



House of Commons
CANADA

Standing Committee on Industry, Science and Technology

INDU • NUMBER 050 • 2nd SESSION • 40th PARLIAMENT

EVIDENCE

Wednesday, December 9, 2009

—
Chair

The Honourable Michael Chong

Standing Committee on Industry, Science and Technology

Wednesday, December 9, 2009

• (1530)

[English]

The Chair (Hon. Michael Chong (Wellington—Halton Hills, CPC)): Members of the committee, it's 3:30. We are going to get this meeting under way.

Welcome to the 50th meeting, this 9th of December 2009.

We're here to hear two panels of witnesses today, pursuant to Standing Order 108(2), to study the recent economic performance of the services sector in Canada.

In front of us, in our first panel today, we have the Canadian Services Coalition, represented by Monsieur Landry and Madame George, and we have the Conference Board of Canada, represented by Mr. Burt.

Without further ado, we'll begin with an opening statement from the Canadian Services Coalition.

Ms. Shirley-Ann George (Senior Vice-President, Policy, Canadian Chamber of Commerce, Canadian Services Coalition): Thank you, Mr. Chairman and members of the committee.

We appreciate the opportunity to speak today in front of the industry, science, and technology committee. This marks the second time that the Canadian Services Coalition has made an appearance before this committee to discuss the importance of services in Canada, and we are grateful for the opportunity.

The Canadian Services Coalition, an affiliate of the Canadian Chamber of Commerce, is a membership-based organization that provides a unified voice to the Canadian services sector. We advocate for greater focus and understanding of the impact of services to the Canadian economy. We also promote the liberalization of services markets through the removal of trade and investment barriers to increase the opportunities available for Canadian companies both within Canada and worldwide.

Our membership is comprised of a diverse group of leading Canadian services companies representing such sectors as financial services, telecommunications, IT, and insurance services.

I would like to introduce the chair of the CSC, Mr. Michael Landry, who will be making our comments today.

Mr. Michael Landry (Chair, Canadian Services Coalition): Good afternoon, Chair and members of the committee. Thank you for having us.

It's a pleasure for us to be here this afternoon. I am here in my capacity as chair of the Canadian Services Coalition. My day job is

as a vice-president at Manulife Financial, and as such I think I'm well acquainted with the services, especially financial services.

Not only do services represent approximately 70% of Canadian GDP, but they employ three-quarters of our work force. According to Stats Can, in 2008 services were responsible for 90% of new jobs, and from 2002 to 2009 service labour productivity and its overall growth rate outpaced that of the total economy.

Furthermore, the majority of Canada's service exporters are small and medium-sized enterprises. More than 86% of services firms in Canada employ fewer than 50 people.

Canadian services industries are also prosperous. I can speak of my own sector, the life insurance industry in Canada, in which we have some 102 companies registered, with Canadian-owned firms controlling 87% of the domestic market. Canadian life insurers, with \$900 billion in assets worldwide and roughly \$400 billion of that here in Canada, are significant long-term investors in the Canadian economy. Furthermore, Canada's life insurance industry is a major component of the services sector, which has been recognized for its success in navigating through the financial crisis.

For my company, roughly two-thirds of our business, and it has been as high as three-quarters, is actually outside of Canada, but almost 50% of our jobs are inside Canada. That's because in addition to our Canadian operations, which are obviously here, our head office is here and some of our global businesses are here, such as our investment division. These contribute to that job count; it does not count the literally thousands of advisers we work with who are independent providers.

While this is positive news, we continuously lack a clear picture of the true status of Canadian services industries. We need to improve our understanding of the services sector in Canada and adapt our regulations and policies to reflect their importance. Canada has emerged from the global financial crisis in a stronger position than many of our competitors, but we need to better understand our strengths in order to capitalize on the things that we do best.

We must also take steps to address the areas in which we can improve. For example, while the global average of services exports in 2008 was 19%, Canadian services exports continued to underperform, representing only 12% of Canada's total exports.

If Canada wishes to remain competitive, particularly as we emerge from the global economic crisis, we need government leadership to address both our strengths and our weaknesses or challenges. Canada must make sure that services industries remain globally competitive to ensure continued economic growth for the entire economy.

The Canadian Services Coalition would like to applaud the industry committee for the release in June 2008 of the report entitled *The Goods on Services*. This paper stressed the vital importance of services to the Canadian economy and was a very important step in raising the profile of the services sector in Canada. Having participated in the initial hearings, the Canadian Services Coalition was pleased to see the inclusion of a number of our recommendations in the final report. These included first a call for improved service sector metrics; second, for more free trade agreements that include services obligations; and third, the need to develop a services sector innovation strategy.

