and that's not the case. It really is reflective of what the interests of a particular student are and how they can be best maximized. It is beginning to happen in the high schools, and it needs to be expanded.

Maybe part of what we need to do is hear from more people like Mike Holmes, from *Holmes on Homes*. I listened to him yesterday morning on CTV and he was talking right to this issue. I think we need people who represent how successful a career in these types of businesses can be, and not just financially. They're independent business people, and there's a lot of value in that. Maybe as part of the national strategy some thought needs to be given to how to communicate this.

Mr. Bev Shipley: How do you follow through with that from the academic part, in terms of that marketing, with the industry? How do you work with the industry to promote what you need in skilled people within the trades?

Ms. Sharon Maloney: The model has usually been that industry comes to us. That's what makes us different in a big way from universities. We don't create programs by having a discussion and saying let's come up with this program. We create programs because industry comes to us and says they have a problem. Then we build on that.

Mr. Bev Shipley: I don't want to be left with the idea that you only react when there's a problem. As part of a strategy for developing, how is your communication with industry so you can make some predictions about problems, not just today but in five to ten years because of demographics and—

Ms. Sharon Maloney: On what has happened in the past, it's because of long-standing relationships between a number of these institutions and particular sectors. When Humber decided to build this integrated manufacturing centre, that really came out of the discussion and the pre-existing relationship with their business partners. All of these institutions have very long-standing, strong relationships with industry, so it is very much a collaboration.

There is a huge opportunity here. One of the things we want to start exploring is how to work with sector councils to provide and build partnerships. How do we go to different industry sectors, maybe the mining industry, and say, "What are your deficiencies? How can we help you and work with you?" When I talk about supporting that kind of collaboration, that's what I'm getting at—when we have partnerships between business and these institutions and government. That's how you actually market the product, because you already have a market that wants it.

• (1630)

Mr. Bev Shipley: Thank you so much for your comments regarding the budget. All of us agreed that actually it was a very positive budget.

We talked about the apprenticeships and those things that were put in it, in terms of financial.... What more can we do? What are your thoughts on that?

Ms. Sharon Maloney: I think there needs to be a national strategy. I think there have to be some goals put down using the input of people who really understand what's going on out there, because when you're asking me how they predict, I think that's part of our issue.

The other thing that most definitely can be done, if we're not going to invent new dollars, is to look at the dollars we actually are expending and make sure the dollars are going to the right institutions that are actually going to produce the kinds of quality people we need with respect to the skill gaps. So that involves funding the infrastructure of these institutions and recognizing the critical mass that these organizations represent.

The other piece, most definitely, is the applied research. There is a very glaring deficiency there. Something like 92% of the \$11 billion in research investment has gone to pure research, so it would seem that one of the things that could be done fairly easily, I think, is to make sure that the criteria of the funding agencies are actually

reflective of and are changed to reflect what is involved when we talk about applied research.

It means perhaps creating research chairs that are actually dedicated to applied research, and enhancing the capacity of these institutions to actually do applied research, because that's where you start helping the SMEs.

When I quote those numbers from the CME, what I'm really trying to say to you is that SMEs don't have the resources. They don't have the infrastructure. They don't necessarily need to have the infrastructure because there is a potential resource here, which, if supported and leveraged, would be an existing entity that just needed more help in order to be more responsive to the market needs of the SMEs and certainly of large business as well. We work with a lot of large companies.

The Chair: Your time is up, unfortunately.

We'll have to go to Mr. Martin for six minutes.

Mr. Tony Martin: Thank you very much.

We've had a study going for a couple of months now at the human resources and social development committee on employability, which probably dovetails nicely with some of what you're saying here today.

Some of what we've heard out there is that ultimately industry employs the skilled tradesperson or whoever, and some folks have come and said that there are skilled tradespeople out there, but they're just not being hired. There's a disconnect somehow between what's needed—which we hear about all the time—and a lot of people who have the skills but can't seem to put them together.

I know that in northern Ontario now there's a bit of an uptake in the mining industry, and they can't find enough skilled people there. And yet I know from the people I run into who lived in northern Ontario, who'd love to come back and work there, who may have the skills or who could be trained, that it seems that industry is looking for ready-made. They're not willing to put the investment into the actual training themselves.

You mentioned some statistics early in your presentation about the amount of investment that we're making in actual training and skill development and research. So I guess the question I would have for you is how we get industry interested again in making that investment and in recognizing that there is a return on it. Somebody said the other day at the meeting that industry actually sees it as a cost, as opposed to an investment, so how do we switch that around?

