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Chair

Mr. Leon Benoit

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•(1110)

[English]

The Chair (Mr. Leon Benoit (Vegreville—Wainwright, CPC)): Good morning, everyone.

We are here today to continue our study of the unique opportunities and challenges facing the forest products industry. We started with a meeting with the deputy minister on Tuesday, and we have four witnesses with us today.

From the Forest Products Association of Canada we have Avrim Lazar, president and chief executive officer; and Tom Rosser, chief economist. With the Quebec Forest Industry Council, we have Michel Vincent, director, economics, markets, and international trade. And from AbitibiBowater Inc. we have Hugues Simon, vice-president, value-added wood products.

Welcome to all of you, and thank you very much for coming today. We really are looking forward to your input into this study.

We'll take the presentations—I assume there's one from each group—and we'll start in the order that's in the orders of the day.

From the Forest Products Association of Canada, Avrim Lazar, president and chief executive officer. Go ahead, please.

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

I want to thank the committee for focusing on the forest industry. We certainly need your support, your help, and your concentration.

We have many economists as witnesses today, but I thought before we go to economics, given that it's St. Valentine's Day, we should start with love. The forest industry is offering the committee members Valentine's Day cookies in the shape of hearts, and let the record show that we're spreading love to all parties.

Just pass them around.

The Chair: I have a question on that. Is this a value-added product from the forest industry?

Mr. Avrim Lazar: It's definitely a value-added product, but the value is being added to Canadian wheat. I think the sugar comes from Manitoba sugar beets. I'd say that there is more fibre in our economics than there is in our cookies.

The Chair: So it's not a wood product.

Mr. Avrim Lazar: No, it's definitely not made out of pulp. But the butter, of course, comes from Canadian dairy herds. So if it doesn't make you healthy, it should make you patriotic.

Ladies and gentlemen, there are many things that most people already know about the forest industry. Most people know how important it is to Canada. It supports 300,000 jobs directly, and 600,000 additional jobs indirectly. That's more than the automotive sector and more than the oil and gas sector. We are Canada's largest industrial employer.

Most people know that many of those jobs are in rural areas, where finding employment is difficult, and most people know that they're high-tech jobs, paying more than 50% above Canada's average wage. So they're good jobs. Many people also know that we're Canada's largest industrial employer of aboriginals. So these are good jobs in places where it's hard to find jobs, and they help groups who really need jobs.

Most people also know that we're in trouble: that with the softwood export tax and quotas, the structural decline in newsprint and paper demand, the mountain pine beetle, and, most importantly, with the unprecedented rise in the Canadian dollar, we are facing a very severe time of restructuring, with many job losses, mill closures, and very hard times for many communities in Canada.

But most people don't know there is a very bright future for Canada's forest products industry. Most people don't know that global demand for paper is growing by an amount equal to all of Canada's production every year, that as people all over Asia and South America leave their lives in subsistence farming and join the middle class, their demand for paper and wood is growing year after year, and that the North American demand for lumber will rebound. And most people don't know that our competitors have no way of ensuring they will get this increased demand, that this growing global market will be captured.

Russia would like to take this market, but they have problems with infrastructure, gangsterism, and illegal logging. Europe would like to take this growing market, but they have huge problems with an increasing cost structure, as the costs of energy and fibre in Europe have skyrocketed, and they are struggling to keep themselves competitive. Brazil would like to take this market, but they have problems with land use, from landless peasants trying to use the land that's now being used for forests, and also problems with illegal logging and economic stability.

I could go around the world and note that many people would like this market. None of them own it. And Canada is uniquely situated to be able to prosper in this global marketplace of expanding demand, because we have three things the world can't replace: we have the land to grow fibre, and the water and the energy; we have a tradition of know-how and entrepreneurship, which has made us the most successful forest products exporting nation in the world; and we have an environmental record that is second to none in the world.

As the world becomes more and more conscious of a changing climate and threats to the environment and deforestation, the fact that Canada's forest industry has no deforestation, and the fact that we've done Kyoto seven times over in our mills and are committed to carbon neutrality, without purchased offsets, by 2015, and the fact that all FPAC members' operations are certified by a third party for sustainability, which only 10% of the world's forests can match, will stand us very well into tomorrow's marketplace, where natural resources will be scarce and the most prized quality will be environmental credentials.

So, yes, we're going through a hard time, but global markets are increasing, demand is there, and our competitors have their own problems, and we're going to have unique market advantages that others will not have.

• (1115)

Over the last little while, our competitiveness has been increasing very rapidly. The wood industry in the interior of B.C. is the most productive in the world. We've improved our productivity more than the rest of Canadian manufacturing and more than the U.S., year after year. In newsprint, the number of mills at a top quartile for global cost-competitiveness has tripled in the last few years. We are structuring ourselves for success. We are preparing for success.

In the meantime, as you are all too painfully aware and many witnesses will remind you, we are going through a very difficult transformation. My main message to you is the answer to the question: What is your role? What can government do? What can the federal government do? What is the responsibility of parliamentarians during this difficult, painful transformation?

We would like to suggest the federal government can do three things. The first comes from medical ethics and the principle of "at minimum, do no harm". From that we are suggesting let the restructuring happen, let mergers happen, and let the industry structure itself for success.

One of the reasons we're having so many closures in a short period of time is that governments—primarily at the provincial level, but there's been some federal activity there too—have inhibited

restructuring. Restructuring is terrible and painful, but it's necessary to have sustainable jobs.

Even with all the layoffs, there are still 300,000 jobs inside the industry and 600,000 dependent upon the industry in Canada. Keeping those jobs requires that we are allowed to structure ourselves to respond to the demands of the marketplace. Don't interfere; let it happen. There will be some big companies, there will be some small companies, but it's for the marketplace to decide, not governments.

Our second suggestion for the role of government is to create a business climate that draws investment into Canada and makes people want to invest in Canada. Every single day somewhere in the world someone is making an investment decision. Shall I put my forest industry money into a Canadian mill? Should I put it into Georgia? Should I put it into Uruguay? Should I put it into Indonesia?

Each time one of those decisions is made, either we create Canadian employment or we lose Canadian employment. What the government can do to maximize the number of decisions for Canadian mills is extend the CCA to five years, the window for the two-year writeoff. Doing it one year at a time or two years at a time doesn't help. The planning cycle is five years. If we get two years, two years, and then two years, we never get a five-year planning cycle. We need a five-year secure window so people will make the investments.

Make the SR and ED, the research tax credits, refundable. The very moment industry is in trouble is when we want to be able to innovate our way out of trouble, and that means refundability of the SR and ED.

Join with us in partnership for public goods, research, and market development. All over the world, the U.S. government and the European governments all partner with industry for research, technology, transformation, and development of new markets. That's an area where the government can also help.

Let restructuring happen, improve the tax systems so people will want to invest more, and then partner with us on public goods, research, and market development.

I have one last request. These are very political times, with people making all sorts of political gestures around the minority government, but the people losing their jobs and the people who could keep their jobs are depending upon you to rise above all the partisanship, at least to the extent you can, and come up with an all-party report. We don't need positioning; we need help.

Thank you.

•(1120)

The Chair: Thank you very much, Mr. Lazar. That was very informative, and the optimism for the industry is good to hear.

We'll go now to Michel Vincent, director, economics, markets, and international trade. Go ahead, please, sir.

[*Translation*]

Mr. Michel Vincent (Director, Economics, Markets and International Trade, Quebec Forest Industry Council): Thank you, Mr. Chairman.

Our address will be in two parts; Mr. Simon will handle the second part.

The Quebec forest industry has a turnover of \$13 billion a year and provides direct, indirect and induced employment for nearly 200,000 persons. More than 350 plants are part of the forest industry landscape. This provides work or a reason to exist for more than 250 municipalities, more than 100 of which depend entirely on the industry.

Despite this apparent strength, the forest industry is currently in danger. A number of businesses are shutting down, or, if they haven't already done so, are deciding which ones will. More than 20,000 direct and indirect jobs have been lost since 2005. The stock market capitalization of Quebec public companies has declined \$7.5 billion in the past two years. We often blame our problems on the economy, and that's true, but the thing about the economy is that it applies to everyone. Why then, with 10% of processing capacity in the North American sawmilling industry, has Quebec alone borne 30% of the rationalization effort in terms of reduced consumption across North America?

In Quebec, the problem lies in the industry's very structure. We have structural problems specific to Quebec. For example, wood fibre is more expensive in Quebec than elsewhere in Canada. However, it should be added that that fibre is also the smallest. So we're also talking about the smallest and most costly fibre, which also generates the least interesting basket of products in Canada.

