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Chair

Mr. James Rajotte

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• (1105)

[English]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): Order, please.

There's always a transition between the 9-to-11 committee and our committee, and I understand there are three witnesses who are stuck at the airport, so we will hopefully have them as the committee progresses. But we are here and we have two sessions today. The first hour is continuing our study of Canada's service sector.

We have four organizations here. First of all, we have the Canadian Gaming Association. They will hopefully be here from the airport shortly. We have the Canadian Real Estate Association, represented by Mr. Pierre Beauchamp, the chief executive officer, as well as Mr. Gregory Klump, the chief economist. From the Certified General Accountants Association of Canada, we have Ms. Carole Presseault, the vice-president of government and regulatory affairs. From Genworth Financial Canada, we are expecting Mr. Winsor Macdonell, but right now we have Ms. Francesca Iacurto, and she'll be reading a statement. Hopefully, she'll be joined later by Mr. Macdonell.

I think we'll start with Mr. Beauchamp for an opening presentation and then we'll go to Ms. Presseault.

[Translation]

Mr. Pierre Beauchamp (Chief Executive Officer, Canadian Real Estate Association): Thank you very much, Mr. Chair.

[English]

We're clearly pleased to have the opportunity to participate in this study of the services sector.

I understand that you'd like to hear about our industry, about the role we play in the economy and its problems, and what we'd like the federal government to do in respect to some of our issues.

The Canadian Real Estate Association is one of Canada's largest single-industry trade associations, representing real estate brokers, agents, and salespeople working through more than 100 real estate boards and associations in ten provinces and two territories in Canada.

As the national association, CREA owns the MLS trademark as well as the REALTOR trademark. The REALTOR trademark is an assurance of integrity and can only be used in Canada by members of the Canadian Real Estate Association who accept and respect a strict code of professional conduct.

The code requires members to subscribe to free and open competition according to the principles embodied in the Competition Act of Canada. The real estate database systems, operated under the MLS trademark by our member boards and associations, provide an inventory of available properties and ensure maximum exposure on the Internet of properties listed for sale across Canada and throughout the world.

I can tell you that our system of cooperative selling, combined with our technology such as MLS.ca, are the envy of the real estate world. When other national real estate associations seek a model for the online advertisement of real estate listings, they look to Canada first.

As I'm sure you know, the real estate housing industry is an important driver of the economy. But what does that really mean? Here is some important information to consider.

[Translation]

In 2007, total MLS/SIA residential sales in major Canadian centres crossed the \$100 billion threshold in Canada for the first time in our history. MLS/SIA sales totalled \$118.3 billion, an increase of 19.6% over the previous record set in 2006.

While we expect residential sales to decline somewhat in 2008, the situation in Canada is nowhere near the high-risk loans crisis in the United States.

• (1110)

[English]

The housing crisis in the United States resulted from poor lending standards. Risky loans were made to homebuyers with poor credit, on the assumption that rising prices would make up for any lending mistakes. When buyers started defaulting on these loans and foreclosed houses began to flood the market, lenders ended up losing huge amounts of money. By contrast, this country's housing market is built on strong employment growth and consumer confidence, not easy access to cheap credit. In Canada, in fact, only 5% of all mortgages are classified as subprime, whereas that figure is approximately 20% in the United States.

How is the real estate sector contributing to the overall economic health of the Canadian economy? A study by Altus Clayton for the Canadian Real Estate Association showed that homebuyers are pouring over \$17 billion a year into the economy through ancillary spending, or spinoffs. Home sales often pave the way for major spending on things like fees to professionals, taxes to government, renovations, and the purchase of new furniture and appliances. Altus Clayton estimated that spending by homebuyers led directly to the creation of 94,700 jobs each year from 2004 to 2006, and that these spinoffs were also indirectly responsible for creating a further 63,900 jobs per year. This total of almost 159,000 jobs per year represents a significant contribution to the economy. Job creation as a result of actual home sales touches all sectors of the economy. Of the estimated 159,000 jobs created due to home sale spinoffs, 45,530 were created in finance, insurance, and real estate; almost 28,000 were in professional services; 26,000 were in trade; 23,000 in construction; 11,000 in manufacturing; and 25,000 were in other sectors.

Mr. Chairman, while ownership housing activity has been strong, rental housing activity has been extremely weak. That's one of the reasons the Canadian Real Estate Association has proposed a further measure to help increase rental housing stock. We are asking the federal government to defer the capital gains tax and the recapture of the capital cost allowance when an investment property is sold and the proceeds of the sale are reinvested in another property within one year.

[Translation]

Doing that would reduce the cost of rental housing and make it more affordable, as well as increasing housing stock. For some years, tax policy has deterred the private sector from building and maintaining rental housing.

The amendment proposed would provide more economic benefits by using the under-used wealth in our economy, supporting labour mobility and addressing the problem of Canada's competitiveness on the international scene.

[English]

The proposal would also make the federal government an active participant in its regeneration and intensification of urban neighbourhoods.

The real estate industry is highly competitive. Our membership is at a record of 94,000 realtors in Canada. Consumers have more information, and demand more service and have more agents and business models to choose from, than ever before.

One area where federal legislation is impacting this competition negatively is the competitive disadvantage created for our members by the latest money laundering and tourist financing regulations included in Bill C-25. Realtors have been captured under the existing regulations since these were first implemented six years ago. Other competitors of organized real estate will not have to comply until 2009. We see this approach as prejudicial to realtors, who are the only real estate professionals to have taken action to promote compliance with these federal initiatives.

Mr. Chair, I would like to reiterate strongly our industry's support for the government's efforts to curb money laundering and terrorist

financing in Canada. We are simply asking for fair and equal treatment.

Thank you very much.

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

We'll now go to Ms. Pousseault, please.

[Translation]

Ms. Carole Pousseault (Vice-President, Government and Regulatory Affairs, Certified General Accountants Association of Canada): Thank you, Mr. Chair, members of the committee. I would like to thank you for giving us this opportunity to meet with your committee today.

We believe that you can help to improve public understanding of the role of the service sector in the Canadian economy, and most importantly help to determine what options are available to policy makers to ensure the continued prosperity of that sector.

CGA-Canada is pleased to participate in your discussions. I would like to take the next few minutes to suggest some strategies that would make it possible for businesses and consumers in Canada to continue to enjoy the benefits of a dynamic, competitive market that will provide them with professional accounting services that meet the standards recognized at the international level.

We are aware of the limits on the time allowed for this discussion. My presentation will deal with three essential recommendations. First, we recommend that the government establish principles for internal trade and create an internal trade tribunal. Second, the government must recognize that each professional body has the right and the duty to establish its own standards. Third, it must incorporate consultation mechanisms and transparency provisions in international trade agreements.

• (1115)

[English]

And let me explain why. But first allow me to remind the committee that CGA continues to be the fastest-growing accounting designation in Canada.

We are proud of the fact that CGAs have been providing valuable services to the public since 1908. This year we celebrate our 100th anniversary of the founding of the CGA designation.

Accounting, as you are acutely aware, is the backbone of the business/financial world. Accounting is the key to measuring the activity, growth, and success of businesses and the economy, and it gives us the financial snapshot needed to make sound decisions. Because of its central role, accounting is highly regulated. Professions, the committee has been told, account for one-fifth of Canada's service economy. Within that, there are almost 200,000 accountants in Canada working in every corner of the country, in the private and public sector, or as self-employed individuals.

The industry continues to grow at a brisk pace. From 2001 to 2006 the number of accountants increased by 14%. This strong growth can be partially attributed to changes in business regulatory requirements, which have led to increased demand for accounting services.

Let me turn to the issue of internal trade. In today's world, goods and services cross international borders and move with incredible ease and speed. Given this reality, it is difficult to comprehend why current economic activity in Canada is still seriously inhibited by interprovincial trade barriers. It is estimated that these barriers may cost anywhere from \$3 billion to \$14 billion each year.

Barriers to the free movement of trade and services have put a stranglehold on Canada's productivity and competitiveness. CGA Canada believes the time has come for the federal government to step up to the plate and exercise its power to regulate trade and commerce under the Constitution.