The Goods on Services has already had a positive effect on policy development with respect to services in Canada. For the first time, Statistics Canada will be undertaking a survey on business innovation in Canada, which will include data on the services industry. Industry Canada has also increased its focus on the development of services sector metrics, while the Department of Foreign Affairs is increasingly developing FTAs that include services obligations.

Likewise, the Canadian Services Coalition has developed a report that breaks down the value of services by province, and we'd like to thank Stats Canada for their assistance in the development of this report.

One of the key conclusions of the industry committee report was the need for the Canadian government to develop a services sector innovation strategy. Other countries, such as South Africa, Japan, the United Kingdom, New Zealand, have already developed similar strategies, and we believe it's time for Canada to do the same.

● (1535)

To aid the government's efforts in this area, the Canadian Services Coalition is in the process of developing our own strategy, which seeks to drive innovation in the services sector and increase competitiveness and productivity across the economy. The Canadian Services Coalition's Canadian services innovation strategy has two primary goals: first, the development of services-based policy and regulations; and secondly, increased focus on services in our trading agreements.

We would also be happy to share our innovation strategy with you when it is completed in the new year, and we hope that you will give it serious consideration to a strong recommendation for the development of a services innovation strategy that is tailored to ensure a competitive sector.

We have a couple of recommendations here, Mr. Chair. To ensure a robust and meaningful services strategy, the Services Coalition recommends the following:

First, that the industry committee update and re-introduce *The Goods on Services* report, which recognized the need for action on important cross-cutting issues and highlighted the importance of

services to the Canadian economy. This would allow the valuable work being done by various government departments to continue and would increase the awareness of the services sector as a whole.

Second, that Canada continues to boost our trade in services both internationally and domestically. At the international level we need to ensure a comprehensive services chapter in all our trade agreements, including in the context of Canada and EU comprehensive economic and trade agreement negotiations currently under way. Domestically, interprovincial trade barriers continue to inhibit economic activity in Canada and should be eliminated. For example, labour mobility remains a serious concern for many services industries in Canada, and the cost of complying with different regulatory systems is having a negative influence on the ability of companies to remain globally competitive and to expand into new markets.

Third, we need to increase the collection of services sector metrics. In order to capitalize on the available opportunities in the services sector, policy-makers need reliable data regarding the current state of services in Canada. Other countries, like Japan, the United States, Australia, South Africa, New Zealand, the U.K., and the EU, have already developed significant research into the performance of their services sector. To remain competitive Canada must do the same. The Canadian government needs to continue to promote and invest in the development of services sector data.

Fourth, and finally, we must do more to address labour market gaps. Canada is facing a nationwide shortage of skilled labour. The Canadian government should identify current and future labour market gaps and encourage the development of a nationwide strategy for identifying how these needs can be met within the framework of the current educational system.

As services employ three-quarters of the Canadian labour force, it is important to make sure that our colleges and universities are able to train competitive workers. Barriers to labour mobility should also be eliminated to ensure the flow of skilled workers into new markets.

This committee has demonstrated that your reports do have a valuable impact on government activity, and we look forward to your report, which will, we hope, result in further progress.

Thank you again for having us, and I would like to welcome any comments or questions that you may have.

● (1540)

The Chair: Thank you, Mr. Landry.

Now, an opening statement from the Conference Board of Canada.

Mr. Michael Burt (Associate Director, Industrial Outlook, Trade and Investment, Conference Board of Canada): Thank you again for having me here as well. For anyone who is unaware, the Conference Board of Canada is a non-profit, non-partisan think tank based here in Ottawa. We do research in a variety of areas, including economic policy, public policy, and education and learning.

When I was first asked to testify today, the question raised was the services sector. I thought you've given yourselves a very broad mandate. As Michael Landry already outlined, it accounts for roughly three-quarters of economic activity in the country and 80% of employment when you include government and the public sector. It is by far the dominant part of the Canadian economy. Given its dominant role, I find it surprising that it's often overlooked or undervalued.

Just as an example, we often hear characterization of the sector that it pays low wages. This is generally and often inaccurate. There are many high-wage industries and occupations within the sector. In fact in aggregate the service sector's wages are only about 6% below the average for the economy as a whole. And there are a variety of industries that pay above-average wages, including wholesale trade, information services, financial services, and business services.

