House of Commons
CANADA

Standing Committee on Industry, Science and Technology

INDU • NUMBER 009 • 2nd SESSION • 39th PARLIAMENT

EVIDENCE

Wednesday, December 5, 2007

Chair

Mr. James Rajotte

Also available on the Parliament of Canada Web Site at the following address:

http://www.parl.gc.ca

Standing Committee on Industry, Science and Technology

Wednesday, December 5, 2007

● (1535)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): We will call this meeting to order.

It's the ninth meeting of the Standing Committee on Industry, Science and Technology, pursuant to Standing Order 108(2), continuing our study of the impact of the appreciating value of the Canadian dollar on the Canadian economy.

We have with us here today five witnesses.

First of all, from the Canadian Chamber of Commerce, we have the president and CEO, Mr. Perrin Beatty. Welcome. From the Canadian Chamber of Commerce we also have executive vice-president for policy, Mr. Michael Murphy. From the Canadian Manufacturers and Exporters, we have the president, Mr. Jayson Myers. From the Canadian Vehicle Manufacturers' Association, we have Mr. Mark Nantais, president; and from the Forest Products Association of Canada, we have Mr. Avrim Lazar, president and CEO.

Welcome, gentlemen, to all of you. I know you're all experienced witnesses before this committee and other committees.

We will start with the Canadian Chamber of Commerce and work our way down. Each organization has up to 10 minutes for an opening statement, and then we'll go right to questions and comments from members.

Mr. Beatty, perhaps we'll start with you.

Hon. Perrin Beatty (President and Chief Executive Officer, Canadian Chamber of Commerce): Thank you very much, Mr. Chairman and members of the committee, for your hospitality in inviting us to be here with you today.

As many of you know, the Canadian Chamber of Commerce is the largest and most influential advocate for business in Canada. We have members of all sizes and from all sectors of the economy in all regions of the country. We're very pleased to have the opportunity to participate in the committee's hearings.

[*Translation*]

I thank the Committee for this opportunity to share the viewpoint of the Canadian Chamber of Commerce on this important issue.

[*English*]

Mr. Chairman, on November 20 I wrote to the Prime Minister and to each of the provincial premiers. In those letters the Canadian Chamber of Commerce proposed a number of immediate measures that could be taken to strengthen Canada's economy and to help our businesses grow and prosper. I've brought with me copies of those letters, in English and in French, for members of the committee if they'd like to take a look at our recommendations in greater detail.

I can tell you, however, that many of our members face unprecedented challenges that grow daily. Fierce competition from emerging economies like China and India, weaker demands south of the border, where 77% of Canada's merchandise exports go, and the stunning appreciation in the Canadian dollar since 2002 have created the perfect storm for export-oriented businesses and companies facing competitors here at home.

Canadian manufacturers are on the front line. Since late 2002, over 330,000 manufacturing jobs have disappeared; more than 80,000 have disappeared so far this year. The loss in competitiveness in Canada is evident in the rapid escalation of unit labour costs, which are the costs of wages and benefits of workers per unit of economic output.

Unfortunately, Canada's productivity is rising too slowly to negate the lost competitiveness. More challenges lie ahead of us. The Bank of Canada predicts that the Canadian dollar will average 98 cents U. S. through 2009 and that Canada's economy will grow by 2.3% in 2008 and 2.5% in 2009. The Department of Finance and the Bank of Canada have stated that the risks to the Canadian economy are tilted to the downside.

[*Translation*]

In view of the challenges I just mentioned, it is important to implement competitive policies which will have a direct impact on the productivity and wealth of our nation and that of all Canadians.

● (1540)

[*English*]

The Canadian chamber calls for immediate action. Governments must put in place policies that encourage flexibility and adaptability and lay the foundations for a more competitive economy.

Mr. Chairman, I'll touch very briefly in my opening statement on a number of these issues today and the recommendations that we make, but I'd be very pleased to go into any of them in greater detail with the committee.

In our view, the federal government must work with provincial and territorial governments to first lighten the burden of regulation. Overlap, duplication, and fragmentation are time-consuming and costly and they hamper Canada's ability to compete.

Second, we need to knock down the interprovincial barriers to trade. Internal barriers keep firms from growing large enough to compete effectively in foreign markets. They cause investors to look elsewhere. They artificially raise prices and they increase the cost of doing business.

Third, we need to better utilize skilled immigrants through the recognition of foreign credentials and improved labour market access and integration. Employers across the country are facing major labour shortages. Many foreign-trained professionals and tradespeople can't put their skills to work.

Employers also report long delays in the processing of people whom they've identified for specific jobs. We need to and we can take immediate action in Canada to accelerate the placement of these people, particularly skilled workers from abroad who've been identified for posts here in Canada. The goal there, Mr. Chairman, is to ensure that all businesses in all sectors, faced with the challenges, including the dramatically escalating dollar, are better positioned to compete.

Fourth, we need to keep the Canada-U.S. border open for legitimate travellers and business. Border delays and complications harm productivity and jeopardize jobs. Additionally, rapidly escalating border compliance costs are wasting hundreds of millions of dollars each year, putting domestic producers at a serious disadvantage relative to their offshore competitors.

Fifth, we need to ensure a competitive tax environment. Budget 2007 and the recent economic statement contained a number of positive developments to help business compete. But more needs to be done. Significant economic benefits can be realized by eliminating provincial capital taxes, by harmonizing provincial retail sales taxes with the federal GST, and by making permanent the accelerated capital cost allowance for investment by manufacturers and processors in machinery and equipment.

Mr. Chairman, the Canadian Chamber of Commerce believes that these measures provide an important first step toward a more competitive Canada. They should be implemented now as a means of helping Canadian businesses respond to urgent and growing pressures. To delay would risk the jobs of Canadian workers and the prosperity of communities across our country.

Mr. Chairman, your specific reference today is to look at the impact of the rising Canadian dollar upon the competitiveness of Canadian industry, and we believe, from the perspective of the Canadian Chamber of Commerce, that there are serious challenges that Canadian business faces, both from the rise of the dollar itself and also from a range of other changes that are taking place in the global economy. By putting in place today the measures I have outlined, we could help to ensure that all Canadian businesses can compete more effectively in the global marketplace.

Mr. Chairman, I thank the committee for its attention. I'd be very pleased to answer any questions you may have during the question period.

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

We will now move to Mr. Myers, please.

Dr. Jayson Myers (President, Canadian Manufacturers & Exporters): Thank you very much, Mr. Chair, ladies and gentlemen.

I've distributed a deck to members of the committee. You'll be glad to know I'm not going to go slide by slide; however, it does point out the impact of the appreciating Canadian dollar on Canada's manufacturing sector. This is the largest business sector in the country. It also points out, though, that the impact it's having on manufacturing is being felt now right across the Canadian economy simply because there are so many other services sectors and primary industries that depend on manufacturing as a customer base.

So in regard to the impacts that the appreciating dollar is having on manufacturing, other businesses are feeling the same type of pricing pressure, the same type of cost pressure. For many business sectors, whether it's manufacturing, the primary sector, tourism, or the retail sector, the problem is it's just very difficult to change your pricing and your cost structure that rapidly to keep up with the 65% appreciation of the Canadian dollar that we've seen since 2002, and the 24% appreciation of the Canadian dollar that we've seen since last February.

As an economist I can tell you that nobody could have predicted in 2002 that the Canadian dollar would rise to $1.10 on November 7, 2007. And when it hit $1.10 on that date, nobody could have predicted it would be trading at about 98¢ today. The rate of change is unprecedented. The volatility in currency markets is unprecedented.

It's important to understand some of the fundamental causes behind the movement of the dollar. Clearly, global demand for Canada's commodities and for energy has been a contributing factor in pushing up the value of the Canadian dollar and boosting the Canadian economy. That's been very good for many sectors of the Canadian economy and, frankly, for many sectors of manufacturing.

What that has meant as well is that the impact of the appreciating dollar, as Mr. Beatty said, has been like a perfect storm. The impact of an appreciating dollar on our export sector has acted like a price cut on export sales. Fifty percent of what's manufactured in Canada is exported through the United States. Most of that is priced in U.S. dollars, so we have an immediate price compression.

The second part of this perfect storm is the higher commodity and energy costs. That's pushed up business costs. By the end of last year the manufacturing sector was operating at a profit margin in which every eight hours it took about seven hours and 53 minutes for manufacturers to simply break even to cover their operating costs, their depreciation costs, pay their taxes, and pay their financing charges. They had about seven minutes to make money. And it's that money that goes into cashflow, that goes into additional investments in new technology, new product, innovation, new market development, and better training. It's that money that companies depend on in order to grow and to compete in the future against some of the long-term strategic challenges that they're facing, like competing with China and India and making sure they're able to overcome the demographic changes going on within the workplace to obtain and to change workforce capabilities.

All of these are long-term priorities, long-term challenges, for Canadian industry and Canadian business. All of that is made much more urgent by this rapid appreciation of the Canadian dollar. What it's meant for many companies is that they simply don't have the cash today to make these investments.

The dollar started out at about 84¢ at the beginning of this year. It rose to $1.10 in early November. What we're seeing now, though, behind this rapid increase in the Canadian dollar is something that's frankly beyond the control of Canadian industry, Canadian business, or Canadian governments. That's the weakening that we're seeing in the U.S. economy, the problems of the U.S. credit market, and the weakening that we're seeing in the U.S. dollar against other major occurrences. That's pushing the Canadian dollar up higher because the Canadian dollar is one of the few freely floating currencies, and it has tended to take the brunt of the impact of U.S. dollar depreciation.

What we're seeing right now in manufacturing, however, is the fact that we have weakness in key export markets—in the housing market, the automotive market, and the consumer products market. That means overcapacity for North American manufacturers, and more than ever before it's put Canadian companies under the gun to save investment and to save product mandates. Many companies just cannot make the argument today that they're in a competitive position. As businesses consolidate on a North American basis because of overcapacity in the North American market, we're seeing closures across Canadian industry.

● (1545)

The Ontario Ministry of Labour tracks closures, the termination of collective bargaining agreements. There were 37 in 2005, 32 in 2006, 125 in the first three months of this year, 136 for the second three months of this year. Closures and the weakening of the U.S. market, combined with the dollar, means that the challenges going forward over the year ahead are going to be daunting for Canada's export sector and especially for the manufacturing sector.

This shows what Canadian manufacturers have been doing in light of the appreciation of the dollar, in response to it. Everybody's focused on cutting costs, on improving operating efficiency, on improving supply chain efficiency. I don't know any company that isn't trying to do their very best to improve productivity. There isn't a lot of cashflow to invest in new equipment, and the outlook of the market isn't that strong for many companies to make these investments in such a short period of time.

So that's the situation. I think it's a very challenging situation, and unfortunately, going forward into the new year, we probably are going to see another loss of 50,000 jobs, at least, by June of this year. We'll see more closures of companies that cannot make the pitch for investment because they're high-priced today. I think this just means that the issues are more urgent than ever.

