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Chair

Mr. Dave Van Kesteren

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• (0905)

[English]

The Chair (Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC)): Good morning.

Welcome to our Subcommittee on Canadian Industrial Sectors of the Standing Committee on Industry, Science and Technology. This meeting is looking into the crisis faced by certain industrial sectors in Canada, such as aerospace, energy, forestry, high-tech, and manufacturing.

We have the forestry representatives here today. We are going to ask that you give your presentations in seven minutes, as there is limited time.

We will begin with Mr. Lazar.

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

Let me congratulate the subcommittee on having chosen to do this. We certainly appreciate the interest.

I represent the Forest Products Association of Canada, with members from coast to coast, in 70% of the forestry operations in Canada, including pulp and paper and lumber.

I'm sure the committee is aware that we are suffering major devastation across the country in the forest industry, and I'm sure members of Parliament have occasion to observe that when we talk about job losses, we're not just talking about individuals losing jobs, we're talking about whole communities being devastated, about house prices going to next to nothing, about increases in alcoholism and family abuse. The subject at hand is not simply job loss numbers; it's the social integrity of rural Canada.

Even though the devastation, heartbreak, and the disease of social disintegration we're experiencing is cause for deep concern, I also want to reassure the committee that prices for forest products will return and there will be new markets. When prices return, Canada will be very much advantaged.

Our job in the forest industry is twofold. The first job we have is to survive from now until markets return. The second job is to be prepared to be competitive when those markets return. The good news is that many of our competitors are similarly devastated. Brazil and Russia have been stopped because of the credit crisis; they depend on credit. The Europeans have been tremendously impacted, and not just by the credit crisis but by rising prices.

The question that I'm certain is on your mind is, what can government do? We know what we have to do in the industry, and we're doing it, but what can government do?

Clearly, you can't increase demand for newsprint or raise lumber prices—we have to wait for markets to do that—but you can help us get from here to the return of markets. The government has made a lot of the right moves in EI work sharing, which is keeping many mills open that would have otherwise closed. The announcements to EDC changes and new funding for debt are very positive, and we're hoping to see speedy passage of the legislation to allow EDC to have an expanded mandate.

This is tremendously important. If you can't get your credit renewed, you can't survive until markets return. I would hope that the government would expand EDC's mandate to allow more domestic activity for export-oriented markets. That would make a very large difference because the credit markets that we've seen in the past have just disappeared. Our customers can't get their credit renewed, our suppliers can't get their credit renewed, and we can't. Without that, healthy competitive businesses will go down.

Helping the communities during this time is, of course, primordial, and again the government has done a very good job of creating a fund, but we haven't seen the fund yet. So like the increase in credit, the EI work sharing, and the community development stuff, it has to actually happen on the ground before it helps.

Beyond getting through this crisis, helping the industry become competitive through better business climate conditions and assistance to transformation is essential. When we get through this crisis, it's going to be a more competitive world than at any time in the past.

Your committee did a great job with the manufacturing report; go back to it. There are a lot of good ideas in there. The natural resources committee did a great job with the natural resources report on forestry; go back to it. Parliamentarians worked hard and smart and many of these recommendations are still relevant.

What the government can do beyond helping us through this crisis, through debt and EI work sharing, is to increase funding for research. There was significant money for that in the budget and more is necessary.

Make SR and ED tax credits refundable. That will help us innovate our way out of the current problem.

Fix the transportation system. We are made uncompetitive because of the monopolistic avaricious behaviour of Canada's railways.

● (0910)

Encourage the use of responsibly harvested wood in all federal buildings in the home renovation program and in the infrastructure program.

Help fund the transition of the industry into the use of green energy. Help fund the industry's pollution abatement commitment. Anything we can do on retooling the green side of the industry will be tremendously useful.

Finally, we're inviting the government to join with us in partnership on a project called pathways to transformation, which will look at where future markets are, where Canada's competitive advantage exists, and what's necessary to accelerate our transformation to be able to take advantage of those opportunities.

I would be remiss if I didn't share with you our concern on the softwood lumber deal constraints. Our access to the United States market is absolutely essential. Anything that gives the Americans an excuse to take action against us would be a mistake. The materiality of being shut out of the U.S. market is very large, but the softwood lumber deal should not be an excuse for inaction. There are many things governments can do. There are many things already announced in the budget. There are many things now being contemplated that would assist the industry, that would not be subject to countervail or objection under softwood lumber. The secret to all those actions is that they be applied industry-wide rather than specifically to the forest industry.

Thank you.

The Chair: Thank you, sir, and thank you for your promptness.

We will now go to Mr. Chevrette, for seven minutes, sir.

[*Translation*]

Mr. Guy Chevrette (President and Chief Executive Officer, Quebec Forest Industry Council): Thank you very much.

This is the fourth time I've appeared before various committees to say what the industry thinks about all this. I hope it will be the last. This morning, I'm not here to represent just the Quebec Forest Industry Council. I also have a motion to introduce from 14 groups, including the two major municipal unions of Quebec, the forestry cooperatives, foresters, silvicultural workers, the Quebec wildlife people and the controlled harvesting zone suppliers. I also represent the independent truckers. This is a common front requesting that you take action as the Parliament of Canada. The motion is also intended for Canadian parliamentarians, in the hope that they will rise above political allegiances and pass it.

From the outset, I will say that Minister B  chard was supposed to communicate with Ms. Raftt yesterday evening to make the same kind of proposal to her as we will be making to you this morning.

At this stage, with the votes that have been held, there is a lot of room for developments within the budget. We find it inconceivable that no one can identify a specific budget envelope for the forest

industry, instead of scattering aid and credit access all around. One minister even told me there was \$1 billion for access to credit. Well, gather \$2 or \$3 billion together and allocate it specifically to the forest industry. A very specific envelope should be established with a very specific access channel, a kind of window.

We are fighting for our survival. What Avrim Lazar told you earlier was good. You've done good things, but it's the ones that come out of the coma or crisis that will be able to take advantage. Your \$170 million budget is intended for marketing. We don't currently need marketing. It's a nice effort, but why get involved in marketing right now? If we can't survive, we don't need marketing. We are simply in a state of distress, and that's not being understood. We want to lend you a hand so that you can gather the money together.

In my meeting with Minister Stockwell Day, I found an opening in that regard. We explained to him that there was a host of credit opportunities, but that nothing had been identified for forestry, whereas on the automotive side... We're not jealous of the automotive sector. On the contrary. We're proud for them. But why not have a single window? The crisis is just as big, even more so, than that in the automotive sector, since it affects 825,000 workers, compared to 500,000 workers. It seems to me you have to make an effort to be coherent, an effort to use common sense. Based on the motion you passed by a majority in the House yesterday, you must be able to suggest that \$2 or \$2.5 billion should be taken from the total of \$20 billion in credit, to identify a specific budget envelope for the forestry sector and create a single channel, without there being any overlap with the provinces. Do something that makes sense and we'll support you. We're not here to condemn, but rather to ask you for things. That's our right; that's our role. If you grant that, we'll be here to congratulate you.

The Quebec government heard us. We met with Minister B  chard on Tuesday afternoon. We did our duty. I regret that the motion we're presenting to you has not been translated into English, but I asked the chairman for permission to distribute it to committee members. If I am not entitled to do that, I will distribute it to you later. I suppose it would be interesting to see all the groups who have supported this request this morning, which is also a defence of the proposal by Quebec's Minister of Natural Resources. I believe that all your successful efforts, all the research aspects, for example, will be useless because, fundamentally, that's not what we're asking for. What we're asking you for is to survive. Programs are all well and good; we don't deny their purpose, but there is a time for that.

If you ask me whether it's a good idea to do marketing, I'll say yes, but I'm going to use it if I get out of intensive care, if I get out of palliative care. However, the illness is coming to its crisis, to the terminal phase. If you don't understand that, you're disconnected from reality.

•(0915)

The automotive sector is lucky to be concentrated in three cities. I understand that the major population concentrations are politically profitable. In Quebec, for example, 264 towns and villages don't carry very much demographic or political weight. However, these are men and women who live off a regional economy and who are entitled to expect that their government will look beyond high population concentrations and big cities. They want distributive justice, and that's what I'm asking you for.

Thank you.

[English]

The Chair: *Merci.*

Our next witness will be Mr. Gagné.

[Translation]

Mr. Renaud Gagné (Vice-President, Quebec, Communications, Energy and Paperworkers Union of Canada): Good morning.