We have two proposals. One is that the federal government establish in legislation a set of open trade principles based on the premise of a free and open market. The second is that the federal government establish a standing internal trade tribunal.

That is our first recommendation.

Let me turn to competition and the accounting marketplace. We are proud of the fact that CGAs across Canada provide professional services: the same uniform high standard of education, ethics, and practice. This ensures the full mobility of our members. This also ensures, more importantly, the continuity of services across borders, contributing to reducing the cost of doing business. There might be different approaches to professional training and certification for accountants in Canada, but the competence and performance standards required and practised are common to all professional accountants.

Until recently our members were prevented from providing the full scope of public accounting to business and consumers in Ontario and Quebec. This prohibition was found to impair trade and cause injury by two successive panels convened under the Agreement on Internal Trade. Moreover, the Competition Bureau released a helpful report in December on the self-regulated professions in Canada. The bureau makes it crystal clear that laws and regulations have impeded access to certain professions and have unnecessarily stifled competition. This also must be recognized in federal legislation.

We urge the committee to ensure that federal legislation recognizes competition in the accounting marketplace and recognizes the rights and obligation of each professional body to set its standards of education, ethics, and practice.

Let me turn to the international dimension very briefly. Accounting services are well positioned. In fact, the services industry, as you well know, is well positioned to increase Canada's economic importance internationally. We are proud of our international presence, a presence that we intend to expand and that we've been extending very much over the last year or so. We are very interested in Canada's pursuit of trade agreements. However, we are concerned that these discussions sometimes don't take into account the multi-body nature of accounting in Canada. There are three professional accounting designations in Canada. In dealing with professional services, most trade agreements encourage professional organizations to enter into mutual recognition agreements. It has been our experience that foreign authorities or foreign professional bodies have little motivation to enter into mutual recognition

agreements with another body in Canada once an agreement has been reached with another body.

I am sorry if it is confusing, and I welcome your questions.

We believe the federal government needs to take this into account when entering into trade discussions in order to provide more clarity and transparency through the conduct of negotiations, especially as we believe they might affect the rights and privileges of professionals.

● (1120)

We recommend that the federal government build into international trade agreements the requirement that professional bodies consult with those who might be affected by agreements before undertaking negotiations that could affect their rights. The purpose would be to investigate whether a third body wished to join the negotiation, or at least it could provide the opportunity for an early assessment of the impact of the proposed mutual recognition agreement on their professional rights.

[Translation]

Thank you, Mr. Chair.

[English]

We leave you with three recommendations. As I said, the federal government ought to, first, set internal trade principles and create an internal trade tribunal; second, recognize the rights and obligations of professional bodies to set their own standards in a heavily regulated industry such as accounting; and third, introduce consultation mechanisms and transparency provisions within international trade agreements.

We wish you well in your deliberations and welcome any questions you might have.

The Chair: Thank you very much, Ms. Presseault.

I'll now go to Ms. Iacurto, please.

[Translation]

Ms. Francesca Iacurto (Vice-President, Government Relations, Genworth Financial Canada): Thank you very much, Mr. Chair.

Good morning, everyone.

My name is Francesca Iacurto and I am Vice-President, Government Relations, with Genworth Financial Canada. My colleague Winsor Macdonell has been delayed, but he should be here any minute to answer your questions.

[English]

Genworth is Canada's home ownership company. We are the largest private sector provider of mortgage default insurance in Canada, and one of the largest in the world. We operate in 25 countries. Today Genworth Canada has about \$4 billion in assets and 300 employees, and it operates in every province and territory.

More importantly, we have helped over 900,000 Canadians purchase and stay in their homes since 1995. We have also helped lower the cost of home ownership by reducing mortgage insurance premiums twice since 2003. In pure dollar terms, these industry price cuts have saved Canadian homebuyers \$700 million.

Before I continue, I would like to give you some background on the mortgage insurance product and the industry. First, mortgage default insurance is the fastest and least expensive way to achieve home ownership. This is because it allows homebuyers to obtain mortgage financing with little or no down payment while borrowing at the lowest possible interest rates. Mortgage insurance works by covering the lender's loss if the homebuyer defaults on the mortgage loan for any reason other than death.

In terms of our industry, the mortgage insurance marketplace is changing rapidly and is very competitive. There are two established mortgage insurance providers in Canada: the Canada Mortgage and Housing Corporation, or CMHC, and Genworth. Four new private sector companies are now entering the market as a result of federal legislation passed in 2006.

In addition to helping Canadians get into homes, mortgage insurance provides many other benefits. First, mortgage insurance plays an important role in maintaining the safety and soundness of the Canadian financial system. To explain, mortgage default insurance is mandatory under federal legislation for down payments of less than 20%. As a result, about half of Canadian mortgages today are insured, which means that each mortgage application is reviewed both by a lender and by a mortgage insurer before being approved. This second set of eyes is a responsible lending practice that also encourages prudent product development in Canada.

Mortgage insurance also helps small lenders compete against bigger lenders. This competition is particularly important for Canada, where credit unions and regional lenders provide significant services to rural areas and are a major provider of financial services in some provinces.

Mortgage insurance doesn't only help people buy homes, it also helps people stay in their homes when temporary financial difficulties put their mortgages at risk. These difficulties may include job loss, marital separation, serious illness, or accident. Over the past two years, Genworth has helped 580 Canadian households across the country stay in their homes in the face of financial hardship, and it is committed to continue helping more homeowners in the future.

I could provide you with many other benefits of the Canadian mortgage insurance system, but given the limited time, I'll just focus on one more. Mortgage insurers do not exit markets during periods of economic stress. Rather, they help maintain the availability of mortgage loans at affordable interest rates to help smooth market corrections. This is an important point to keep in mind, because as our neighbours in the United States are learning, market conditions can change quickly, and if we do not change with them, we could suffer the consequences.

Let me conclude by saying that Canada has one of the most efficient, safe, and stable housing markets in the world. Our experience elsewhere in the world is that increased competition in

mortgage insurance can be beneficial, but it can also be detrimental if it is not properly regulated. Given current economic conditions, it is more important than ever that the federal government ensure that we have a strong mortgage insurance market. To this end, I'll offer the following two recommendations.

First, the federal government's policies in this area should ensure that there are clear rules so that consumers—that is, homeowners who pay for the cost of mortgage insurance—are the true beneficiaries of increased competition in residential mortgage insurance. Consumers benefit from competition, particularly with respect to innovation, competitive pricing, and greater efficiencies, when the market structure has been clearly established.

Second, the federal government's policies should ensure that the rules governing residential mortgage insurance apply equally to all market participants, including the CMHC, so that no artificial advantages for competitors are created or maintained and so consumers are the ultimate beneficiaries of competition.

I thank you for your time. *Merçi beaucoup.*

• (1125)

The Chair: Thank you very much for your presentation.

We are joined now by the Canadian Gaming Association. We are joined by the president and CEO, Mr. Bill Rutsey, and we are joined by member of the board and consultant, Mr. Robert Scarpelli.

Welcome, gentlemen. I understand that you were delayed at the airport.

Mr. Rutsey, could we have you begin your opening statement now?

Mr. Bill Rutsey (President and Chief Executive Officer, Canadian Gaming Association): Fine. Thank you very much.

Good morning, Mr. Chairman and honourable members. Thank you for inviting us to appear before your committee. I'm Bill Rutsey, the CEO of the Canadian Gaming Association.

Our association represents the major participants in Canadian gaming: facility operators, equipment manufacturers, and service providers. We sponsor research and speak out on important national and regional issues.

I'm here today to introduce you to the breadth and depth of the gaming industry in Canada, which includes casinos, horse racing, bingo, lotteries, and electronic gaming devices. This is the first time our association or our industry has appeared before a committee of the House of Commons. We feel that our debut is most appropriate as a part of the committee's review of Canada's service sector. I'm sure the gaming industry is not top of mind when one is thinking about the service sector, but as you'll hear, we're a significant part of it.