The problem regarding the cost of our fibre is acute. As a result of this situation, pulp and paper companies in Quebec buy their wood chips at the highest price in the world. This is the only place where there aren't various categories of fibre. In a given region, the price of fibre is the same, regardless of whether it's lumber or timber. It's the only place in the world that operates this way.

Cost is another structural problem. The size of our plants is—

[*English*]

The Chair: Monsieur Vincent, could I get you to slow down a bit? The translators are having a difficult time keeping up.

Thank you.

[*Translation*]

Mr. Michel Vincent: Our plants are too small. In the sawmilling field, the average Quebec plant is one-third the size of that in British Columbia. Consequently, our fixed operating costs are much higher, which makes us less internationally competitive. Lastly, in the past seven years, Quebec forest businesses have invested smaller amounts than those reported for amortization and depreciation

purposes. Clearly, in the short term, the price of fibre will have to be adequate and take into consideration the size of trees and the size and quality of our fibre relative to those of our competitors.

In Quebec, we must proceed soon with a restructuring of our fee system in order to obtain different prices for high-quality pulp fibre and sawmill-quality fibre. We have to stop saying that we need to consolidate our industry: we have to do it now. It's urgent. We've fallen behind and we are being outdistanced by our competitors. Too many plants are too small.

In Quebec, there's a link between forest and plant called appartenancy. As a result, businesses do not have an opportunity to rationalize their plants, to reduce the number of plants and to ship wood to those that are still operating. We have to accelerate investment in order to offset this delay. As the Fraser Institute showed us two years ago, Quebec's climate is the least conducive to investment. Governments have to take action to correct his problem.

Lastly, before handing over to Mr. Simon, I would like to propose some solutions. One way of assisting the industry would obviously be to help associations like the CIFQ. We are often the last resort for industrial interests in situations such as this, following all the layoffs the industry has undergone. The idea isn't to replace businesses with regard to membership fees, but at least to take charge of certain types of work done by associations such as the Canadian Wood Council, in particular, which ensures that U.S. and Canadian building codes are consistent and that they do not constitute a barrier to trade. One might think, for example, of assistance for research funding. Up to 20% of research funding is provided by companies, which is currently very hard to maintain.

With regard to new air quality regulations, the industry asks that the efforts made in the past 15 years be taken into consideration and that the reference year be 1990 rather than 2006. A large part of our operating costs goes to fuel used in the forest. We think that eliminating part of the fuel tax used to transport wood in the forest, that is to say off-road, could therefore help us. We feel that, with programs like POWA, businesses could retain their young and specialized labour force without hurting older workers.

We're also thinking of support measures for silvicultural and logging contractors. The average contractor is currently facing investments of \$1.2 or \$1.3 million, which requires them to make significant outlays. In the present situation, many of these contractors are handing the keys to their businesses over to the banks. There will be a major problem when the recovery occurs.

I could state a few more points, but I don't want to take up too much of Mr. Simon's time. So I'll turn the floor over to him.

•(1125)

[*English*]

Mr. Hugues Simon (Vice-President, Value-Added Wood Products, AbitibiBowater Inc.): Thank you for the opportunity to meet with you.

My name is Hugues Simon. I'm VP for value-added wood products with AbitibiBowater.

First, let me introduce the company. AbitibiBowater is the result of a merger between Abitibi-Consolidated and Bowater, which happened at the end of October 2007. We have 18,000 employees, and we produce \$8 billion in revenues. We manage 53 million acres of forest land, mostly public land. We have 28 pulp and paper mills, and 35 wood product facilities, 28 of which are in Quebec. We're the eighth-largest forest product company in the world in terms of revenues and capital, and we're the largest producer of value-added wood products in Canada.

Let me start with the opportunities, because when there are challenges, there are also opportunities. We have a very high-quality fibre in Canada and in Quebec. It's something that will be a very good advantage for our industry in the future. It is not today, and we'll see why a bit later when we talk about the economics. But we're well known for the quality of our fibre. We have the proximity of the world's largest market, in the United States. We are shipping to other countries, but let's keep in mind that the United States is our biggest market. They are in a recession right now, but this market will come back.

We are a leader in forest certification. I will explain what I mean for people who are not as familiar as we are with certification. For example, AbitibiBowater has 95% of the forest that we manage under a third-party certification, which means we have an independent third party that comes and makes sure that what we do in the forest is done in such a way that the forest will regenerate and that it's done responsibly. Canada is a leader in that, and it's something we have to be proud of and it's something we have to tell the world.

In regard to the challenges for the Canadian industry, as you probably know, U.S. consumption of both paper—as Mr. Lazar mentioned—and lumber fell apart last year. We basically went from over two million units of housing being built in the United States to roughly a million today. This is significant, and you will probably see that when you see the results of the companies. This resulted in drops in prices, basically prices dropping more than 30%, while the Canadian currency was improving at the same time. So there was everything needed to produce a perfect storm: a stronger dollar, less demand, and lower prices. So it's no wonder the industry is in trouble and asking for help.

The last thing I will mention in the challenges for the whole country is the big increases in logistics costs. Of course, when we ship overseas, we're affected by the rising fuel prices. When we ship into the United States, having most of the wood operations and paper operations in remote areas, we depend on rail, and as you are aware, in most places, rail is a monopoly and a monopoly is never good for business. It means rising prices. In a market position such as today, when we're shutting down mills, when there is less demand and fewer shipments, prices shouldn't be going up, but they are. So this is a major problem and a monopoly that should be addressed.

As far as the province goes, I'm not going to repeat the things that Mr. Vincent said. As far as wood allocation is concerned, just to make it clear, wood allocation is attached to specific sawmills. For example, in many places—let's take the Lac-Saint-Jean region—we

have many, many mills running two shifts or running one shift, because the wood is allocated to specific mills.

So the message there is the same as Mr. Lazar's. Let the industry consolidate. During times when the economy is weak, it's very important to let the strong ones become stronger and to let the weaker ones die. This is how you get a more productive and more efficient industry.

Yes, we do have the highest-cost fibre in the world. That has a big impact, knowing that fibre cost is by far the highest cost in the production of lumber and also a very major cost in the production of paper. The stumpage system is not adapted in the province of Quebec with the quality of the fibre. As Mr. Vincent said, if you buy a big log, the stumpage system charges the same as if you bought a very small one, but the value of that fibre is not the same. Other provinces have a different system that is more adapted, and it is something that will need to be adapted in the province of Quebec.

● (1130)

One of the questions was how do we help. As far as consumption is concerned, we're not asking anybody to help us with U.S. consumption, but to take a leadership role in Canada and to think long term. There are many ways to do that. We can promote wood. Wood is good, wood is renewable, and it is a green product to build with.

The government needs to preach by example. When a federal building is being built, wood is a good option. It's probably a cheaper option or the same cost, but it is a green option and a renewable product. We do not see this in Canada as much as we do in Europe, where some major buildings are made out of wood.

The government needs to continue to support associations. When we say we have to help to promote wood and forest products, we're not asking you to create new agencies. Agencies are in place and the existing agencies are working well. But they need to be helped more so that they can create more development and more access to new markets.

The government should facilitate forest certification for smaller players. We manage 53 million acres of forests, mostly in Canada. We are 95% certified by third-party associations. Smaller players cannot always afford to do that. One way for the government to help is to really take a leadership role in selling this model as a Canadian model, and to go to the world and say the forests in Canada are 100% certified by third parties, and to use that as a good selling tool. It is important that this be done and that it be done by using third-party agencies, not a monopoly. There are many certification agencies that exist, and it's very important that we keep more than one, because having competition in that world is just as important as having competition in logistics.

We're not going to ask you to change the monetary policy of the country. A dollar that is rising as fast as it has really does not give time to industries to adapt. If the economy had been great in the United States, the impact would not have been the same. Again, when you have lower demand, lower prices, and a stronger dollar, the perfect storm does it all.

Companies are losing millions of dollars, and we are restructuring. The message here again is let the companies restructure. It's healthy and it's going to create a better future.

As far as helping workers is concerned, Mr. Vincent mentioned that many mills are shutting down in Canada. It's important to help the workers. The lumber market is going to come back. The industry is going to consolidate and it will need a qualified workforce.

There are dangers when you consolidate and lay off thousands of people, knowing that most of the facilities in the wood product industry are remote from big cities. People move to Montreal, to Quebec, to Toronto, and to Ottawa. When we do have projects, it is already a challenge to find qualified workers in the regions. So having programs to continue to train people in the forest industry is a must. As Mr. Lazar said, we have a bright future, but let's make sure that we have a nice qualified workforce to help us.

One example of this is to facilitate the immigration of people to work in the forest industry here. It's the same as is being done in the farming industry, where people from Mexico come here to help in the summer season. Yes, companies are already looking at this, but if you ask for high school degrees in some regions, you won't get people with high school degrees. When you have to go with less educated people, you don't always find the same quality of workforce.