Our recommendation from CME, from Canada's largest industry association, on behalf of the Canadian Manufacturing Coalition, which consists of 40 industry associations speaking with a common voice about the priorities of manufacturing, is for the government to move quickly to implement the recommendations that this committee has made in its report on manufacturing competitiveness.

I think there are some key things that have to be done and should be done immediately, and then some longer-term challenges. The longer-term challenges I think Mr. Beatty has laid out in terms of making sure we have borders working well, a logistic system that works well, that we've got skills and innovation systems that work well. But some of the immediate challenges are cashflow challenges for our exporters for manufacturing. That's why I think it's important for the government to extend the window for the two-year writeoff, but also perhaps to look at ways of monetizing: either tax losses by allowing those tax losses to be applied backwards for more than three years into a period of time when companies were more profitable, or to allow some degree of refundability for the depreciation that companies would otherwise be able to make.

As for the surge of the dollar, we really haven't seen the full impact of that on profitability, but I can tell you that it will make many companies unprofitable this year, and so these companies won't be able to take advantage of the two-year writeoff. We've made recommendations to make the R and D tax credit refundable. This, again, would provide immediate cashflow to businesses that are struggling on the cash side.

Certainly what the Bank of Canada did to bring interest rates down yesterday is very important. It knocked out a lot of the speculative pressure behind the Canadian dollar. But I can guarantee that the bank will continue to reduce rates going ahead because of the weakness of the U.S. economy and the problems of the U.S. credit market. That will be important. I think it's essential for the bank to keep its eye on the future, on the impact that this is going to have on the economy, and not be looking in the rear-view mirror at stats that talk about economic performance two or three months in the past.

In conclusion, we recommend that the government move quickly and this committee support quick movement by the government on full implementation of the recommendations that this committee has made on manufacturing competitiveness, but also to look perhaps at options for in some way monetizing some of the tax losses that companies are realizing right now that just preclude them from making these investments that every company in business today knows they have to invest in, not only to survive the short term but to put themselves in a better competitive position moving forward.

● (1550)

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

We'll now go to Mr. Nantais, please.

Mr. Mark Nantais (President, Canadian Vehicle Manufacturers' Association): Thank you very much, Mr. Chairman. Thank you to the members of the committee for the invitation to appear before you today on the question of the impact of the Canadian dollar.

The CVMA represents Chrysler, Ford, General Motors, and International Truck and Engine Corporation. These companies account for 70% of all production in Canada, about 55% of all sales. They employ and have retirees in excess of 150,000. So clearly they're a major force in terms of an economic or a value-added sector of the economy.

On the surface, Canada's auto industry looks to be in fairly good shape when one reads news reports about record levels of new vehicle sales across the country and the very significant recent automotive investments in Canada, the majority of which are from Chrysler, Ford, General Motors, and International Truck and Engine Corp. The reality, however, is quite different. The rise of the Canadian dollar is just one unanticipated event, albeit a very major one. The major challenges impacting Canadian automotive manufacturers and exporters have come both fast and furious.

It must be recognized that the auto companies are indeed taking every action possible within their power to cut costs and invest in productivity enhancing improvements to the extent of their available cash resources. However, the challenge, quite frankly, is bigger than they can reasonably manage alone. There should be no misunderstanding, and on the theme of the perfect storm, I would suggest the auto industry is about to be hit with a category 6 hurricane. This storm has a significant impact on Canada's ability to attract and maintain automotive investment and could severely impact our industry's footprint in Canada.

In November, Canadian sales dropped 5% compared to 2006 levels, and it's expected that 2008 levels will be lower yet. In the U. S., a similar pattern has emerged. With the ongoing housing and credit crisis, the sales this year are off 2.5% from 2006 levels and they are not expected to rebound in 2008.

Already, production cuts have been announced for the first quarter of 2008 that will impact Canadian assembly and parts manufacturers. In fact, more of those were announced today. This is in addition to the already announced production cuts in 2008, which in Canada has resulted in two lost shifts at our most productive, highest-quality plants, as well as a significant reduction in OEM parts and components output, and a commensurate drop in employment levels. The parts sector alone has lost over 20,000 jobs in the last two years.

Canada's situation is unfortunate, given the global realities of automotive manufacturing. Consider what is going on outside North America. Global automotive production is undergoing a significant expansion. That's not the case in Canada. By 2011, global production will increase by nearly 17 million units, to over 80 million units. On the contrary, Canada's vehicle production is forecast to drop by roughly 160,000 units over the same period. That's about equivalent to one good-sized assembly plant that would employ about 2,000 people.

If Canada wants to remain in the top tier of global automotive producing nations, we must do more to attract investment, and we must work together to do so. Canada has already fallen from seventh place in global production to ninth, and is projected to fall to tenth place by the end of this decade. In addition, North America continues to be the only auto producing jurisdiction globally that will continue to be a significant net importer of finished vehicles, with just over 4 million vehicles imported in 2006.

Asia-Pacific manufacturers, specifically those in Korea and Japan, export over 7.5 million vehicles annually to other markets, with roughly 3 million of those vehicles ending up in North America, and Canada, of course, receiving its share.

Without new investment in product mandate, product levels will dry up, plants will close, and Canadians will be unemployed. Canada had a couple of cost advantages to help attract investment, including the lower Canadian dollar compared to the U.S. dollar, and the often-repeated labour and health care advantage. The rapid rise of the Canadian dollar means that the costs of all local inputs have increased significantly. Today, as a result, Canada is the highest-cost jurisdiction globally for many auto manufacturers. Canada, therefore, is at a competitive disadvantage at attracting new automotive investments to remain globally competitive. If we are going to attract the level of investments necessary to maintain a high level of high-value-added auto production in a viable supply chain, along with the associated employment levels, we require a comprehensive automotive investment strategy that as a consequence will help lessen the direct impact of the rise of the dollar.

● (1555)

Our plan includes five critical elements. First, it is essential that Canada ensure a globally competitive investment fund and corporate taxation regime. The recent economic update of the government is directionally correct, but we need to recognize that in the current situation many companies are now operating without profit, especially in the auto sector, and are therefore not able to take advantage of the recently announced corporate tax cuts, accelerated depreciation allowances, or even the traditional SR and ED program, as all these federal policy areas are essentially based on reducing your tax bill.

While we fully agree that tax cuts are a good policy for the broader Canadian economy, we must be fully aware that they do not help manufacturing and exporting companies that are in a tax loss position to adapt and enhance productivity. As such, globally competitive investment funds are critical to help attract new investment, especially the large-scale, multi-billion-dollar investments necessary for auto assembly.

Every auto-producing jurisdiction, big or small, provides investment supports for auto manufacturers. Australia, for example, applies revenues from the vehicle import tariff to support investment in its large domestic industry. That's just one innovative solution. U. S. municipalities and other jurisdictions worldwide continue to offer millions of dollars' worth of municipal tax incentives to auto companies that make large assembly investments and/or reinvestments.

The federal government is clearly not opposed to providing competitive supports directly to industry, as seen in the recently established government incentive programs for aerospace and defence sectors. We must ask, will similar supports also be available to the auto sector?

The second critical element is supporting the auto industry's efforts in environmental sustainability. Canada needs to introduce national vehicle standards, in particular fuel economy standards—these are standards that I call deep-impact standards—that are in line with the dominant North American standard.

The third element is creating a smart, efficient, and cooperative regulatory regime within Canada and with our major trading partners.

Expanding critical trade infrastructure and simplifying border processes is the fourth major element of the automotive investment strategy for Canada. Simply put, it is 27,000 times more difficult and costly, from a customs perspective, to get 4,500 North American-built vehicles into our own market than it is to import those vehicles from offshore. This does not support automotive investment. During the production of a vehicle in North America, parts and components can cross the border six or seven times, each time with the necessary paperwork and security checks, while on the other hand, imported vehicles simply clear customs by the boatload, or about 4,500 units at a time.

The last but not least important element of an automotive investment plan for Canada is opening foreign markets through free and fair trade agreements. Canada's auto industry and Canada as a result have benefited greatly from free and fair trade, especially with our NAFTA partners.

Currently we are negotiating an FTA with South Korea that may result in continued one-way trade in automobiles and no broader economic benefit for Canadians. A complex system of recurring non-tariff barriers has been used in Korea for the past 20 years to keep their market closed. The proposed FTA, as we see it, will not open this vibrant and wealthy automotive market. Meanwhile, Korean assemblers will continue to get unfettered access to our market.

Why does this have an impact upon investment decisions? In today's global industry, companies attempt to maximize production of each of their global assembly plants to maintain a competitive position. If Canadian manufacturers cannot access foreign markets, their production mandates will be placed in other jurisdictions. An FTA with Korea that does not create free and fair trade will result in continued increases in imports with no foreign market access to offset domestic sales and will therefore result in a reduction in local production.

The proposed Korea FTA could undermine all other aspects of an automotive strategy for Canada and as a result must not continue along its current path to completion. Canada needs to focus on negotiating FTAs to help Canadian auto manufacturers and exporters in other industrial sectors gain access to these lucrative markets.

In summary, I cannot stress enough the difficult situation our member companies in the OEM parts sectors are in within Canada. The rapid rise of the Canadian dollar is just the latest strike against domestic auto manufacturers and exporters, with roughly 570,000 Canadians either directly or indirectly employed in the industry.

We urge the government to immediately enter into partnership with industry to develop and implement an automotive strategy, as outlined in the five elements above, to help restore a competitive advantage to investing in Canada's critical auto industry.

Mr. Chairman, thank you. I'd be pleased to answer any questions.

● (1600)

The Chair: Thank you very much, Mr. Nantais, for that presentation.

We'll go now to Mr. Lazar.

Mr. Avrim Lazar (President and Chief Executive Officer, Forest Products Association of Canada): Thank you, and thank you for inviting us.

You probably don't understand how important to us it is that you take a chance to hear us, or how much we depend upon your attention and how much we appreciate it.

The impact of the dollar on the forest industry is not hard to calculate: everything we sell, we sell in U.S. dollars; all our input costs are in Canadian dollars. If the dollar goes up 40%, our cost structure is up 40%. The result is massive layoffs—almost 55,000 since 2003.

At the same time, there is good news. We have an industry that is responsible for 820,000 jobs still. That's 12% of Canada's manufacturing employment, and we're the largest employer of aboriginal Canadians. It's an industry that has business relationships with 1,600 aboriginal businesses and is situated in a global marketplace in which there's massive expansion of demand. Global demand for our products is going up 3% a year, which is equal to twice the production of all of Quebec every single year.

The good news is that we've got what the world wants: natural resources. We've got the water, the energy, and the fibre that the whole world is asking for. There's huge demand, and unlike many other sectors of the economy, our sector actually has a natural advantage—so we've got to ask ourselves how it is that we're closing so many mills at a time when the world needs what we produce.