With me is Rob Scarpelli, managing director of HLT Advisory Inc., Canada's leading provider of specialized consulting and support services to the national and international hospitality, leisure, and tourism industries. HLT has just finished the first-ever national economic impact assessment on gaming in Canada, utilizing the Statistics Canada input-output model. Rob is here to present the highlights of the study and to assist in answering any questions you may have, especially as they relate to the technical aspects of the study.

Legal gaming is a relatively young industry. It has grown 127% since 1995 to become the largest sector of Canada's entertainment industry. At over \$15 billion, it's about the same size as professional sports, movies, TV, and recorded music combined. Gaming takes place in every province and territory in the country. There are 65 casinos and similar gaming facilities, 38 racinos and racetracks, and over 250 bingo halls across the country. In fact, there is likely a gaming facility in or close to each of your communities.

The industry directly supports more than 135,000 jobs. This increases to over 267,000 jobs when you take into account indirect and induced jobs.

As you are probably aware, gaming is conducted pursuant to the Canadian Criminal Code, under which it must be conducted and managed by a provincial government or, in some select cases, a charitable organization. As a result, gaming generates \$8.6 billion annually in non-tax revenues to fund government and community programs and services like health care and education.

It'd also like to shed some light on the facts and myths surrounding gaming. Canadian-born journalist Peter Jennings once said, "I've always shied away from conventional wisdom, though I know the power of it." Let me tell you, it has been powerful indeed when it comes to the public perceptions and misperceptions of gaming in Canada.

First of all, why do people gamble? When people are asked why they gamble, they say it's for fun rather than money. In fact, the number one answer is that they do so for its entertainment value. Gambling, for most Canadians, is just one of an array of entertainment alternatives. Simply put, people like to play games and make financial or emotional wagers on the outcome of events, and they have been doing so since humans began to reason. Gambling is older than history. Archeological sites throughout the world have documented various forms in practically all civilizations and cultures.

Who gambles? According to the National Gaming Monitor, an annual cross-country survey of the opinion of 1,000 Canadians, most Canadians have gambled at some point in the past year, with lottery and casinos being the most popular choices. Just about all of us—more than 85% of the adult population in Canada—do in one form or another. Canadian rates of participation in gaming are neither new-fund nor unique but are reflective of worldwide norms.

How many people are problem gamblers? Problem gambling propensity rates have been measured across Canada and around the world for more than 20 years. The overwhelming majority of Canadians who gamble do so without problem or risk. More than eight out of ten always or almost always go with a budget and stick

to it. Problem gamblers, the equivalent of alcoholics, comprise between 0.5% and 1.5% of the population both here in Canada and worldwide. To put this into perspective, you are three to five times more likely to have a drinking problem. More than 98% of Canadians can gamble without issue, for fun and entertainment. You should also know the numbers do not move or change with either the existence or absence of gambling.

How do we help these people? While problem gamblers are statistically few in number, problem gambling is a very real and serious concern for the people, and their families, who are dealing with the issue. These people need support and treatment to tackle their individual problems head-on. As an industry, we continue to work with all of our stakeholders to provide them with the necessary resources. In this regard, we are world leaders here in Canada, allocating more than \$90 million annually for research and treatment, more than anywhere else in the world.

There is no mystery about gaming. It's a significant business. In fact, it's Canada's biggest entertainment industry, growing, and committed to doing so in a responsible, beneficial way.

• (1130)

The Dalai Lama, who visited Canada with great fanfare just a few months ago, has said: "Those who are in business, they create jobs and make a life for people, and that is worthy. If the byproduct is wealth, that's okay."

It's true, the gaming industry in Canada does generate wealth. Most importantly, that wealth is shared; it goes right back into the communities we all live and work in. In fact, in a study—

The Chair: Mr. Rutsey, can I get you to conclude? We do need to go to questions from members right away. Can I get you to wrap up in about 30 seconds?

Mr. Bill Rutsey: Okay.

Well, all I can say, then, is that gaming is Canada's biggest entertainment industry, with a \$15 billion top line, \$8.6 billion for government programs and services, 135,000 direct jobs, and 267,000 jobs across the country.

There you go.

The Chair: Thank you.

We'll start with Mr. Eyking, please.

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

I thank the guests for coming here. It's quite an array of industries that have a big impact on our economy.

I'm splitting my time with the member for Kings—Hants, so I have only three minutes. My questions are going to be to the Canadian Real Estate Association. I have two questions that are together.

The first question is on the regional disparity between different parts of our country. When you look at Vancouver and Calgary compared to maybe Corner Brook and Sydney, Nova Scotia, there is quite a difference. Do you see that change continuing, that disparity? That's my first question.

Second, what is the outlook this year in the real estate market, with the subprime mortgage situation in the States and the softening of the U.S. economy? Do you see our real estate market cooling off?

Mr. Pierre Beauchamp: I'll address the first part, and I will ask Gregory Klump, our chief economist, to deal with the second part.

What exists now in Vancouver, Calgary, Toronto, and Nova Scotia—or the Maritimes or Atlantic Canada, if you wish—is simply reflective of a supply and demand situation. If you look at Vancouver, they are expecting major events to take place there, as you well know, in 2010. Alberta has oil. All kinds of different conditions exist, and they obviously will not change overnight.

No, there will not be a major change in that particular part of it in the foreseeable future, because the forces of supply and demand are there, and I don't think you can control that particular part of it. The condo market in Toronto is hot and burning now, because people want to go back and live closer to the centre of where the action is in downtown Toronto; that phenomenon is happening now, and it will probably continue for some time to come.

Greg, do you have other comments on that one, and could you deal with the second one? Thanks.

•(1135)

Mr. Gregory Klump (Chief Economist, Canadian Real Estate Association): In terms of the cooling off of the Canadian real estate market, we do see sales retreating from the breakneck pace that we saw in 2007. That having been said, we're forecasting that they're going to have their second-best year on record, second only to last year's, so it will be a silver podium finish, if you will.

As for price increases, they are going to continue this year, but again not to the magnitude we saw last year. The disparity between the fast growth out west and growth elsewhere in Canada is going to shrink. That having been said, the price increases will still be strongest out west, and they'll exceed inflation in all provinces.

It will certainly be nothing like the experience in the States. It's even softer than a soft landing; it's more like a featherbed landing, and affordability should increase this year, owing to smaller price gains at a time when incomes continue to rise.

The Chair: Okay.

Go ahead, Mr. Brison.

Hon. Scott Brison (Kings—Hants, Lib.): I have a couple of questions. The first is on the real estate side.

In terms of the capital gains measures, the capacity to roll forward and avoid capital gains taxes could be accomplished by allowing one to invest their RRSP, or part of their RRSP, in commercial or multi-unit real estate. Is that one of the options you would consider?

Mr. Pierre Beauchamp: No. The proposal we made is for the deferral of capital gains.

Hon. Scott Brison: But that is effectively what happens when one invests in an RRSP. You're deferring taxes. You're not subject to capital gains.

Mr. Pierre Beauchamp: What's happening now is that apartment owners who want to expand by selling existing buildings and buying

larger property have to pay the tax on the capital gain, and that is what is slowing the economy at the moment.

Hon. Scott Brison: I know that. I own some small apartment buildings and have sold them and have had to do that, but I'm saying if you could invest your RRSP in this you would avoid.... Have you considered that as a public policy option, the capacity for small investors to invest part of their RRSP in real estate and, as such, accomplish this? If you haven't considered it, just say no.

Mr. Pierre Beauchamp: We discovered from a recent report that 66% of those reporting property gains in the 2005 taxation year had net incomes of \$55,000 or less. So those are individuals who made a choice to put their money into property and very possibly could not or did not in another market. So we have a concern in that particular context.

Hon. Scott Brison: One thing, just for the future...and we'd appreciate your feedback if you can get back to us. We can talk afterwards. But on gambling, I think the provincial governments have an addiction to their gambling revenue as much as individuals have. I liked seeing the investments in companies like Techlink and others that are developing responsible gambling devices, but I'd like to further explore your numbers on problem gamblers, because it's more than anecdotal, and I question whether or not society or governments gain by effectively taxing many low-income Canadians to pay for common services that people like me use.