On the softwood lumber agreement, the agreement works. It seems odd to say that today, when prices have never been this low. However, let's not blame the softwood lumber agreement for the collapse in the U.S. market and the collapse in U.S. housing.

• (1135)

What is very important again is to take a leadership role and to think long term. There are a lot requests for the provinces with option B, the option whereby specific companies have quotas. Some companies are not able to ship all their quota volume right now because it is a collapsing market or it's a high-cost mill or for whatever reason.

Let's not try to protect specific companies, but let's try to protect the industry. Let's facilitate the ones that need more quotas to get more and let's let the ones that don't use them get less. Basically when this agreement was signed, the initial period was from 2001 to 2005; based on their history, they were given a quota, and going forward, a new calculation would be needed—for example, in Quebec we'll take the last three years. Let's stick to that, and let's make sure the stronger ones can become even stronger during bad times, because that's the only way we can get the industry to become more efficient and to survive in the long term.

To finish, I fully support what was said by FPAC and QFIC. It is an industry problem; it's not a company problem. This industry needs help, but the support and the leadership role has to be for the wood product business, not for specific companies; we have to let

those companies restructure again, because that's the only way we'll get a strong forest product industry in Canada.

Thank you.

• (1140)

[*Translation*]

The Chair: Thank you, Mr. Simon.

[*English*]

Gentlemen, we'll go straight to questions.

Mr. Boshcoff, you have seven minutes.

Mr. Ken Boshcoff (Thunder Bay—Rainy River, Lib.): Thank you very much, Mr. Chairman.

Welcome to our committee.

I will outline my questions, which will be divided among you, and that will save us a bit of time in getting a response within the time limit.

This committee unanimously voted for and encouraged and ultimately was successful in getting the Prime Minister to advance the \$1 billion forestry aid package from July to today. Mr. Lazar and Mr. Rosser, first, how much direct assistance will the forest industry receive from this? Second, the deputy minister for natural resources was here on Tuesday, but regrettably did not have many details about the process and distribution of that \$1 billion. What insights into the details and conditions are you aware of?

Mr. Vincent, with regard to the putting together of that package, how were you and other industry associations consulted?

Mr. Simon, how much trouble is the Alberta forestry industry in, and are you aware of closures and layoffs in that province? From the issues that have been raised as solutions, what would you do with that \$1 billion or more if the money were to be reconstructed in availability?

Thank you very much.

Mr. Avrim Lazar: The transfer to the provinces is not in any way a direct support to the forest industry. It is a transfer to the provinces. I asked a colleague from the Ontario government whether he knew what the terms and conditions were; he said "No; we're getting it in general revenue", so the provinces can do with it what they wish.

I think the intention is for them use it to help affected workers. What the industry needs from the government is a business climate that will assist in bringing investment into Canada and partnerships in areas like moving to eco-energy, market development, and research and technology. This \$1 billion program does not do that; it transfers money to the provinces. We would be very happy if the provinces use it to help affected workers, but our priority is helping workers keep their jobs, not helping workers who've lost their jobs; the idea is to sustain the jobs.

Of course those who lost their jobs should get help in finding new employment, but the first priority should be keeping the jobs. That's why we have put out these recommendations.

Mr. Michel Vincent: The answer is quite simple: the associations have not been consulted at all.

Let me speak on behalf of the Quebec Forest Industry Council; we have not been consulted at all. Had we been consulted, I would have said exactly the same as Mr. Lazar: the best way to help a worker is to make sure that he keeps his job.

Mr. Hugues Simon: First of all, I wouldn't be able to tell you some specifics about Alberta. We do not have any facilities in the province. What I can tell you is that mill closures are happening everywhere.

If we look at our company, we have announced closures in many provinces, from British Columbia to the Maritimes. As far as where the money should go, yes, the billion dollars was for employees who lost their jobs.

There are many ways to help, as was mentioned in a few examples. Tax credits help build a better market, facilitate the use of wood. One way can be to give an incentive to people who build with wood, the same as was done with cars that use less fuel. If you build an energy-efficient green home, you could get a tax credit, the same as the car. Those are ways.

We understand it is difficult with the softwood lumber agreement to give money to the industry. Again, let's find ways to look at the long term and see what leadership role can be taken, so that we develop, yes, more markets, but also preach by example in Canada.

• (1145)

Mr. Ken Boshcoff: There is a large amount of infrastructure from all of these plants that have closed. It seemed to me the capital investment, even though the facilities may be aged, the restructuring that you talk of in northwestern Ontario, of which there are at least four that may start up again, carving out specific niches.... I am wondering if, as opposed to a general catch-all aid package, giving specifics to those companies that want to restructure, that aren't going to be competitive with existing plants next door, that are going to do corrugated paper, fine paper, or some other niche—recycling perhaps—would be as good a way of the government directing its assistance in line with what you have just identified.

Mr. Avrim Lazar: Unfortunately, when governments try to direct investment, even when it is very well-meaning and very well thought out, it very rarely works.

So we would prefer, and this is a unanimous view from our membership, that no subsidies, no direct grants be given to any companies or to keep any mills operating.

But there is a way of keeping the mills open, and that is by encouraging investments in them. If, for example, the CCA were extended to a five-year window, the rapid write-off, or the SR&ED credits became refundable, then when, and only when, companies make the decision to invest in Canada, they will be rewarded for that. The decision of which mill to invest in will be made on the basis of the marketplace, not on the basis of the give and play of government policy and politics.

If giving money to individual mills would work, we might be interested, but the truth of the matter is that part of why we're in the difficulty we are in is because provincial governments tried to dictate industry structure and ended up driving us to a very inefficient position, and because the federal mergers policy, the Competition Bureau, has put a chill on mergers and driven us to an inefficient position.

So yes, you can influence whether jobs are kept in Canada. You can influence whether there are more investments in northern Ontario, not by targeting support, but by making support conditional on an investment in Canadian mills, but not saying which mills. Making support conditional on investment is best achieved through the CCA, which costs nothing, unless someone actually invests, or through making the SR&ED refundable, which in effect costs nothing unless we invest in innovation, and is just a question of accelerating the refund.

The Chair: Is there anyone else who'd like to answer?

Go ahead, Mr. Simon.

Mr. Hugues Simon: Let's keep in mind that projects need to be viable by themselves. Giving money to a specific mill to restart tells you that without any help you don't have a project. So you're only buying a bit of time, and the economics will come back to you and the same decision is just being delayed sometimes.

The Chair: Thank you.

Mr. Rosser.

Mr. Tom Rosser (Chief Economist, Forest Products Association of Canada): I was just going to comment on an earlier question of yours, Mr. Boshcoff, related to Alberta.

If memory serves, and I'm working from memory, Alberta since 2003 has seen the loss of about 3,000 direct jobs at facilities in that province, which would be about 10% of the Canadian total, roughly proportional to its share of the industry.

As Mr. Simon had said, the facility closures and job losses we've seen in the industry over the past few years have been spread literally from coast to coast across the country.

• (1150)

The Chair: Thank you very much.

Thank you, Mr. Boshcoff.

We go now to Madame DeBellefeuille, for seven minutes.

[Translation]

Mrs. Claude DeBellefeuille (Beauharnois—Salaberry, BQ): Thank you, Mr. Chairman.

Thank you for your presentations.

Mr. Vincent, could you tell me, for my information, how many members sit on the Council?

Mr. Michel Vincent: The Quebec Forest Industry Council represents the vast majority of players in the primary processing industry. The exact figure escapes me, but we must have about 150 or 160 members. For example, AbitibiBowater represents one member. So we have major members, as well as smaller ones that only own one plant.

Mrs. Claude DeBellefeuille: So you're the major player in the Quebec forest industry.

Mr. Michel Vincent: Yes, absolutely, we are the main player in the primary processing forest industry. That's correct.

Mrs. Claude DeBellefeuille: Perfect.

The \$1 billion community trust granted by the Conservative government was highly contested in Quebec. That was also the consensus in the National Assembly and among industry players and the union. First, they say that the allocation isn't necessarily fair and equitable. They also say it's not enough to help the provinces hardest hit by the forest crisis.

Could you comment on that and give us the council's opinion on the subject?

Mr. Michel Vincent: Obviously we weren't consulted as such. As Mr. Lazar said, when you want to help a community, you don't necessarily do that by helping the workers who have lost their jobs, but rather by ensuring that workers don't lose their jobs.

That said, the QFIC is not opposed to the assistance provided to the forest communities or to workers. It does not oppose that and it supports these efforts. Our reservations about the program focus more on its basis. It's a bit unclear. We understand neither the basis of the program nor its objectives.