To give one more analogy, when I lived in Wawa in the sixties and seventies and Algoma Steel and Algoma Ore were going strong, there were just oodles of young men and women in apprenticeships working in those mines and in those industries. The company itself, in partnership with the government, was paying for their training and sending them away in some instances to George Brown College, for example, in Toronto and paying for their apartments and everything. But the company got trained, skilled persons, who are still there today.

• (1635)

Ms. Sharon Maloney: I agree that the dynamic here needs to be driven by industry in the sense of recognizing or identifying where the problems are and what the capacity is that needs to be filled. How do you encourage the private sector to do that? So much of what I'm reading is that industry is recognizing that they have to do this, and notwithstanding the risk of training somebody and losing them, if they don't invest in this way they are not going to attract the people they need and they're not going to keep the people they have spent all that money on. I often think of the comparison to retail. You spend all this money trying to attract new customers. Why don't you spend more money keeping the customers you already have happy? It's a safer investment in a way.

I think it's a combination of things. I think it's leadership from opinion leaders, key decision-makers, obviously governments. I think it is also leadership coming from the corporate sector, and I think there has been leadership. There have been a number of symposiums where companies from Microsoft right through to Toyota are talking about the need to do this. To incentivize business there may need to be a combination of tax incentives or tax credits that enhance or encourage companies to actually spend money on their employees. Arguably, we need the same thing for employees who want to invest in their own education and have a form of registered retirement savings plan for people so that they can invest in their own education.

I also think that unless we invest in the infrastructure of the institutions that are capable of providing good quality education of the sort we're talking about, we won't have the full dynamic. So I think we really do need a comprehensive approach of let's look at our dollars and where they're being spent, at where can they be better spent in order to address this, at how do we encourage the private sector, and where do we get the leadership to be able to put this issue on the radar screen for the country if it's not there already. In some circles it is, but in many circles it isn't.

Talking about competitiveness is not all that interesting, arguably, but when you start talking to people about prosperity and what do you want for your children's future, then I think people do tend to pay attention, especially if we're also talking about going after people who are underemployed and don't have the opportunities to move themselves forward because pursuing education is expensive, because they'd have to leave work, and they really can't afford to do it.

Mr. Tony Martin: I couldn't agree with you more that we need to invest in that infrastructure. We haven't, and in places like northern Ontario, where the plant is so very expensive to keep going.

Also, you talked about incentivizing industry. We've been giving business and industry tax breaks since 1993, major ones, both federally and provincially, and yet we have the statistics you've just laid out there that the reinvestment of that isn't happening. So what's to convince us that doing more of this won't simply be throwing good money after bad?

• (1640)

The Chair: You're well over, Mr. Martin.

Very briefly, please.

Ms. Sharon Maloney: I think it depends on the type of tax incentive and who you're giving it to and why. What I'm talking about is you incentivize companies by working with institutions like ours to train people. So you really have to have deliverables and measurable deliverables so that you can see whether or not we are producing more skilled people. But I take your point with respect to dollars having been not necessarily always well spent.

The Chair: Thank you.

We'll go to Mr. Lapierre.

[Translation]

Hon. Jean Lapierre: Thank you, Mr. Chair.

Welcome, Ms. Maloney.

Why is the École polytechnique de Montréal not on the list of institutions you represent?

[English]

Ms. Sharon Maloney: The reason is that the nature of the *polytechnique* and the CÉGEPs in Quebec is different from these institutions. The *polytechnique* in Montreal is really at the top if I had a paradigm in terms of what a polytechnic should be, because they do not offer certificate diplomas, they only provide applied degrees. Our institutions provide everything. With respect to the CÉGEPs, because the program is two or three years and then you go on to university, again it's not exactly a fit with these institutions, because these institutions really are right in the middle. That's why we're call it a third pillar of providing education from certificates right through to an applied degree.

Hon. Jean Lapierre: But when you are calling for a national people and skills strategy, I think the practice of the federal government in the last few years has been to decentralize more than try to have a national strategy. We have witnesses here who said that those federal-provincial agreements work well, and the union people last week told us they were better because the market, frankly, is more localized. The problem, when you do those *prévisions*, is it's like a prediction on weather: they're always wrong. At least if you have a smaller market you can do a better job.

How can we have a national people and skills strategy, but then everybody, and even Ontario lately, wants to have a federal-provincial deal because they say it's better administered and it's closer to the people? How do we solve this dichotomy?

Ms. Sharon Maloney: I think one is the delivery and the implementation, and the other is the strategy. When I talk about a national strategy, what I'm talking about fundamentally is a recognition of how critical post-secondary education, in all of its formats, is to the country's prosperity and its competitiveness. I don't think we can really achieve that as a country unless we collectively are able to say this is core to us; we need to invest in this. It also means that all of the individual activities that are going on at the provincial level actually need to be part of an understanding and a knowledge of what that is. That is not to go in and say we know that doesn't work and we're going to tell you what to do in your jurisdiction, but to understand that piece on a collective basis—that we have all these arguably fragmented approaches we're taking, but where do they interconnect?