•(1140)

The Chair: Mr. Brison, you're well over your time.

Mr. Rutsey, do you have a brief response?

Mr. Bill Rutsey: I can certainly say that the profile of the average person who gambles is that of someone slightly older, wealthier, and better educated than the general population. So it's not a tax on the poor.

In terms of people with a problem, those aren't my numbers. Those numbers have been developed across the country by people who study those numbers, and the Canadian numbers don't differ from the numbers anywhere else in the world. Statistically within the general population, about 1% of people have a problem with their on/off switch with respect to gaming, just as statistically about 5% of the population are clinically classified as alcoholics. Whether you have the games or you don't have the games, the numbers don't change.

The Chair: You'll have another chance, Mr. Rutsey. We're well over time.

Madame Brunelle.

[*Translation*]

Ms. Paule Brunelle (Trois-Rivières, BQ): Good morning. Thank you all for being here.

Mr. Rutsey, the provincial governments do need gaming revenue to pay for a lot of..

[*English*]

Mr. Bill Rutsey: I'm sorry, the translation is not coming through.

[Translation]

Ms. Paule Brunelle: Mr. Chair, I am going to ask Ms. Presseault a question while we are waiting.

Good morning, Ms. Presseault. You talked about competition in the market. I would like you to explain something for me. You are a member of the organization of CGAs. In Quebec, there were chartered accountants. Are these still two separate corporations? I think they are.

Previously, CGAs could not do certain things, such as audits of non-profit organizations. Now, I think they can do that.

Is that what you were referring to when you talked about competition in the market, that each of these two associations has its own standards?

Ms. Carole Presseault: Thank you for your question.

The legislation does recognize three professional bodies for accountants in Canada. In Quebec in particular there are three accounting orders, one of which is CGAs. Those orders are independent of one another and have different fields of practice. In Quebec and Ontario, until very recently, public accountancy was limited to CAs. In response to complaints we filed on behalf of our members under the interprovincial trade agreement, the legislation was amended.

I mentioned in my remarks that the problem is never that there is no regulation. There is a lot of regulation and there is a lot of mobility between the accountancy professional bodies and CGAs. The problem was that in Quebec that mobility still did not exist. So CGAs from Alberta had to leave their clients at the Quebec border in order to practise.

The National Assembly passed a bill in December. When it is completely operational, it should allow CGAs in Quebec to practise the full range of their accounting expertise: public accounting. However, as long as a CGA from Ontario or New Brunswick or somewhere else is entitled to practice public accountancy in Quebec, we will still have the problem of labour force mobility. We are hoping that this will resolve itself.

Ms. Paule Brunelle: Your role is important. There are a lot of financial scandals, including very big ones in Quebec. Is it your impression that the public is adequately protected? Should the legislation be amended to protect the public? There are realtors and so on, but you have to put your signature on financial statements or balance sheets. Certainly people have to feel they are protected, as investors, and that the public is protected. Are there amendments that should be made?

Ms. Carole Presseault: Several initiatives have in fact been implemented since the events of 2000-2001, that is, since the Enron scandal and others in Quebec. At present, the existing processes are working well, even if they don't work entirely as might be hoped. However, one of the major standards that the profession has adopted is that it is independent, which is a national standard. The problem isn't a lack of standards. There are high standards that are recognized at the international level. Those standards come with a disciplinary process and professional oversight, which should be satisfactory.

Organizations such as the Canadian Public Accountability Board have been established to exercise oversight. The national bodies are reasonably comparable with the international bodies. What remains to be seen, in years to come, is whether those bodies are going to live up to their mandate.

We are having some problems in relation to the processes of the Canadian Public Accountability Board. We launched court challenges because we believe that the accounting profession exercises a little too much control over those processes. Time will tell whether it will work. A standard of independence has been adopted and the Canadian Public Accountability Board has been created. Investors should have assurance that the necessary mechanisms are in place.

• (1145)

Ms. Paule Brunelle: Thank you.

Do I still have time for Mr. Rutsey?

The Chair: Yes, you have three minutes.

Ms. Paule Brunelle: Mr. Rutsey, you say that gambling is gambling. But in my opinion, what gambling is, is dreaming. It seems that the dream is particularly strong when you are poor. We know that gambling has economic benefits. That's fine. But have you assessed the social costs of gambling, in terms of suicide, poverty and people receiving social assistance, that the government has to cover? The rate of suicides attributable to gambling is rising sharply. Have you assessed the social costs of gambling?

[English]

Mr. Bill Rutsey: The answer to that question is no. No one has, because there's no model designed to effectively measure that.

Having said that, the interprovincial lottery organization has just put out an RFP to develop a modality for that.

I would challenge your statements that there are increased numbers of people with problems. When you measure it in Canada and around the world, the numbers don't change. I think we're becoming much more aware of the issues around gaming, just as society has become much more aware of the issues around a whole host of activities. Gaming is not a problem for 98%, or more, of the population. It's that small percentage you have to focus the research on, to find out how you can help. It's a question of someone having a problem with their on/off switch. Whether it's gaming, shopping, drinking, or anything, there are a certain number of people in society who do have problems around control.

The Chair: *Merci, madame Brunelle.*

Mr. Carrie, please.

Mr. Colin Carrie (Oshawa, CPC): Thank you very much, Mr. Chair. I will be sharing with my colleague from Chatham.

I did want to talk about internal trade barriers.

Madame Presseault, you mentioned these barriers and you quoted the figure of \$14 billion. I was shocked to hear the cost of that. I was wondering if you could explain for the committee what you see as the obstacles for lowering these interprovincial trade barriers. And also, regarding international trade barriers, how are we doing, relatively speaking, internally versus externally?

Ms. Carole Presseault: On the second part of your question, I have a very simple answer. It's not an issue we've looked at in terms of barriers, but I can tell you that the capacity of the services sector to improve Canada's competitiveness internationally exists. I think the committee has heard other witnesses talk to that issue. There's an incredible untapped potential in that area.

In terms of accounting specifically, for us, we are expanding internationally, as I mentioned. We just signed an agreement with a Caribbean CGA association where, if you want, you can export CGA know-how and knowledge to help the Caribbean single market become a reality.

We've signed mutual recognition agreements to allow our members to export their services. However, there are some barriers I've talked about in terms of being blocked out of markets, because there are three accounting bodies in Canada.

In Canada the number I quoted—the \$3 billion—comes from the Department of Finance, and the second number comes from the Premier of Alberta. So there is a discrepancy with this number, or there is not agreement on the number but there is agreement that barriers exist.

The barriers relate a lot to licensing. Our area has been professional services. We've looked at our specific area, and as I mentioned, still to this day, the legislation is in place but it's not fully implemented. Certified general accountants in Alberta or in Manitoba cannot practise their trade in Ontario or Quebec—as we know, two of Canada's largest capital markets. So those are barriers.

Many organizations can talk to you about their specific issues, so I don't want to talk about that. I want to talk about what's needed in terms of what happens when there are barriers, because even if we reduce all barriers, people have a tendency, perhaps, to erect new barriers. But what has failed us is really the Agreement on Internal Trade. We do not have an effective interprovincial trade agreement that allows organizations, groups, and individuals to force governments to break down their barriers.

Our case in point is this. We launched two trade challenges against two provinces in Canada. It took almost five years to resolve, millions of dollars and millions of energy, after having a positive decision in our favour. It doesn't make sense that we have an interprovincial trade agreement that is unenforceable, that's costly, that's cumbersome, bureaucratic, and I can keep going on the topic for a long, long time.

CGA Canada, with a number of other national professional organizations, have been strategizing on what it will take. We're very pleased to see in the Speech from the Throne that this government has committed to improving internal trade and has in fact indicated that it wishes to use its trade and commerce powers to do something about it.