I am vice-president of the Communications, Energy and Paperworkers Union of Canada. As the name indicates, my union represents three major areas of activity, including the forest and wood products sector. We belong to the group that is introducing the motion Mr. Chevrette talked about earlier. This morning, I also represent the FTQ.

In Quebec, we represent more than 45,000 members, more than 20,000 of whom are in the paper sector, whereas, in Canada, we represent 150,000 members, more than 50,000 of whom come from the forest sector. There were 26,000 of us in Quebec in May 2007. Today, two years later, that figure is 20,000. We've lost 6,000 permanent jobs. However, those figures don't reflect all the latest job cuts in the sector, or the temporary closings that are currently an everyday occurrence the consequences of which are suffered by workers.

For reference purposes, for Quebec alone, the figures provided by Quebec's department of natural resources and wildlife shows that, since 2005, more than 8,800 members have lost their jobs and that 6,300 workers were affected by temporary closings as of February 2009. One hundred and nineteen plants have closed for good and 112 are closed temporarily. That's enormous.

A long descent into hell. For a number of years now, the industry has been hit by various crises and issues that have ultimately had an impact on job protection and working conditions of our members, like those of the entire sector. We won't go into all the details since that's more the industry's responsibility, but note that, for our members, all these fluctuations have resulted in insecurity and additional threats.

The current economic crisis is the cherry on the sundae, to use a popular expression. For months and years, our members have had a sword of Damocles over their heads.

The additional difficulty that financing their companies' debts represents is really the last thing we needed. No one could have predicted the collapse of the securities market, financial markets, the

increase in the price of oil and exchange rate fluctuations at the time of forest mergers and acquisitions.

The result is that our employers are threatened by bankruptcy. And when you say bankruptcy, you're also talking about thousands of lost jobs and thousands of retirees whose pensions are threatened. We have Smurfit-Stone, which has already been placed under legal protection and whose future concerns more than 1,000 workers in Quebec alone, not to mention retirees. These workers work at five plants, all of which, except one, are still in operation. We cannot forget the recent closing of the Smurfit-Stone plant in Portage-du-Fort, Quebec, where 280 jobs were lost.

Today, AbitibiBowater is really in trouble. This makes no sense. This is the largest company in the forest industry. If it stops its operations at the end of March, 7,600 workers will lose their jobs and 9,000 retirees will be affected. And those figures don't include thousands of direct and indirect jobs that depend on the operations of plants like SFK Pâte in Saint-Félicien.

I'm giving you a very brief, summary picture of the lamentable state in which we find ourselves today. From it, you will understand why our members wonder what to do for our governments to intervene. An entire segment of the Quebec and Canadian industry is disappearing, and no one appears to realize the extent of the disaster, no one apart from us and our members. This is all the more serious since these jobs are, in most cases, located in regions where it is difficult to find other work. These are genuine human dramas.

I could cite the example of Lebel-sur-Quévillon. That town was built from nothing 50 years ago. Today there's nothing left. The pulp plant, sawmill and mine are closed. The houses are worthless. You can imagine what the workers in that town are feeling.

These figures that I've given you concern our members, but the situation is dramatic as well for independent companies operating in wood processing that have stopped production or are on the verge of bankruptcy for lack of financing.

Forest contractors are also in danger of losing their investment, which represents more than \$1 million on average for small contractors operating in the forest.

It's not for lack of effort. We, the workers, have taken an active part in the workplaces to cut costs by negotiating numerous measures: staff cuts, consolidating duties, worker-funded retirements, subcontracting, lay-offs, increased plant efficiency and productivity.

We have also taken part in the consolidation of a number of sawmills to reduce the number of facilities, to relocate staff, manage retirements, increase productivity and cut costs.

The financial impact on the workers and their communities is dramatic. It is true that an unprecedented crisis is underway, but we have to save these jobs because, if they are lost, the skilled labour required will no longer be there when the economy recovers as a result of the current uncertainty and government abandonment of this economic sector.

• (0920)

I would like to point out to forest committee members that the resource is renewable. This resource has been a driving force for development in our country and will be in future—it will be if we make the necessary investment to get through the crisis and build for the future.

Moreover, it is with this in view that, for two years now, all the partners in the forest sector have been working together to build a new forest system, in cooperation with the Department of Natural Resources and in a context of sustainable development. In the medium term, it is this kind of approach that must be promoted, but, for the moment, there is an urgent need to take action to put in place programs that will give businesses quick access to refinancing through loan guarantees.

In Quebec, we are also working to put in place a policy for wood utilization in public construction and on all amendments to the Building Code. In the medium and longer terms, we repeat the requests we've been making to the federal government for a year now. In particular, we are seeking older worker assistance programs to enable those workers to retire, extended employment insurance benefits combined with occupational training in the regions affected, as well as programs for research and development and assistance to establish secondary and tertiary processing businesses. It is very important to maintain primary processing, which should be the driving force for secondary and tertiary processing, when conditions permit. We are also seeking refundable R & D tax credits, the adoption of a policy for the use of wood in public building construction and renovation projects, and the introduction of a mechanism... As Mr. Chevrette indicated, we really need a single window to support the industry, not a host of scattered programs.

I will close by emphasizing the urgent need to act in our sector. The future of thousands of citizens and entire towns and villages, if not entire regions, is at stake. We deserve as much attention as the people in other sectors, such as the automotive sector, which have helped and are still helping to develop our country. I would like to be able to say, when I go back to my members, that concrete measures will finally be put forward and that, not only will they be listened to, but something will also happen.

Thank you.

• (0925)

[English]

The Chair: *Merci.*

Okay. Next is Monsieur André Roy.

[Translation]

Mr. André Roy (Second Vice-President, Fédération des producteurs de bois du Québec): Thank you, Mr. Chairman. First, I want to thank committee members for hearing the representatives of Quebec's 130,000 forest owners.

From the outset, I entirely share the concerns of the people who are here with me around this table. However, I would like to emphasize the concerns of forest producers who have been some of the most forgotten players in this crisis.

First of all, I would like to introduce our organization. The Fédération des producteurs de bois du Québec represents 130,000 forest owners, who own 10% of all of Quebec's forested land, the majority of which is located near the processing plants on the most fertile sites in Quebec. Of that number, with the incentives in place, some 35,000 owners have land use plans for their woodlots, actively cultivate those lands and already represent 20% of the supply to forest products plants. The Fédération des producteurs de bois du Québec is a member of the Canadian Federation of Woodlot Owners, which is the mouthpiece of the 450,000 woodlot owners in Canada who own 7% of all forested land.

The federation has, on many occasions, asked the federal government to use the tax system to promote investment in the development of private forests. This is forested land with the greatest development potential located closest to plants.

Today, with the crisis severely affecting the activities of thousands of families and their rural communities, the federal government must intervene soon to assist them. The government must stimulate investment in private forest development. The measures that should be adopted quickly will have a twofold advantage: first, they will immediately create economic activity, as a number of families are facing significant revenue losses, and, second, help develop forests that will—and this is a major benefit—provide more high-quality wood in future near processing plants, with positive environmental impact.

I will focus on a few measures that we would like to see implemented soon. First, we are seeking a targeted transfer to the provinces for private forest silvicultural programs. As you know, Quebec already has a private forest development program managed by regional agencies. The federal government withdrew in 1994. We think that, during this crisis, it is important to re-establish high-quality and highly productive forest land. It is time for action, since these programs are currently inadequate in Quebec.

Like our colleagues, we would like a policy promoting the use of wood in institutional and commercial construction. Quebec adopted such a policy 2008. More specifically, we would also like to see a registered silvicultural savings plan that would enable forest owners to accumulate tax-sheltered funds that could subsequently be reinvested to develop their woodlots. This measure has been introduced elsewhere in the world, and we think it is high time that Canada established this kind of tool.

In addition, there is a major irritant in the tax system that we would like to see disappear, and that is the tax on forestry operations. Those dealing with this kind of red tape, which generates millions of dollars of additional revenue for the Quebec government, know what I'm talking about. I'm sure it costs two to three times that amount for administration alone. It would therefore be a good idea to establish, together with the provincial governments, that of Quebec in particular, a new way of cooperating to eliminate that tax, which is a major irritant for the big wood producers.

In a longer-term perspective, the federal government must ensure greater investment in forest development in order to position itself to respond to the global population's growing need for forest products. We know that global forest product demand should double within 20 years. It is therefore important to position Canada accordingly. In so doing, Canada will be assisting in the struggle against climate change by means of more productive and healthier forests.