In terms of recent performance, the services sector has generally survived the recession with minimal damage. Some sectors have been more affected than others. Just as an example, over the past year, the goods-producing portion of the economy has shrunk by 11%, while the services sector portion of the economy has basically been flat over the same period of time. Services industries related to the movement of goods and tourism have been the ones worst affected. This includes things like wholesale trade, transportation, and accommodations. Industries like professional services and publishing, which are dependent on business spending, have also been affected by the recession. However there are many others—including sectors like retail, telecom, and even much of the financial sector—that are either quickly rebounding from the effects of the recession or actually grew through the recession. They did not see an outright decline in economic activity over the last year.

Despite its relative success, Canada's service sector still faces a number of challenges. I just want to identify a few of them here for you today. First is non-tariff barriers to trade. Services are generally not thought to be a particularly trade-dependent sector, and this is somewhat true, but they still account for about 15% of Canada's total trade volumes. The share is even higher when you consider the fact that many of the material inputs the sector uses are imported. Major sources of trade in services include tourism, transportation, financial services, and business services. Given that much focus in trade policy is on the movement of goods, we actually find it interesting that a lot of our research has found that non-tariff barriers to trade—things like regulatory differences, access to visas, border security—have actually had a bigger effect on the service sector than they have on the goods sector.

Just to give an example, roughly half the number of visitors who were coming to Canada in 2000 are coming here now. The number of visitors coming to Canada from the U.S. has declined by half. This is an absolute decline in the number of visitors, and it's a decline in market share within the U.S. It's not just the fact that Americans are traveling less; they're actually travelling less to

Canada. There's a variety of factors that contribute to this, including the strengthening Canadian dollar over much of this period, but tighter border security is an issue for the tourism sector.

Another issue for the services industry is labour force. Most components of the service sector are labour-intensive. Thus, labour market conditions are of particular import to many businesses within the sector. Obviously this is less of a concern at the moment due to the recession, but we do expect this issue to quickly re-emerge in the coming years. It is the most pressing for high-skilled workers, for whom unemployment levels tend to be low, even during recessionary periods. As a result, we must continue to coordinate our education and immigration policies in order to reduce the effects of labour shortages on growth in the services sector. For lower-skilled workers, the services sector also faces challenges. These include things like seasonal fluctuations in demand, high employee turnover, and poor productivity.

This brings me to the last issue I want to highlight today, which is the productivity gap. It is well publicized that output per worker here in Canada is significantly below that in the United States. In fact, most of that productivity gap can be attributed to the services sector. Retail, wholesale trade, financial services, and business services all have significantly lower output per worker than their U.S. counterparts.

● (1545)

Now, there are a variety of contributing factors to this. Some of these are beyond our control; some of them are within our control. For example, there are fewer opportunities for economies of scale in Canada. We have a small population based over a larger area, fewer opportunities for economies of scale. We also see under-investment in machinery equipment by the services sector here in Canada. Just to give you an idea, the capital intensity of the retail sector in the U.S. versus Canada—is roughly two-thirds in Canada of what it is in the United States. So needless to say, it's harder for Canadian workers to produce as much when they have less invested capital to work with.

Finally, we've seen limited foreign investment in the industry. Some of this is deliberate; some of it is not. For example, we restrict investment in some sectors, like telecom and air transportation. The end result is that it reduces investment in the sector and reduces the ability of our services sector to benefit from global best practices, global innovation, and different techniques.

Just to sum up, the services sector is a large and growing part of the Canadian economy. We believe the services sector will continue to outperform the goods-producing sector over the medium to long term, thus enabling its success as a key component to Canada remaining internationally competitive in the coming years.

Thank you.

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

We'll begin now with about a half hour of questions and comments from members, beginning with Mr. Rota.

Mr. Anthony Rota (Nipissing—Timiskaming, Lib.): Thank you, Mr. Chair, and I want to thank the witnesses for coming out today.

I just have a quick question about the Canadian services sector. It appears to have shrunk less since the economy has started...I won't say falling apart, but shrinking. Recently, with the manufacturing and other sectors going down, it seems to have increased. What are the reasons for the relatively strong performance of the service sector, and are there certain specific sectors that are much stronger than the others?

Ms. Shirley-Ann George: I'll start an answer, if the Conference Board would like to add to that.

The services-producing industry, according to the Department of Foreign Affairs and International Trade, actually has increased in 2008 by 231,000 jobs. This was largely due to a growth in professional services, banking, and the insurance industry. Stats Canada has also confirmed that as well. Some of our services sectors have done quite well during this economic downturn. I think we can take a significant amount of pride in the fact that because our financial services were well regulated, they have been able to withstand this downturn better than some others.