And that something, as we have put forward, would be to legislate a set of open trade principles, where basically everything is on the table unless you take it off, and secondly, to create some kind of trade tribunal so that you have, at the end of a dispute resolution mechanism, some adjudication process that enables disputants to get a resolution to it and have some kind of monetary penalty attached to that, which we don't have currently.

• (1150)

Mr. Colin Carrie: Thank you.

The Chair: Mr. Van Kesteren.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): May I call you Francesca? I can't make out your last name.

CMHC is the other organization that allows for mortgage insurance. I was told that a person can purchase that insurance, and then if they default, the bank can sell the home and then go after them to sue them for the amount owing. Is that correct?

Ms. Francesca Iacurto: I will let my colleague Winsor, who just recently arrived, answer that.

Mr. Winsor Macdonell (Vice-President and General Counsel, Genworth Financial Canada): I'm sorry for my lateness.

That is correct. It is default insurance, so it protects the lender against the loss.

Mr. Dave Van Kesteren: So what's the sense of having insurance?

Mr. Winsor Macdonell: The insurance is to allow borrowers to get into a home with a low down payment because the risk associated with their default is so high it transfers that risk from the lender to the mortgage insurer. And it allows the lender to give that borrower the lowest interest rate possible for that mortgage without taking in their default risk associated with it. So the borrower gets a much lower-cost mortgage. It's a very affordable way of getting somebody into a home.

Mr. Dave Van Kesteren: I have a question for Mr. Rutsey.

Mr. Rutsey, I'm an auto dealer. I'm listening to your statistics—and that may be true—but I have to tell you that in my riding, four dealers have lost their dealerships. One of them is dead.

The pattern we saw—this is something we've witnessed—is that they kind of get snagged into, you know, being picked up by limousines, etc. It might be an American thing, I don't know. But I'm curious about that. Of course, when you talk about 0.5% or 1.5% of the population, there were a number of people in those dealerships who obviously lost their jobs too.

I'm really concerned about that. I understand that there are people who just like to enjoy themselves and go out, but I'm really concerned about the dark element of the industry. I wonder if you would comment on that.

Mr. Bill Rutsey: I think everyone is concerned about that. Nobody's business plan is premised upon ruining someone else's life.

I can only speak to the numbers. Anecdotally, we all know people who have problems with a host of issues, whether it be drinking, gambling, or whatever. It isn't a problem for the overwhelming majority of people.

For the people who do have a problem, there are all kinds of programs available.

• (1155)

Mr. Dave Van Kesteren: Excuse me, sir, I'm not talking about the ones... I understand that. But are you addressing that? Do you see a pattern there?

Mr. Bill Rutsey: Absolutely.

Mr. Dave Van Kesteren: I'm not talking about the fact that there are people who have problems; I'm talking about the fact that there are people whose lives are totally wiped out—and almost targeted. I'm wondering if you're addressing that.

The Chair: Our time is ending here.

Mr. Bill Rutsey: I can briefly respond to that.

There's a term known as "responsible gambling", and it's a touchstone of the industry in Canada and around the world. People are trained to look for people with problems and to intervene to the extent they can, given privacy and human rights concerns and things of that nature. It's certainly an issue that's top of mind for everyone. No one wants to see a single person injured, and the industry takes that very seriously.

The Chair: Thank you very much.

Unfortunately, we are very limited in our time today. We do have two sessions. This is the conclusion of our first session.

I want to thank you all for your participation and your presentations. All of your presentations will be distributed to all of the members. If you have anything further to submit, please do so through the clerk, and we will ensure they get it.

Members, we will suspend for about two minutes, and then resume with our next session.

- _____ (Pause) _____
-
- (1200)

The Chair: Ladies and gentlemen, order.

We will start our second session with respect to the impact of the appreciating value of the Canadian dollar on the Canadian economy.

We have two organizations here before us.

We have the Canadian Pork Council. We have Mr. Martin Rice, the executive director, and Catherine Scovil, who is the executive associate.

Secondly, we have the Centre for Spatial Economics. We have Mr. Robert Fairholm, director, economic forecasting services.

If you could limit your presentations to five minutes, then we will have more time for questions from members.

Mr. Rice, we'll start right away with you.

Mr. Martin Rice (Executive Director, Canadian Pork Council): Thank you very much.

My president, Clare Schlegel, who was scheduled to come, sends his apologies for not being able to make it up from southwestern Ontario. His farm situation required him to be there today.

We appreciate this opportunity because the Canadian dollar impact has been, I guess, the single defining characteristic of what separates us from the rest of the world in the pork industry. We are an industry that's heavily exposed to the global economy. Roughly two-thirds of our production is subject to export, either as live animals or

as pork products. That industry generates around \$3-plus billion of foreign exchange, and when we put on the multipliers, etc., it generates about \$10 billion of economic activity in the country.

Some members of the committee will have heard of the stress the Canadian livestock industry is experiencing. I include in that the beef industry because they, like us, are very much export oriented, very much exposed to the world market conditions and, of course, the Canadian dollar.

We are currently looking at losses in the range of \$40 to \$60 per pig. We will explain that if we had exchange rates of even two years ago, we would at be in at least a break-even situation currently.

I would draw your attention to a little handout. Has it been distributed, Madam Clerk? Thank you.

On the first page is an excerpt from a study we had done in the fall of 2003 and actually updated more recently. We should probably make that available to the committee. But I would just ask you to look at the numerated lines of what determines Canadian pork and hog prices.

Number one is the U.S. price, because the U.S. production dominates the North American market we operate in. Number two is exchange rate values. Then number three is the price spread, which would be the difference between Canada and the U.S. that is determined by whether we export or import on a net basis.

So it is very much a U.S.-determined price. The Canadian dollar is simply the medium by which we are paid for our products. We do not have a made-in-Canada price.

The impact of the Canadian dollar exchange rate difference, I think, is very well illustrated on this next chart, where we have simply taken the series of Canadian prices and U.S. prices in their own currencies—so this would be the nominal prices in their own currencies—and indexed them both so that January 2003 equals 100.

One can observe on the pink line how our price in Canada has spread so far from the United States' as the dollar has appreciated—looking across the line—whereas the United States has prices today that, even though they are depressed, are still 10% above what they were in January 2003. Our prices—by the pink line—have fallen to a level that's about 70%. So U.S. producers are suffering, yes, but they are not experiencing anything like what we are experiencing.

The world pork economy has been impacted, first, by high grain prices, which have been driven very much by the U.S. biofuels policy. That has assisted, certainly, the grains industry, which was terribly in need of better prices, but it has resulted in quite a steep increase in those grain input costs. Secondly, the world pork economy has gone into a bit of a downturn. On top of that, then, is our dollar impact, which I think this graph explains very well.

We do experience some gains as the Canadian dollar appreciates....

Should I slow down or stop?

- (1205)

The Chair: Just wrap up, please.

Mr. Martin Rice: Okay, one minute.

Another table in here explains the impact on the cost situation.

I'll close off with a point about the flexible exchange rates. We wouldn't argue against them as being an important tool for economies to adjust to changes in cost conditions, but we have this huge impact of the Chinese, the Taiwanese, the Hong Kong, and some other Asian economies that are essentially pegged to the U.S. dollar. They've moved a bit, but as the U.S. dollar depreciates, what should happen is that those currencies appreciate, the U.S. economy starts to adjust, and we won't have this huge spread. The trouble is that with those currencies being pegged to the U.S. dollar, the adjustments that should be taking place in the world economy are being frustrated. We think the spread between the Canadian and U.S. dollars has been exaggerated by that situation.

Thank you.

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

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

Mr. Robert Fairholm (Director, Economic Forecasting Services, Centre for Spatial Economics): Thank you for inviting me to speak today.

Let me say that the impact on the Canadian economy from the appreciation of the Canadian dollar is going to be far worse this time than earlier appreciations, for five reasons.

First of all, in previous periods the U.S. economy was quite strong, which tended to suck a lot of imports into the U.S. economy and help offset the negative impact on Canadian exporters from the rise in the Canadian dollar. That effect is no longer there. This time the U.S. economy is quite weak, if not in recession, so we're going to have the full impact of the rise of the Canadian dollar impact Canadian exports, which will certainly make the situation directly worse.