One of the things that polytechnics has done is to develop what we've described as a protocol to allow their students.... Any student can come into any one of these institutions and, by virtue of that protocol, move to any other institution across the country. It's really to leverage that and to make sure that where we have separate initiatives we're maximizing it. Different provinces now have some good programs happening on e-learning on the Internet. I would hazard a guess that on a national level we really don't have a foggy clue, nor do we have a portal that allows us to connect that.

That's really what I'm getting at when I talk about a national approach to being able to identify what the issues are and leadership in dealing with the issues.

[Translation]

The Chair: Mr. Arthur.

• (1645)

[English]

Mr. André Arthur (Portneuf—Jacques-Cartier, Ind.): My subject is quite brief, Mr. Chair, and if I am not able to take up my time, I would like to listen to the question you might have.

Mrs. Maloney, skilled labour comes out of your technology school at one end; at the other end, you receive kids who come out of the high school system. If I talk to people who do this kind of job in Quebec, what I hear about are the challenges of competency they see in those kids when they enter their schools, and they will talk about language skills and work ethics. What do you say about the kids who come out of high school to get into your schools? What kinds of challenges do you face between what they are and what they need to do to become skilled labour after that?

Ms. Sharon Maloney: One of the strengths of these institutions is that their focus is teaching, as compared to the increasing focus of universities, which is research and graduate work. The dynamic is different. They spend a lot of time working with their students to be able to enhance those skills. Also, because of their approach of working in teams and working with businesses, all the skills we describe as soft skills are a critical part of what they are dealing with. So when their students leave—and I think my colleague Ken would be able to tell me if I'm off by a few percentage points—they have a placement rate of around 96%.

What employers find difficult with graduates is they come in and don't have those soft skills. They are not used to working in teams. They haven't learned what it is to work in a corporate or business

structure. The whole basis of these programs is they have to do that. After first year, they spend four months a year working with a business, and they have to move; they cannot use the same employer throughout the program.

They have to learn. That is part of what you have to achieve and get marked on to get your degree. It is not just theory. It is not just understanding the skills. It is understanding, if I'm an engineering technologist, how I relate to an engineer, how I communicate, how I market, how I become part of that team.

[Translation]

Mr. André Arthur: Thank you.

[English]

The Chair: Thank you.

Mr. Van Kesteren, do you have a brief question?

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Mr. Chair, I have a brief question.

This is exciting stuff. Thank you for coming, by the way.

I was approached by an agricultural college in my riding. It wouldn't fall under the same jurisdiction, but I agree with you that this is the direction in which we must go. They're talking about integrating a host of different things, and different industries have already come to the table and said they are interested. We see the precedent has been set here, and we need to move that forward.

Mr. Shipley alluded to the fact that when we look at higher levels of education, there are so few colleges that the universities would dwarf them. What's going on? Why is that? Why are there so few colleges in relation to universities?

Ms. Sharon Maloney: You're probably talking primarily about Ontario, because Ontario is disproportionate to British Columbia and Alberta. It is fair to say that those two jurisdictions are leaders in this type of education and in wanting to raise their profile and also leaders in working very well with universities and being able to break those barriers that certainly continue to exist in Ontario.

Part of the reason there are more universities and fewer colleges is that the college system is much more accountable. It's a different system from the university system. They are not independent corporations as the universities are, so they are accountable to the provincial governments. As a consequence, the preference for a lot of the provincial governments is to be able to maintain the costs through accountability and not see more of these institutions morph into universities, as Ryerson has.

These institutions, or my members anyway, have no interest in becoming universities, because they don't see that as the answer to the type of pedagogy they want to deliver to their students.

•(1650)

The Chair: I know we're out of time, Ms. Maloney, but just briefly on investing in applied research, you mentioned Canada research chairs that could then fit the polytechnics.

Are you recommending that the government take existing programs like Canada research chairs, Canada Foundation for Innovation, and federal granting councils and expand them to apply to institutions like NAPE, or would you rather see separate funds, which are more directed toward these types of institutions?

Ms. Sharon Maloney: Ultimately, the only way we are really going to get in under this is to have separate funds. I think it's really difficult to take institutions that from an historical perspective have always operated in one way, because they're institutionalized, attitudes are in place, and it's very hard to move beyond that.

So if we are serious about kick-starting this type of research, the preferable route is to create independent funds that are dedicated to applied research and driven from a market perspective.

The Chair: Thank you very much for your presentation and for being with us today.

Ms. Sharon Maloney: Thank you.

The Chair: If you have anything further you want to pass on to the committee, please feel free to give it to me or the clerk and we will ensure that all members get it.