Some of my friends in Toronto say, “That's globalization, Lazar; just suck it up and relax. It happens.” I think that's wrong. I think it's mistaken and I think it's misguided. It's not globalization; it's a failure to adapt and to adjust to globalization. It's a failure to have foresight. It's a Canadian failure, by all of us, to have the vision and will to do what's necessary to succeed in a globalized world.

Ten years from now, when this Parliament is judged, it's going to be on one factor and one factor only: whether or not there was the vision to prepare Canada for new economic realities. With all the competition coming out of China, Indonesia, and South America, if we get ready for Canada to compete in this new global economic reality, we will be judged to have done the right thing. If we don't, we will have doomed Canada to an impoverished future.

If you read all the books about the new global economic reality, they're quite clear: what we see today is just the beginning. They're also quite clear that it creates a huge world of opportunity for the sorts of things Canada can produce. In the forest sector, that means a huge opportunity to sell to the world what we have in abundance. Why are we not doing it?

The answer comes in many parts.

The first is that we are doing it today. We are the world's most successful nation in exporting forest products. We've got the know-how. We've got the track record.

The second part of the answer is that we have grown a little easy in our seats because a low dollar allowed us to export at an advantage. Governments and industry enjoyed that advantage, and we did not restructure and rebuild the industry when the dollar was low.

Governments can look at themselves in the mirror because they prevented rationalization, prevented consolidation, and taxed and regulated at rates that were only affordable at a low dollar. Industry can look at itself in the mirror and say that at a time when there was capital to invest, we went along with government's sense of ease and just played the game. Now that the dollar has gone up, we're all looking at ourselves in the mirror and asking if we can do anything now. The answer is yes, we can. The answer is yes, we have the competitive advantage if we have the courage, vision, and foresight to act.

Certainly what this committee came up with last year is a very good first step, and implementing that report is urgent. Most urgent is the refundability of the SR and ED credits, because you want industry to innovate their way out of trouble. Why would the government abandon that support, those tax credits, just when industry most needs them, when there is no profit?

● (1605)

Expanding the CCA writeoff for five years—I actually prefer my colleague's concept of “for eternity”—makes a lot of sense, because you want people to invest their way out of trouble, but that is not enough. We need a sector-specific policy. We need a sector-specific vision.

I am calling on parliamentarians from all sides to form a task force on the future of Canada's forest industry. It can be a subcommittee of this committee, it can be a subcommittee of natural resources, or you could actually get together and do it.

Industry has put out a vision for the future based upon markets and competitiveness. We need governments to partner with us in shaping and delivering this vision. We have seen from this committee what happens when parliamentarians put aside partisan stances, partisan positioning, and actually try to solve our problems.

We'd like to see that replicated in a future forest sector committee —all parties, this committee, natural resources, however you think you have to do it—and let's make it an urgent task. We'll work with you night and day to develop a path for prosperity. It's entirely doable. It's within our grasp. We have the natural resources. There is global demand. We simply have to get on with it and we need governments to partner with us.

I'll stop there.

● (1610)

The Chair: Thank you very much for those comments, Mr. Lazar.

We will now go to questions and comments by members.

We have five witnesses here today who are very well informed. I caution you to be very brief in your responses, as members have very limited time in which to ask questions.

We're starting now with Mr. McTeague, for six minutes.

Hon. Dan McTeague (Pickering—Scarborough East, Lib.): Mr. Chair, thank you.

Witnesses, thank you for being here today.

We're glad we had the opportunity, as a committee that has worked by consensus in the past, to have a chance to review some of the work that was done last year. All of you here played a very important role in developing what I thought was going to be a template for how this minority Parliament should work, and I like to believe that the recommendations we made were a very strong basis for that.

All of you have touched on the recommendations that were made, but not many of you have actually made statements as to whether or not you believe there is some urgency to the rest of the recommendations taking place, save and except for what Mr. Lazar has just pointed out.

There were 22 recommendations in all. To my knowledge, only one has actually been implemented. I'm wondering if, politely, your organizations.... I suppose emphasizing the one recommendation that was implemented might begin a process, at some stage, of encouraging and urging the government to implement the other 21. It seems to us to be a little pedantic to have you come before the committee again to ask for very much the same things you were asking for before. We recognize that you, as a group, all of you here, have passed wonderful comments on the one recommendation, but it's clear to me that the other 21 are missing.

To that question, Mr. Myers, your industry has spent a considerable amount of time trying to respond, not so much in terms of productivity and things you've outlined.... Can you explain to us a little bit how your industry is managing—you are representatives of industries that you certainly care for—in terms of financial hedging, in terms of anticipating the dollar?

Dr. Jayson Myers: To your first point, Mr. McTeague, the situation is urgent, and we have been calling on the government to implement all the recommendations in the report. I think they were all extremely good, from the tax recommendations to the issues of ensuring fair trade, borders, logistics—everything. The problem with the dollar has just made implementation all that much more urgent. And I want to say again, on the record, that this is urgent, and we are calling on the government for full implementation of the recommendations.

In terms of the impact this is having on companies, I think there are two ways companies have been trying to hedge. The first is by establishing some form of natural hedge, so they're looking at opportunities to outsource more, to import more of their components and raw materials. Many are trying to establish production facilities in other markets, such as in the United States, where they'll have direct access to the market and where they'll be able to take some of the edge off the export side. All of that natural hedging may be good for an individual business, but from the economic point of view, there's not much of an economic benefit in taking your suppliers and offshoring those suppliers to the United States or any other country. So the overall economic impact of that type of hedging is a negative one.

If you look at financial hedging, in our membership and in Canadian manufacturing, 90% of these companies are small and mid-sized companies. Sixty percent of these companies have fewer than a hundred employees. We expect small businesses to be financially expert in terms of export and market development, expert in terms of engineering and product management and operations improvement. They don't have the capabilities as small companies to do that.

The larger companies, of course, are hedging. Many of the mid-sized companies are hedging. But even for the large companies, if you hedged at par in February, and you're getting paid in a contract when the dollar is at $1.10, you're still making a loss of 10%. And nobody could have forecast the dollar rising that rapidly.

● (1615)

Hon. Dan McTeague: To shift for a moment—this committee is also studying the issue of the services sector—I hear time and time again that there seems to be a perspective out there, perhaps a belief, that manufacturing doesn't necessarily have to be that important. We can have our widgets made in China, and we can manage to maintain our standard of living.

How tough a job is it for you, Mr. Myers, to convince Canadians —it takes no effort to convince me and Mr. Carrie, who have large manufacturing facilities that employ most of our constituents—that manufacturing actually counts in Canada?

Mr. Nantais, you may want to comment on this as well.

Dr. Jayson Myers: I don't think we have too much of a problem convincing people who live in communities that depend on manufacturing how important manufacturing is for those communities. In some other communities, and in larger urban centres where the contribution that manufacturing makes is not that apparent, we have a significant challenge. But even in Toronto manufacturing is the largest business sector. So this is extremely important.

The second graph that I provided here shows just how dependent various sectors—service sectors as well as primary sectors—are on manufacturing. About a third of all the professional technical services jobs in this country—engineering, business services—depend directly on manufacturing as a customer base. Close to 15% of financial services depend on manufacturing. There wouldn't be very many people trading equities if there weren't manufacturing companies to trade on the stock market. There wouldn't be many customs agents if there weren't exporters shipping across the border. So this is extremely important. I think we have much—

The Chair: Mr. Myers....

Mr. McTeague, you wanted Mr. Nantais to respond as well.

Hon. Dan McTeague: Yes.

Dr. Jayson Myers: We have much more difficulty convincing economists in the Department of Finance about this.

Hon. Dan McTeague: Thank you.

The Chair: Mr. Nantais, I'll give you 30 seconds.

Mr. Mark Nantais: It is the same thing. We don't have any problem convincing people in communities. We don't have any problem convincing the provincial government in Ontario about what's at stake in terms of their home-based industry, which is manufacturing. So that's not an issue for us. Convincing the others is, as Mr. Myers points out.

You know, the auto industry alone accounts for 570,000 jobs, direct and indirect. You add the forestry industy to that, and that's another 820,000 jobs. Manufacturing is the cornerstone. So if we lose that, I would suggest that we're in very dire straits. You have a whole host of other issues that flow out of that. All I can say at this point is that there is no problem addressing those people, those communities that are going to actually lose their jobs.

The Chair: Thank you.

Thank you, Mr. McTeague.

We'll go to Madame Brunelle, please.

[*Translation*]

Ms. Paule Brunelle (Trois-Rivières, BQ): Thank you, Mr. Chairman.

Welcome, gentlemen. Thank you for coming.

My first question will be to Mr. Lazar.

I greatly appreciated what I might call your plea for support in adapting to globalization. It is true that we of often have a lack of foresight and courage. I believe that if entrepreneurs have the courage to operate a business, politicians should have the courage to help.

We, at the Bloc québécois, try to convince the government of the urgent need to act to solve the crisis wether in the manufacturing industry or in the forestry sector. We devoted an opposition day to this theme. I keep asking the government questions but am obviously very disappointed by the answers I get. They keep referring to tax cuts and the low unemployment rate. There is a lack of political will.

That being said, it is true that the report of the Committee made important and useful recommendations. We talk, for example, about giving tax incentives to companies who go to resource rich regions, who try to diversify. The idea of providing loans or loan guarantees seems good. Some talk here about training and providing tax credits for training. All of these measures could be very constructive.

So I would invite you to provide additional arguments to try to convince the government that it needs to act without delay, that we cannot wait any longer.

[*English*]

The Chair: Mr. Lazar.

Mr. Avrim Lazar: It's 820,000 jobs, it's the largest employer of aboriginal Canadians, and it's the sole employer of 300 towns. I don't think any member of Parliament needs to be convinced this is urgent or that giving this up through inaction would simply be irresponsible. I don't think there's anyone in this room who doesn't understand how urgent it is.

I think our problem is not a lack of motivation; it's a lack of sense of direction. What do we do? What's the right answer? We tend to come up with small solutions; we'll guarantee a loan here, do a bit of training there. We need all of those things, and we need urgent action on refundability of SR and ED credits and the extension of the CCA . But we also need a much more ambitious vision. It has to be market driven. We should have a government-industry program that is much more ambitious, to penetrate new markets and to secure deeper penetration of existing markets. We are under-investing in research. Our competitors' governments put much more money into forest industry research than we do. There is the possibility of moving to new products, to smart papers, to bio-refineries. We have the natural resources, but we are under-investing in research and in the research adoption programs for this to happen.

So there's marketing, research, and there's industry structure. We have strangely thought that if we keep the industry structure small, having a little mill in each town, that somehow or other this will keep us strong. Little mills can be brilliant and profitable, and big mills can be brilliant and profitable, but when government dictates industry structure, it almost inevitably gets it wrong. Let the marketplace decide the structure of industry.