Also of course, you have the impact on Canadian import-competing firms. They will also suffer more than before, in part because the Canadian dollar has risen versus other currencies this time. Unlike previous episodes where the Canadian dollar ran up and other currencies also appreciated, it was really a decline in the U.S. dollar. This time the Canadian dollar rose versus those other major currencies. So Canada has become less competitive not only vis-à-vis U.S. producers but vis-à-vis third-country producers in the U.S. market, and also in the those third countries as well as in Canada. So Canadian companies are getting a double whammy in terms of the appreciation of the Canadian dollar because of that.

Also, the Canadian dollar has risen astronomically relative to Canada's productivity level versus U.S. business productivity level. When the Canadian dollar rises significantly above that level of relative productivity, you have an impact on Canadian businesses. The further we go above this underlying value of the Canadian dollar, the greater the impact; that is, there are non-linearities in the degree of impact. Ultimately companies will give up on the U.S. marketplace or other marketplaces, and you'll have a disproportionately large negative impact.

Finally, the volatility in the exchange rate makes it impossible for business people to know what the future holds. The exchange rate volatility has gone off the charts, and research shows that businesses

reduce investment when they don't have a clear sense of what the future holds. Increased volatility in the exchange rate reduces business investment, which is one of the lifebloods of productivity for the Canadian economy. The implication of that is that firms need help to offset some of these negative impacts. Possible options would be to continue with the accelerated CCA write-offs or advance in the corporate tax cuts.

In research, looking at the flexibility of the product and labour markets and the impact on the Canadian economy from an external shock such as the Canadian dollar appreciation, we found that the more flexible the economy, the greater it is able to withstand these shocks and come back to an equilibrium position. Enhancing product and labour market flexibility is another important step that policy-makers can take to try to mitigate the impact of these shocks.

They will continue in the future. Today it's the Canadian dollar, but in another few years there could be another type of shock. You have to try to encourage the flexibility of product and labour markets. Certainly reducing the interprovincial trade and labour barriers is one step in that policy area. You want to ease labour flows; they are barriers to labour building within the country.

• (1210)

We have skill shortages in a number of occupations, and there tends to be a reluctance on the part of some employers to hire people even though they have the basic required education qualifications. In research we did last year, there is a reluctance on the part of employers to do what they call the double transition of both the occupation as well as the industry, even though there were highly qualified individuals. Some of the solution has to be a better way for people to participate in the labour market to demonstrate their competencies. So prior learning assessment mechanisms, such as what they have in Australia and New Zealand, will be useful, as will be those countries' current competency assessments. And further work to improve foreign credentials recognition would also be helpful.

Thank you.

The Chair: Thank you very much, Mr. Fairholm

We'll now go to questions from members.

We'll start with Mr. Simard.

Hon. Raymond Simard (Saint-Boniface, Lib.): Thank you very much, Mr. Chair. I'll be sharing my time with Mr. McTeague.

I actually have three questions for Mr. Rice. I'll just pose them for you to then answer.

I guess the first one is about the pork industry and its famous cycle of good times and tough times. I wonder if you can tell us where we are in that cycle right now, in this perfect storm of high grain costs and an increasing dollar that has hit us.

My second question is about the global demand for pork. Did we contribute to this by overproducing in the past? The industry was fairly healthy over the last five, six, or seven years, but did we overproduce?

The third one is with regards to the urgency of the situation. I know my colleague from Prince Edward Island was saying that half the hog industry on the island is gone, and it happened in a very short period of time. I have friends in the industry who are losing \$40,000 a week in Manitoba. So it is urgent.

My understanding is that the industry is asking for short-term relief that is repayable. Can you talk to us about that?

Mr. Martin Rice: Thank you very much.

This pork cycle exists, but it is not nearly as predictable as it once was, primarily because we are more of a global industry. At one time, we really just had cycles that were related to grain price cycles, and they were contained in North America.

We are in a cyclical downturn, but it is not a result of a massive increase in production. Actually, the chart I referred to says that U.S. prices are what they were four or five years ago in nominal terms, but costs have increased so much due to the feed input side. So I would actually say we are underproducing, in the sense that if we had better access into China, a country that is short of pork right now—it's a political issue—but that has chosen not yet to open up to the world market....

Indeed, we are dealing with an extremely urgent situation—and thank you for raising it—for the survival of the industry. We have had meetings with each of the caucuses—and I'm guessing your colleague might be Wayne Easter, who has been talking about this situation very much as well. We are really looking at the next eight weeks, I guess, as being crucial for producers to be able to have a basis to answer to their financial creditors how they are going to meet the cash requirements of production. Indeed, we are looking at a repayable loan—with interest, we've suggested. We are looking at minimizing any issue of countervailing duties from the U.S. side. I know that people do wonder why we are worrying about that if we are worried about surviving, but for the long term countervail duties are miserable things to ever get rid of.

● (1215)

The Chair: Mr. McTeague.

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

Mr. Fairholm, there is an emerging concern, which I think all of us are watching, about the intensity of commodity prices, particularly in developing nations, which continue to see stable and increasing prices of commodities—commodities that Canada, of course, can sell in large volumes, thereby propping up or continuing the upward pressure on the value of the Canadian dollar, while at the same time the consequences of this rise for the agricultural and manufacturing sectors are becoming self-evident.

How long do you think the two economies that we're seeing will continue, one being led by commodities because the emerging nations are not seeing the slowdown or reduction in demand in the United States for manufacturers' prices?

I don't have a crystal ball in front of me, but it seems to me that if Asia and other parts of the world are going to continue to purchase and show an unabated desire for our commodities, prices for our commodities are going to remain firm and high, as will the Canadian

dollar, while other sectors of the economy, particularly in manufacturing, are going to be hurt.

Have you given any thought to that dichotomy or economic conundrum?

Mr. Robert Fairholm: Certainly it's a conundrum for manufacturers in southern Ontario and pork producers and those who have not had the run-up in commodity prices.

The Canadian dollar has been driven largely by commodity prices. The correlation between the exchange rate and the price of oil, up until fairly recently, was 0.97, so it's almost perfect. Commodity prices are driving the Canadian dollar. It's one of the important factors. Certainly the U.S. dollar's weakness during much of that period had something to do with it, but recently, the run-up in the Canadian dollar was driven by commodity prices in part.

My concern at the moment is that the run-up in the Canadian dollar was above and beyond what our models would suggest the Canadian dollar should have appreciated to, based upon where commodity prices went. That's a naked exposure, if you will, to pure exchange rate shock. That's why you're getting more and more industries being negatively affected by the run-up—because it's gone beyond what would normally be the case.

What is going to happen in the future? You have 2.5 billion people in China and India. You have 30 million people in Canada. The weight will go towards them, not us. They are rapidly industrializing. It doesn't matter to the global flows that the Canadian dollar is overvalued. It doesn't matter to the global flows that it's decimating Ontario and Quebec's manufacturing sector. It's a question of 2.5 billion versus 30 million. That's as far as you need to think about it.

The rapid industrialization is broad and material-intensive in China and India. That will cause those commodity prices to stay high relative to what they were in the recent past. It's not going to be a straight line. These things go in cycles. If the U.S. economy goes into recession, it's going to mean weakness in commodity prices for the near term. Over the long haul, it's going to mean high commodity prices with a high Canadian dollar. You need to adjust policy to reflect that reality.

● (1220)

The Chair: Thank you, Mr. Fairholm.

Thank you, Mr. McTeague.

We'll now go to Mr. Vincent.

[*Translation*]

Mr. Robert Vincent (Shefford, BQ): I am going to give you my own analysis of the situation in the pork industry. I know that it is not a pretty picture, but what we are hearing is that there are virtually no pork slaughterhouses left that are Canadian-owned. We are hearing that American conglomerates bought them up when our dollar was worth 80¢, and so it was cheaper to slaughter hogs in Canada.