Ms. Sharon Maloney: Thank you very much.

The Chair: Our third witness today is Richard Paton, president and chief executive officer from the Canadian Chemical Producers' Association.

Mr. Paton, welcome to the committee. Perhaps you can introduce your colleague.

Mr. Richard Paton (President and Chief Executive Officer, Canadian Chemical Producers' Association): Thank you very much, Mr. Chairman.

I have David Podruzny with me, who is vice-president of business and economics. He was just going to observe this meeting, but since I see you have so many good questions I'm going to need some help here to adequately respond.

Thank you very much for the opportunity to speak to the committee.

[*Translation*]

I will speak in English because it is easier for me and it will be clearer for you.

[*English*]

I want to congratulate you, the committee, for focusing on the subject of manufacturing competitiveness. As an association we've argued for many years that this is a serious issue we're facing as a country, but it was a little hard to get anyone's attention. It's great to see that you are focusing on it.

It is clearer every day, I think, that manufacturing is in trouble in Canada and that it is affecting the overall growth of the Canadian economy, particularly in Ontario and Quebec. It's affecting jobs and communities across the country. The committee is definitely

focusing on a problem that is likely to become even more of an issue in the coming months.

Canada does have a strong manufacturing sector. It would be a serious mistake to miss the opportunity to address some of the issues manufacturers are facing and then realize 10 years from now that Canadians have lost one of the key building blocks of our economy, together with the jobs and investment in our communities that go with it.

I also want to commend the committee on your interim report. I think you correctly identified the major issues facing manufacturing. The high dollar, for example, has cost chemical manufacturers about 30% to 40% of their revenues, because 87% of our exports go to the United States and are paid for in American dollars.

Energy costs are another issue. Based on a study of our companies that Dave did with another consulting firm, energy is a serious impediment to new investment in Canada. For chemical producers in particular, the availability of feedstock and electricity costs are huge factors for investment. In fact, energy costs and feedstock availability have been the main reasons for the closure of seven plants in our sector in the past two years. Energy is an issue, and you correctly identified that.

The third issue you identified was the competition from Asia and the Middle East. Of the next 100 petrochemical plants that will be built in the world, none will be in North America; they're all to be in Asia or the Middle East. The reality of that competition is here and now, and it's affecting our businesses right now.

I see you also included regulatory issues. These issues continue to be a major problem for our sector, particularly in relation to environmental policy. I'll comment on that later.

I notice in your report that a lot of proposals are listed in the attachment on how to deal with the relatively unique manufacturing challenge that we're now facing in Canada. What I'm going to do today is focus on one proposal that has been mentioned by several other associations—by, for example, the Canadian Manufacturers & Exporters and the Forest Products Association of Canada. This is the idea of an accelerated capital cost allowance.

I've done that intentionally because it's something you may want to have more information on as you set your priorities and write your report.

At this point in time our association believes that this is the single most important change the federal government could make that would have an impact on the manufacturing industry and improve our competitiveness. Why is this so important? How would it work to improve the economic challenges facing manufacturers? To help the committee, we've handed around a chart that explains the difference between an accelerated capital cost allowance and our current structure.

The current structure, as you can see from the chart, is based on a 30% declining balance. What that means is the 30% just keeps going on your balance forever; "forever" is basically about 11 years. Compare that to the United States; their writeoff period is about four to five years.

When you're making a \$100 million to \$200 million investment, which is the average major investment in our plants—but some are about \$1 billion—in the first two years of building that plant, you have no revenue. You have \$100 million, \$200 million, maybe even \$1 billion at play until that plant is actually built. At some point you start to get revenue, but there's always a little start-up problem for a while.

Under this system, at that point you start to depreciate the asset under the tax system. You can see how it works. The white line shows you that in the case of an investment of \$177 million, you have \$17 million in the first year; then it's \$48 million, then \$34 million, and it keeps going down until you get to 2016. On average, including the construction costs and time, you're talking about 11 years.

• (1655)

With an accelerated capital cost allowance of two years, there's quite a bit of difference in the cashflow. And right now it's cashflow that is critical to business, particularly as a result of rising energy costs, which have eaten into cashflow; the high dollar, which has eaten into 30% to 40% of revenue; and this competition from Asia, which seems to drive the price down to kind of a commodity level. So cashflow is very critical.

When you look at the CCA level for a two-year period, in the first year, the kind of grey line...and it's not two years, it's really three years. Under the rules, you can only write off six months in the first year, so it effectively is three years, plus the construction period, which is probably going to be about two years. At any rate, you can see how quickly it goes—\$35 million, \$71 million, \$71 million, and then it's gone.