● (0930)

In conclusion, rapid intervention by the federal government is desired to enable forest owners to step up development of private forests. The introduction of additional measures for owners will assist families coping with the current crisis, which has hit them very hard.

Thank you.

[*English*]

The Chair: Thank you, sir.

Thank you all for coming. I didn't do that properly when you first came—only because of time restraints. This is a very important issue, and I know you all have a lot to say, so we wanted to get right into this thing.

So again, I thank all of you for coming, and thank you for your presentations.

Monsieur.

[*Translation*]

Mr. Robert Bouchard (Chicoutimi—Le Fjord, BQ): Before the witnesses speak, I would like to know how the questions will be allocated. I see four Conservative Party members before me, whereas there must be five of us on the committee. Are we going to lose a turn to speak, an opportunity to ask questions?

Furthermore, since there are a number of witnesses, would it be possible to extend the discussion we could have with them for half an hour?

[*English*]

The Chair: In answer to your first question, I believe that one of you is going to be taking a line of questions.

Is that correct?

Mr. Chris Warkentin (Peace River, CPC): We'll just go through the speaking order, and as we have questions, we'll take turns.

The Chair: Okay. In answer to your first question, the witnesses are allowed to take questions, but only in the order the questions are designated to them. So we'll follow the order and won't deviate from it. But if one of them wants to take a question, they are allowed to do that. So there won't be any time taken away from you.

In answer to your second question, personally, I have another committee I have to attend at 11 o'clock.

Glenn, unless we have a consensus against this, if we don't finish today, maybe we can talk about this again at a future meeting and have some of the witnesses come back again.

Is that acceptable to committee members?

Okay. Then I'd like to begin right away, because I know we have a lot to talk about and these gentlemen have lots to say.

So our first round of questioning is for seven minutes, and we will begin with the Liberals and Mr. Garneau.

[*Translation*]

Mr. Marc Garneau (Westmount—Ville-Marie, Lib.): Thank you, Mr. Chairman. My first question is for Mr. Chevette. Thank you for coming. I know this is your fourth time; perhaps it's becoming a little repetitive for you.

You passionately outlined the fact that the forest industry needs a single window for credit purposes. You also very clearly established that Quebec's forest industry is, to use your expression, currently in intensive care. My question concerns competitiveness. People are currently experiencing very major difficulties.

However, looking to the future, can you tell us about measures that the forest industry—particularly in Quebec—could take, with government assistance, to become more competitive, to enable you to better manage the crises that will no doubt arise in future.

Mr. Guy Chevette: The problem is that we're experiencing two crises in Quebec. That's the dilemma. It's even worse than in the other provinces of Canada. We were going through a structural crisis before the economic crisis that the United States is experiencing. In Quebec, our fibre was considered to be the most expensive. We had a study conducted by Pricewaterhouse Coopers. The consultants concluded that Quebec was experiencing something structurally impossible with regard to the competitiveness of the other provinces and U.S. states. In that case, you don't turn to the federal government, but rather to the Government of Quebec, which has to correct the elements of the structural crisis. Under section VI of the Constitution, I believe, forests are an area of provincial jurisdiction. International trade, on the other hand, is a federal jurisdiction. As Mr. Lazar said a little earlier, the federal government, which was the negotiator and signatory of the softwood lumber agreement, has a very important role to play. Industry promotion is the responsibility of the federal government, which plays that role with our agencies, such as FPAC or QWEB in Quebec and British Columbia. We already have structures in this field.

The major problem right now is credit. Do you know how an industry is experiencing two crises at the same time is perceived by the financial institutions? They aren't too happy to see us. If we want to pay interest of 25% or 30%, they guarantee the risks no problem, but at prohibitive rates. We think money should be lent at a commercial rate. That's what I argued before the Standing Committee on Finance the last time I testified there. That was interpreted as a dangerous point with regard to the softwood lumber agreement. We didn't ask for interest relief. We didn't ask for preferred interest rates. We asked that the door be opened to reasonable credit, based on a percentage of commercial loans. We read the arguments submitted by the Americans to support their complaint and in favour of arbitration for non-compliance with the agreement. They said precisely that we didn't have a commercial rate. In any case, this isn't the same agreement. But we know that a commercial rate couldn't be a factor in breaking up the agreement, particularly since the lawyers at all levels—the Government of Quebec, the Government of Canada and even our personal U.S. consultants—simply say that a loan at a commercial percentage interest rate does not constitute a violation of the softwood lumber agreement. One might call that access to credit. If the vocabulary is lacking, there's a dictionary of synonyms. If we're afraid to talk about loan guarantees, let's talk about access to credit. Mr. Day, Mr. Lebel and Mr. Blackburn told me that there was credit. Let them organize things so that we don't have to visit 20 places at a time; so that there is a single window and a fast track. This is urgent; the government knows it's urgent; there are companies that will be going under. Ministers know that it's urgent for certain companies. So there has to be a fast track, to avoid overlap with the provinces and to concentrate everything in an identifiable envelope. That way, they will have done a useful job. Moreover, I think yesterday's vote was proof of that.

• (0935)

Mr. Marc Garneau: Thank you, Mr. Chevette.

[*English*]

My other questions were for Mr. Lazar.

Once again, dealing with the competitiveness of Canada, you had mentioned that when the rebound occurs, we need to be in a more competitive position. And you touched on a number of areas. I was wondering if you could perhaps elaborate a little bit more on these for my own benefit.

On funding for research, I'm assuming you're talking about the use of biowastes or bioenergy, or cogeneration. I was wondering if you could talk a little bit more about that. I'd be interested to know where Canada sits relative to other countries with important forestry industries.

Can we, in your opinion, be leaders in this area? Or are we coming from far behind?

Perhaps I'll start with that question.

Mr. Avrim Lazar: Generally speaking, if you do an analysis of future demand and capacity to compete once global markets return, Canada is actually quite well situated. Our western lumber mills are right now among the most competitive in the world. The number of mills in eastern Canada that are top-quartile competitive is going up all the time. The demand for what we make is going to be increasing

year by year, and if you look around the world, the things that are going to be scarce are fibre, energy, and water. Those are the things that no one has the way we do, except for the Russians, and they have their own problems of infrastructure. So we're quite confident we'll be competitive.

If you want to go specifically into bioenergy, our capacity to do cogeneration is equal to anybody's. We are now at 60% energy from waste in our mills. We produce enough energy from waste through cogeneration to replace three nuclear reactors. So we're well on the path. We should go to, on a net basis, 100%. One of the things the government could do now that would increase jobs immediately, increase competitiveness in the long term, and position us in markets would be to help fund the transformation to a green industry, and there are many ways of doing it that would be softwood neutral. Almost every measure would increase our cost competitiveness as well as our environmental credentials. It's not simply bioenergy. It's a whole range of bioproducts, and we're well positioned to do it.

The one thing I would caution against is to jump into the idea that it's better to burn the wood than to manufacture with it. The number of jobs you get out of simple bioenergy projects is one-seventh the number of jobs you get out of manufacturing. The environmental impact of the green energy from burning wood is not as good as the environmental impact of the sequestering of carbon in products. So cogeneration and the use of what would otherwise be waste for energy is positive socially, environmentally, and economically, but thinking that the answer is just to burn it all for energy is, in most circumstances, bad policy.

Obviously, beetle wood, which there's no other use for, or other waste would be part of the answer.

But we do have a future. I certainly agree completely with Mr. Chevette. As a country we would be profoundly delinquent if we didn't keep sound businesses alive from here to there to enjoy that future.

• (0940)

The Chair: Thank you, sir.

We need to go now to Monsieur Bouchard.

[*Translation*]

Mr. Robert Bouchard: Thank you, Mr. Chairman.

Thanks to all of you for being here today for this important meeting concerning the forest industry. My first question is for Mr. Chevette.

Mr. Chevette, the message you've just presented was a real *cri du coeur*. I also understood that the forest industry was on the verge of collapse, that the situation was urgent and that action had to be taken. I understood as well that loan guarantees were essential, that they were a priority that the federal government should give to the forest industry. I have in my possession a statement by the Minister of State for the Economic Development Agency of Canada for the Regions of Quebec, which appeared in *Le Quotidien* newspaper this morning. Minister Lebel stated:

[...] that Ottawa cannot grant loan guarantees to the forest industry subject to severe sanctions.