We have also heard about hog exports to China. The Chinese have imported a lot of Canadian hogs, but then they used those hogs to establish hog farms that now produce pork that is equal in quality to Canadian pork. That situation means that we are exporting less pork to China. We also hear that on the market at present, American pork export levels are higher than for Canadian pork.

Could you tell me whether I have left anything out? When you talked about the price of grain this week, I was at the Agriculture Committee meeting. We discussed the fact that the price of potash was so high that because of the rise in the value of the dollar it was no longer possible to operate.

I would like to hear your comments on these questions.

[*English*]

Mr. Martin Rice: First of all, thank you, Mr. Vincent.

The slaughterhouses are primarily Canadian owned and Canadian controlled. That's on the pork side. On the beef side, they are largely U.S. owned. I think we do have a challenge to reach the levels of scale of some of the U.S. companies. At the same time, we are facing some costs that the U.S. don't have. We have costs of inspection. We have costs of certifying exports, which our U.S. competitors don't have. Certainly that has affected the competitiveness of our industry vis-à-vis the U.S.

We have increasing foreign ownership in our value chain at the retail level. For example, Costco, as far as we can understand, buys their meat from one supplier. As a result, all of the pork in Costco stores seems to be U.S. pork. We are having to work at that, because certainly U.S. product has become much more competitive in our market. That's why there's increasing interest in a Canadian branding program, not one that is mandatory, but one that does enable us to make it more apparent to consumers whose product they are purchasing.

As I mentioned, there are definitely increased imports from the U.S. They've become far more competitive on the world market. I think we really have quite a number of areas in which we will have to continue to work with governments to address that gap in competitiveness, which is attributable to regulations and some other issues.

[*Translation*]

Mr. Robert Vincent: I would also like to know whether we are exporting a lot or a lot less to China at present.

[*English*]

Mr. Martin Rice: We are increasing our exports to China, primarily in the products that are not used as much at the consumer level in Canada. These would be primarily the organs of the animal—the heart, lungs, liver, etc. We hope that is going to result in increased pig meat exports.

However, China does still maintain some requirements on food safety, which are alleged to be food safety issues but which most other countries would not regard as food safety issues, and these can take a long time to be addressed. We would prefer to deal with that through an ongoing dialogue rather than through trade challenges, but we certainly see some of these barriers not being supported by

evidence. Until we get those properly addressed, we will be limited in how much product we can export to China.

● (1225)

[*Translation*]

Mr. Robert Vincent: If you had one recommendation to make to the committee to save the pork industry, what would it be?

[*English*]

Mr. Martin Rice: It would not be specific to exchange rates, but for us to cope with the exchange rate changes and to be able to generate enough revenue and cashflow to keep our farms in business, we definitely need support for the loans that we've asked for from the government to tide us over to where we can see this market recovery, which we expect will take place and begin generating enough revenue to get us out of the hole we're in. The loans we've requested would be the single most important request.

Thank you.

The Chair: Thank you.

Merci, Monsieur Vincent.

We'll go to Mr. Stanton, please.

Mr. Bruce Stanton (Simcoe North, CPC): Thank you, Mr. Chair.

I'll try to divide my six minutes equally. I'd like to direct one question, at least, to each of you.

First, Mr. Fairholm, I know you appeared before the finance committee last fall. I believe this was perhaps in the wake of fiscal update 2007, the fall economic update. You had some suggestions there about hoping the independent Bank of Canada would ease up on interest rates. I notice that they have done that—in fact, by a quarter point last week.

But you also touched on, even in your remarks today, the importance of this flexible wage-price scenario for the country. I wonder if you could just take a minute or two to expand on how important that is in terms of backstopping the dollar's strength here in Canada.

Mr. Robert Fairholm: We did some research for Industry Canada a few years ago looking at the appreciation of the Canadian dollar at that point. We looked at different scenarios of how the economy adjusts to these sorts of shocks. In one of the scenarios we did for them, we purposely made the adjustment mechanisms in the product and labour markets slower, and the result was that the full impact was 50% larger. For example, rather than a 1% negative decline from a 10% appreciation, it would be 1.5% or more. I think it was a bit more than that. So it's very significant.

There are only so many ways an economy can adjust. One way is that the exchange rate adjusts. Another way is that product and labour markets adjust. It's more painful for product and labour markets to adjust if they adjust slowly. Germany is a perfect example. They had a lost decade because their labour markets didn't adjust very quickly to the negative shocks that they experienced in the 1990s. The more flexible your markets are, the quicker they adjust. They reallocate resources from where they're not needed to where they're needed.

Mr. Bruce Stanton: Is it labour mobility we're talking about primarily?

Mr. Robert Fairholm: It's labour mobility, flow of goods, capital mobility. No barriers—

Mr. Bruce Stanton: Interprovincial barriers—

Mr. Robert Fairholm: —to people, capital, or goods and services would be helpful. That would be a major step forward. We still have too many internal barriers within Canada.

Mr. Bruce Stanton: Good. Thank you very much.

I'm now just at the halfway point, I hope, so I'll go to Mr. Rice.

First of all, I spent the first 10 years of my working career in food production. I've always attested to the high quality of our Canadian—and, in my case, Ontario—pork and lamb products. They were always, and they continue to be, the best in the world, as far as I'm concerned.

In regard to what's happening, I've had constituents meet with me in my own offices in central Ontario about the scenario in Ontario. Because of the large size of the southern Ontario...the greater ethnicity and the makeup of the southern Ontario market, the demand for pork is in fact going up substantially, to the point where the message I got was that Ontario producers couldn't keep up with that. In fact, some pork was having to come back into Ontario to fill that demand.

In the sense that we're exporting a lot of our product if you look at the national context, is there some opportunity to have some balance of that coming back in to meet demand in Ontario as opposed to having to import more? If I have that scenario incorrect, please go ahead and correct me.

• (1230)

Mr. Martin Rice: I certainly wouldn't say you're incorrect, because there are substantial imports and they've increased considerably. Our imports were about 30,000 tonnes, I think, maybe five years ago, and this year they will probably be 170,000 tonnes. Now, I wouldn't say that this is an indicator of...

Well, because of some of these cost challenges, we right now are seeing a greater export of live animals. We are seeing our own processing plants, which went through some of their tough times a year or so ago, unable to bid as much as their U.S. counterparts. Over time, we are making adjustments in our costs to live with a 90¢ dollar, as I think everyone's assuming it will be. Maybe we'll have to live with a dollar; I know that Maple Leaf has restructured to assume roughly par. But it does take time to change labour agreements, etc.

There is definitely an opportunity for import replacement. I mentioned the Costco situation, where they buy only U.S. Well, that's certainly not a law; it's a case of us having to maybe refocus some of our marketing efforts towards domestic marketing and take advantage of this indeed deep consumer preference for pork products.

Thank you.

Mr. Bruce Stanton: It seems to be growing, yes.

I have a little more time, so I'll go back to Mr. Fairholm.

In the overall picture, when we're talking about the strengthening of the dollar against the U.S., it's been one of the many things our economy has been faced with. If you look back over the last decade—at the Asian equity meltdown, at the tech bubble—it just seems that every two or three years some big thing affects our economy, and for the most part it's out of our control.

The Chair: The question, please.

Mr. Bruce Stanton: Do you agree with Canada's approach in terms of concentrating on economic fundamentals as opposed to robust, interventionist-type programs in the economy?

The Chair: Just briefly, Mr. Fairholm.

Mr. Robert Fairholm: Well, I was trained as an economist, so yes, I believe that the market should work and that there shouldn't be a lot of intervention in the marketplace.

Making markets work better provides dividends now and into the future. Ways to reduce the natural rate of unemployment would also benefit the economy enormously. When we're at 33-year lows for the unemployment rate, adjustments to encourage people to work are beneficial. Ways to help people transition to other jobs are beneficial.

We'll always have shocks. It's how we deal with those shocks that matters. Repositioning our labour and our capital to make the best of our situation is the way to go. You can't stop the world from revolving.

The Chair: Thank you, Mr. Stanton.