• (1550)

Mr. Michael Burt: Basically, I would just say, broadly speaking, that much of the problem with this recession, or the source of the cause of the recession, was imported into Canada. Because the services sector is much more domestically oriented, it's one of the key reasons that it's been less affected. Manufacturing, which tends to be much more export-oriented, has been more heavily affected. Within the services sector, as I identified in my opening comments, for example, wholesale trade is highly dependent on the movement of goods. It's been very negatively affected by the recession.

In some of the sectors, like telecom, growth slowed down. It continued to grow through the recession. So it's very much dependent on the conditions of the particular sector. In the case of telecom, one of the reasons for that is that it is, in effect, a utility. Businesses and consumers want a minimum level of service in order to have their day-to-day operations, their day-to-day lives, so they may cut back a little bit on the margin, but they continue to use the service rather than having wholesale cuts and getting rid of their phone services or their Internet services, these sorts of things.

Mr. Anthony Rota: So essentially, from what I understand, it's essential services that are keeping the service industry going or keeping a base. I listened to what you were saying in your opening remarks. You were talking about government services, probably one of the biggest sectors in that area. It gives it a stability or a base.

Then, other services are basically included as essential services. So would that be the largest portion of the services section?

Mr. Michael Burt: I'd have to double-check the numbers, but it is definitely one of the biggest. If you combine federal, provincial, municipal, education, and health, then yes, that combined would definitely be the biggest part of the services sector.

Ms. Shirley-Ann George: I would just add to that. The banking and insurance industries are private industries, and in other countries, especially in the banking sector, they have incurred massive layoffs. That's not the case in Canada.

Mr. Anthony Rota: We talked about services being more of a domestic product than anything else. Statistics Canada reports that export services account for about 13% of total Canadian exports. What percentage of the service industry's production is exported? What is the total there?

Maybe you can define what kinds of services are exported. I guess the old mentality is that you produce something, a hard good, and ship it out, but more and more we talk about services being exported.

I come from northern Ontario, where I see often with mining companies that they sell intelligence, sell services for developing mines abroad. That's not something people think of, really, when they think of exported services.

Maybe you can elaborate on professional services or services that are exported, and what portion of the total of the service industry they represent.

The Chair: I'm going to interrupt here.

We are going to have to suspend. We have bells that are ringing for an unscheduled vote in the House, and it's going to take us at least half an hour. What I'll suggest to members of the committee is that we reconvene here at 4:30 to continue the meeting. What we will do is finish with our first panel, and I'll apologize to the witnesses for the second panel, but we're going to have to reschedule it to another day, because we are out of time.

So we'll reconvene here at 4:30 to finish the first panel of witnesses. I apologize to the second panel; we'll reschedule it for the new year.

We'll continue our meeting at 4:30.

Mr. Mike Wallace (Burlington, CPC): There's another vote at 5:15.

The Chair: I understand that. You can come back here for 45 minutes.

This meeting is suspended.

• (1550)

_____ (Pause) _____

• (1640)

The Chair: We're coming out of suspension of our meeting due to the vote in the House.

We'll have you answer the question that Mr. Rota posed so as to put that into the record, and then we'll go to Monsieur Vincent.

Go ahead, Mr. Landry.

Mr. Michael Landry: It was a question about exports?

The Chair: The question related to which part of the service economy is export-oriented and what the government might do to enhance those service exports.

Mr. Michael Burt: I don't have all the figures in front of me, but to my knowledge the most export-intensive part is the transportation sector. If I remember correctly, about 15% of its revenues come from exports. Other segments can be lower. Financial services, if I remember correctly, are at about 8% of sales. There are some segments that are more export-intensive than others. And there are some that are not very export-intensive—for instance, the retail trade is almost entirely domestic.

Mr. Michael Landry: Certainly in the financial services industry, our sales abroad, particularly in our life insurance sector, are quite extensive. For our life insurance industry, it's about 53%. For our company, about two-thirds of our business is outside of Canada. That's divided between the United States and Asia. Asia is our fastest-growing area—China, Japan.

Depending on the specific sector, the numbers can vary quite a lot. As we grow our business certainly many of the opportunities are outside of Canada, and that will continue to grow, as far as we can see.

• (1645)

Ms. Shirley-Ann George: I would add that currently there's about \$68 billion worth of services that are exported—financial services. There's also the tourism industry, for example, which is very important. But there are massive opportunities to increase this. If you look at the U.S. numbers, for example, the U.S. has the highest percentage of services exported. I believe they're doing close to double what Canada is doing in exports, as a share. There are massive opportunities for Canada, if we could develop a strategy for how we grow the good services companies we have.

The Chair: Thank you very much.

Mr. Rota has now joined us.

Just to let you know, the witnesses have read into the record the answer to your last question—

Mr. Anthony Rota: I'll have to follow up on it, then.