We also feel that, with a budget of \$1 billion over three years, even though that seems enormous at first glance, Quebec will receive \$216 or \$217 million. That amount will be allocated over three years between the manufacturing and forest sectors. In our view, the allocation pro-rated on the basis of population isn't the best method. That doesn't necessarily reflect the actual manufacturing and forestry problems in Canada.

Ultimately, these are the reservations we have with regard to the program.

Mrs. Claude DeBellefeuille: The big paper companies in the forest industry have made considerable efforts to cut their greenhouse gas emissions. They are often cited as an example of a major sector that has made real efforts, even though it is agreed that much remains to be done. You are often cited as a model.

Could you explain the importance of the reference year for your sector? Perhaps Mr. Simon can supplement your answer.

For many years now, the Bloc Québécois has exercised pressure to keep 1990 as the reference year rather than 2006, as the Conservative government proposes.

Could you inform committee members on the issues involved in changing the reference year for your sector, particularly in Quebec?

Mr. Michel Vincent: Mr. Simon will answer the question.

Mr. Hugues Simon: The industry has made an enormous investment since the 1990s to cut its emissions and to improve air

and water quality. We feel we started before the others and did our work when we weren't required to do so as much as the others. Once we did our work, we were asked to do even more. That's why the reference should take into account what was previously done. I don't have any figures to give you, but we're talking about hundreds of millions of dollars in investments.

Every case should be studied, rather than establish an arbitrary rule setting a reference year. However, 1990 is the year when the forest companies in general started making significant improvements. Hundreds of millions of dollars in investments were made. So it would be fair to acknowledge the efforts made in the past.

• (1155)

Mrs. Claude DeBellefeuille: You're no doubt aware the Bloc Québécois recommends that the government use a more territorial approach to setting its targets. It recommends that each province has an overall target, but that it should be responsible for setting targets by area and by major sector. The forest sector has made major efforts by investing millions of dollars to comply and be the smallest polluter. We find it hard to understand the Conservative government's indecision or refusal to take this fact into account. We think it's in order to favour another sector, particularly the oil sector, which, unlike our sector, hasn't made any effort for many years.

Mr. Simon, you referred to the softwood lumber agreement in your presentation. That agreement wasn't perfect, but there was consensus support for it in Quebec and it was a lesser evil. The Bloc gave its support.

However, you said that the agreement had been signed, but that it had weaknesses and that Quebec was nevertheless experiencing negative impact. Can you explain to me the negative impact for Quebec so that I can understand it?

Mr. Hugues Simon: The negative impact is at the administrative level. Industry players understand that the agreement signed on October 12 was put in place quickly. However, the effort that was made to put the system in place should be recognized. It's a system that requires an enormous amount of management.

Obviously, the rule differs with each province, which complicates the administration. Considering the present market, the specific interests of the companies are different. Some companies operate and need a larger export quota. Other companies aren't operating and need a lower quota, but they nevertheless want to retain that right.

This is causing a debate, as Mr. Lazar said, about assistance for the industry in general, not to individual businesses. Lumber companies currently have quotas that are too small and must therefore restrict their operations, while others have surpluses and want to retain their quotas.

Job losses are the direct consequence of that. That means lost income for the federal government, since the export tax is Canadian revenue. That's where the problem lies.

As for the agreement, it indeed isn't perfect, but, given today's prices, I don't dare imagine what the scenario would be if there were no agreement. I think that the choice of the moment was nevertheless relatively good for the purposes of reaching an agreement.

The Chair: Thank you, Ms. DeBellefeuille.

[*English*]

Go ahead, Ms. Bell, for seven minutes.

Ms. Catherine Bell (Vancouver Island North, NDP): Thank you, Mr. Chair.

Thank you once again to all the witnesses for appearing. It's good to see some of you again; thanks for the cookies.

This is a huge issue for my Vancouver Island North riding. We just learned last week that another one of our mills is going to close in May. It's a blow for the community. We're really concerned about the impact that's going to have on the sawmill adjacent to it, because of the high price of fibre. I've met with the mill manager and talked about this many times. It's a problem for us.

The logging that's happening is great; there are good jobs there. Since I come from a logging family, I understand that. But the sawmill that's closing is exporting the high-grade logs and milling the lesser grade, so the lumber prices of course are lower. That seems to be a problem. Is there is any way to legislate that we mill the better-quality logs, keep the value-added here in Canada, and keep the jobs going?

Mr. Lazar, the other part of it is that you mentioned the problems with the provincial government and the chill on mergers from the Competition Bureau. I'm curious to know about some of the problems you see with provincial government legislation that's having a negative impact. Also, do you think the federal government should have more oversight and more regulatory impact, and maybe take some of that away from the provinces?

• (1200)

Mr. Avrim Lazar: The export of logs is a very small percentage of what happens in Canada, and it's tied up with the rules of the softwood agreement, so it's pretty hard to deal with in itself.

The bottom line comes out pretty simply: we need a better business climate so that people will want to process in Canada. What will make people want to invest in the mill on Vancouver Island? The first answer is what the return on the investment is going to be. If the province prevents mergers and rationalization, people aren't going to be very interested in going there because you can't structure your business for success. If the tax on investment is lower—I go back to the CCA five-year window and the refundability on SR&ED—and you get a break on tax and investment, it makes you want to invest in northern Vancouver Island.

I've been in government policy for 30 years now, and my experience has been very consistent: when the government tries to force the marketplace to behave in the way it wants—even when it does it for the best motives, with the best intelligence, and with all due diligence—it almost never succeeds, because the market moves quickly. What made sense two years ago all of a sudden doesn't make sense, and government can't change its policies that quickly because of the exigencies of democracy and due process. Even when

the government makes the right decision in trying to over-regulate or direct investment, that decision becomes wrong three years later, when the marketplace has moved and the government decision can't be changed that quickly. The only way to get the jobs to stay is to create a climate that draws the investment in; once the investment's in, business is going to want to stay and assist.

You asked me about provincial policy. One of the areas of provincial policy coming under increasing scrutiny is land tenure. If you want someone to invest billions of dollars—because a pulp-and-paper plant costs a billion dollars—in an area, they have to know there's going to be a fibre supply that's not subject to the whims of the political moment.

In Quebec, the expression of that is that this tree goes to this town and that tree goes to the other town. Well, that's fine social fantasy, but in economic reality and market reality it really means that all the investment goes to Georgia or Uruguay.

People will only invest if they think there's a chance of a successful business, and if you have three small plants forced to stay open by pertinency policies in the province, the opportunity to invest in one big world-class plant disappears. That's part of what we're suffering from now. It's right for governments to try to extract maximum employment from every piece of fibre by putting into regulations what basically becomes a chicken in every pot, but it just doesn't work. It just simply fails, and the people who suffer from it are the workers. You've got three plants that are not world-class struggling along because the province forces us to keep them open. The world-class plant that could have employed people for the next 50 years never gets built, and then the market hits and two out of three plants close. It's too late to get that investment, and the people who suffer are the workers in the towns. I would love to say we can micromanage this and keep the industry strong, but it just doesn't work.

We basically have two old-fashioned philosophies. One is if government just spends enough or regulates enough, we could fight globalization. That's not true. The other old-fashioned philosophy is if government does nothing, the marketplace will save us. That's also not true.

The middle ground, the true ground, which you'll see in Finland, Sweden, China, Singapore, France, is if government partners with industry by creating the right business climate, we'll get lots of jobs.

What does that partnership look like? It's a tax regime that draws investments into research and technology, which are public goods; market development with the Canada brand on it; stuff that accelerates the switch to eco-energy; and those sorts of things.

•(1205)

That type of partnership actually creates jobs. It's not subsidies, it's not bailouts, it's not micro-management, it's not regulation, but it's also not laissez-faire. Laissez-faire is just as naive as subsidies. In the end, if you look around—the world, for those countries and economies that are expanding—look at Finland, with the high quality of life, very high social values, and a very successful economy—it's not because of laissez-faire and it's not because of 1960s-style intervention. It's because they have an industry-government concept of success and a partner for success by creating business climate, investment in research, and investment in market development.

Finally, you asked if the federal government should take it over. I don't think so.

The Chair: Thank you, Ms. Bell.

We'll go now to Mr. Allen for seven minutes.

Mr. Mike Allen (Tobique—Mactaquac, CPC): Thank you, Mr. Chair.

I'd like to open with a couple of comments and then I have three questions.

My first comment is that I appreciate your creating a business climate, because I think you're right, that is important. Some of the things we've done with respect to lowering the taxes and things like that.... Your accelerated CCA is a good point.

I'm also comforted to know about direct subsidies, although that makes me comfortably uncomfortable, considering some of the mills that have closed in my riding. I do understand that giving subsidies does not cure the problem.