Transportation. We have rail transportation in which 90% of our mills are captive to one railway. They do what every good monopoly does: they exploit and give poor service to their clients. We can't afford this as a nation that is far-flung.

There's lots that can be done. I don't think there's any lack of motivation. I just don't think we've organized ourselves to look at it from the marketplace through to the infrastructure, the industry structure, and the human resources.

Again, I'm going to point to the vision document we've given to all of you, and also a competitiveness task force report in which we do this. Industry is willing to do its part. You guys can't solve this; industry has to solve it together with our workers. But we can't do it ourselves; we need the changes in business climate.

Again, I think the only way we're going to get the urgency, madame, you talk of is to put together a task force of parliamentarians, leaving partisan positioning aside, and say, if we want to keep these jobs in Canada in an area in which we have a natural competitive advantage, what do we have to do? And then we should get it done.

● (1620)

[*Translation*]

Ms. Paule Brunelle: Certainly, for us it is not a matter of partisanship. Trois-Rivières, in my riding, has been a paper town and the Mauricie region relies a lot on forestry. Whenever a company closes, as happened with the Belgo plant in Shawinigan last week, family hardship and human tragedies are the result. This is what we see as MPs. It has nothing to do with partisanship, it is a matter of finding the best possible solutions.

Mr. Myers, do you believe that some action could occur quickly? You said that the solutions proposed by the Industry Committee are positive and appropriate. Do you think they can be implemented and that we will be able to overcome somewhat partisan differences of opinion?

[*English*]

The Chair: Mr. Myers, just a brief answer to that, please.

Dr. Jayson Myers: I think the fact that the industry committee has come together as a whole shows how important these issues are, how urgent they are, and how we can work together for solutions. I agree with Mr. Lazar we have to realize that at the end of the day it's up to business to make the investments and to compete to make the choices about how they're going to do business and about the market, to put in place a business environment that's not only going to respond to the short-term pressures of the dollar, but enable companies to invest more in the new technology, product innovation, and the skills development that are required to go further. If anything, the problems with the dollar just show how important and urgent it is to start these investments today and to make sure we have the right policies in place now.

The Chair: Thank you. *Merci.*

We'll go now to Mr. Carrie please.

● (1625)

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

I want to thank you all for being here. I particularly liked your wording, Mr. Lazar, about our country needing a vision, and we need to move forward. I want you to know the government is listening to you today just as we did last year. We did that unprecedented study with 22 recommendations. I want to find out how you feel about how the government is addressing 21 out of those 22 recommendations. I want to correct for the record, because it appears a fallacy keeps getting repeated here, that we've only acted on one of the recommendations. So I would like to go over some of the things we have acted on and I want to ask your opinion on how we're doing so far.

You mentioned the CCA for manufacturing, and we did put that in for a two-year writeoff. The Minister of Finance has been very clear publicly that this is something he can look at increasing.

The improved SR and ED tax credit program. Finance announced this summer we are doing a review of the SR and ED.

As far as the energy sector is concerned, it says, "review its policies and regulatory and fiscal measures to ensure they make a greater contribution to...clean and renewable energy sources". We talk about the ecoENERGY renewable initiative that we launched, regulating the use of renewables in fuel, incentives for producers, renewable fuels investment in Canada, ecoTRUST, ecoENERGY technology initiative, the Canada School of Sustainable Energy. We extended and expanded the CCN class 43.2 equipment.The NSERC and NRC target major investments in the clean and renewable energy sector.

In labour, we were asked to establish an agency for the assessment and recognition of foreign credentials. We did confirm our commitment through the creation of the Foreign Credentials Referral Office to be operational, and it was operational this past spring.

Improve the temporary foreign worker program. We were asked to do that. The program is to be improved as announced in budget 2007, but we're ensuring employment opportunities for Canadians are not reduced.

Again in labour, provide tax credits and other measures to companies providing employer financed training. We did that in budget 2006-07.

Increase support for post-secondary students and post-doctoral fellows conducting research in industry. We made many announcements in this regard for the youth program and NSERC; the Canada social transfer transfers to the provinces record amounts of money; improvements to the student loan program, new industrial R and D internship programs; funding for the granting—

Some hon. members: [*Inaudible—Editor*]

The Chair: Order.

It's Mr. Carrie's time.

Mr. Colin Carrie: It's my time. And I've heard over and over again that we have only addressed one. I'd like to continue.

In trade, disclose analysis of any free trade agreement with South Korea and the European Free Trade Association We have done extensive consultations. I would like to remind people that we hear that there is not a Korean free trade agreement yet, but there are negotiations. If you look at the speed at which we are moving, the Americans completed their free trade agreement with Korea in a record amount of time. We're not going to sign an agreement that's not good for Canada—or any free trade agreement that's not good for Canada.

Then we have "conduct an internal review of Canadian anti-dumping, countervail and safeguard". We have looked at that and we are continuing to review these periodically.

Then it says to "amend the Copyright Act; ratify the World Intellectual Property Organization (WIPO) Copyright Treaty; ensure...enforcement resources...to combat counterfeiting". Again, we're working with our international counterparts, and we've done studies here at INDU and Public Safety on the counterfeit issue.

On the regulatory changes, implement smart regulations. We've already worked on that. We're in negotiation with the U.S. and Mexico consistently. We're reducing the number of tax remittances, filings for more than 350,000 businesses. We're working with the provinces and territories examining and broadening the TLMA.

We were asked to conclude negotiations to implement greenhouse gas emissions in air pollution regulations. We've announced a regulatory framework, including targets and compliance mechanisms for industrial emissions of greenhouse gases.

Implement the User Fees Act: we are complying with that act.

Our infrastructure asks that this committee...22 recommendations. We asked for three.

Announce the national gateways and trade corridor policy. We agree with the INDU report and we are putting forward record amounts of money, including $2.1 billion for a new fund for gateways and border crossings and $400 million for the Windsor–Detroit.

Improve the FAST lanes and infrastructure. We're doing that.

Define financing for the Windsor–Detroit. I already said we're doing that. It was in budget 2007.

Research and development. We were asked to consider recommendations of the Expert Panel on Commercialization. Budget 2007, the S and T announcements, the venture capital, the Canada–U.S. trade treaty improvements, the BDC seed funding, funding for new centres of excellence—I could go on and on there—expanding scholarships, attracting talent from outside Canada.

Funding to bring together business, government, post-secondary institutions to focus on R and D. Businesses; the NSERC; the NRC programs, including cluster of collaborative internships—we've addressed that.

Replace the TPC. We've recognized the importance of innovation and we refer you to the SADI and the ecoENERGY initiatives.

As for reviewing the funding levels for operation of the networks of centres of excellence program, and eliminating the sunset clause, this is being evaluated right now.

Again, the last recommendation, the 22nd, was to continue to fund research infrastructure through CFI. Again, budget 2007 provided $510 million to CFI to undertake more competitions before 2010 and another $600 million expected to be leveraged from others.

Gentlemen—

● (1630)

The Chair: Thank you, Mr. Carrie. That's all I think you have.

Mr. Colin Carrie: Did I get it all in?

Thank you very much.

The Chair: Fortunately, that'll have to be his statement.

Mr. Colin Carrie: I want to know that they will consider that as prompt—

The Chair: No.

Mr. Avrim Lazar: No answer, okay

The Chair: No.

Order, order.

We'll go to Ms. Nash, please, for six minutes.

Ms. Peggy Nash (Parkdale—High Park, NDP): Thank you, Mr. Chair.

Welcome to all of the witnesses.

Mr. Myers, you mentioned that manufacturing is the largest sector in Toronto. We've lost, though, in the last few years over 125,000 manufacturing jobs.

I note in your presentation that you say manufacturing jobs on average have wages about 25% higher than other sectors. Of course, we had the service sector meeting with our committee this week, and I noted that food and beverage jobs pay about $300 a week, which is well below the average. While there are government claims about there being no problem in the economy because people can transfer to other jobs, often those jobs are these very low-paying jobs.

We had a recent report from the United Way about the growing poverty in the city of Toronto, double that of many other communities. Some people write off the manufacturing sector and say, well, we're moving to a knowledge economy, let China build things; we'll do other things here. What's your take on that kind of comment? My concern is that we're neglecting a crucial sector and missing an opportunity to really help industry reposition itself in an increasingly competitive environment for manufacturing.

Can I get your comments, please?

Dr. Jayson Myers: I think that's right and it's certainly mistaken to think that the problems affecting manufacturing are not affecting other sectors of the economy. As the United Way report in Toronto pointed out, one of the reasons for the growing rate of impoverishment in Toronto is the disappearance of manufacturing jobs.

I think we have a false sense of security across the country, though, because we've seen significant job cuts in manufacturing, and that has been certainly a big concern of ours, but overall we've seen that manufacturing sales performance and shipments performance has been pretty stable over the past four years. That has meant that all these other sectors that have depended on manufacturing are still dependent. The jobs in the services sectors have remained because overall performance in manufacturing has not changed that much in terms of overall sales. If we do see production losses, we're going to see this knock-on effect in other sectors, and I think that would be extremely challenging. We're already seeing that in Ontario, in Toronto, because of the loss of jobs.

Ms. Peggy Nash: Can I ask you one other thing? I heard your presentation and others at the finance committee, and something that struck me there was that job losses today and the business failures today are reflecting conditions from some time back, months or even a couple of years back. So as regards the full impact of this perfect storm, the level 6 hurricane that was referred to earlier, we have not felt the full impact yet, and this will roll out in months or years to come.

What do you think we're facing in terms of the impact of the current conditions if nothing happens to change things?

Dr. Jayson Myers: I think that's right. The impact of this recent surge of the dollar has yet to be felt, and we'll see further job losses and closures. Moving forward, I think the next six to eight months are going to be critical. I'm unfortunately expecting probably as many as 50,000 job losses up until June in manufacturing alone. But as I say, if we're seeing production closures elsewhere, we'll begin to see those in other sectors, too, and across communities.

My concern here is not only the level of wages—again, we're seeing the shift of employment from high-wage to low-wage jobs—but we're also seeing the shift from high-productivity jobs to low-productivity jobs, and then we wonder why the overall level of productivity is falling in the economy and we wonder why the Bank of Canada says our overall capacity rate is falling and therefore we have to keep interest rates high to stave off inflation. This is all part of the same problem.

● (1635)

Ms. Peggy Nash: Thank you.

I'm not going to have time for all my questions, but Mr. Nantais, maybe I'll just ask you. You said that as an auto-producing country we're slipping in terms of our level of importance and the amount of production we have, and that we're in seventh place. I think we were actually probably higher a few years ago, and we keep slipping. You said every other jurisdiction supports auto investment. Can you give us some examples of what other jurisdictions not only support auto but in some cases even compete for those investments?