The Chair: —so you can follow up on the IntraParl website.

[Translation]

You have the floor, Mr. Bouchard.

Mr. Robert Bouchard (Chicoutimi—Le Fjord, BQ): My first question is for Mr. Landry. You stated that the coalition had produced a report on the value or state of services in each province. Was Quebec included? Do you express an opinion in this report? What does it include? For example, are you talking about government policies or about constraints the service companies face? I'd like to hear your views on this subject.

[English]

Mr. Michael Landry: I hope I understood the question.

Yes, we have broken it down by province—we have the information here that we'll table with the committee—in order for us to try to get a better understanding of the activity within each province. As we've mentioned, other jurisdictions have drilled down to much deeper levels on the activity and the value that services bring in their jurisdictions, and Canada needs to do the same.

Fortunately, because of the work and recommendations and direction of this committee, some of that work through Statistics Canada is beginning, and the Department of Industry is also paying greater attention to it. Our argument is that for the sector that, broadly speaking, represents 70% of the economy, it is important to know about it—what its constituent parts are, what its issues are—so that policy can be properly formulated to help support it and to continue to build towards it.

In terms of constraints, I can speak more to my sector. There are some—the ones that are talked about and are being addressed, hopefully. The need for a national securities commission is well documented and understood.

We find that for our exports, if you will, our activities to grow abroad, the support we get is very strong in this country. Our governments are very well attuned to the need and the importance of support for industry, which we have had over the years from prime ministers and premiers and in the most recent trips—the Premier of Ontario is in India. Those kinds of things are very important and certainly could be enhanced, but beyond those kinds of things, we are very well supervised here in Canada. At least in our industry, we have managed to find ourselves in the position we do because of both the quality of our system and the companies that occupy it.

• (1650)

[Translation]

Mr. Robert Bouchard: Are Quebec service companies also part of your coalition? Is Quebec also part of your coalition?

[English]

Ms. Shirley-Ann George: Thank you for that question.

We do have some members who have offices in Quebec, and we would definitely welcome more participation from Quebec. As well, the Canadian Chamber of Commerce has representatives from every province and every region and we rely on them as well to help us with our services work.

[Translation]

Mr. Robert Bouchard: Thank you.

My second question is for Mr. Burt from the Conference Board of Canada.

You stated that labour was or would become a problem. You talked about a shortage of labour and about staff turnover. Is staff turnover due to a management problem? Is the supply of business jobs greater than the demand? Putting it another way, are there not enough workers to meet the high demand from businesses?

[English]

Mr. Michael Burt: Basically, if you talk about high-skilled workers, more often it is a problem of supply and demand. Just to use the Quebec example, we have done some work with Bell and CGI in Quebec, looking at IT workers. After the tech bust, at the beginning of this decade, we saw a large decline in enrollment in IT-related programs across Canada. Obviously, businesses that employ IT workers are very concerned about that and they have been trying to address that.

When you talk about issues of turnover, that tends to be more of a problem in some of the lower-skilled industries, things like food services and accommodations. Part of it there is seasonality. There are places where the tourist season is only really a few months, so employees are only hired temporarily for a few months, because there is no business during the off season.

Part of it is around skill levels. Once a person comes into the workforce and gains a certain level of skills, they move on to other occupations.

[Translation]

Mr. Robert Bouchard: You also stated that the services sector had managed to weather the crisis—I'm not sure whether it was Mr. Landry or Mr. Burt who said that, but I think it was the Conference Board of Canada representative—that industry had also managed to pull through, or at least that there appeared to be no major negative effects and that the situation remained stable. To what do you attribute this outcome?

[English]

Mr. Michael Landry: There are a number of factors, and it's certainly a question that people are asking even within the sector.

Certainly, as I've mentioned, the supervision of our companies here is of a very high quality and recognized worldwide as such. You'll notice even anecdotally how Canada, in the G-20, has taken on a leadership role in looking forward at what the global architecture is going to look like. I think some of that leadership has come from the country's record and the record of its institutions as getting through the financial crisis. It may be the Canadian nature that sometimes people perhaps consider us somewhat conservative, say, in our lending practices with banks, but that, at this time, may have served us quite well in getting through this crisis and other things. Our companies certainly are international. Therefore, they're diversified across geographies, across continents, and that has helped them to get through very serious issues. I think the companies are well managed; they're well governed.

So it's a combination of many factors that have led to this situation. It's one of those things that we actually do very, very well here in Canada and across a number of provinces that have strong financial services representation, including yours.

• (1655)

The Chair: Thank you very much.

We'll now go to Mr. Van Kesteren. Go ahead.