The minister added that such guarantees:

[...] could torpedo the softwood lumber agreement.

My question, Mr. Chevette, is this: is it legal to grant loan guarantees to the forest industry? I'd like to hear what you have to say on that subject. In your opinion, is it legal?

Mr. Guy Chevette: It is entirely legal to guarantee us loans at a commercial rate. A loan guarantee at a preferential rate or with assumed interest payments is illegal. I don't know who wrote that, yesterday or the day before, but hiding behind the fear that the Americans will apply penalties... We experienced Lumber IV—you must remember that—and we won in all the tribunals for three or four years, and we nevertheless faced proceedings. We have to stop being afraid. Fear of being afraid paralyzes the brain; you know that. You have to let the industry live. If you examine the coalition argument for filing the complaint, you see that it's arguing that it was precisely because there was no commercial rate percentage. At least people raise that point. They'll have to prove that it's lower than the commercial rate. They say that in their argument, in their presentation. The federal government lawyers defending us, representing us, argued that in the second round of arbitration. They defended the fact that a loan was made; it's all right. So we have statements like this one this morning, and those we've heard for the past two or three weeks. A lot of politicians hide behind that idea so as not... They call that access to credit.

Let them give us the opportunity to have access to credit at a reasonable rate that enables us to get through the crisis. That's what we want. We're not asking for subsidies or assumed interest payments or loans at lower interest rates. We're asking you to give us access to credit at a commercial percentage, so that we can be competitive. That's all we're asking. Any argument to confuse people, to claim that it's illegal and that they know the truth is misleading and intellectually incorrect.

● (0945)

Mr. Robert Bouchard: I have a brief question that will require a very brief answer. You talked about subsidies. The Prime Minister says that granting loan guarantees is tantamount to subsidizing the forest industry. Do you agree with that statement?

Mr. Guy Chevette: No, I disagree, and soon I'm going to ask the following question: does the government, whatever it may be, consider that the Canadian and Quebec forest industry is as important as an agreement?

Mr. Robert Bouchard: My second—

Mr. Guy Chevette: Ask yourself that question; it's serious. I'm not joking with the question; I'm very serious. At some point, if we do nothing on the ground that we have an agreement... Would the agreement have the effect of killing off a global industry of a country, an industry that has 825,000 workers? If that's the case, pardon me, but we'll have to consider whether an agreement must take precedence over the very basis of an industry's existence. We have serious questions to consider.

Mr. Robert Bouchard: I'll question the wood producers union.

Mr. Roy, you say you've hammered at the message, that you've demanded the same things a number of times. Could you tell us

whether you've been calling on the federal government to introduce tax measures adapted to development for private producers, private forest producers?

Mr. Daniel Roy (Assistant Director, Fédération des producteurs de bois du Québec): Steps were taken more than 15 years ago for the federal government to put in place tax measures adapted to the operations of private forest owners. Measures have previously been announced; you have to be honest. They included assistance for the intergenerational transfer of properties under development; that is to say that an owner could transfer his property to his descendants in the next generation on a tax-free basis, as long as the property remained under development by the new family owner. That measure assists owners and is sensible.

However, there are many other measures that we would have liked to see put in place. We've been talking to the federal government for 15 years. And two parliamentary committees have come out in favour of introducing tax measures for private forest owners. The Standing Committee on Natural Resources and the Standing Senate Committee on Agriculture and Forests recommended in 2008 that the federal government use the tax system to support private forest development across Canada, including Quebec.

Countries like Finland and Sweden regularly use these mechanisms to encourage the development and production of their woodlands. We saw that again last year. In some Scandinavian countries, income tax has been amended to stimulate wood production and development.

We think that the current crisis is an opportunity, as Mr. Roy said, for the government to seize to be innovative, in order to encourage the rural communities and private forest families across Canada to carry out development activities that will not only enable them to get through this difficult period, but also to help better position our industry for the future.

As Mr. Roy said, this is highly productive land, which is not currently producing at full capacity. We are far from producing, in private forests, what the land can generate in terms of quality wood, adequate development and support in setting to work owners who are interested in developing those forests.

Thank you.

[English]

The Chair: *Merci, Monsieur Roy.*

We will now go to the Conservatives.

Mr. Harris.

● (0950)

Mr. Richard Harris (Cariboo—Prince George, CPC): Thank you, Mr. Chair. Thank you, gentlemen, for your presentations.

I know we all agree on one thing: the forest industry is facing a serious set of challenges right now in many parts of the country, not the least in mine—being from central B.C.—as well as Quebec. I'm sure we're going to find a lot of life support for companies across the country. Even though we have a problem, there are two ways we can look at this. There is, believe it or not, a positive side as we look to the future and the opportunities that await Canadian lumber producers and forest product companies because of the emerging and increasing world demand, as Mr. Lazar pointed out. We did hear from Mr. Roberts, the gentleman from CIBC World Markets, when we had the forestry study in the natural resources committee last year. As time goes on, there will be some huge opportunities.

We all agree on that. Where we don't agree, in some cases, is just how much the government is doing for the forest industry. I'm sure in the economic action plan, otherwise known as our Budget 2009, a significant amount of funding has been put in specifically for the forest industries. I would like to touch on a couple of them. For example, someone talked about money needed for research and development of new products. There was \$80 million put into that through FPInnovations and others, and they're very good at what they do. We're going to see new wood products emerging on a continuous basis from them. Another \$50 million that someone talked about to increase the marketing of our products abroad was put in over two years to do exactly that, to market our products and to try to get away from having all our eggs in one basket, such as the U.S. market, and try to expand it. We don't want to be caught in the U.S. housing slump again.

Of course, we have the support programs for the forest workers, the extension of the work-share program to 52 weeks even if a company has been on that already and it's gone, as well as the five weeks for the EI program. These are all good things.

Mr. Chevrete, I know you have some questions about the softwood lumber agreement, but I would argue we're in a far better position now with the SLA than if we didn't have it, even though our position isn't very good, considering this downturn in the industry.

I would argue that if we didn't have that SLA we would be hard pressed, given the hard times in the U.S., to ship a single stick of lumber across the border because the southeastern U.S. firms would be arguing they can supply all the wood that's needed right now. If we did, there'd be a far greater penalty. Of all the programs we would like to have, we do have to consider the SLA and recognize...and I'm sure you know the lumber coalition has a battery of lawyers whom I believe are working 24/7 trying to catch us at something. They're trying to find something they can argue, even if it's not real, to try to confound our industry and give them an advantage.

Mr. Chevrete, what I would love to get from you, sir, is a list of all the things you believe the government should and could do specifically for the forest industry that would not violate or spark a complaint by the U.S. lumber coalition. That would be very good.

• (0955)

You don't have to go through all of that today, but I would like to get it. I want to take it to the lawyers that I know, who say we have to be a lot more careful than what has been suggested, who say that these things could trigger.

I'm sorry, that's a long dissertation, but I wanted to get to that question. If you could do that for me, sir, I would certainly appreciate it. I like some of the things you're suggesting; I just don't know whether we can do them.

[*Translation*]

Mr. Guy Chevrete: I am glad you've asked me that question because it enable us to say what we've done. Quebec was the only province that officially voted in favour of the agreement, by a recorded vote of its members. Check and see what provinces held a recorded vote in favour of the agreement reached by Mr. Harper two years ago.

As president of the CIFQ, I am the only person who has an action plan for the agreement to last not seven, but nine years, if possible. We are not opposed to the agreement, but we are opposed to the abusive use or fear of doing something that puts us in a position that paralyzes us.

If I lend you money at 8%, which is an entirely normal rate, how am I subsidizing you? I'm simply lending you money at a reasonable rate. If I lend you money at 30%, that's usury. But we don't want to be victims of usury because the industry is facing a great deal of risk. We don't have access to credit—

[*English*]

Mr. Richard Harris: Mr. Chevrete, if I could just interrupt, I want to make it clear that I'm not afraid of the Softwood Lumber Agreement. I have no fear of it, and neither does the government. What we're aware of is that Canada's wood producers don't need any more very expensive challenges by the U.S.; they don't need to spend hundreds of millions of dollars on lawyers to fight ongoing cases. So before we do something, we just want to make sure that we're on first base before the Americans are.

The Chair: Mr. Harris, you're out of time.

I apologize, sir. Maybe you can get back to it. We want to keep going.

Mr. Thibeault.