However, on the pine beetle, I do want to take a moment to thank my colleague, Mr. Harris, who's been a real bug on the pine beetle file, if you will, since leading up to 2005 and the commitment of our government to get \$1 billion. I think Mr. Harris has played a tremendous role in that and has single-handedly fought that. Thank you, Mr. Harris for that, and thank you for reminding me about beetles every day.

On capital stock, it really disturbed me when I looked at your report on the competitiveness task force. Looking at the charts, especially in Atlantic Canada, even our best-practice mill is really cost-inefficient, with some exceptions. When the dollar was hanging at 68¢ to 75¢, did some companies miss some opportunities when they were making money at that to reinvest and didn't take that opportunity? That's my first question.

My second question is that with the \$127 million FP Innovations money we put in, we have an AV Nackawic in my riding, which is now making dissolving pulp, which is going into rayon, which is a value-added product. Can you tell me how you think you would interface with that FP Innovations in terms of the betterment of the innovation?

My third question is around optimization of wood supply. It seems to me that when I look at a number of cases where wood is being chipped up and going either to fire furnaces or whatever it happens to be, or being shipped out of the country to burn, we may be losing a high opportunity on veneer logs and things of that nature for

creating value-added products. Do you think we could do better than that, and is there a place for optimization of that wood?

Mr. Avrim Lazar: Those are great questions.

Let's start with the dollar. Did we lose opportunities when the dollar was low? The answer is yes, we definitely lost opportunities, but I want to be very clear that the body that was hiding behind the low dollar was government. We didn't become the world's most successful forest product exporting nation by having people who lacked market drive and entrepreneurial skills. But it was very hard to invest in Canadian mills when the Competition Bureau was putting a chill on mergers and the provincial governments were not allowing rationalization. I go back to the three substandard mills being forced to stay open by the province and not being able to invest in a global one.

Could we have been more aggressive when the dollar was low? Yes, but it would've required forcing the government's hand. Even today, with all the layoffs in Quebec, they don't seem to be getting the reality of the marketplace.

Was that good policy when the dollar was 70 cents? Yes, it was great policy. It maximized jobs, and there were social rents for the people from the fibre.

When the dollar is at parity, it's a disastrous policy. It leads to layoffs; it leads to closures, both impermanent and....

Government policy doesn't move that quickly. When the dollar went up, the industry moved like crazy. If you look back at the numbers in that report, the number of mills that are top-quartile productive has tripled since we wrote that report, because we've adjusted to the dollar and moved quickly; government policy has moved much more slowly.

I'm going to go back to the federal government. A tax regime that made sense at 70 cents doesn't make sense when the dollar's gone up. Just as industry has to adjust to the exigencies and demands of a rising dollar, we can't just sit back and whine and say, "Fix it for us", and we haven't. We've made the adjustments; we've merged, we've rationalized, and we've increased productivity year after year, more than the Americans. We've been running like crazy.

Government also has to adjust. A business regime, a tax regime, a regulatory regime that was acceptable at a 70-cent dollar is disastrous when the dollar is at parity. We certainly deeply respect what your government has done in terms of reducing corporate taxes in general, but it's slow compared to the speed at which the marketplace is moving: the dollar goes up 36% in a couple of years, and taxes inch down over five years. Global marketplace competition increases hugely every year; the tax regime moves very slowly.

The CCA thing and the refundability of SR&ED would help, but overall, while we're moving with a sense of urgency created by necessity, the improvements in business climate are moving much more slowly. We understand that the government gets it; what we need is to get it and act faster and harder, because we're losing a huge opportunity.

The economists in finance say to me that the CCA rapid writeoff is going to cost money we don't have. Each time someone makes an investment in Uruguay, in Carolina, or in Indonesia, we're losing money that we're never going to get back. You won't have to offer an accelerated tax writeoff for that investment, because it's not being made in Canada. When people say the SR&ED credits cost too much money and the cupboard is bare, well, what's it cost when people don't invest in technology in Canada? What's it cost if a mill closes because it can't get access to a tax credit that it would've had three years later?

The relative sense of ease that we hear makes us very uncomfortable, because we're living in the global marketplace, which is a nasty, competitive place, and we don't see the business climate changing as quickly.

Let me go to your second question, which was on forest product innovation. The money you gave is great. It is helping. We have moved our innovation institutes from four separate ones to one integrated one to try to extract more value. Industry's paying the largest share of the cost of that. One of the best ways government can help is to increase its investment in the institute.

• (1210)

One specific idea that I would throw out to you is right now we lack receptor capacity in the mills. The innovation institute comes up with a new technology, but because we're running so hard to stay in business, we actually haven't got the capacity to receive the new ideas. Some form of extension program out from the federal forest products innovation institute into the mills would actually hugely lever the current investments in the technology.

On the optimization of the wood supply, certainly the best way to get optimized wood supply would be to reduce the tenure system politics, so that fibre will be allowed to go to its highest and best value. What we're seeing with some raw logs being shipped and sent as pellets to be burned in Europe is the impact of subsidies for biofuels in Europe. Our approach to renewable fuels in Canada has been much slower than the European approach.

We don't think that it makes sense either economically or for the environment to take trees and burn them for energy, but we do think it makes sense to use the waste byproducts, sawdust and bark, to power our plants. The current ecoENERGY initiative is just about out of money, and refurbishing that, refunding that, would speed the transition of mills from the use of hydrocarbons to the use of renewable fuels. That's a very cost-efficient way of getting an environmental plus and an economic plus.

If I may add to Madame DeBellefeuille, we did reduce our greenhouse gases by 44% from 1990. No other industry has done that, and the recognition of 1990 would certainly be respectful.

Merci.

• (1215)

The Chair: Thank you, Mr. Lazar.

Thank you, Mr. Allen.

We go now to the second round, starting with Mr. St. Amand for five minutes.

Mr. Lloyd St. Amand (Brant, Lib.): Thank you, Mr. Chair. I'll split my time with my colleague from Thunder Bay—Rainy River.

I have a couple of questions, likely for you, Mr. Lazar.

I hear you clearly and very articulately disavowing further government intervention, and that's my phrasing rather than yours. I'd like you to address for us how level the playing field is worldwide and to what extent the forestry sector in Russia and Europe is being supported, so to speak, if not protected, by their respective governments.

Secondly, it's my take on your recommendation number three, on the Competition Bureau, that the Competition Bureau has been somewhat timid vis-à-vis mergers. I'm wondering if that's your view as well, that the bureau has been too timid, and if so, if there are specific instances or examples of the timidity and how that has been detrimental to the sector.

Lastly, a more aggressive or open-minded approach, so to speak, by the Competition Bureau will surely result in less rather than more domestic ownership of the forestry industry.

I would ask you to address those points.

Mr. Avrim Lazar: Those are great questions.

There are no level playing fields in the global marketplace. I wish I could say the free market involves fair play, but there aren't any level playing fields. Certainly our competitors offer their forest industries much greater percentage investment in research. If you look at the Scandinavian countries, they spend much more in research and technology to support their forest industries than we do, and that's something simple we can do.

Our competitors are also a lot less diffident, a lot less modest in branding their products in the international marketplace. We go as Canadians and in a way damn ourselves with faint praise, whereas they're quite aggressive for their own products. That's another partnership with government that would really help.

Could we do more to level the playing field? The answer is yes, we could do a lot more. Are there limits? Yes, there are limits, and you'll find the successful countries haven't been targeting individual companies; instead, they've been targeting sectors. The brilliance of the Finland model is in creating a partnership for sectors to succeed through business conditions—not by subsidizing, but by creating the winning conditions.

“Timid” is probably not the word I would use for the Competition Bureau. I'd say they've been anything but timid. Our perception is they suffer from two problems. One is their legal mandate, which is to ask whether narrowing competition would lead to increased prices. Maintaining low prices in Canada is a public good, but it's only one public good. If you're going to shut five towns by doing that, you should balance off the two public goods.

Unlike a cabinet system, this is a regulatory system with only one public good as its reference point; in that way, they don't take into account the economic impact of their decisions. We could live with that, except that within that mandate they're most often based upon an outdated economic model. They assume that if we consolidate, prices will go up. Well, we export most of what we make. We take the global price, and whether we're fragmented or consolidated, the global price is whatever Brazil or China pushes it down to. Our customers, both in Canada and all over North America, are more consolidated than we are, so if two companies come together and find efficiencies, do you think our customers give us a break? If we find three cents a tonne efficiency, they'll take three and a half cents out of our hides, because they are more consolidated and have more market power than we do. It's just an empirical fallacy that when you consolidate, prices go up, because the marketplace continually squeezes you down. We disagree with their economics, and empirical studies support the simple fact that consolidation actually leads to synergies and price reductions.