Under an accelerated capital cost allowance, you gain that stimulus into capital investment. Governments keep arguing that productivity levels are important, that competitiveness is important. This would be a huge assist to industry, coping at this point in time with the high dollar, energy costs, and Asia competition.

I'm going to mention a second benefit of this that you might find a little bit unusual. The second benefit to an accelerated CCA could be environmental performance.

Now, normally when people think about environmental performance, they also think that's what you get from regulation. But I'm going to show you that actually you get it from CCA. The real driver for environmental performance is in fact capital stock turnover.

I want to mention that Monsieur Crête was at our parliamentary week last week, and he told us we should make sure that people know about our performance. So we put something in *The Hill Times* last week. You might be surprised—most of the fifty MPs we met with were very surprised—at our performance in environmental emissions.

For example, CCPA companies are 43% below Kyoto numbers right now, today. So if you're arguing for a hard cap, we'll take it. If you're going to cap us below Kyoto, fine. By 2010 we will be 56% below Kyoto. We've reduced emissions to water by 98% and emissions of key smog substances by 82% since 1992.

Why have we done that? Well, we're not that unique. In fact, manufacturing in general is 7% below the 1990 Kyoto levels, and large manufacturers are 20% below those levels. It's not widely known, but if you think about it, and ask the question why, the answer is investment—investment in capital stock turnover. Stimulating that investment drops emissions quite considerably.

The committee, quite correctly, also identified regulation as one of those challenges facing manufacturing. The reason regulatory innovation is so important to us is that, unfortunately, notwithstanding that performance level, the proposals made by the previous government to deal with greenhouse gases did not recognize any of that performance. In fact, that approach lumped all industry together, the ones that are growing exponentially and the ones that are not. It didn't take into account the performance level of manufacturing. It added a uniform level of improvement of something like 12%. It then said, basically, if you can't do it, buy credits.

All of that would have resulted in less environmental performance, in our view, than the other approaches. We hope the regulatory approach that happens under the clean air act will be more innovative and build on the success of the manufacturing sector.

I want to turn to the reason why capital stock turnover is so important for emissions performance.

• (1700)

The Chair: Mr. Paton, you have about 30 seconds left.

Mr. Richard Paton: I'm almost done.

I'll conclude by saying that CCA has two major benefits. An accelerated CCA would result in significant investments by our industry, which would improve competitiveness and offset the impact of energy costs, the high dollar, and relentless competition from the Far East and Middle East. It would also lead to significant environmental benefit, estimated at about 5%, just on that, across the manufacturing sector.

If you combine those two things and look at an accelerated CCA, it would be an example, a concrete illustration, of the federal government linking environmental policy and economic policy to produce a benefit for the economy and the environment.

Thank you.

• (1705)

The Chair: Thank you very much.

We'll go to Monsieur Lapierre.

[*Translation*]

Hon. Jean Lapierre: Thank you, Mr. Chair.

I would like to welcome you to this meeting, Mr. Paton, and your colleague as well.

[English]

Did I understand well when you said the next 100 plants are going to be built in Asia or somewhere else in the Middle East?

Mr. Richard Paton: That's right.

Hon. Jean Lapierre: So if they're all going to be built in the Middle East, there must be some reason. What is the advantage of Asia and the Middle East in your sector? Is there still a Canadian advantage? Because the news is so depressing, are we talking now about a gradually dying industry?

Mr. Richard Paton: That's a good question.

They're slightly different. The Middle East has a huge what we call feedstock. When we talk about feedstock, our industry is largely natural gas. The price of natural gas in Iran at one point was \$1.25 to our \$8. That feedstock is about 75% of the cost of production, so you immediately see that we're talking huge differences here. I think right now in Iran there are 17 plants being planned or being built. Now, they're always delayed and they take longer to develop than they usually do.

China is quite different. China, right now, has some cost advantages, but I suspect in the longer term they're going to close both on labour and on environmental costs that they're going to have to deal with. They have unbelievable demand. If you take a look at any consumer product sector—DVDs, televisions, and so on—they're all being built in China. Hence, the inputs, which are largely chemicals, need to be produced there. So their huge demand, plus the shifts of those industries, means there's a big market there, and most of the global companies are building plants in China as a result.

Is there any hope? I think the idea of us exporting chemicals to China is probably not very realistic. Certainly we're not going to be selling much to the Middle East. There is hope in the sense of the North American market. In fact, we are about 30% more productive than our equivalent companies in the United States. We do have the Alberta feedstock advantage, which we're working very hard to keep, so there's a very good opportunity for Canada to still play a significant role within the North American economy. That's the question: how big is our market share going to be within the North American economy?

Hon. Jean Lapierre: When you talk about the seven plants that closed, and then when we look at the things that matter to you, I don't think we can do much about the high dollar. The energy costs are probably not going to be different from the world market. I don't think we're going to have a made-in-Canada price. I don't think we're going that way.