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

Thank you for appearing before us, and thank you for waiting for us, as well.

We have been talking in the past about our desire as a government to expand our free trade. Mr. Landry, you brought up the importance of free trade. In the service sector, and in previous studies, it was pretty evident pretty quickly that a lot of the successes we've had come as a result of free trade. I wonder if you could tell this committee how important the free trade arrangement with Colombia is and why that is so important.

Mr. Michael Landry: Well, if you could indulge me, Colombia specifically is not an area I'm familiar with, but I could speak somewhat more broadly about trade and financial services.

Being able to enter a market is a first start. If you can't enter, you can't start to play. Once there, being able to operate on an equal footing with domestic competitors or to help develop the market in the way that you can be very important. So in terms of those things, to have free trade agreements—or in Canada's case, having a World Trade Organization that's effective and bilateral—and regional agreements are very important in that way. They provide certainty for entering markets, and then, once there, to be able to operate so that we can conduct our business. That is true, in our case, whether it's the United States or China.

Ms. Shirley-Ann George: If I could be permitted to add to that question, Mr. Chair, the Colombia agreement is indeed important for services. There are a number of Canadian firms, service companies, that are working in Colombia, especially the services industry around the mining sector and the extractive sector more generally. Whether you are an organization that provides helicopter services or you're doing specialty financing for the mining sector, there's a great number of companies, many of them quite small but specialized in that area, that have been active in Colombia. They are looking for more certainty. They're looking for more investment certainty, and the Canadian Chamber of Commerce has been a strong proponent of moving forward with the Colombia free trade agreement.

Mr. Dave Van Kesteren: So if I understand this correctly, our multinationals—and we are big in mining, Canadians are one of the biggest groups of miners out there—need those free trade agreements to piggyback on. Obviously they can gain entry, but for us to be competitive in that all-important... And I didn't think of helicopters. Can you give us more examples of other industries that would benefit as a result? I mean examples besides helicopters, such as mining or on the service side of things.

Ms. Shirley-Ann George: Is that for Colombia or in general?

Mr. Dave Van Kesteren: That's in general.

Ms. Shirley-Ann George: Any area where we have some expertise in manufacturing there's always a service component that goes around that. As well, we have a number of companies that are Canadian-based that are services experts in the infrastructure area. There's SNC-Lavalin, for example, which is a global company, world-class, and well recognized around the world.

I apologize that I don't remember the name off the top of my head, but there is an engineering company out of the Toronto area that actually has far more engineers in India than they do in Canada.

• (1700)

The Chair: Is that Hatch Engineering?

Ms. Shirley-Ann George: Hatch is one, but that wasn't the one I was thinking of. However, Hatch is another one.

The whole engineering services area is one in which Canada has some global expertise. We're well respected, and these types of free trade agreements help ensure their continued access.

With the agreement we are working on right now with the European Union, it's very important that we remove some of the non-tariff barriers so that not only companies that want to get into Europe today but also companies that will go into Europe in ten years will have an open and fair trade agreement that will ensure them access.

Mr. Dave Van Kesteren: How are we doing in comparison to the U.S.? Are we lagging behind?

Ms. Shirley-Ann George: If you give me one second I can look that up.

Mr. Michael Burt: I can say that the U.S. is the world's largest trader in services. In the numbers we've recorded—and it depends on how you look at it—basically 12% to 15% of our total exports and imports are service-related. In the U.S. it's more like one-third, if I remember correctly. They're very much ahead of us in terms of how big a share services are of their trading activity.

Mr. Dave Van Kesteren: So we have a long way to go yet.

You touched on some of the labour shortages, and I know right now we're all involved in this worldwide recession, so we're seeing.... But your numbers are remarkable. I was looking at your numbers, and we'll talk about that in just a second.

This question is for anybody, but what are your predictions as to when we will move out of that situation and get back into what we had previously studied, a looming labour shortage? How soon do you think that's going to affect us?

Mr. Michael Burt: Broadly speaking, if you look at the unemployment rate, which is kind of your best basic measure of the labour force tightness, we expect the unemployment rate to continue to rise through the early part of next year, but it will quickly fall thereafter. Part of that comes from job creation, but the other big factor is that there just aren't going to be as many people coming in for a net increase in the labour force.

As people retire we're going to have increasing difficulty replacing retirees. So within a couple of years we're going to see the unemployment rate back below 7% and back into the range of what we were experiencing in 2007 or so. We do think it will become an issue again, and fairly quickly: not in a span of five or six years, more like two or three.

The Chair: Thank you, Mr. Burt.

Madam George, did you have something to add to that?