Would it lead to more outside ownership? On the contrary, it would not. If you're a company headquartered in Canada and you want to acquire Canadian assets, the Competition Bureau is standing right in your way, because they don't want to see consolidation in Canada; as a result, you have to invest your money in the U.S. or Europe to find new acquisitions, because if you invest in Canada, they say it's too much consolidation. Getting a large Canadian champion has been a fight against the Competition Bureau, which tells you not to become big in Canada; become big by investing outside Canada.

I don't think that's what we want; I think we want investment in Canada.

• (1220)

The Chair: Mr. Boshcoff, you had one question.

Mr. Ken Boshcoff: Yes, and I thank you, Mr. Chairman, for your kindness in this.

Almost everyone in this room will have a similar situation. Mayor Dennis Brown in the Township of Atikokan asked this specific question. Because he has two plants at which all the workers are out of work, would industry have any objection to a proposal to extend EI benefits while the restructuring took place and perhaps other buyers could come along? I know this question would be multiplied many times across the country right now.

Mr. Avrim Lazar: Industry loves the government paying EI to workers. Of course we won't object. Extended EI does work for both the community and the industry because it allows us to keep our worker base in place for a longer period of time during transformation.

Like you, I end up having conversations with mayors all the time, and I get approached by individual parliamentarians facing a mill

shutdown and asking what can be done. I just want to emphasize—and I know I'm beginning to repeat myself, but I'm going to repeat myself—that there's nothing we can suggest once the mill has been proven to be losing \$10 million or \$15 million a year. We suggest that you act on business climate before that happens. Don't come to us to ask how to prevent this closure after the failure; prevent the failure by creating market conditions that draw investment.

I've been here six years now and I've had this conversation over and over again. The answer to mill closures is not to come in when a mill is closing; the answer to mill closures is to come in and create the market conditions that will lead people to invest. Then we'll never have to have the conversation about the mill closing.

I wish there were pixie dust or some sort of tooth-fairy formula for pretending the global marketplace doesn't exist, but short of pixie dust there's nothing we can do except create a business climate that draws investment.

The Chair: Thank you, Mr. Lazar and Mr. Boshcoff.

Now we'll go to the Bloc Québécois for five or six minutes. Please go ahead, Madame Deschamps.

[*Translation*]

Ms. Johanne Deschamps (Laurentides—Labelle, BQ): Thank you, Mr. Chairman.

This is the first time I've had a chance to sit on this committee. Allow me to welcome you. I'm also jumping from one thing to another, and I wish you a very happy Valentine's Day, to you and to our colleagues around this table.

I feel more comfortable with the human aspect of things and human resources. I represent a riding north of Montreal, Laurentides-Labelle. North of that riding, there's a small single industry RCM that has been hit hard by the forest crisis. Most of the sawmills are shut down, and 1,500 people have been laid off since January 2007.

I was also fortunate enough to sponsor a bill in the House, Bill C-269, which was designed to enhance and improve the employment insurance system and thus to enable more unemployed workers to qualify for benefits. What is unfortunate is that the bill died on the order paper because the Conservatives did not want to give it Royal Assent. That's very unfortunate. As you know, the Bloc Québécois fought a long battle to have Bill C-269 passed.

The second battle we are waging concerns the creation of an adjustment program for older workers. We're pressing the present government on this matter. If the program were in place, it would provide older workers with a bridge, from the moment they lose their jobs to retirement, through benefits that they could receive. This would enable a region like mine to retain a young and skilled labour force. Currently we're experiencing an exodus. Our young generation is leaving the region, and our population is very old. It's very hard to diversify an economy and to put other measures in place when you're experiencing an exodus such as this.

Can someone comment on that? Mr. Vincent, I'm listening.

• (1225)

Mr. Michel Vincent: I'm very familiar with the problems of RCM Antoine-Labelle because I come from Mont-Laurier. The forest industry has always gone through economic cycles. This isn't the first; we've been living through them for 150 years. However, we've never experienced one that was both so long and so serious. Businesses have survived other economic cycles in the past. The forest industry is an industry of fighters. People will persist because they think the crisis will pass. However, people are realizing that they've made virtually no money in the past year and a half and that they'll be making nothing in the next year and a half. And yet we're talking about businesses that are efficient. They think they won't survive another year and a half and that they won't benefit from the recovery if they continue losing money every day, on every shipment that leaves the plant. They may think that one way of getting through it is to shut down immediately and wait for the recovery. However, the first problem they'll then have to face is the problem of rehiring the labour force. An adjustment program for older workers would be one way for them to get by.

You have to understand that an unskilled 55-year-old worker probably won't go anywhere else. However, a young skilled worker 25 years of age who has a family may go elsewhere because the employment rate is lower and the Canadian economy is doing well in general. As a result, the young worker will find work. That labour force will be lacking when the recovery occurs. An adjustment program for older workers could therefore definitely help ensure a resumption in forest industry activities, particularly in outlying and semi-remote regions such as the RCM Antoine-Labelle or RCM Hautes-Laurentides because young workers only have a two-hour drive to the big city to find a job and move for good.

Mrs. Claude DeBellefeuille: Mr. Lazar, I'm interested in one part of your speech. That was the investments that would be necessary to lend a hand and help the industry convert to biofuels and use its own biomass for the energy it needs for its production.

My question is for Michel Vincent or Hugues Simon. What's needed in Quebec right now? I was struck by your comments. You say our policies and measures still lag behind the market. What could the federal government do tomorrow morning, in concrete terms to help lend a hand to the Quebec forest industry and invest in the conversion of its plants so that it can use its own biomass to create its energy and reduce related costs?

• (1230)

Mr. Avrim Lazar: We're talking about federal programs, and I would point out that there is one program that's working very well. It's the ecoENERGY Initiative. The emphasis was previously placed

on wind projects. Now biomass projects are eligible. However, there isn't enough money for those projects. We have a full range of projects that are almost ready, but that won't be supported by the government because the program doesn't have enough funding.

[English]

We have *la sixième recommandation*, which is to extend the ecoENERGY program to a target of 12,000 megawatts by extending the application date to 2015.

[Translation]

The program exists, it's intelligent, and it was created by the government and industry in partnership. It has made possible a lot of progress in the development of clean fuel.

[English]

It's good for the environment: it reduces air pollution hugely, it reduces what goes to landfill hugely, it reduces greenhouse gases, and at the same time it makes the mills more economically self-sufficient. It's a great program; we'd just like to see have enough money so that it can actually help. Otherwise, it becomes symbolic. When it's got enough money, it actually moves things forward.

[Translation]

The Chair: Thank you.

[English]

Yes, go ahead.

[Translation]

Mr. Michel Vincent: The rule of thumb is that every tonne of biomass fuel used results in the elimination of one tonne of greenhouse gas. In the current context of the fight against climate change, the conversion to combustion of forest mass is entirely appropriate.

Mrs. Claude DeBellefeuille: Do you agree with Mr. Lazar that budgets should be increased to enable all applicants to receive assistance for that conversion?

Mr. Michel Vincent: Yes, obviously.

Mr. Hugues Simon: Earlier we talked about the business climate. It's definitely becoming harder to invest in the sawmill sector when certain operating units operate at 50% of their capacity. Once the consolidation has been achieved, it will be easier to invest because returns on investment will be made more quickly.

[English]

The Chair: Merci.

Mr. Harris, you have two minutes—or maybe six or seven.

Mr. Richard Harris (Cariboo—Prince George, CPC): Thank you, Mr. Chairman.

Gentlemen, thank you for coming. It's been a most informative morning thus far. I appreciate the expertise in the forest industry that you bring, particularly because we're getting a side from the pulp and paper industry, the Quebec industry overall, and of course the wood products business from Mr. Lazar.

I really liked what I heard in some opening statements. Most people would say that their first thought about the forest industry is that it's in a severe downturn right now, bordering on recession, and there's a lot of doom and gloom. I don't share the philosophy that the sky is falling.

Mr. Lazar, you used a great word—"transformation". It's true. Having lived in interior B.C. for just about fifty years now, I've seen a huge transformation in the forest industry. When I went to Prince George in 1959, there were about 600 small sawmills employing x number of people in the area. Twenty years later there were about 30 or 40 larger sawmills employing the same number of people. Twenty years from there we're down to maybe eight or nine major sawmills in Prince George proper that employ more people than were employed in the 600 sawmills. So the transformation has not meant automatically that there are going to be job losses. In fact, our experience has shown that it's contributed not only to the employment numbers but also to the advance in technology in the forest industry that we've needed to stay at the head of the pack on a world picture, and we certainly are doing that.