Mr. Mark Nantais: It can take many forms in other jurisdictions. I gave you one example of Australia, where they take revenue from import tariffs and funnel that back into the domestic industry.

Every jurisdiction that either has an auto industry or wants an auto industry ensures that some sort of incentives are there. They recognize that the auto industry represents a solid economic hub of jobs and spinoff jobs at ratios higher than in virtually any other industry. So it's of great interest to put in place regulatory regimes, tax regimes, and so on, that improve the investment climate, and as a result, they get these investments. We've lost out in a lot of investments in Canada.

For instance, there was a time when the southern United States was very hot. Why were they hot? Because state jurisdictions, even the federal government in some cases, had put real cash on the table.

Certainly at that time, when we hired KPMG through the Canadian Automotive Partnership Council to look at that very scenario, we were very competitive on all fronts, except when somebody put cash on the table. Once they did that, we basically lost the bid. That's why it's so important to have these various supports in place as we go forward.

I've referenced the fact that outside of Canada the auto industry in many jurisdictions is taking off hugely. Why can't we position ourselves in Canada, operating plants in Canada, building world-class products, and ship them to these markets? That's why we have invested roughly $8 billion of Chrysler, Ford, and General Motors in particular, to revamp plants and make them some of the most leading-edge, flexible manufacturing plants, to continue to ship not just to the U.S. but to markets abroad. So that's why it's so important, I would suggest.

The Chair: Thank you very much.

We'll go now to Mr. Brison, please, for five minutes.

Hon. Scott Brison (Kings—Hants, Lib.): Thanks to all of you for appearing here today. I'm interested in what you have to tell us on some of these matters.

There's been some mention of tax competitiveness. We haven't had significant tax reform in Canada since the Carter commission in 1971, with the exception of the implementation of the GST, which was a shift towards a consumption base and away from capital and investment and personal and corporate income taxes.

Which would do more for the competitiveness of your member companies, in manufacturing particularly but also in a wider range—this is for the Chamber of Commerce, Mr. Beatty—of Canadian industry: a GST cut at $6.5 billion per 1% of GST cut, or using that money to more dramatically reduce personal and investment, capital, and corporate income taxes?

The Chair: Mr. Beatty.

Hon. Perrin Beatty: Thank you very much, Mr. Brison, for the question.

Clearly, our priority has been to look in areas other than GST reductions. We were pleased, though, when the MInister of Finance, in his economic update, announced a whole range of tax measures. They included the GST, but they went well beyond that, and we felt this was an important step forward.

One of the areas, if we're looking at tax competitiveness, where we could take an important step forward is in harmonization of provincial sales taxes with the GST. In the letter I wrote to the Prime Minister and the provincial premiers on November 20, I called upon provincial premiers to move ahead with this harmonization. This would, in Ontario alone, significantly improve the competitiveness of Ontario industry.

● (1640)

Hon. Scott Brison: How do you feel about the government's action on interest deductibility for foreign investment? It's a tax measure that effectively doesn't raise any more money for the Canadian government, but raises more money for foreign governments and puts Canadian companies at a competitive disadvantage compared with companies in other jurisdictions. How do your members feel about that?

Hon. Perrin Beatty: The chamber has been in touch with the government on this issue over the course of the last several months. I'll defer to Mr. Murphy, who could explain to you some of the activities he's had in this area.

Mr. Michael Murphy (Executive Vice-President, Policy, Canadian Chamber of Commerce): Sure. It's a really important issue.

When the measure was announced, we were very concerned and opposed it quite strenuously. If you look at the optics of the thing in terms of thinking about tax havens, no one is going to argue with the idea that you need to address that. I think the solution that was proposed, however, went well beyond that, and this was the concern we had. If your goal is by other policy means to encourage investment by Canadian companies either here or abroad, for the betterment or the competitiveness of our Canadian enterprises, this was one way to do exactly the opposite.

So we have deep concern.

Hon. Scott Brison: The Finance bureaucrats' goal seems to be to fill all the holes in the boat, and they're fixated on tax leakage. But at the end of the day there won't be anyone in the boat, and that's part of the problem with such a narrow focus. They don't consider long-term competitiveness.

Mr. Lazar, you mentioned the natural resource wealth we have and its benefit to the economy. I'd be interested in your feedback, or perhaps Mr. Myers' feedback from the manufacturing side, on whether or not our natural resource wealth is creating a Dutch effect in Canada, in fact pricing some of our other sectors in a negative way.

Mr. Avrim Lazar: Certainly there's a strong argument to be made that the rapid rise of oil prices, allowing the dollar to be driven up that way, creates a huge risk to the rest of the economy. Anybody who's watched markets over the long term knows that what goes up comes down. It feels as though it's never going to stop; when the dollar was rushing up to $1.10, people thought, gee, this is a trend.

You want to diversify the basis of your wealth. To look at job numbers that are based upon a petro economy without understanding how that's undermining the diversified infrastructure of the economy is a fundamental error.

I want to reinforce what Ms. Nash said: that we haven't seen the impact yet. Investments in the forest industry are being made today for tomorrow's jobs, and people are looking south. The AbitibiBowater decisions reflect Canadian business policy—and we have a choice: we can pull the investment dollars here or we can let them go elsewhere.

But we haven't seen the impact of the high dollar on our business climate yet. People just don't shut their factory as quickly as they can; they keep it going as long as they can. But if the investment isn't coming here, we really feel the pain later on, and the time to start reversing the flow of investment back into Canada is...you know, 5:15 would be good.

The Chair: Thank you.

Thank you, Mr. Brison.

We'll go now to Mr. Van Kesteren.

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

Thank you, witnesses, for coming.

Mr. Lazar, I want to congratulate you. I think often when we have industry visiting us that honesty sometimes isn't on the table. You've been very honest, and I appreciated your saying you think you missed an opportunity when our dollar was at 65 cents, and to acknowledge that.

Governments have to take responsibility for that as well. You're absolutely right, we were selling everything at wholesale, and now all of a sudden we're selling at retail and don't know what to do.

I think your recommendation is an excellent one. We forget about it. We tend to do that; we blame the one government, blame the other: “It was the old government at the helm when that was going on; they should have possibly had...” some tax. Or “What's this government doing?”

I like your recommendation; I think it's a wonderful recommendation, that we work together. That's how we as a committee have done the best work.

I'm going to direct my next question to Mr. Nantais. I have to ask you this: have we made the same mistake in the auto industry? I know we keep talking about that too. While we had all those advantages, did we let opportunity slip by?

That's my leading question. My next question would be, what can we do? Believe me, we all want the North American auto industry to flourish and come back. But did we make the same mistake, and if we did, can we still correct it?

● (1645)

Mr. Mark Nantais: When you ask whether we made the same mistake, I'm not sure what mistake you're referring to. Investing when the dollar was down...? I guess we could be criticized for that, like any other manufacturing sector.

Mr. Dave Van Kesteren: I'm saying that while we had all those advantages, when the big three were the big three, did we not invest in enough R and D, possibly?

Mr. Mark Nantais: Let me answer that, for sure, because certainly the big three are the only ones who have invested in R and D in Canada to date. We have multi-billion dollars now invested in research and development facilities right here in Canada. No other company has that.

When you look at the design and manufacturing cycles in our industry, plants really are only good for five years. This means that every five years you're reinvesting in the plant, and every time you reinvest, you do a number of things. You improve the environmental performance of that plant; in the interest of competition, you improve the productivity and competitiveness of the plant. So I would suggest that we may be somewhat criticized, but consider the nature of our business—that it's global in nature and that we must remain competitive. Many investments have been put in place.

We have gotten probably a disproportionate share of new investments in Canada relative to the United States, for instance. I would suggest that we've done actually quite well.

You ask whether it can be fixed. Right now, I think we have a number of tools at our fingertips here. We have the industry committee, and certainly I can remember standing shoulder to shoulder with many of these people at this table, promoting your report. Everything in that report needs to be acted upon and acted upon urgently.

In the auto industry specifically, you also have the tools at your fingertips. The Canadian Automotive Partnership Council developed a report called *A Call to Action: A Canadian Auto Strategy*. That report presents a vision. It presents a series of recommendations that are still valid now for our industry and valid for many other industries. We would like you to take it and perhaps look at it more closely in terms of an overall comprehensive automotive strategy, which would include investment supports.

I think we have the tools at our fingertips. We have to get on with the job and put in place an automotive strategy that places us here competitively for the long term, so that we from Canada can capitalize on what's going on around the globe.

The Chair: Mr. Van Kesteren, you have a minute, but Mr. Myers wanted to comment. It's up to you.

Dr. Jayson Myers: I just wanted to correct the misperception that manufacturers weren't investing. There was $25 billion a year in new technology and in R and D in the late 1990s. This is the sector that was growing at that time and creating 650,000 new jobs. This was a sector that was making some adjustments.

The Chair: You have 30 seconds.

Mr. Dave Van Kesteren: Mr. Beatty, I want to get your take. We had some talk about foreign investment, but we want to make Canada the best place to invest your money, through Advantage Canada and the economic update. Is that the right direction to be going in, or should we target individual manufacturers or sectors of the economy?

Hon. Perrin Beatty: What we need to do is look at the performance of the whole of the Canadian economy and get the fundamentals straight.

We have to ensure that we have a competitive skills base in our country; we have to ensure that our border functions correctly; we have to ensure that we have a competitive tax and regulatory system. The focus should really be on the fundamentals that apply across the board in Canada. All sectors of business will benefit from that.

There may be specific areas in which we're dealing with an uneven playing field, areas where there are subsidized foreign competitors or where there is some inequity. Clearly that would call for special attention, but what we want to do is to ensure that this country as a whole has an investment climate that makes it attractive both for foreign and for domestic investment. That means getting the fundamentals right.

● (1650)

The Chair: Thank you, Mr. Van Kesteren.

We'll go to Monsieur Vincent.

[*Translation*]

Mr. Robert Vincent (Shefford, BQ): Thank you, Mr. Chairman.

You said earlier that political parties should work together. We worked for a full year with all players in the manufacturing sector in order to develop a plan with 22 recommendations—right here in this report.

The parliamentary secretary referred earlier to a list of measures taken. However, out of the 22 recommendations proposed by the sector, only one has been implemented, and only half way at that.

You talk about partisanship. We are indeed partisan. We behave in a partisan fashion, obviously. However, we are here to help your sector, the manufacturing industry, and to implement these 22 recommendations. This is what we want to do. If this is partisanship, we are indeed partisans, but of your sector.

We want to give another chance to this government and to these political parties through a new bill. I am giving you notice. It is Bill C-411 which is at second reading stage.

We often hear manufacturers say that there is dumping of imports from China, that our markets are inundated by an avalanche of goods and that they are unable to compete.