Mr. Richard Paton: You could have some impact on electricity, with better electricity policy—not in Quebec, which has a pretty good advantage, but Ontario could improve.

Hon. Jean Lapierre: So then what's left for us to help you on—regulations and depreciation, I guess?

Mr. Richard Paton: Yes.

Hon. Jean Lapierre: Those are the two things that could make a difference in your life.

Mr. Richard Paton: You've got it.

I think there are only a few things that government can do. I totally agree. And we'll add that we don't believe in picking winners and losers. We don't believe in special industry programs for the chemical industry. That's not our philosophy. Just get the policy environment right, get the tax structure right, and make sure the regulatory structure works in favour of both the environment and the economy. Do that. There is a very limited number of tools, and CCA is probably one of the best.

Hon. Jean Lapierre: But then, on regulations, if I understand well what's going to happen with this clean air bill, that probably will never see day, unless there was a good meeting today with your new friends—

Voices: Oh, oh.

Hon. Jean Lapierre: We are old friends.

I just want to understand. We're talking now about more regulation, not less, aren't we?

Mr. Richard Paton: Yes, and we're not against regulation. We are against rigid, myopic regulation. We're for innovative regulation. Also, we don't particularly like regulation that doesn't take into account our performance, which is unfortunately what your government did, and regulation that doesn't understand the nature of the business cycle and business investments. So ideally, if you linked informed regulation with a capital cost allowance, I think you would actually end up with a pretty good approach to achieving both environmental performance and economic performance. I'm personally not confident we'll get there. I personally think the clean air act is a step forward, but we'll have to see whether the regulators are actually innovative.

• (1710)

The Chair: You have about ten seconds.

[Translation]

Hon. Jean Lapierre: Thank you.

[English]

The Chair: Okay, thank you.

We'll go now to Monsieur Crête.

[Translation]

Mr. Paul Crête: Thank you very much for your presentation.

I support accelerated capital cost allowance. I think it is one of the key elements we will have to include in our recommendations. However, it would mean a tax expenditure for the government. How can we convince taxpayers that this is important? Improving the productivity and quality of equipment used in a particular industry can easily result in short-term job losses. That might not happen, but it very well might.

I would like you to talk about this.

To what extent is business ready to take responsibility for the consequences in terms of job losses? I am not necessarily talking about responsibility, but I would like to know how you see this. What are your thoughts on this?

[English]

Mr. Richard Paton: You want me to answer the employment question or the fiscal question, or both?

Mr. Paul Crête: I'd like you to answer the two questions.

Mr. Richard Paton: Okay, well there is a fiscal impact. I think Jay Myers estimated it at something like \$1.9 billion. It depends on whether people actually make investments or not, and that depends on whether they've got any money, so there are a lot of variables. But if you took the full impact of this, it would have an initial fiscal impact.

On the other hand, though, as you can see from this chart, what simply happens is you have more fiscal impact early, and then after about five years it washes out, so it's even. So it sort of depends on whether you want to deal with it now or later. The CCA rate eventually hits the fiscal framework.

On employment, you're absolutely right. More investment in capital sometimes results in less employment, and personally that bothers me a lot, because I think employment is a core thing that we've got to do in this country. We need to keep high levels of employment. I'm glad to see our unemployment rate is fairly low right now. I think the reality is we've closed seven plants, and those people are not working. In order to maintain that business in Canada, companies are already doing a lot of things: outsourcing to India, restructuring, downsizing. So really this might help us maintain the viability of these companies and keep them—

[Translation]

Mr. Paul Crête: That could minimize the negative impact.

[English]

Mr. Richard Paton: *Exactement, oui.* Yes.

[Translation]

Mr. Paul Crête: Thank you.

My other question is about the discussion we had with your group during last week's presentation.

Can you give us a quick overview of how the use of additional natural gas feedstocks could be diversified in Canada, rather than having a single pipeline going to the United States just to heat homes? What would be the advantages of having other products?

Can you summarize this quickly for the committee members? This is an important value-added element in a sector where we have jurisdiction.

[English]

Mr. Richard Paton: Dave Podruzny's more of an expert in this issue than I am.

Mr. David Podruzny (Vice-President, Business and Economics and Board Secretary, Canadian Chemical Producers' Association): The main value would be to go after certain of the liquids that are entrained in natural gas. I mean, natural gas is also a good home heating fuel. It's very efficient, and there is a definite use as an

energy product. We use some natural gas as an energy product. Between about 2% and 4% of the content is natural gas liquids, specifically ethane, and that's the product we extract from it. Then we put the rest of the natural gas back into commerce. That extracted ethane is increased in value by 10 to 20 times to make petrochemical products, anything from kayaks to Frisbees, but also more practical products like packaging material and auto parts.