I apologize for the shortness of the time. It was very compressed today. We'd certainly love to have you back at a future date. If there's anything further you want to submit for the members, please do so through the clerk.

In particular, Mr. Rice, I don't have time for questions, but you mentioned a few items: the increase in imports, where it's from, Costco buying only U.S. pork. If you'd like to submit some of the facts on items like those to the committee, we'd certainly appreciate that.

Thank you very much for being here with us today.

Mr. Martin Rice: Thank you.

The Chair: Members, we will suspend for a couple of minutes and then go directly to the motion.

• _____ (Pause) _____

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• (1235)

The Chair: Thank you, members.

We have a few items to deal with. We have a motion from Madame Brunelle. We have a motion from Mr. Brison. We'd like to adopt the study budgets, which I'm sure we can do quite quickly. And if we have time, we'll get to the second report of the subcommittee on future business.

We talked about an amendment at the last meeting when we were discussing Madame Brunelle's motion. We could begin there. I don't know if it was formally moved, but there was discussion on it. Perhaps either Mr. McTeague or Mr. Brison can explain the amendment to Madame Brunelle's motion.

Hon. Dan McTeague: The amendment would simply remove all the qualifications after the words “manufacturing sectors”. It would read:

That the Committee recommend to the government, in view of the serious crisis in the forestry and manufacturing sectors, that it implement without delay an improved assistance plan for the forestry and manufacturing sectors; and that the adoption of this motion be reported back to the House at the earliest opportunity.

Before moving the motion, I believe Mr. Carrie would like to make a change at the end of that.

The Chair: So your amendment is to remove “including \$500 million” right until “the size of their forestry industry”.

Hon. Dan McTeague: That's correct.

Mr. Carrie would like to make a comment at the end, which we will support.

The Chair: Okay.

Mr. Carrie.

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

We'd like to move a subamendment. Instead of saying “and that the adoption of this motion be reported back to the House at the earliest opportunity”, we would replace it with “while remaining consistent with our international commitments”.

• (1240)

The Chair: There's an amendment and a subamendment, so we will have debate on the subamendment.

Madame Brunelle.

[*Translation*]

Ms. Paule Brunelle: I would like to move another subamendment, Mr. Chair.

I would like to add, after “forestry and manufacturing sectors”: “to be administered by Quebec and the provinces and allocated among them based according to the size of their forestry industry; and that the adoption of this motion be reported to the House at the earliest opportunity”.

[*English*]

The Chair: Just so I understand, you're suggesting we leave in “to be administered by Quebec and the provinces and allocated among them based according to the size of their forestry industry”.

[*Translation*]

Ms. Paule Brunelle: Yes.

[*English*]

The Chair: That's more debate over Mr. McTeague's amendment, so we'll have you make that argument when we debate Mr. McTeague's amendment.

The debate now is on the subamendment, which would remove, “and that the adoption of this motion be reported to the House at the earliest opportunity”. Mr. Carrie's subamendment is to remove that and to replace it with “while remaining consistent with our international commitments”.

What we're doing now is debating that subamendment.

Go ahead, Mr. McTeague.

Hon. Dan McTeague: I think it's fair to say that the Liberal members will be supporting Mr. Carrie's subamendment.

Thank you.

The Chair: Okay.

Madame Brunelle is next.

[*Translation*]

Ms. Paule Brunelle: The main reason we are making this motion is to make sure that the debate takes place in the House. Otherwise, the motion is not really of any interest to us. We therefore do not support the government's subamendment.

[*English*]

The Chair: Okay. We have no more speakers?

Ms. Charlton?

Ms. Chris Charlton (Hamilton Mountain, NDP): I'm okay. I'll be voting against as well.

The Chair: Okay. We'll vote on the subamendment, then.

(Subamendment agreed to)

The Chair: Now the debate is on the amendment, as amended by the subamendment, so it's on Mr. McTeague's amendment.

Hon. Dan McTeague: I think you may want to call the question. We have no further interventions.

The Chair: Okay. No interventions?

Go ahead, Ms. Charlton.

Ms. Chris Charlton: I just have a point of clarification. Are we debating Madame Brunelle's amendment now, or are we just debating the motion as amended by Mr. McTeague?

The Chair: We're debating Mr. McTeague's amendment. At this point, Madame Brunelle, if you wish, you can move your subamendment to Mr. McTeague's amendment as amended, to add in “to be administered by Quebec and the provinces”.

The debate right now is on Mr. McTeague's amendment, and if you would like to amend his amendment, you can do so now. It's your decision.

[*Translation*]

Ms. Paule Brunelle: Mr. Chair, is the fact that a subamendment has now been adopted going to change the part of my motion that says “and that the adoption of this motion be reported to the House ...”?

• (1245)

[*English*]

The Chair: That's correct. Because the subamendment was adopted, that phrase is now out of the motion—if the motion passes—and it is replaced with “while remaining consistent with our international commitments”.

[*Translation*]

Ms. Paule Brunelle: Mr. Chair, given that a majority of the committee members are in favour of a motion that is no longer of any interest and no longer means anything to us, we are not interested in debating it. So we are withdrawing it.

[*English*]

The Chair: The motion is up for discussion.

Madame Brunelle, if you wish to withdraw your motion, you need the unanimous consent of the committee.

[*Translation*]

Ms. Paule Brunelle: We will allow the debate to conclude, Mr. Chair. I simply want to inform you that we will be voting against our own motion, given how it has been amended, and against Mr. McTeague's amendment.

[*English*]

The Chair: Okay. It's on Mr. McTeague's amendment.

(Amendment agreed to)

The Chair: The debate now is on the main motion. Just to be clear, I think I should read it:

That the Committee recommend to the government, in view of the serious crisis in the forestry and manufacturing sectors, that it implement without delay an improved assistance plan for the forestry and manufacturing sectors, while remaining consistent with our international commitments.

Is there any debate on the motion?

An hon. member: Question.

The Chair: All those in favour of the motion? There are seven in favour and two opposed. I declare the motion carried.

I'm sorry, we have a point of order.

[*Translation*]

Ms. Paule Brunelle: In the last vote, Mr. Vincent and I voted in favour of the motion.

[*English*]

Hon. Dan McTeague: We should have no difficulty in having that re-recorded, I believe, since they were voting in favour of it.

The Chair: You were voting in favour of the motion as amended? Okay, we can call the question again. Is everyone in favour, then, of the motion as amended?

(Motion as amended agreed to)

The Chair: It's unanimous.

Okay, thank you. We will go now to the motion from Mr. Brison.

Mr. Brison, could I have you speak to your motion?

Hon. Scott Brison: Mr. Chair, I move that the Standing Committee on Industry, Science and Technology study the Government of Canada's decision to eliminate the position of national science adviser; that the committee invite Dr. Arthur Carty, national science adviser to the Government of Canada, to appear immediately before the committee; and that the committee report to the House its findings, conclusions, and recommendations.

The Chair: Thank you.

Go ahead, Mr. Carrie.

Mr. Colin Carrie: I'd like to put forward a friendly amendment, that we change the word "eliminate" to "phase out", if that would be acceptable.

The Chair: Mr. Carrie is proposing that we eliminate the word "eliminate" and put in "phase out". It would say "the Government of Canada's decision to phase out the position of national science adviser".

Hon. Scott Brison: Or we could say "kill"—sorry, I digress—or "euthanize".

The Chair: Okay, the debate, then, is on the amendment. Is there any debate on the amendment? Do you want me to call the question?

(Amendment agreed to)

(Motion as amended agreed to)

● (1250)

The Chair: Thank you, ladies and gentlemen.

Now, in the study budgets we have two very small items. We just need the committee to approve the two budgets. With respect to the review of Canada's service sector, the amount requested is \$28,650. We also have a study of the impact of the appreciating value of the Canadian dollar on the Canadian economy. The amount requested there is \$26,500.

Hon. Dan McTeague: Chair, so moved.

(Motion agreed to)

The Chair: Finally, I want to go in camera for just a couple of minutes, so we have to suspend. We will suspend to go in camera.

[*Proceedings continue in camera*]

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