I'm happy to say that located in my riding are probably the most technologically advanced sawmills in the entire world. They are in central British Columbia. They include West Fraser and Dunkley Lumber and Canfor, as you know; these mills and companies like AbitibiBowater and others across the country will make it through this transformation period because they've done what they had to do over their years of growth. They will make it through.

There will some continuing transformations, and we are getting a good understanding of what you want from government and the partnership role we can play. It does not necessarily mean dumping a bunch of money into the industry, because, first of all, that is not necessarily the answer, and second, we may be verging on a softwood lumber challenge the minute the Americans see or even perceive we're aiding the industry directly in that manner.

I want to bring to your attention an article that appeared in *The Globe and Mail*. I found it really interesting, and it backs up what you're saying. CIBC world markets analyst Don Roberts has made some excellent comments about the opportunities in the forest industry, particularly in pulp and paper, in what he calls "the convergence of global markets for food, fuel, and fibre". He suggests that in the developing countries, the huge and growing demand for increased production of food and increased production of biofuels requires taking over more and more land that's used to grow trees; therefore, the amount of wood fibre available for pulp and paper will shrink, which will put our mills and our industry in a much better global position, a position that will continue to improve.

• (1235)

First of all, I don't know if you've seen this article, but if any of you have, it has some great comments. Perhaps we could start by getting some comments on this. I'd appreciate it.

Mr. Avrim Lazar: Maybe I'll start, because I'm quite familiar with Mr. Roberts' work.

It's a fairly simple thesis: if you want to know where people are going to make money, you've got to ask where scarcity is going to be. Is it going to be in PhDs and engineers? I don't think so, because China and India can put them out at a much faster rate than the current industrialized world can produce them. Scarcity is going to be in natural resources, and the greatest scarcities are going to be in land for fibre production, in energy, and in water.

My colleagues with very modern mills in South Africa are being told by their government that they don't want any expansion, because growing the trees is taking water away from agriculture. My colleagues in Brazil are looking at transforming their plantations from eucalyptus to sugar cane to feed what's going to be a huge demand in the United States for biofuels in order for them, when they come up with a new political regime, to try to meet any type of climate change target.

There's no doubt at all that there will be a demand. We'll be well positioned, but it's quite possible to blow it. We don't own this; other people are figuring out the same thing. International Paper, one of the world's largest forest products companies—I don't know if it is the world's largest, but it is certainly the biggest in North America—now has 40% of their company in Russia. Why would they go to Russia, where there's a huge problem with gangsterism, no infrastructure, and an unreliable business structure? The answer is that Russia has exactly what Canada has: fibre, water, and energy. International Paper has figured out that those are the critical success factors, the scarcity factors in the future.

Our job in industry is to make certain we are structured and positioned to take advantage of what will be a tremendously growing market and a shrinking capacity of others to occupy it, and the job of governments is to create conditions that help us get there. It's primarily our job, but spending on things like research and technology, spending on market reputation, and creating an investment climate that draws investment will position us to take advantage of this opportunity. If we don't do the job—if we don't transform to be ready for this opportunity—someone else will grab it.

Can we compete? Yes, but we've got to actually do it.

• (1240)

The Chair: Thank you, Mr. Harris.

Mr. Alghabra is next.

Mr. Omar Alghabra (Mississauga—Erindale, Lib.): Thank you, Mr. Chair.

Thank you, everybody, for coming here today.

The committee is certainly benefiting from your testimony today in getting an understanding of the actual reality on the ground and in getting help in coming up with recommendations we can present to the government, to the public, and to the industry on what the committee thinks needs to be implemented or done.

I heard a lot of things today that I personally agree with. I heard about the fact that we need to find middle ground. We cannot assume that direct subsidies will solve this issue. They are going to be short-term patches and they won't be effective. We also cannot assume that letting the market resolve these issues on its own will be a solution, because unfortunately other countries in the world are not doing the same. If we look the other way for a short period, we may lose the industry in Canada. We need to find the middle ground; we need to find a business climate—this is terminology all of you have used today—and find a way to have the federal government partner with the industry players or stakeholders so that we can overcome this transitional period.

Perhaps to help us as we come up with recommendations, I need to throw at you some ideas based on what I heard from you, and you can tell me if this would work or not. I'd like to hear from all three organizations represented here.

One of the ideas I heard today was to create incentives for private investment, whether foreign or domestic. The federal government can play a role in creating those incentives, whether in tax breaks or in partnership. How does that sound to the witnesses?

Mr. Hugues Simon: Creating a business climate so that people invest—that is something we've said, yes.

Mr. Michel Vincent: An investment climate, period, is the name of the game here. That's all we can say.

Mr. Avrim Lazar: Partner with the industry, don't partner with companies—but yes.

Mr. Omar Alhabra: I understand what you're saying, but can you elaborate on what you mean by that?

Mr. Avrim Lazar: It's why I was suggesting the use of the tax instrument, because it applies generally to anybody who makes an investment. If you start investing in individual companies, individual mills, you're basically disadvantaging all the others. Then you also end up with the lack of agility necessary to survive in the marketplace.

So you as a company can move here and there, and restructure. You don't like doing it—it's painful, it's tiring, you don't sleep at night—but you have to do it. Governments can't move that quickly.

Mr. Omar Alhabra: Just to clarify, you're saying that when a government chooses to create some kind of incentive for investment, they shouldn't do it to a specific company.

Mr. Avrim Lazar: Exactly.

Mr. Omar Alhabra: Enable all industry stakeholders or partners to apply and benefit from it.

Mr. Avrim Lazar: Yes, and there's also another way—branding Canadian products, expanding the non-residential market for wood products in the United States, expanding the market for our pulp and paper wood products around the world. Branding Canadian products helps the whole industry. We wouldn't want you to do it alone, but

we'd certainly want you to partner with us in doing it as an industry. Same thing with research.

• (1245)

Mr. Hugues Simon: To build on the comment, don't cherry-pick projects. Make it available to an industry. Cherry-picking only gives a specific project an advantage. Typically it's a project that wouldn't survive on its own, so it doesn't even mean it's a good project.

Mr. Omar Alhabra: Yes, but you'd agree that there have to be some criteria that will ensure—

Mr. Avrim Lazar: What happens when you cherry-pick is that the most effective MP gets the money to their mill. We don't want it to go to the most competitive MP, we want it to go to the most competitive mill.

Mr. Omar Alhabra: Yes, let's make the process transparent and equitable.

We certainly heard from all of you today that the so-called \$1 billion forestry aid is not necessarily going to end or alleviate or allay any of the concerns you guys have today. So we're looking for future and other measures.

I heard a lot of talk about research and development today. In the current structure, you can only benefit from the R and D tax credit program if you're making a profit, but if you're not profitable you can't benefit from it. Therefore, it's no longer an incentive.

So how would it sound if we made it partially refundable, regardless of the profitability? It's not a tax credit any more. Some percentage of the investment that was placed in R and D is refundable.

Mr. Avrim Lazar: Certainly refundability is a huge step in the right direction. I know that some people say it costs lots of money, but it's money that is a credit to our accounts. It's just a question of whether we get it when we're profitable or before we're profitable. It's the same amount.

I understand that the fiscal implications in the short term can be large, but there are ways of doing it without blowing away the fisc. For example, there could be a cap. Refundability up to a certain amount would help the smaller players and certainly the whole forest industry manage their investments in research over a difficult time, and wouldn't blow away the fisc. But given that this is money that is going to come to us when we get profitable, I just don't buy the argument that it just can't be afforded. Otherwise, you're just betting on it going bankrupt and never having to pay the money.

Mr. Michel Vincent: That would be a good way to make sure that stronger companies survive. Weaker companies may not be in a position to struggle until the end—too bad, but those weaker companies will have to disappear.

Mr. Hugues Simon: I wouldn't be able to say enough here on how important that is for companies. When we make a decision to invest, rules are different by province and rules are different by country. The R and D tax credit, call it what you want, is sometimes a very big factor in a decision.

The Chair: Mr. Harris.

Mr. Richard Harris: Thank you, Mr. Chairman. I appreciate it again.

Mr. Simon and Mr. Vincent, I think you wanted to comment briefly on Don Roberts' comments. Perhaps I can give you that opportunity to give your side.

Mr. Michel Vincent: Actually, I wanted to comment on the first part of your intervention, when you were talking about the situation of the industry in 1959.

What you're describing actually is a consolidation process. In British Columbia you were stuck with the so-called appurtenancy legislation that prevents someone from closing a mill and increasing the operational level of the other mills. It took a whole lot of political will and courage to abolish that appurtenancy, because by doing so, you were saying to some communities that they would lose their mill, and they would lose it now instead of later on. It took some courage to do that, but you did it in British Columbia. Now the average B.C. mill is 250 million board feet, whereas it is about 75 million or 80 million board feet in Quebec.