So what we're talking about is taking a component of the gas, which might otherwise simply be burned, removing it, and making it into value-added products. The remainder of the gas is still used for its energy content.

I think that's a good, practical approach to value-added strategy.

• (1715)

[Translation]

Mr. Paul Crête: Why are companies not doing that now? Because it is not as profitable as burning it?

What do we have to do to make them do it?

[English]

Mr. David Podruzny: In the case of natural gas, a little over half of the petrochemical feedstocks are being extracted from natural gas to make petrochemical products in Canada. We can do better. There are things happening at provincial levels to improve our access to the liquids for upgrading.

In the case of oil, I'm guessing you're referring to the tar sands and the movement of bitumen—

[Translation]

Mr. Paul Crête: I was referring mainly to natural gas.

[English]

Mr. David Podruzny: Okay. In the case of natural gas, we can do better with what we are exporting, consuming, and burning. There is work under way. Our companies are working on better technologies for deeper cuts of the natural gas liquids from the natural gas.

We're also working with some of the companies that pipeline product down to the United States to establish straddle plants, so that we can extract the liquids and then put the rest of the gas back into the system and continue it to markets. Frankly, our industry doesn't have a lot of use for the methane portion. Its best use is for its energy content.

What more could be done? We've worked very closely with the Alberta government to improve the extraction economics. We think it would be very valuable if the natural gas coming out of the north, natural gas being landed through liquid natural gas terminals, and natural gas coming from the United States all came through Canada and offered commercial access to the same extraction and resource upgrading.

I think there's a wonderful opportunity to take advantage of a Rocky Mountain hub to supply natural gas liquids and add 10, 20 times value to the natural gas component.

The Chair: Mr. Shipley.

Mr. Bev Shipley: I'd like to get some clarification on the CCA. Are you then telling us that if this were on the accelerated type of CCA there would be a larger reinvestment in the equipment? If you could write it off, is it all about the dollar value, or does it also mean you have the accelerated rate write-off for equipment? Does it mean that your business could get quicker reinvestment into the industry for new technology and equipment?

Mr. Richard Paton: Absolutely. It's cashflow. Companies would have much more financial flexibility to keep investing, reinvesting, and improving their equipment and technology as well as their emissions performance.

● (1720)

Mr. Bev Shipley: I was interested in your comments about where the plants are going to be built. In the Middle East, natural gas is 75% of the cost. I guess that's an industry number.

Mr. Richard Paton: Right.

Mr. Bev Shipley: So a big initiative is the feedstock in the Middle East.

Mr. Richard Paton: Yes.

Mr. Bev Shipley: The hope in North America, then, is high productivity in the feedstock we have. In Alberta, there are some concerns with our environmental plan. How will our regulatory guidelines, which we need to control pollution, affect the feedstock issue?

Mr. Richard Paton: Our chairman, Larry MacDonald, from NOVA, has a phrase that he likes to use, and that is that Canada should aim to be the best resource upgraders in the world, environmentally and economically. If we are the best and you're going to set regulatory frameworks, I think you have to do it within that kind of context. You can't expect a company to be better than it's possible to be.

Many of our plants are in fact—especially the Alberta plants, because they're all new—the best in the world. Most of them are new, or the investments for a lot of them were in the 2000 period, and are the best in the world.

I would say it's a choice that a country has to make: we want Canada to develop these resources and upgrade them for employment reasons and any other reasons, or we want that growth and upgrading to go somewhere else, buy the products from China or the Middle East and bring them into Canada. Those are the choices we're going to face as an economy.

I come down on the side of saying I'm Canadian, I believe in Canada, and I don't see why we should not be growing our economy and why we should not be leaders in both economic performance and environmental performance. Certainly Alberta has incredible potential. The Alberta government recently announced a policy to help us extract ethane off the Alliance Pipeline. We can build that industry and be the best upgraders and environmental performers in the world. I have no doubt about that under our current performance.

Mr. Bev Shipley: Hopefully that speaks volumes to what we can accomplish in terms of the negotiations, not only with provinces and territories but also with industries, to meet certain guidelines to get us to the end result over the short, medium, and long term.

Mr. Richard Paton: If that's taken into account. I have not seen that it has ever taken into account that well yet.

Mr. Bev Shipley: I think those are objectives and goals that we all need to work toward to make sure they are.

Mr. Richard Paton: Yes, right.

The Chair: You have about 40 seconds.

Mr. Bev Shipley: A quick one then.

You talked about drawing off ethane from natural gas, getting the benefits that you can from the value added. Is that ongoing technology now? Are you at the maximum in terms of being able to do the best you can to extract as much of the product from natural gas? I forget the numbers you used, but it has a very high value-added dollar to it. Is that ongoing also?