Ms. Shirley-Ann George: I would add that we are facing a demographic cliff in Canada. It's coming up far faster than what we

would be able to properly prepare for if we were paying the attention to it that it deserves.

Yes, there will be a labour shortage, and it's one that will be prolonged and severe for Canada and very difficult to manage because of the number of employees we will have versus those who are retired.

The Chair: Thank you very much, Mr. Van Kesteren.

Mr. Masse.

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

Just for the record, I want to note that I hope the business community will help put pressure on the Uribe government in Colombia. They have a long record of corruption. It's a narco-state where citizens are assassinated. I think there are many of us who will continue to oppose that until it is resolved and we see significant improvement. Hopefully we can see some leadership there, because that would help everyone.

From your perspective, how is the HST going to affect your members?

Ms. Shirley-Ann George: The HST is one of the issues that, just like Parliament, is also difficult for broad groups like the Canadian Chamber of Commerce. But we have been on record for many years as supporting a harmonized sales tax. It is very clear that when you look at the economics overall, it is in the best interest of the country as a whole. If you look at individual sectors and sub-sectors, then it becomes much more challenging. There are groups that are lining up in the provinces looking for some kind of exemption or special status.

There will be a tax shift. We expect to see higher prices overall. If you look at the C.D. Howe and TD Bank reports, we expect to see overall price increases of about 0.4%. If you work that out, for every \$100 spent it will cost an extra 40¢. But the incremental benefit will far outweigh that. They are projecting as many as 561,000 new jobs over the next 10 years. That's 561,000 more people who will be getting haircuts.

• (1705)

Mr. Brian Masse: What specific jobs will there be and in what industries?

Ms. Shirley-Ann George: I don't know that I have—

Mr. Brian Masse: I've heard these wild numbers, but I've yet to see even what sector they're in.

Ms. Shirley-Ann George: I'd be happy to talk to my chief economist to get you the breakdown on that. It wasn't a question I was expecting today.

Mr. Brian Masse: That's fair. I'd appreciate that.

I've heard that many times in some reports and from some politicians, but nobody has ever said....

What about the areas it's going to negatively affect, like insurance and mutual funds, for example? How much revenue do you think the government is going to collect from those newly taxed products that previously had no taxes applied to them?

Mr. Michael Landry: We will have to get back to you on those numbers, Mr. Masse. I think there's some recognition, and some groups have certainly been more vocal about some of the more product-specific impacts. We will undertake to get back to you on that.

I think there's some hope that over time, as impacts are understood, some accommodation—I don't know if that's quite the right word—will be made to ensure they're at least minimal.

Mr. Brian Masse: I guess the really tough part is that no real study was done to look at the affected areas, like the tourism sector and the financial sector, to see what could be done to ameliorate it or phase in a series of things.

Have you ever been consulted by the federal government or provincial government on this?

Ms. Shirley-Ann George: The Canadian Chamber and our chambers across the country—through a vote—have been supporters of the harmonized tax. There have been studies that looked at which sectors will be affected positively, which sectors will be affected negatively, and what the overall impact will be. I've written on it, but if you're interested I'd be happy to share with you a document we prepared that explains it at perhaps a higher level than what you're looking at. It actually names which areas we expect a little higher prices.

I think it's important—and I'm going to come back to this again—to note that when you get \$36 billion of additional capital investment and you get 561,000 additional jobs, that has far greater benefit to the economy than the marginal increases. We see from the experience in eastern Canada that the majority of the savings that businesses receive are passed on to the consumers.

Mr. Brian Masse: When the GST was brought in by our good friend Brian Mulroney, the food and service industry sector really got hit hard, and just recovered to the level of that. They actually estimated around a \$7-billion loss. That's been studied as well.

That's part of the concern I have. I look at the tourism sector and other members that you represent—small businesses—and they're going to take it on the chin. A high dollar from a petro-dollar policy, U.S. passports, visitation—our actual numbers on visitation are down, and Americans represent three-quarters of all the customers we have coming over for tourism. On top of this increased cost, they lost the GST rebate that we had available. So my concern is that not enough planning in supports is being done for those businesses that need some adjustment.

I'll leave it at that, Mr. Chair. I'm being called to the House.

Thank you.

• (1710)

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

We'll end the testimony from our witnesses here.

Go ahead, Madame George.

Ms. Shirley-Ann George: Could I just make one additional point? We asked for the potential for the committee to look at updating your previous report. If that's not possible, I would like to stress how important it would be for the committee to re-adopt the report so we can ensure that the government comes forward with a response. That would be very helpful to the industry.

The Chair: Okay, we'll take that under advisement. Thank you for that recommendation.