Mr. Glenn Thibeault (Sudbury, NDP): I want to thank all of the guests for coming today. I also want to apologize for my voice; I've caught one of these great Ottawa colds that go around here in this warm weather. I am from northern Ontario.

Speaking of northern Ontario, my riding of Sudbury is known as the mining capital of Canada, if not the world. We too have been hit by this forestry crisis in the sense that we've lost almost 900 jobs over the last few years in Sudbury and area with the shutdown of the Nairn Centre mill and a few other places.

My colleague on the other side mentioned something about \$80 million in R and D and \$50 million for another program. We've heard a lot of talk right now about the auto sector and about the crisis that sector is in as well. They're talking about \$4 billion. We've heard about \$130 million. If we add a little more to that, let's say there are a few more programs out there, that's not even 1% yet of what's going to the auto sector.

Maybe I'll ask this of Mr. Chevrette. What percentage do you think would be fair, if you can come up with that, for the forestry sector?

[Translation]

Mr. Guy Chevrette: A commercial loan rate is set by the market; you know that very well. A regular commercial rate may be 8% at one point, and the following week, it may be 9%. It's the loan market rate.

Mr. Avrim Lazar: That wasn't the gist of the question.

[English]

What percentage of what the auto workers are getting would be fair?

[Translation]

What percentage of the subsidy granted to the automotive industry would be appropriate?

Mr. Guy Chevrette: I repeat, it's not a subsidy that we want. We're talking about a budget envelope; that's no doubt what you mean. I suppose that the budget envelope would be comparable to that of the automotive sector.

We represent some 300 members in Quebec. The small organizations are definitely requesting a very small amount in order to refinance. It's all well and good to have invested \$170 million over two years in research and marketing programs to encourage innovation, but if the businesses are unable to get through the crisis, they'll never be able to benefit from those amounts. All the government programs presuppose a contribution by the industry. You're not completely subsidizing the research institute. To conduct research, the industry has to add its share to those of the governments; that's normal. However, we don't even have any more money for that. We are now perceived as people in a critical position, sources of risk for the financial institutions, and they are prevented from lending us money at a commercial rate or at a market rate.

Bombardier is operating on loans at market rates. How is it that it's good for Bombardier and for the automotive sector, but not good for an industry that employs 825,000 people across Canada? In Quebec, 100 of the 300 businesses that were members of our council have shut down indefinitely as a result of bankruptcy. So we're operating with one-third of the businesses. Imagine that hit the populations, resource regions and the regional economy are taking. It isn't just the forest industry that's in poor shape, but also the businesses, like the hairdressers and all the others.

We're asking you to think about that budget envelope. What is preventing the government from deciding to make \$2 or \$2.5 billion of its accessible credit available to the forest industry and to provide a single channel? It might be Canada Economic Development, or whatever. That's where we would send applications, which would be

processed on a priority basis and very quickly. That would be taking positive action.

That's what we're asking; it's not difficult.

• (1000)

[English]

Mr. Glenn Thibeault: I still have time. Thank you.

I'd put a similar question to you, Mr. Lazar. On the survivability of your membership, when we see the primary industry disappearing, would there be something you would like to see in a percentage, so to speak?

Mr. Avrim Lazar: Our situation is so different from the automobile industry, and frankly, we feel we're in a much better position because we have been doing our competitiveness homework. We haven't been asking the government to freeze the status quo. It would be easy to interpret what's happening in the automobile industry as that kind of request, but we just don't think that will work.

I think it's important to ask why we're here. We're here to find practical solutions to what we're really facing. So let's acknowledge what the government has done, which is excellent. Let's acknowledge what has to be done, which is to access credit. Mr. Chevrette and I and all of Canadian manufacturing and industry from coast to coast are very clear that credit is like oxygen. Even if you're a very competitive athlete, you're going to turn blue if you can't get credit.

Extending the mandate, scope, and funding for EDC is one thing the government announced that we loudly applauded. We're not asking for a *guichet unique* or *une voie unique*; we're only asking for the cash and loans. I fully understand Mr. Chevrette's frustration that even though it's all been announced, it's not flowing yet. I understand that you have to pass legislation and whatnot, but the question is not whether there is a *guichet unique*; the question is whether or not there are loans. If the government can deliver on what's been announced, and the mandate of EDC can be expanded in amount as well as scope so that more domestic-oriented loans supporting export-oriented industries can be made, that will give us a huge step up.

Beyond that survival is competitiveness. Certainly the money from marketing and research is excellent and necessary, but not sufficient. There are many other things that can be done. We've been asking for years that the money we invest in research become refundable. That would put cash in pockets right now and keep people working.

We've been asking for years that the Competition Bureau be more sympathetic to the restructuring of the industry. We've been asking for years that there be more assistance to the transformation of the industry—not just to green energy but to the lowest environmental footprint. That could be done softwood-safe and have social, environmental, and economic benefits.

One of the environmental groups suggested to me the other day that we go to the model that's used quite often, where money is paid for the transformation and the company pays it back through savings. It would be free for the government and it would really improve our competitiveness. If the money is paid back, it's trade-proof.

So I think the focus has to be on stuff that's been done. More stuff is planned and we're anxious to see it. What can be done, practically, in addition to what's been done? A lot of that has to do with industry transformation.

• (1005)

The Chair: Thank you. We're into round two and you have five minutes. I ask members to keep questions as brief as possible.

Mr. Garneau, please.

Mr. Marc Garneau: Thank you for the space jokes.

My question is for Mr. Lazar. You may or may not want to answer this, but I'm going to ask you the question directly. Mr. Chevrette believes that loan guarantees at commercial rates are perfectly acceptable. I'd like to hear your opinions on it.

Mr. Avrim Lazar: You're right that I'm not going to answer, simply because I'd rather it be referred to trade lawyers. It's easy to say this particular instrument is safe, until you actually look at the detail of it. I think Mr. Chevrette was quite clear that it's not loan guarantees as such, but a measure that has the same impact of creating access to credit at commercial rates, whether it's through BDC, EDC, or some other instrument.

So I think it's necessary that we move aggressively on making credit available, and consult our trade lawyers to make certain we're doing it in a softwood-safe manner. There has never been a challenge to the use of the Export Development Corporation. It has been tremendously helpful. They just need a bit larger mandate, a lot more money, and perhaps a bit more political bravery for these times when the commercial lenders aren't here.

I don't see any benefit in having a legal technical argument here. We should take Mr. Chevrette's insistence, that we not hide behind the softwood agreement, and find solutions that allow credit to flow, as a very sound proposal.

Mr. Marc Garneau: So if I understand what you're saying, if we do it properly there's a possibility it won't lead to countervailing action.

Mr. Avrim Lazar: I am certain it can be done in a way that doesn't lead to countervailing action. Whether it's a loan guarantee or other methods of making credit available, I am certain of that. It's been done in the past and it will be done in the future.

I haven't sensed any reluctance on the part of the government to doing it. What's been announced is certainly heading where we want them to go. It's actually putting it on the ground. As we're sort of gasping, we're hoping the options will flow sooner rather than later, because we may not be around to breathe it.

Mr. Marc Garneau: Thank you.

Amongst the actions you suggested the government might wish to consider, you spoke about SR and EDs and making them refundable.

Could you expand a little on whether that would apply to the whole sector you represent or to a limited part of it?

Mr. Avrim Lazar: We've always suggested that refundable SR and EDs should be for all manufacturing. That was the recommendation of this committee's report on manufacturing; it was a recommendation of Natural Resources.

It's a beautiful instrument, because unless a company puts its own cash into innovation, it doesn't cost the government a penny. It supplements the public sector stimulus, the money that's coming from taxpayers, with private sector stimulus, money coming from private enterprise into research. We are innovating now. We're still investing in research and innovation, and what a great thing to encourage by making it refundable.

One of the ironies of the current SR and ED program is you only have access to the government's help if you're profitable. Maybe it would be smarter to use the government money to encourage companies to innovate their way out of trouble when they're not profitable, rather than to only reward those who are already out of trouble.

• (1010)

Mr. Marc Garneau: Do you differentiate between whether it's Canadian-owned or foreign-owned?

Mr. Avrim Lazar: If it's foreign-owned it's subject to Canadian tax policy. So if they want to invest in Canada, I think we should say, "Welcome. Come invest in Canadian mills."

Mr. Marc Garneau: You talked about our transportation system needing some changes. Could you educate me in about 20 seconds?