This bill will ensure that imports from China will be subjected to five evaluation criteria. These are the same five criteria used by the European Union and the United States. Since these two jurisdictions find these five criteria useful, Canada should adopt them also. We should use the same five evaluation criteria regardless of the country of origin. Presently we have only one and we are not even able to determine if there is a market economy in China or in other countries. We do not have enough criteria.

Are you hearing from people in your sector that imports from China are in direct conflict with products of your manufacturing industry?

[*English*]

Dr. Jayson Myers: If I could answer first, dumping and subsidization of product coming in today from China and from other countries are very important issues that concern a number of sectors within the manufacturing sector. In Canada, a number of industries are affected.

The recognition of what constitutes a market economy is critical to how we run our trade remedy system, how we make the determinations about what is fair and unfair trade, and how we enforce the trade rules that we negotiate in trade agreements. The criteria you've enumerated in your bill, Mr. Vincent, are the criteria used by the European Union and by a number of other OECD nations. That's extremely important, because the recognition of a market economy then puts the onus on Canadian companies to show subsidization or to show that there is dumping activity. In some economies, such as China's, it is very difficult now to show that.

It is a very important issue and it goes to the heart of one of the recommendations of this committee, which was to ensure effective compliance with the trade rules that we negotiate in our trade agreements.

[*Translation*]

Mr. Robert Vincent: How much time do I have left, Mr. Chairman?

The Chair: Two minutes.

Mr. Robert Vincent: I read in your document, in the document of the Canadian Chamber of Commerce, that tax reductions are good for the manufacturing sector.

How many companies benefit from these tax reductions? Obviously, if one does not pay taxes, one does not need tax relief. This means that only a portion of businesses in any given sector will benefit from these reductions.

Have manufacturers come to you saying that these tax decreases are useless to them since they do not pay taxes because they are not making any profits and that additional measures need to be taken?

I would like to hear you on this, Mr. Beatty.

Hon. Perrin Beatty: Thank you, Mr. Vincent.

[*English*]

I don't think you will find any manufacturer who will be critical of the reduction in taxes. What you will find are manufacturers saying that we need to look at ways in which manufacturers who are not paying taxes because they aren't profitable today are able to benefit as well.

Mr. Myers alluded to one proposal that's been made, particularly in the automotive sector. And I think the government should be looking at steps we can take to ensure that those people who are not profitable today have the opportunity to take advantage of some of the reductions and to use them to leverage their way back to economic health.

Another area is clearly the SR and ED tax credits. By moving to refundability in the SR and ED tax credits, we would give a much greater incentive to people to make the important investments in innovation that are critical to ensuring our success in the future. So you're absolutely right in suggesting that there are players within the manufacturing sector, but also in other areas, who don't benefit directly from tax reductions and who need some other measures put in place to assist them.

The argument I would make is that we need to be looking broadly at what sorts of measures we can put in place that will be of assistance to industry across the board.

● (1655)

[*Translation*]

The Chair: Thank you, Mr. Vincent.

[*English*]

We'll go to Monsieur Arthur, please.

Mr. André Arthur (Portneuf—Jacques-Cartier, Ind.): Thank you.

Mr. Myers, how much of the bad effect on manufacturing by this superstorm can be related to the fact that for a long period of time we had a low Canadian dollar, and manufacturers and exporters had been receiving a subsidy from us? And now the subsidy has been terminated because the dollar has been going up, and they can't adapt to that. How much of this problem would be with us if the rise had been less steep and if the Canadian dollar had started rising earlier?

Dr. Jayson Myers: I wouldn't call it a subsidy, but clearly the falling Canadian dollar had a very beneficial effect on manufacturing in Canada. It boosted manufacturing output. It made manufacturing in Canada much more attractive for investment. Throughout the 1990s we had the most rapidly growing manufacturing sector of any developed country in the world as a result of that.

You make another very good point, which is that it's not necessarily the level of the dollar that is the problem; it's the very rapid rate of increase, the 65% price cut in four years. It's a movement of 20% to 25%, depending on the day, in the last five or six months. I think it's very difficult to respond that rapidly in your cost structure and pricing structure to that very rapid increase.

Mr. André Arthur: Mr. Nantais, is it possible, still today, that a car built in Canada by one of the two giants could be sold in Canada at a higher cost than it would be to an American consumer? Is it still possible? Two weeks ago it was.

Mr. Mark Nantais: Thank you for that question.

Mr. Arthur, first, I can't talk about vehicle pricing. I'm prohibited from doing so, collectively through the association and what we do, by the Competition Act. But I can say that as to what you've read in the papers, vehicle manufacturers are responding to that price differential by various means. Some of them have individually made decisions to reduce prices. Some have or, in addition to that, put in place certain incentives to take away that differential. Some vehicles have a higher differential than others, and quite frankly, our recommendation is that any consumers who venture down to the United States should be fully aware of what they're doing and what they could possibly get themselves into.

We still have, for instance, unique regulations in Canada. The most recent one is anti-theft immobilizers, for instance. We put in place a regulation in Canada that doesn't exist in the United States, and as a result, many of these consumers got caught at the border and are now faced with the possibility of having to return those vehicles, at their expense, in the United States.

Mr. André Arthur: That was not my point, sir. I was talking about the car bought in Canada at a higher price than the same car built in Canada that would be sold to an American consumer.

Mr. Mark Nantais: It would be sold to an American consumer?

Mr. André Arthur: The reason for my question is that you come before a committee and say that the Canadian government should be very attentive to your needs. And this government is elected by consumers, who are our electors, and we'll have to sell to those electors the fact that this government should be doing favours for the automobile industry because of the Canadian dollar. Yet the same industry is still skinning alive some consumers who just want to buy a car that's built in Canada.

Do you understand that this has some kind of effect on the support the government will get from the population for helping you?

● (1700)

Mr. Mark Nantais: I'm not sure I agree with your analogy. You have to separate vehicle pricing from vehicle manufacturing investment. They're totally separate issues. But I can see why you're suggesting there could be this perception there. You just have to separate out vehicle manufacturing investment from vehicle pricing.

Where were the Canadians, however, when the Canadian dollar was the other way? When they actually had cheaper vehicles than in the United States, did anybody object at that time?

Mr. André Arthur: Now is now.

Mr. Mark Nantais: Now is now, and then was then.

Mr. André Arthur: Do I still have some time?

The Chair: You have 20 seconds.

Mr. André Arthur: Mr. Beatty, should Canada be ashamed of the high dollar?

Hon. Perrin Beatty: No, nobody is suggesting that Canada should be ashamed of the high dollar, Mr. Arthur.

I think the important thing is for us to be aware of the impact of the high dollar. I think we would feel that if the high dollar reflected improvements in productivity, this simply wouldn't be an issue; indeed, it would be a source of considerable pride for Canadians. I think the concern that many Canadians have, and that Canadian businesses have in particular, is that the dramatic appreciation of the Canadian dollar has not reflected a similar appreciation in the productivity of Canadian business. We need to close that gap if we're going to protect our ability to ensure jobs in Canada.

Mr. André Arthur: Thank you.

The Chair: Thank you, Mr. Arthur.

We'll go now to Mr. Masse.

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

Thank you for having me. Like a bad rash, I'm back.

Voices: Oh, oh!

Mr. Brian Masse: I'll start with Mr. Beatty.

Looking at your deck here, you do—

Hon. Perrin Beatty: It's not my deck. I've changed jobs, Mr. Masse.

Mr. Brian Masse: Oh, I'm sorry. That's right, yes.

I have the deck here, but I actually do want your opinion on this, and maybe Jayson's as well.

Congratulations on your recent appointment.

One of the things it says is "Government cannot do anything to stop the depreciation of the U.S. dollar or shore up the faltering U.S. economy". I don't know if it's been discussed here tonight, but the U. S. has been playing with their dollar. They've been intervening to certainly weaken it in many respects. There's been a lot of discussion —the Japanese yen, the Chinese, and so forth—but I think there can be no doubt that there is an attempt in the U.S. to manipulate their dollar.

Should there not be at least some discussion about the fact that they are doing currency movements, and that potentially Canada...? In this deck there is a recommendation that this issue should be looked at from our policy standpoint.

Hon. Perrin Beatty: Is that addressed to me or to—

Mr. Brian Masse: I know it's their issue, but I'd like your opinion on it. Then we'll go over to Jayson and anybody else who wants to—

Hon. Perrin Beatty: I don't have evidence that the United States is manipulating their currency. I do have evidence of extreme weakness in the economy of the United States, and it is certainly affecting us. When we look at the dramatic appreciation of the Canadian dollar relative to the U.S. dollar, I think it is important to realize that a significant part of that appreciation is not a result of something we've done here, but of what they've done there, and the poor performance in their economy. This certainly is of concern to us.

Mr. Brian Masse: They just seem more apt, though, to really look at their interest rates and the strength of their dollar, and to connect them really closely. They review it a lot more often than we do, or so it appears.

Hon. Perrin Beatty: Notwithstanding the fact that the Bank of Canada will say to you that they've only one instrument, one policy, that being the control of inflation, and that they have one average they have to look at—the Canadian economy as a whole—I don't doubt that when the board of the Bank of Canada is taking a look at its rate-setting, they also look at the economic context in which that's taking place and at the impact of their decision. The same occurs, I believe, in the case of the Fed.

I think there is scope, obviously, for people outside government to comment about whether it's desirable to see interest rates go up or down. The manoeuvring room, though, of the Bank of Canada is constrained, and at the table today you haven't been hearing from people calling for some dramatic action on the part of Bank of Canada to devalue the Canadian dollar. What you certainly have been hearing from us is the likelihood that we'll continue to see a Canadian dollar that is stronger than our productivity performance in Canada would suggest. As a result, then, we need to look at what measures can be put in place by government to ensure the competitiveness of Canadian business under those circumstances.

The Chair: I think Mr. Lazar wanted to comment.

Mr. Avrim Lazar: I would like to jump in on this. Comparing our attitude toward our currency to, say, that of the U.S. or Europe I think is worthwhile. Certainly the head of the European Central Bank was very clear that extreme currency fluctuation undermines the economy. The German currency went up 10% as opposed to our 40%, and already the central banker was saying he's deeply concerned at the rate of fluctuation. Currency is not a commodity. It's the very foundation of an economy.

I don't think the bank or the Department of Finance should start using it for political purposes or try to manipulate it beyond what the differences in markets are. But the difference between the Canadian economy and the U.S. economy did not change 25% this year or 40% over the last couple of years. The classical economists were saying no, it's the difference between productivity when the dollar was low.... All of a sudden they're silent.

So I think there is room for the bank to consider its role within the responsible margin to be more aggressive in dampening the wild fluctuations that make people think, why invest in Canada, I don't know what their currency is going to do next. I think there is room to leave the almost naive classical economic orthodoxy that says, we can't touch it, we can't touch it, and to act within the responsible range to have our currency move with more gravitas than a mining stock.

● (1705)

The Chair: Okay. We have 20 seconds for one other person. Mr. Myers.