So the situation we're describing is something that I would dream about taking place in Quebec as well.

• (1250)

Mr. Richard Harris: The thing is that when there's a downturn in the market, of course there are layoffs. There are layoffs in every industry when there's a downturn in that particular market. But when that downturn runs its path, and the economy comes back again, those people are all working again. Those mills are in business to make lumber or make pulp or make value-added products out of wood. That's what they do. And they need skilled employment. There was a good point made about retaining workers in the area. It's something I hadn't thought about, but I'm going to now.

Nobody likes to see layoffs, nobody likes to see a downturn in the economy, but it happens. It's how you survive it and how you come back from it stronger than ever that's important, because that creates more jobs, more employment, a better economy.

Mr. Simon.

Mr. Hugues Simon: When we talk about a future for fibre, and fibre being more and more restricted as far as volume, that's why it's important to brand our fibre basket in Canada. As I mentioned in the beginning, we have a very high-quality fibre and we can compete with anybody in the world with that quality. So branding is certainly an area where there can be a government role to help the industry to brand and to sell the certification and the way we manage our forests to the rest of the world.

Russia is not there yet, not even remotely. We have a very big strategic advantage. We have existing facilities. We have high-quality fibre. We are very far ahead in certification. But you know,

when you're first in something, it's very difficult to remain first. We need to take actions now to make sure that we remain there.

I also want to build on Michel's comment on British Columbia. If you look at our company before the merger, Abitibi Consolidated, we had 20 mills. Two mills in British Columbia had 25% of the capacity, and 18 mills in the rest of Canada had 75%. So that gives you a perspective on the restriction in the province of Quebec, where a lot of small mills run one, two, sometimes three shifts, but with wood allocations attached to them, versus....

So you are right; British Columbia is ahead in technology because they were able to focus their investment and therefore make themselves more competitive.

Mr. Richard Harris: Mr. Lazar, in regard to the capital cost allowance and the refundable research tax credits, I'm wondering if you could talk about how important the role of government is to use those things and particularly to attract investment to Canada rather than elsewhere.

In talking about the transformation and consolidation—that word, “consolidation”, was used here—I know that in fact there are Canadian forest companies that have been frustrated by some of the regulations that didn't allow them to grow larger and that have in fact invested outside of Canada. They have shareholders they had to answer to, and that's where they were able to do what they wanted to do in Canada. Unless we get current with the competition we're getting from other countries, we may see that continue a little bit, unfortunately.

Mr. Avrim Lazar: It won't be that hard to get me to talk about these things.

When it comes to international finance and investment, it's really not as complicated as you might think. There's a bunch of people sitting around the room, and in the middle of the table is a pile of money, the capital available to that company. The guy who runs the Uruguay operation says “I can get you this kind of return.” The guy who runs the U.S. operation says “I can't give you quite that, but I can promise you more stability. You won't have to worry about politics.” The Canadian guy says “Well, I can get you this return, and....”

So what we have to do is improve the hand, improve the argument, that the Canadian mill champion is making at that table. They have to talk about a bunch of stuff. For instance, can you trust the investment climate? A lot of that is provincial regulation. Will we still have access to the wood? Will we be able to make the necessary changes to make money? Will we know what the climate change regulations are going to be? There are all these uncertainties, and the dollar comes very much into that. Do we have any idea of what the exchange rate would be? Is it going to stay within a range or not?

I just want to congratulate Mr. Flaherty for talking about a reasonable range. I think it sends a very good signal to the marketplace. I think his range is ten cents above where it should be, but I think the acceptance of the concept of a range is a wonderful thing.

So you have all those things, and then you have the plain math: how quickly will we be able to give something back to our shareholders? The math on investment in research is very much affected by the refundability of the SR and ED. If you have a mill that's losing money so you're not going to actually be able to use a tax credit, but you know that if you invented new technology you could keep that mill operating, the refundability changes the math enormously. And then with the accelerated capital depreciation, again it changes the math. So we're not talking hocus-pocus, we're talking simple mathematics—i.e., for someone trying to make a business case, this is a smarter investment than that one.

Will it change the whole thing? I don't think so, but it will change a lot. When the finance department comes back and says we can't afford it, they're just dead wrong. You can't afford not to do it, because then the investment will go out of the country and there will be no tax revenue.

•(1255)

The Chair: Thank you, Mr. Lazar.

We have to go to Mr. Tonks.

Mr. Alan Tonks (York South—Weston, Lib.): You don't have to, but it is my turn.

Thank you, Mr. Chairman.

Mr. Lazar, what percentage of the total forest products industry is Canadian-owned?

Mr. Avrim Lazar: I don't know.

Tom, do you know?

Mr. Tom Rosser: Not offhand.

Mr. Avrim Lazar: You'd have to go back to the shareholders, but just sitting around my boardroom table, where we have about 75%, three-quarters of the headquarters are in Canada. *Maison-mère* is in Canada. It's a global industry.

Mr. Alan Tonks: The reason I ask the question is that in your analogy with respect to the pot of money in the middle, I can appreciate the incentives and the return that comes with respect to investing. As far as history is concerned here, is the fact that the headquarters are in Canada a compelling reason for us to be certain that, whatever the financial regime, the decision will be made with respect to a Canadian investment? Or is the multinational going to make a decision to invest it in wherever? International Paper will invest it in Russia, according to your analogy.

Mr. Avrim Lazar: Exactly. Having Canadian headquarters is great for research money, for the jobs associated with the headquarters, for the intellectual capital, or for the building of an economic cluster, but whether you're sitting in Helsinki, in North Carolina, in Seattle, in Montreal, or in Vancouver, the math on the investment works out the same: you're going to put the money where the return is.

We'd have no trouble at all convincing Shanghai to invest in Canada, or Finland or Sweden or any of them, when the return is there. If there is no return there, and the pile of money is sitting in the middle of the boardroom in Montreal, that money is going out of the country if you can't make the business case. Capital is the most mobile thing in the world, and it has no loyalty.

Mr. Alan Tonks: It flows like water, I know, and will go to the path of least resistance.

But does not the Canadian public have some...? If it's Canadian investment, whether it's through the accelerated rapid capital tax program or it's tax incentives or whatever, is there not some role that the government has a responsibility to play so there is a value-added return to the Canadian worker, to the Canadian?

•(1300)

Mr. Avrim Lazar: That's a perfect question, and the answer is yes. Accelerated capital depreciation only helps you if you invest in Canada. If you invest in the U.S., it doesn't help you. The refundability of SR&ED only helps you if the research is done in Canada. That's why there is a specific benefit to Canadians.

Mr. Alan Tonks: But you'll agree that if it's a multinational, it may not be as apparent in terms of the decision being made on that basis unless government makes it clear through the tax program that this is where the investment will have the highest value-added in return.

Mr. Avrim Lazar: Yes.

The Chair: Mr. Tonks, you can have one more, and then Mr. Anderson has one question.

Mr. Alan Tonks: This is a short question, and it's an easy one.

As I was sharing earlier with my colleagues, I was at a subdivision in Brooklin—not Brooklyn, New York, but Brooklin north of Toronto—and saw 250 homes that were totally built with metal studs. There was no wood framing, nothing. I couldn't believe it. There was absolutely no value-added wood with respect to that.

Do you not work as an industry with local municipalities and through CMHC to make sure that...? And I agree with you with respect to the wood content and the higher environmental value-added and so on. As an industry, are you working with other jurisdictions to make sure that there is code protection with respect to the industry?

Mr. Hugues Simon: I would like to see which project you saw.

The biggest challenge we have is for non-residential construction, where a very small proportion is being built with wood. If you go to Europe, you'll see that more and more people are building with wood.

We are focusing on non-residential. There are some mid-size buildings that can be made out of wood. There are also some larger-size buildings that could be built with a mix of steel and lumber. Pushing that is an expensive thing. We do it through some associations, Canada Wood and so on.

Certainly if we can grab just a small percentage of the non-residential business, we can create for ourselves a huge market.

Mr. Alan Tonks: Well, watch the residential.

Mr. Avrim Lazar: Have you ever seen the picture of the giant-sized meteor coming close to earth and all the steel-built houses going zip into the air and the wooden ones staying?

Voices: Oh, oh!

The Chair: We are out of time.

Just before we wrap up this meeting, I would like to ask about the meeting on February 26, which is budget day. I know that some people will be going to briefings and lock-ups and so on.

Should we cancel the meeting for that day? It's the first Tuesday back after a week away.

Some hon. members: Agreed.

The Chair: Okay, we will cancel that meeting.

Thank you very much, gentlemen. I think we should do the report based on today's meeting. It was really very productive. Thank you very much.

The meeting is adjourned.

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