Mr. Avrim Lazar: Yes. Eighty percent of our mills are held captive by a single railway company. Since they're monopolies, they do what they're legally required to do and maximize profit for their shareholders. As a result, because they have monopoly powers, we get bad service and are overcharged. In a country with such a vast geography, this is a big competitive disadvantage. It's not that the railways are bad; the railways are brilliant. But government policy is bad in giving them this monopoly power.

The Chair: Thank you, sir.

Monsieur Gourde.

[Translation]

Mr. Robert Bouchard: I'm going to ask Mr. Gagné a question.

[English]

The Chair: Sorry, Mr. Bouchard, we're following the same order. Monsieur Gourde.

[Translation]

Mr. Jacques Gourde (Lotbinière—Chutes-de-la-Chaudière, CPC): It's a pleasure for me to welcome the witnesses. I'm pleased that you are here because the forest industry is a concern for me as well. My question is for all of you.

Have research and development programs been useful for the forest industry?

Mr. Avrim Lazar: It's absolutely necessary. When businesses can pay less for research, government support is very important. That helps us a great deal because, in future, we'll have to find new products and new ways of manufacturing those products. Our future depends on our ability to find them. However, if we don't survive, that investment will be lost.

Mr. Guy Chevette: I'd like to add that that depends on the type of assistance the program would provide. If it's a tax refund and we don't make a cent, we'll be in the hole. That doesn't help. It has to be a direct refund from the government to business; otherwise that wouldn't be much of a gift. We would invest, and as we wouldn't make any money, there wouldn't be a tax refund. So everything depends on the way it's written in the program. It quite often varies from one department to the next.

However, I think that research is essential, particularly since some believe that processing is a matter of spontaneity. It often takes lengthy studies on markets, the product and a product's resistance. When you listen to some politicians talk about secondary and tertiary processing, you'd think it simply springs into being and in the world the next morning. Sometimes it takes 10 years to put a product onto the market, as you know.

Mr. Jacques Gourde: Thank you, Mr. Chevette.

We're currently experiencing a market crisis. Fewer lumber, chip and pulp products are being sold, and prices have declined. Will that market pick up again, or will emerging products offset them and secure the forest industry's future?

Mr. Guy Chevette: If the primary processing industry doesn't deliver a quality product at a reasonable price, the secondary and tertiary processing industries will suffer. The primary processing industry must be competitive and deliver a high-quality product at acceptable price in order to enable the secondary processing industry to come up with emerging products. In Quebec, we are number one in Canada for emerging secondary and tertiary processing products, and that's never said. Ontario is roughly on the same footing as Quebec in that regard. We're on each other's heels, but we're far ahead of British Columbia.

It's true that the variety of our basket of products will count for a great deal in future. The more we diversify our products, the more we'll be able to export internationally. Not being a prisoner of a single market like the United States would no doubt be a major advantage for the Canadian industry.

●(1015)

Mr. Jacques Gourde: So you acknowledge that the Canadian government's efforts, through certain programs of the Department of Natural Resources, to diversify new products—

Mr. Guy Chevette: We can't blackmail you into providing assistance. We can't threaten you with producing somewhere else, like Chrysler and Ford, in the automotive industry do when they say they'll shift their production to the United States.

Mr. Jacques Gourde: Mr. Chevette, have the programs put in place by the Department of Natural Resources over the past 15 years helped develop new products in Quebec?

Mr. Guy Chevette: Yes, some products have been launched, of course.

Mr. Jacques Gourde: Will there be commercial successes in future?

Mr. Guy Chevette: If you don't help the industry, those companies that have launched new products won't be able to continue. People don't seem to understand the urgent nature of the situation. The automotive sector, Mr. Gourde, needs to get its head above water and to breathe in order to be able to continue; you must understand that the forest industry, which has 325,000 more workers, is asking you for the same thing.

Mr. Jacques Gourde: Thank you, Mr. Chevette. I have other questions.

Do your members use EDC and the Business Development Bank of Canada to get financing?

Mr. Guy Chevette: They will if you offer them an acceptable commercial rate. I told you that it was Export Development Canada... Call that agency if you want, but establish a special envelope for the forest sector.

Mr. Jacques Gourde: Are your members already going through those agencies?

Mr. Guy Chevette: Yes, some are through the cooperation of one minister.

[English]

The Chair: Sorry, Mr. Gourde, your time is up.

Mr. Gagné, you wanted to jump in on that last one, so I'll give you a minute to do that.

[Translation]

Mr. Renaud Gagné: Mr. Gourde, it's true that R & D investment is very important. However, given the industry's current situation, if you can't get through the crisis, you'll be facing a problem when the recovery comes. People don't register for training courses because their parents who work in a plant lose their jobs. There won't be any young engineers or technicians. We absolutely have to provide support at the grassroots level if we want to get through the crisis.

We're starting to develop a policy on wood utilization in Quebec. For example, the Chantiers Chibougamau company is building a soccer stadium using wood beams. That's what we're all seeking in the case of federal and provincial public buildings.

The Chair: Mr. Bouchard.

Mr. Robert Bouchard: Mr. Gagné, you made a number of public demands in recent years that assistance be offered to the forest industry, demands that were focused particularly on workers, your members.

What was the nature of your demands, and was there a response to them?

Mr. Renaud Gagné: As part of the consolidation, we know that, for all kinds of reasons, the forest sector in Québec did not produce as much as expected. So there have been reforms to reduce wood volumes. We've taken part in all kinds of ways to consolidate this industry. If we wanted to retain the young labor force, we needed to enable older workers to leave the industry, and we requested a program for older workers. It's all well and good to have an initiative to enable workers to retrain at the age of 55, but when an individual has been working at a sawmill for 30 years, as a region, it's hard to think about retraining that individual. I have friends in the Outaouais who have enrolled in the program. There are eight individuals in the program. There was available money, but people weren't registered. So the former POWA program would have given us a real hand in retaining the young labour force. We currently have plants that have managed to finance themselves out of workers' pay. Either they have contributed more to the pension fund or they've cut their vacation pay to enable people to retire. Why? To retain the youngest workers because tomorrow, in two, three or five years, we won't conceal the fact that they'll be leaving plants by the hundreds. So people 52, 53, 54 years of age are in the plants and aren't eligible for retirement. Within five years, if we can't save this because no one is registered for training, we'll have a serious problem in our communities. That's all across Quebec and particularly in Lac-Saint-Jean. We were talking about AbitibiBowater; we have 20 days left to resolve that issue.

• (1020)

Mr. Robert Bouchard: What was the government's response to your request?

Mr. Renaud Gagné: We've had no response to date, apart from the announcement of \$170 million over two years, which unfortunately won't save what we have in place. So we've obtained nothing for training or an extension of or access to employment insurance. So it's quite clear that, if we think of the bankruptcy situation in the communities, the solvency of pension plans, less 35%, these people won't be able to spend in the regional economies. It's all that will follow. We haven't received that support.

Mr. Robert Bouchard: I have a question for Mr. Chevrette concerning loan guarantees. We know that the government's ministers defend the U.S. position on loan guarantees. Doesn't it appear to you that the government is torpedoing the forest industry?

Mr. Guy Chevrette: I'm going to let you select the terms you want to use, but what troubles me is that, as a result of fear regarding the softwood lumber agreement, we're about to ask ourselves whether we want an industry in Canada, on the pretext that no one can grant loans at a commercial rate, a legal rate, a market rate, and even the provinces will be forced to consider whether we want to have a forest industry in Canada that creates 825,000 jobs. It will go that far. I repeat: we aren't in a position to blackmail the Canadian government like the major automotive companies have managed to

do, to confuse the two governments and enter into agreements between the U.S. and Canadian governments.

In the softwood lumber case, you'd say that the Americans are there, thinking: if they can suffocate, if they can die... Even if it's not entirely legal, they're nevertheless going to resort to arbitration, and we'll play the game and do nothing. That's where I ask you the ultimate question: do you want an agreement at any cost, to the detriment of an industry's survival? The matter can go that far. And we'll be forced to ask ourselves that question one day if the governments do nothing. I could tell you that AbitibiBowater is in Quebec what GM might be in the United States, all other things being equal. No one gets worked up over that in Quebec. We'll have to start getting a bit excited and to consider the facts. That company has 9,000 retirees who work in 25 municipalities in Quebec alone, not including British Columbia and Ontario. It creates 10,000 to 12,000 direct jobs, which means approximately 20,000 direct and indirect jobs in Quebec. What would become of all that industry's subcontractors if it fails? We'll say we complied with the U.S. agreement? Come on, we have to react! We have to take minimum precautions, yes, but the government has no right to let it go, in my opinion. Parliament can't either, and I think you have a role to play, everyone. With respect to you, if the government comes up with a specific envelope and a fast track procedure—provided it avoids duplication with the provinces, because otherwise we'll have the familiar conflicts over traditional areas of jurisdiction—I think we'll all applaud and congratulate you.