I want to thank our three witnesses for appearing. I appreciate your understanding because of these unscheduled votes. It is nearing the end of the session, so these things do happen.

We're going to suspend just for 30 seconds so we can go in camera for the discussion of three items of committee business. We'll ask that the witnesses and other non-essential staff leave the room so we can have that in camera discussion.

[Proceedings continue in camera]

MAIL  POSTE

Canada Post Corporation / Société canadienne des postes

Postage paid

Port payé

Lettermail

Poste-lettre

**1782711
Ottawa**

If undelivered, return COVER ONLY to:
Publishing and Depository Services
Public Works and Government Services Canada
Ottawa, Ontario K1A 0S5

*En cas de non-livraison,
retourner cette COUVERTURE SEULEMENT à :*
Les Éditions et Services de dépôt
Travaux publics et Services gouvernementaux Canada
Ottawa (Ontario) K1A 0S5

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

SPEAKER'S PERMISSION

Reproduction of the proceedings of the House of Commons and its Committees, in whole or in part and in any medium, is hereby permitted provided that the reproduction is accurate and is not presented as official. This permission does not extend to reproduction, distribution or use for commercial purpose of financial gain. Reproduction or use outside this permission or without authorization may be treated as copyright infringement in accordance with the *Copyright Act*. Authorization may be obtained on written application to the Office of the Speaker of the House of Commons.

Reproduction in accordance with this permission does not constitute publication under the authority of the House of Commons. The absolute privilege that applies to the proceedings of the House of Commons does not extend to these permitted reproductions. Where a reproduction includes briefs to a Committee of the House of Commons, authorization for reproduction may be required from the authors in accordance with the *Copyright Act*.

Nothing in this permission abrogates or derogates from the privileges, powers, immunities and rights of the House of Commons and its Committees. For greater certainty, this permission does not affect the prohibition against impeaching or questioning the proceedings of the House of Commons in courts or otherwise. The House of Commons retains the right and privilege to find users in contempt of Parliament if a reproduction or use is not in accordance with this permission.

Additional copies may be obtained from: Publishing and
Depository Services
Public Works and Government Services Canada
Ottawa, Ontario K1A 0S5
Telephone: 613-941-5995 or 1-800-635-7943
Fax: 613-954-5779 or 1-800-565-7757
publications@tpsgc-pwgsc.gc.ca
http://publications.gc.ca

Also available on the Parliament of Canada Web Site at the
following address: <http://www.parl.gc.ca>

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

PERMISSION DU PRÉSIDENT

Il est permis de reproduire les délibérations de la Chambre et de ses comités, en tout ou en partie, sur n'importe quel support, pourvu que la reproduction soit exacte et qu'elle ne soit pas présentée comme version officielle. Il n'est toutefois pas permis de reproduire, de distribuer ou d'utiliser les délibérations à des fins commerciales visant la réalisation d'un profit financier. Toute reproduction ou utilisation non permise ou non formellement autorisée peut être considérée comme une violation du droit d'auteur aux termes de la *Loi sur le droit d'auteur*. Une autorisation formelle peut être obtenue sur présentation d'une demande écrite au Bureau du Président de la Chambre.

La reproduction conforme à la présente permission ne constitue pas une publication sous l'autorité de la Chambre. Le privilège absolu qui s'applique aux délibérations de la Chambre ne s'étend pas aux reproductions permises. Lorsqu'une reproduction comprend des mémoires présentés à un comité de la Chambre, il peut être nécessaire d'obtenir de leurs auteurs l'autorisation de les reproduire, conformément à la *Loi sur le droit d'auteur*.

La présente permission ne porte pas atteinte aux privilèges, pouvoirs, immunités et droits de la Chambre et de ses comités. Il est entendu que cette permission ne touche pas l'interdiction de contester ou de mettre en cause les délibérations de la Chambre devant les tribunaux ou autrement. La Chambre conserve le droit et le privilège de déclarer l'utilisateur coupable d'outrage au Parlement lorsque la reproduction ou l'utilisation n'est pas conforme à la présente permission.

On peut obtenir des copies supplémentaires en écrivant à : Les
Éditions et Services de dépôt
Travaux publics et Services gouvernementaux Canada
Ottawa (Ontario) K1A 0S5
Téléphone : 613-941-5995 ou 1-800-635-7943
Télécopieur : 613-954-5779 ou 1-800-565-7757
publications@tpsgc-pwgsc.gc.ca
http://publications.gc.ca

Aussi disponible sur le site Web du Parlement du Canada à
l'adresse suivante : <http://www.parl.gc.ca>