Mr. David Podruzny: Research is going on to improve the ability to take a higher percentage. I think I mentioned before, we're probably taking in the order of something under 60% of the ethane that's in the natural gas right now, and we're improving the technology to make deeper cuts, also to extract ethane from other areas, such as the off-gases from the tar sands.

There is an area there where we can improve the technology and change that into value-added products, instead of what's happening today, which is recycling it and burning it and using it as an energy source to run more tar sands.

Yes, there is an improvement going on in the ability to get more. That ethane extraction policy that was developed was designed to reflect the fact that there is a much higher cost associated with doing that.

The Chair: That's it, Mr. Shipley.

Mr. Martin, do you have some questions? Five minutes.

● (1725)

Mr. Tony Martin: The industry I'm most concerned about at the moment is the forest industry in northern Ontario and the very difficult circumstance it finds itself in, which impacts communities, people, and all kinds of things.

Two of the things that you mentioned as challenges in terms of your competitiveness were the high dollar and energy. Do you have any suggestions or recommendations in terms of what government could do where those two things are concerned?

Mr. Richard Paton: I do, absolutely. I think this is an area in which the federal government could play a much more active role but has not done so; however, the main issue for us is provincial governments. If you take a look at the Ontario energy policy for the last five or six years or at what's happening to electricity costs and the availability of electricity, it's been pretty close to a disaster. Maybe we don't like nuclear; now we do like nuclear. Two of the plants we closed were closed entirely because of electricity costs and the unpredictability of electricity costs in Ontario. In addition, by the way, most of their product was going to the forest industry; given the problems of the forest industry, that cost, plus not being able to see that they were going to be doing business with forest companies, caused them to close their plants, so you can see how the one affects the other here.

Those are provincial areas, and they probably are not areas you can do much about at the federal level, but at the federal level a strong nuclear program would help considerably to deal with a lot of issues, including both emissions and costs.

Having some sort of energy framework that looked at the issue we were talking about earlier, for example, from a national point of view would help. We should be maximizing the use of our resource base. At one point three or four years ago, the federal government was actively encouraging governments to use natural gas to produce electricity, while we're starving for a feedstock. There's an example of why you have to think as a nation about your energy resources. Obviously hydroelectric is fantastic—Quebec has done a great job on that—but nuclear's another one. We shouldn't be burning natural gas for electricity, except in a kind of a peak situation.

We were almost excluding coal as a possibility. One can argue that it creates environmental damage, but we should be looking at clean coal, because we have a 300-year supply of coal in Canada, and walking away from that resource is not very sensible. Coal could also help us a lot. Far back in our history, coal was used as a source of feedstock, but it can't easily be used right now.

I think you have to look at those assets and think as a country about how you can maximize the resource base to produce cost-effective energy as well as environmental performance.

Mr. Tony Martin: What about the dollar?

Mr. Richard Paton: I don't think we can do much about the dollar, other than adapt to it. We meet with the Bank of Canada every year and have this debate. Even the Bank says that when we raise the

interest rate, we're not even sure what happens to the dollar, so it's a very unpredictable world. Maybe our dollar is actually more affected by the U.S. dollar than by our own situation.

That's why we propose an accelerated CCA—because we have to adjust to the dollar and to the reality that it probably will be high for a while. It is certainly not going back to 62¢. We just have to start realizing that part of the suite of policies we have in the very few areas in which you have levers is to help us to adjust to a higher dollar.

The Chair: Mr. Martin, thank you. I know we're out of time.

Mr. Paton, I just wanted to clarify something. I think it's been clarified, but with regard to the CCA, my understanding is that the actual amount is the same; it's just written off over a shorter period of time.

Mr. Richard Paton: Exactly.

The Chair: This is in fact a tax deferral. In a sense the argument for having a more aggressive CCA is that you get more investment, more companies up and running, and then the government in the long term can actually recoup more revenue from the greater economic activity, but the amount you're recommending—the \$35 million, \$71 million, \$71 million—is the exact same amount; it's just written off by 2010 instead of 2016.

• (1730)

Mr. Richard Paton: That's exactly right.

The Chair: Okay. I just wanted to clarify that.

Thank you very much. I think you touched upon some areas of interest to all members of the committee. I appreciate your being here.

The same offer goes to you: if there's anything further you'd like to pass on to the committee—for instance, some of your comments about energy policy to a couple of members—please pass it to me or to the clerk. We will ensure that all members get it.

Thank you as well, members, for being very brief in your questions and comments this afternoon. I thought it was a very good session.

Mr. Richard Paton: Thank you very much.

The Chair: I declare the meeting adjourned.

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