[English]

The Chair: Thank you, Mr. Chevrette.

I would ask members to focus on the discussion here. There is a little bit of chatter going on, which is a little bit distracting. These gentlemen have come and they have devoted their time, and it is important to listen to what they say.

Next is Mr. Warkentin.

Mr. Chris Warkentin: Thank you very much, each one of you, for coming this morning. We appreciate your testimony.

I come from a riding that has a significant forestry industry—or had a significant forestry industry. Unfortunately, over the last number of months, we've seen a number of mills mothballed, with the hope of someday re-opening. We are all looking for that light at the end of the tunnel. We hope the Americans start building. We hope Canadians continue to build, and in some cases start building again as well, so that our industry will start up again.

Obviously, we have the things that make for a long-term, profitable, solid business. We have access to trees. We have access to all the things that make us leaders in this industry. We also have mills that are high-tech and certainly ready to go. We'll give any mill in the rest of the world a run for its money when it comes to efficiency. We have mills that have pretty much taken advantage of every opportunity in terms of utilizing every bit of waste. They are super-efficient. Some of our surviving mills have been credited as being the most efficient in our country and are actually the most efficient in the world. That is the only reason for their survival.

The question that keeps being brought up, even in my community, where we have such a dependency on the forestry sector, is this. Sure, the government can come in, even if it were just able to hand money out, but what is the purpose, at this point, of creating wood that drives down the cost of the product? Certainly we could open the mills that have closed down if we threw a bunch of money at them. But what's going to happen, at least in my community, is that the mills that are surviving are going to be shut down. How do we differentiate?

Mr. Lazar, you know the industry across the country. In terms of our capacity right now, have we reached a point at which we're able to move forward with current capacity, or do we have to limit capacity additionally? I'm just talking purely from the perspective of product on the market. Are we still in a situation where we're flooding the market?

• (1025)

Mr. Avrim Lazar: If you look at prices, it's pretty clear that there's no scarcity of forest products on the market. The price of lumber now is less than the price of a log to the mill gate. Pulp and paper prices are at historic lows.

Monsieur Bouchard, I'm going to answer his question because it's partly an answer to yours. Government hasn't torpedoed the forest industry; the marketplace has. The government didn't drive lumber prices or pulp and paper prices down; the marketplace has. So our solutions have to reflect what the real problem is, which is that nobody wants to buy our stuff because the world is in recession.

You have to ask yourself, what is the constructive role that government can play? It's fairly simple.

One, help us get through this period through access to credit, EI work sharing, and help for the communities that have to suffer through it. To be fair, what the government announced in the budget has all of those things, and it's actually seeing it happen that we're now looking forward to.

Two, help us prepare to keep the jobs in Canada when markets return. That involves, of course, new products, new markets, transformation to green energy, encouraging the use of responsible wood in home renovation and government projects. All of those things are there, and we can certainly use more of them. Certainly on the tax side the last budget was weak in terms of improving the tax conditions for all of Canadian manufacturing. We'd like to see more there on the transformation to a green industry.

Let's not fool ourselves that government is the answer. Markets are the answer and they will come back with or without government. Government cannot be delinquent and say it has nothing to do with us. The things we've been asking for are absolutely necessary.

I want to just say one word on the softwood agreement, because we're dancing around it a bit. At today's prices, everything we sell, we're selling below the cost of production. That's true of us, the Russians, the Europeans, and the Americans. The price of our products is less than the cost of production. That's why we're in deep trouble. That is the legal definition of "dumping". The Americans don't have to worry about dumping because they're not selling to us; we're selling to them. If we lost the Softwood Lumber Agreement, we would be subject to dumping charges, if they were fair, of

anything from 28% to 32%. We have never experienced a fair judgment from the U.S. commerce department. It would kill us. So let's not be cute about the Softwood Lumber Agreement. We need it to survive. We don't need it as an excuse for government inaction; we don't need it as something to hide behind when people don't want to do things. We do need to be cautious and strategic in only doing things that will not allow the agreement to be thrown out.

• (1030)

The Chair: Mr. Warkentin, you're out of time.

Very quickly, sir, because he's over his time.

[*Translation*]

Mr. Guy Chevrette: Briefly, I will answer that we won all the judgments on Lumber IV. We left \$1 billion on the table. Remember the signing of the agreement. After winning all the judgments, we're stuck with a \$68 million penalty.

[*English*]

The Chair: Mr. Roy, I'll allow you maybe at a later time to just jump into the fray, but we have to be cognizant of the time, and we're well beyond it.

Mr. Thibeault is next.

Mr. Glenn Thibeault: That's great. I'll take it. I'll get right to questions.

I'll put it to you, Mr. Gagné.

In your opening speech you talked a lot about the current job losses and how that's affecting the industry. Then you talked a bit about what I call successorship, how we're not seeing any of our youth coming into this market. What can we all do—and when I say "we", I mean the industry and government—to help save this industry and save some of these jobs?

[*Translation*]

Mr. Renaud Gagné: The first thing to do, in the short term, is to find the necessary financing, loan guarantees that will enable us to maintain what's in place. Obviously, in some sectors, paper, for example, depending on the markets, were not working to keep all the plants open. We're working to retain our best elements. We've cut costs as far as possible in all plants. Obviously, with the falling market, we can't ask to keep all our plants open. We'll have to examine the companies that are currently in place. In our communities and among our workers, there are bankruptcy situations, the impact on people who are retiring is great, and people will be losing their jobs. These people won't be around in future to start the secondary and tertiary processing plants back up. If there is no primary processing, we definitely won't be creating any jobs in the future.

Few people are signing up for training at Laval University or elsewhere because there's too much uncertainty about the future. I remind you that there are 9,000 retirees in Quebec, and that's just at AbitibiBowater. In Lac-Saint-Jean, according to the information we have and the number of retirees, if work had to stop tomorrow morning, at the end of March, no operations would be maintained at AbitibiBowater, unlike Smurfit-Stone, which has managed to borrow \$750 million to maintain four out of five plants in operation. That would be catastrophic! We're talking about 7,600 direct jobs. We're not talking about indirect jobs, subcontractors and so on. That will be hell! There will be people in the street. It's just starting and I'm telling you that there's going to be trouble in Lac-Saint-Jean next week because people will be very unhappy about what's going on. They really want the federal government's support and assistance in the form of loan guarantees.

[English]

Mr. Glenn Thibeault: I'll jump in a little bit on that. Two weeks ago I had the opportunity of meeting with northern Ontario mayors. The mayor from Thunder Bay was able to bring a scarf made out of wood products, which I thought was interesting. It was made right in northwestern Ontario. Uniquely, today I happened to bring a pen made out of wood, but it's made in China. What can we do to encourage more research and development in Canada? I'll ask you, Mr. Lazar.

Mr. Avrim Lazar: You're talking about all sorts of value-added innovative products, and certainly the money the government has given the research institute for transforming the industry will help with that. But Monsieur Chevrete is 100% right in saying the only way we're going to have value-added products or innovative products is to have a sound basic industry.

The forest manufacturing industry is like an ecosystem. You need the grass before you can get the impalas, before you can get the lions. You need the plankton before you get the sea horses. The only way we're going to have value-added, innovative products or differentiated products is for the basic commodity to be healthy.

Frankly, that's where our competitive advantage is. The Chinese produce wooden pens at wages that are one-tenth of ours. Wages in the forest industry are well above the average Canadian wage. The value for Canadians, the value for Canada's way of life is actually in basic extraction and first transformation, because that's where scarcity is. Labour is not scarce and engineers are not scarce, but natural resources are going to be scarce in the world, and we are going to get more economic and social value from extracting and transforming natural resources than we will by trying to compete with the Chinese on labour-intensive products.

We've got it backwards. We think it's high value going up the manufacturing chain, but it's low value. It's where people work for dirt-cheap wages. High value is closer to the natural resources.

•(1035)

The Chair: You have 15 seconds, unless you want to give Mr. Roy—

Mr. Glenn Thibeault: I'll give Mr. Roy an opportunity to respond on that last point.