Dr. Jayson Myers: I would just warn the committee members that the U.S. Fed is in a very difficult position right now. Given the credit market problems in the United States, the downturn in the U.S. economy, we likely will see the Fed funds rate fall probably by a percent over the coming year. That's going to put again renewed pressure on the Canadian dollar. There are some fairly well-placed economists in Washington who are warning that the U.S. dollar could fall by another 15% on a trade-weighted basis. That would put our dollar at $1.20 or $1.25. That's not out of the question.

So I think we've been focused on recent movement, recent volatility, but clearly the risk is on the upside going forward.

The Chair: Okay. Thank you.

Thank you, Mr. Masse.

We'll go to Mr. Simard, please.

Hon. Raymond Simard (Saint Boniface, Lib.): Thank you very much, Mr. Chair.

Thank you for being here, gentlemen.

I would like to start off with two quick questions to Mr. Lazar. I believe it was Mr. Nantais who mentioned the aerospace industry, and I'm very close to that industry in Manitoba. One of the reasons for their success is very targeted programs like TPC, for instance, and the second thing they tell me was that the sector councils kept them very close to government and allowed them to actually develop strategies with government.

Is there a sector council in the forestry industry? That is my first question.

My second question is about what you said about the fact that we have natural resources the rest of the world wants, but I didn't hear you speak to adding value to those resources. I hate seeing round logs being shipped into the U.S.

Should part of our strategy or part of our recommendations here be that the government should support basically adding value to these natural resources, if you will?

Mr. Avrim Lazar: Thank you for both questions.

Our industry adds value to almost everything we ship. We don't ship...raw logs is a tiny exception. What we ship is pulp and paper. The reason there are 825,000 jobs is that we've been adding value.

As soon as you go up the value chain to furniture and things like that, you go straight head-on in competition with the Asian labour market, and so we pay 50% above the average wage. In the value-added sector, once you go two or three levels of value-added beyond that, you're talking about very low wages. Of course we need it, but it is not where our competitive advantage lies. It's two or three levels of value-added, and that's what has created a huge volume of jobs.

On the question of sector councils, we are creating a sector council, but the focus is on human resources. What I am suggesting is that we have a task force of parliamentarians to ask what the winning conditions are to use our competitive advantage in global markets for Canada's forest industry. It's an area where we have a natural advantage. We're not taking advantage of it. Industry is ready to work with parliamentarians.

I think we should just get on and make the plan, because the market is out there waiting, and while we're talking, the jobs are disappearing.

Hon. Raymond Simard: Thank you.

Mr. Myers, we've talked about the surge of the dollar and you also talked about a lot of the businesses not making profits and not being profitable in the next little while. You talk about the perfect storm, but we are also facing the whole subprime commercial paper tightening of credit here in Canada. I'm wondering if your members are feeling this already or if you anticipate a disaster down the road based on this.

Dr. Jayson Myers: They're certainly feeling the downturn in the U.S. market in those three key areas of housing, automotive, and consumer products. Many companies are also saying that as a result of credit problems in the United States their customers are having more difficulty paying, and they're finding later payments as a result of that.

Within Canada it's not so much the impact of the credit market per se as the fact that cashflow is under pressure—

● (1710)

Hon. Raymond Simard: Your bank has to be there for you.

Dr. Jayson Myers: —and therefore bank lending is also under pressure. In that sense a credit facility like EDC, where they guarantee bank loans for investment on the part of exporters in new technologies, is a very positive program. It would be nice to see that expanded across the supply chain for exporters as well.

Hon. Raymond Simard: We also had the municipalities come to the Hill a couple of weeks ago to talk about this $120 billion to $130 billion infrastructure deficit. I know Mr. Lazar spoke to it briefly. How important is that to your competitiveness? If the government were to act on that, where would the priorities be—roads and bridges, transportation? I guess it would vary by industry, but you must have some priorities there.

Mr. Brian Masse: The Windsor bridge.

The Chair: I know you have priorities, Brian.

Hon. Perrin Beatty: More infrastructure would be a very good place to start. We have serious problems there. The impact upon industry is very direct, and if we can cut the various Gordian knots that exist in moving ahead and accelerating investment and border infrastructure, it will be a major shot in the arm for industry.

The Chair: You have 30 seconds.

Hon. Raymond Simard: I had the pleasure of visiting a plastic extrusion business in Winnipeg lately and was told that people are finding markets elsewhere in the world. How can people basically ramp up and provide these products in such a short period of time? How does that happen? Or are they just there and ready to sell to the U.S.?

Dr. Jayson Myers: I think many companies have very specialized products and have been relying on the U.S. market for a long time. They are now in the position where they have to find other markets, so they're putting a lot more effort into new market development. It's more difficult for small companies, in terms of where to go to find a reliable partner/distributor in these markets. We've already seen the overall percentage of our exports to the United States fall from 87% to 75%.

So companies are definitely looking at new markets, particularly in Europe, Australia, Japan, and China, but it depends on the business strategy. It comes down to the ability of businesses themselves to adjust their marketing, but in order to do that you need a new design, products that meet new regulations, and products that will match customer expectations in these markets.

On the infrastructure issue, I think we could do a lot for Canadian manufacturers and Canadian business as a whole if we put in place a program like the United States has—a buy-Canada program for infrastructure spending or government procurement spending, at least at the municipal and provincial levels in Canada.

The Chair: Thank you.

We'll go to Monsieur Petit.

[*Translation*]

You have five minutes.

Mr. Daniel Petit (Charlesbourg—Haute-Saint-Charles, CPC): My question is for Mr. Lazar or Mr. Beatty.

Mr. Lazar, I heard your description of the forest industry. In Quebec, my province, there are a lot of forest product companies that come under the federal Labour Code. Transportation, railways, air transport, telephone services and even, in some cases, water transportation such as barges and ships are regulated under the Canadian Labour Code.

You have kept saying this morning that our dollar is too strong, that it rose too fast and that this has caused all sorts or problems.

What do you think of the fact, Mr. Lazar, that the Liberal Party tabled a bill called Bill C-415, An Act amending the Canadian Labour Code (Replacement workers)? If the high dollar causes you a problem, imagine what would happen if you had a strike on your hands and were unable to do anything about it.

I would like to hear your opinion. People talk about partisanship. But you are here representing employers, and these employers obviously have employees. Are we not erecting barriers for businesses? I cannot put this question to Mr. Nantais since his company is entirely unionized. But you may still have some room to move, an opening. But his industry is completely unionized.

So I would like to know your opinion and that of Mr. Beatty on this subject.

[*English*]

Mr. Avrim Lazar: The competitiveness of labour costs is a big piece of keeping jobs in Canada. We've done an analysis of labour costs in Canada relative to our productivity. Our labour costs in the forest industry are the highest in the world. Our labour productivity is middle of the road.

We've done a further analysis that shows that as we increase the sophistication of the machinery in Canada, our increase in labour productivity does not sufficiently reflect the increase in the sophistication of the factory. For example, in Europe, you see a one-on-one movement: a sophisticated machine, and labour productivity goes up. In Eastern Europe, it's almost a flat curve; no matter what they do, the labour productivity is poor.

In Canada, it's middle of the road. We do not translate our sophisticated machinery into sufficient improvements in labour productivity. We're doing a study to find out why, but it's pretty clear that it is because of work organization, that our history of management-labour relations has built-in rigidities that are, to some extent, holdovers from the past. In Europe, even though they're highly unionized and there's a lot of protection for the workers, they know how to work with management to improve productivity. We are still in a more adversarial frame of mind.

So if you wanted to ask, what's the solution, the solution lies both with management and with labour to learn how to translate investment in machinery into productivity, because without productivity, we can't keep jobs.

Specifically—I wasn't dodging your question; I was contextualizing it—do we think we need labour laws that would increase the divisiveness, the polarization, in Canada's marketplace? I don't think we need that right now. I think what we need is to work together to keep the jobs in Canada.

● (1715)

The Chair: Mr. Beatty.

Hon. Perrin Beatty: Your question was addressed to me as well, and if I understood your question correctly, you were referring to the private member's bill that deals with replacement workers. We strongly oppose the legislation. We think it would be very damaging to the Canadian economy.

The Chair: Mr. Petit, you have one minute.

[*Translation*]

Mr. Daniel Petit: I have a question for Mr. Lazar. I am not sure he will like it.

Mr. Lazar, you have an overview of what is happening in the forest industry. You know there is a crisis. Since you are asking us to help you, I would like you to suggest in a few words ways to overcome this crisis. The crisis is caused by several factors: the dollar rose too fast, employees and employers did not adapt quickly enough, people dragged their feet for 20 years, etc. Today, we need some feedback from you.

What do you expect from us to overcome this crisis? I am talking about that in Quebec, but I might as well talk about that in Northern Ontario or British Columbia.

[*English*]

The Chair: Mr. Lazar.

Mr. Avrim Lazar: What I suggested was to immediately set up a task force on the future of the industry, but we have provided recommendations on market penetration, improvements in infrastructure, removal of barriers to industry rationalization, smart regulations, and elimination of overlap and duplication of federal-provincial regulations, more investment in research and innovation, implementing the SR and ED refundability, and extending the two years to five years on CCA.

I have to say, though, we're still investing $4 billion a year. Provincial regulations have stopped us from investing more, because —and now I'm going to point my finger at the Province of Quebec, because they're slowest to improve this—they insist that each stick of wood is targeted to one little town. As a result, if someone wants to invest in a high-quality, modern mill, they can't get the wood supply. The province actually stops it.

That is one of the reasons that when the dollar was low we didn't do the necessary investment in rationalization. We are investing $4 billion a year—I want to put that on the record. But the necessary restructuring into world-class mills did not happen in eastern Canada because the provinces simply said no, if you don't allow a mill in each town, we won't allow you to have trees in this province.

B.C. fixed it, but a little bit later.

● (1720)

The Chair: Okay, thank you, Mr. Lazar.

We'll go now to Mr. Eyking, please.

Mr. Avrim Lazar: I like the questions left around the table.

Hon. Mark Eyking (Sydney—Victoria, Lib.): Thank you, Mr. Chair.

I thank the guests for coming here.

Somebody brought up a scenario that for the next six months we're going to lose at least 50,000 jobs. I guess my first question is whether this is the best-case scenario or worst-case scenario.

And could you give us a snapshot of how it's going to roll out the next six months? What regions do you see being hit first—Atlantic or western or central Canada—and what industries will they be and how are they going to be hit? Are we going to see plants shut down or just see them cutting back staff? I just need a snapshot of what we're going to be facing over the next six months, probably by June, and the unemployment rate or percentage, and things like those.

I'll open it up. It doesn't matter...whoever.

Dr. Jayson Myers: If I could refer you to this graph that shows the relationship between the appreciating dollar and employment in manufacturing, I think there's a pretty close relationship between the movement of the dollar and employment within the sector.

As I was saying, we're in a situation right now where we're responding not only to the high dollar, with companies having to cut costs in order to respond to the dollar, but also to the very different circumstances of a weakening of key export markets in the United States, in the automotive and consumer products sectors—including paper—and the housing market in the United States as well. So those are the key sectors.

The regions that will be affected by this most, or the companies that will be affected by this most, frankly, are the companies that are going to suffer as a result of overcapacity in North American markets. We'll see closures as a result of consolidation on a North American basis or of suppliers who've found they've lost their customers, either because of imports now coming into the country or because their customers have closed their facilities.

So it's the supply chains around housing and the automotive, forestry, and consumer products industries that I think are most vulnerable, particularly in Ontario and east of it, because that's where we have sectors that have become much more integrated within the North American market. I'm talking generally, because there are many, many companies in western Canada too that are also dependent on the U.S.

The companies that will do well are the companies that have a specialized, unique product that can sell anywhere around the world, regardless of what the value of the dollar is. The ones that can leverage pricing with their customers, the companies that are selling into the economic and energy developments in western Canada and the infrastructure and the construction industry across the country, those are the sectors that will continue to do well.

But I think there are a number of sectors that just cannot respond, either in terms of diversifying their markets or changing their cost structures, and those are going to be the hardest hit over the next six to eight months.

Hon. Mark Eyking: So you're saying it will mostly be eastern Canada—Ontario and east of Ontario—you see as being hardest hit?

Dr. Jayson Myers: Yes.

Hon. Mark Eyking: Mostly in the wood products and automotive sectors?

Dr. Jayson Myers: If you look at the composition of the industrial base in Ontario and east and it, you will see it is very highly dependent on the automotive, forestry, and resources and forestry processing sectors. Those are the ones that are going to be hardest hit.

The Chair: Mr. Lazar, do you want to comment?

Mr. Avrim Lazar: I just wanted to add that rural British Columbia will be hit very hard as well, because they're highly dependent on the forest industry.

So it's going to be the manufacturing heartland of Canada, but it's also going to be those rural towns that are dependent on their forestry industry, with B.C. being hit quite hard, and Saskatchewan and Alberta to a lesser extent.

The Chair: You have a little less than a minute.

Hon. Mark Eyking: I don't know if these are also under your umbrella, but do you people represent fish plants and french fry plants as well? They're not usually mentioned in the conversation, but how do you see some of these other sectors being affected, such as food processing?

Dr. Jayson Myers: I would include them as some of the key areas that are going to be hit within the consumer products field. Again, many of them are often reliant on the U.S. as their major or largest market. So yes, they're under exactly the same pressures here; there's price compression on their sales side, their export side, and there are higher and higher business costs as a result of the increasing processing costs. And if consumers are buying less, they're going to be buying less food products, consumer products, as well as cars.

● (1725)

Hon. Perrin Beatty: If I could add to that, Mr. Eyking, basically any sector where we are paying Canadian-dollar costs for our inputs and we're looking to export is going to be under pressure, particularly if our export market is in the United States. Secondly, here domestically, obviously, any instance where American firms are exporting into Canada will increase pressure, with the exchange rate on the Canadian dollar, on the Canadian industry.

The Chair: Thank you, Mr. Eyking.

Gentlemen, I'm going to take the last Conservative spot.

I do want to thank you all for being here today. I want to thank you for this discussion. I also want to thank you for the leadership you showed, certainly in the manufacturing report, in terms of putting pressure and bringing forward specific recommendations. I do want to thank you all for that.

As well, I want to counsel you to keep hope, because if you look at these recommendations, I'm quite positive about the reaction.

I even look at your presentation, Mr. Myers, and you said that short-term interest rates should be reduced by at least 25 basis points in December. I don't know if you have a direct pipeline to David Dodge, but that's exactly what he did. In part, you mention the U.S. and the Canadian economy. If you look at the Canadian economy, there is actually a weakness, especially in the conventional oil and gas sector in western Canada, that I think is causing some room for the governor to move.

I do, though, want to drill down to one of the recommendations—and I think most of you, or all of you, have mentioned it here—with respect to refundability for R and D tax credits. First of all, it's something that's said, and I think most members of this committee are familiar with it, but I don't know how many members of Parliament are familiar with exactly what that means. So I want you to drill it down on a very basic level, but secondly, address the issue that you know we will get from the finance department, which is that this is an $8 billion fiscal cost over five years. That's what Finance does; they look at fiscal cost, which is appropriate, but they don't look at fiscal benefits.

So address the issue of what refundability for SR and ED actually means; and secondly, the response in terms of an $8 billion fiscal cost over five years.

If you can address those two issues, I'd leave it open to whoever would like to address that.

Mr. Avrim Lazar: I'll just start, a little less technically.

The Chair: Mr. Lazar.

Mr. Avrim Lazar: The tax credit is for investment in research. It's done because we all think it's a public good to have companies that research their ways to being more profitable. It keeps jobs and wealth in Canada. That's why there's a government policy saying, if you do it, we'll give you a tax credit.

There's a hole in that tax credit, a leakage, in that you can't get the credit unless you're making a profit, because you're not paying taxes. So what that does is say, “If you're in trouble, to heck with you. Don't innovate your way out of business. The government is walking away from you.

Because those credits stay, if you get out of trouble, you can get your money. So what the government is doing is betting on our going bankrupt, and then they'll save the money. If we get out of trouble, the money will come; it will only come at the time of profitability. So to count what is in those credits, saying we're kind of hoping all these Canadian companies will go bankrupt so we'll never have to pay them, I find just a little astonishing.

If it's legitimate to provide an incentive to a company that's making big profits to invest in research, I don't see why it's not legitimate to provide at least the same incentive to a company that's trying—not asking for a subsidy, not asking for a handout, but just saying, just give me the tax credit that my profitable neighbour is getting so I can try to innovate my way into profitability.

The Chair: Mr. Nantais.

Mr. Mark Nantais: I certainly agree with all that. I do want to apprise you of the fact that, if you're not already aware, there's already a consultation process going on. Certainly CVMA is responding to that, and I'd be glad to forward our comments to the committee for that purpose.

In addition to that, it's what qualifies and doesn't qualify, which is another key factor here. Pure research is one thing, but that doesn't really get us an advantage in the marketplace. We have to take that research and develop it through the various stages to help to meet the commercialization. All along that pathway, I would suggest there are opportunities where the SR and ED credit should not only apply, but it should provide some real benefit. That includes new technologies, new manufacturing processes on the shop floor. That's something that, thus far, does not qualify, but it's certainly something that perhaps takes us to the next level in terms of innovation and competitiveness from a manufacturing standpoint. So that's one other consideration that I would offer here.

● (1730)

The Chair: Thank you.

Mr. Myers, do you want to comment? Also, can you address the numbers issue, the $8 billion over five years and the fiscal costs.

Dr. Jayson Myers: On the numbers issue itself, it's difficult to address this because I don't think anybody has seen how Finance calculates this. It would be nice to sit down with Finance and figure this out.

Our calculations going forward, if we're looking at refundability from the current year forward, and taking into consideration that one-third of the credit is collected in revenue because all these credits are taxable anyway, here the numbers we're coming up with even on a five-year basis are something more like $3.5 billion. It's much less than what Finance is saying.

I think industry would very much like to sit down with Finance. In Finance's statement itself it says that these incentives were put in place because there are very good economic reasons. In Finance's own words, the economic benefits far outweigh the costs of the tax credit itself, so I don't know how that jives with their recommendations.

But I would also say that this is part of an overall. What we have to look at is industrial innovation. Tax credits are a very important part of that. I would recommend to this committee that one issue you would want to look at going forward is how can we strengthen the linkages between the research that's being done, the great research, in this country, and the actual—not commercialization of the technologies from the research—application of that research to industrial innovation? That's where most of the money is generated.

Finally, I'd also like to recognize the leadership of you, Mr. Chairman, and the members of this committee. We wouldn't be talking about these issues if it had not been for the unanimous recommendations of this committee.

Thank you all very much for that.

The Chair: Thank you.

I think the chamber wants to respond, as well, so we'll finish up.

Hon. Perrin Beatty: Mr. Chairman, I would like to just set it in context. This committee, quite appropriately, is very concerned about the impact of the dramatic appreciation of the Canadian dollar, which has certainly exacerbated the challenges so many Canadian businesses are facing. But we shouldn't be distracted by the dollar from the underlying issue, which is the competitiveness of Canadian business.

Faced with growing challenges from abroad and a dramatically changing international marketplace, one of the key elements of our ability to survive in Canada as a business community is the investment we make in innovation. When we look at the future, at our kids and what sorts of jobs they'll have, our future doesn't lie in competing with somebody from western China on the basis of who'll accept the lowest pay; it depends upon our ability to innovate and to constantly invest in new processes and new products that will ensure that we're competitive and that we're able to sustain high wages and good jobs in Canada.

This investment in research and development is absolutely critical to not only the survival of companies today but the growth of the Canadian economy as well. For so many businesses that can't benefit today because of the non-refundability of tax credits, it's going to be important both for their survival and growth in the future that we look at mechanisms that will enable them to make the investment. This could be an important step forward for it that will give major dividends to the Department of Finance when they look at our tax revenues in the future.

The Chair: Thank you very much.

Mr. Murphy, did you have a comment? I am well over my time, I should say.

Mr. Michael Murphy: Yes, I was just going to comment.

The joint consultation that Finance and the Canada Revenue Agency had under way just closed on Friday. A lot of us have made submissions in there. If it's of interest and value to the committee, we'd be happy to provide that to you.

The Chair: I think it would be both of value and interest, so you can certainly send that to the clerk or to me. We'll distribute that to all the members.

I want to finish by thanking all of you for being here today and thanking all the members for their questions and comments. It was a very good session.

I just want to state to the members on committee business, we'll actually do this tomorrow morning. We will set aside some time tomorrow morning to do committee business, to adopt what the subcommittee decided on Tuesday morning.

The meeting is adjourned.

Published under the authority of the Speaker of the House of Commons

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

Also available on the Parliament of Canada Web Site at the following address:
Aussi disponible sur le site Web du Parlement du Canada à l'adresse suivante :
http://www.parl.gc.ca

The Speaker of the House hereby grants permission to reproduce this document, in whole or in part, for use in schools and for other purposes such as private study, research, criticism, review or newspaper summary. Any commercial or other use or reproduction of this publication requires the express prior written authorization of the Speaker of the House of Commons.

Le Président de la Chambre des communes accorde, par la présente, l'autorisation de reproduire la totalité ou une partie de ce document à des fins éducatives et à des fins d'étude privée, de recherche, de critique, de compte rendu ou en vue d'en préparer un résumé de journal. Toute reproduction de ce document à des fins commerciales ou autres nécessite l'obtention au préalable d'une autorisation écrite du Président.