The Chair: Thank you, Mr. Thibeault.

Go ahead, Monsieur Roy.

[Translation]

Mr. André Roy: Thank you. I will speak. After all I've heard this morning, I've come to the conclusion that we have to make a gift to an industrial sector that has a real future. Everyone agrees that the forest sector, that the planet, that the world will need more and more forest products. The great paradox is that our industry currently has no present. We have to convince committee members that we have to get through a crisis and that the future looks extremely good. In 2050, there will be approximately 9.5 billion people on the planet. A number of us won't be around to count the people living here, but that's what all the forecasts indicate. Global wealth and forest product needs will increase. Forest products are environmentally friendly, incidentally. Two years ago, a lot of people doubted that. Today wood is obviously an environmentally friendly material. We'll have to provide some proof by certifying our forest practices, but we're doing that. Committee members must be convinced that there is a future for this sector. In my view, once they're convinced, they will be in a better positions to make decisions.

Thank you.

The Chair: Thank you, Mr. Thibeault.

Mr. Gourde.

Mr. Jacques Gourde: Thank you, Mr. Chairman.

I want to thank my colleague for passing his turn on to me because this sector is a fundamental concern for me.

Mr. Gagné, you talked about manpower training. Our action plan provides for manpower training for job market entrants. It's important that some come from the next generation. This also includes those who lose their jobs and older workers, those 55 years of age and older—who need more training to enable these employees, who will be on employment insurance, to acquire new skills enabling them to restart the forest industry. The market will one day pick up; it's a matter of time.

Mr. Renaud Gagné: The importance of training is clear. It's a troubleshooting mechanism. It isn't easy for people with 25, 28 or 30 years of service to sit down on a school bench in order to go back on the job market. People would like to take short-term training, of six to 18 weeks, for example. Beyond that, however, it's pointless. In fact, people are still waiting. In the case of plants closed temporarily or for an indeterminate period of time—not knowing whether it's for one, two or three months—people wait until the last minute before they lose their employment insurance benefits and then they go enrol.

The greatest concern is for youth. The children of these parents won't go into the pulp and paper industry, forestry or other areas. When we are ready for the recovery, we won't have any more workers. We really have to save the first stage, so that there are some people left. As Mr. Roy said—and I'm convinced of it because we've been working on this for two years—the forest industry has a long future ahead of it. We'll have to proceed differently and cultivate our forest. If we can't preserve what we have, we'll lag behind to a terrible degree, and I'm not sure we'll regain our competitiveness. Others will move ahead of us.

Mr. Jacques Gourde: We all think manpower training is important.

One of my personal friends has worked in forestry for 30 years. He's a contractor, has a skidder, cuts wood and transports it to the plant. He tells me that accelerated CCA is an advantage for him. We know that there's heavy machinery in the forest and that it's expensive.

Do you think this deduction, which is possible at the federal level, is really advantageous for the industry?

•(1040)

Mr. Guy Chevette: Yes, and what is more, I think it will soon be in effect at the provincial level. Between you and me, in many cases, the industry guaranteed loans for our skidders. It's as clear as that.

Going back to what Renaud said, we claim that 2,000 to 3,000 young graduates won't be around for the recovery because they won't want to wait eight to 10 months to find another job and will leave the regions. You can offer any kind of course; the young people won't be there anymore. If you offered the ones who are 53, 54 or 55 the opportunity to take early retirement, they would stay in the area. However, as long as these people have three or four more years and there are no programs to enable them to get their jobs back, they won't stay in the area. They'll go to work in Montreal or other urban centres. They'll simply leave the Quebec regions. That's what's dramatic. You can have 10,000 programs, but if you don't target the right issue—which we think is to help those who are near retirement make room for the younger labour force—you won't be doing them any favours.

Mr. Jacques Gourde: Thank you for your answer.

You represent the Fédération des producteurs de bois du Québec. Are they owners?

Mr. Daniel Roy: Yes.

Mr. Jacques Gourde: That's good.

You said you had made some 15 submissions to the federal government. Are you going to see the cabinets, or members of Parliament? Who are you going to see?

Mr. Daniel Roy: We've had a lot of discussions and exchanges with representatives of the federal Department of Finance. We've also attended the meetings of various parliamentary committees to explain the validity of potential tax assistance measures for private forest owners.

From all of today's discussion, I understand that an industry definitely has to get through this crisis, an industry that will be in

good position in future to meet the demand for forest products, which will be great.

I think that committee members must not lose sight of the fact that it will also take timber, because that's what forest products are made of and, ideally, superior quality timber to what we currently have near the plants. It's at that point that the industry will have low-cost fibre to be increasingly competitive. That way, we have the conviction... This isn't a matter of dreaming in Technicolor because promising achievements have been made in forest development in the past 30 years with government support, and measures put in place.

Woodlots currently produce four to five times more timber than the average for all forests. That's the result of workers who have made a commitment to the development of their forests using development plans, technical support and so on. But there are still a lot of opportunities for getting more owners in Canada involved in this approach.

In conclusion, we must not be afraid to intervene through the tax system to assist woodlot owners. In the United States, the U.S. federal government makes significant use of tax measures to assist woodlot owners in developing their forests. Here I have a three-page list of measures in effect in the United States; I could cite them to you.

[English]

The Chair: Sorry.

We now go to Mr. Garneau.

[Translation]

Mr. Marc Garneau: Thank you very much.

I would like to ask Mr. Chevette a question, or perhaps Mr. Vincent. It concerns international markets. I'd also like to have Mr. Lazar's opinion.

For my information, have we fully exploited the other options in the international market. I assume our principal market is the United States. Are there any places where the Department of International Trade, or the government, could help open new markets?

Mr. Guy Chevette: Mr. Vincent can supplement my answer.

I would say that the federal government is currently giving QWEB an enormous amount of help in opening other markets. We are currently operating in China and trying to add a wooden storey to their small concrete houses that would capture humidity and could play a promising role in promoting health.

In Europe, we've made a few breakthroughs, but it's not easy because Europe is self-sufficient, or virtually self-sufficient. It's the Russian market that should be monitored to see what is going on. We know that there was a channel through Finland for distributing products around the globe, and perhaps we should talk to environmental groups. Instead of fighting here where forests are growing, like in Canada, North America and Europe, these groups should mainly attack areas that are becoming deforested, where they're going to be looking for an enormous amount of wood. There are countries that are in a state of deforestation, and nothing is being done. It would be useful if we could ask environmentalists to get involved in the short term.

Mr. Michel Vincent (Director, Economics Markets and International Trade Branch, Quebec Forest Industry Council): When the issue of competitiveness arises, we very soon start talking about competitive advantage. One of our competitive advantages over our international competitors is that we are located near the largest softwood lumber market in the world.

As the members from British Columbia said, at some point, we have to stop putting all our eggs in one basket and look elsewhere. There have indeed been a lot of one-time projects, it must be admitted. However, markets develop that way in the Middle East, England and Europe. Obviously, if we look at the Asian market from Quebec, there's a whole country that has to be crossed. When wood leaves Quebec, it's already more expensive than wood from British Columbia; so when you send it across the country it becomes even more expensive. So it's not easy, in financial terms, to send it to Asia.

Our main advantage is clearly our proximity to the U.S. market, and that advantage is weakened by trade restrictions. That's why people are increasingly starting to turn to international markets, but in a very small proportion to the total volume of wood we export.

• (1045)

[English]

Mr. Avrim Lazar: This is not an either/or thing. I mean the American market is wonderful. It will become wonderful again: their population is growing; they're going to need houses. We've been monitoring the purchases of tents in the U.S., and they don't seem to be moving into tents! They're going to build houses again soon.

So the American market is going to be good for us, and to think that's our only market would be foolish. Of course, we have to go into Asia. To be fair, Canada's forest industry is among the top Canadian exporters into India, Korea, China. For all our major markets, we're already in there. And we can do more, and government can really help us in these markets, because they're used to private-public partnership coming to market there. That's how business is done in many of these markets. So, yes, there is a big role to play.

Global demand for forest products is expected to increase by about 2% a year. That's huge. Demand for newsprint in North America is going to go down. Demand for paper in North America will probably go down, but we'll be able to sell wood. Our pulp will be internationally competitive. It can't be replicated, and it has great qualities. It's very hard for countries without much forestry to produce it. So we're going to be selling pulp globally, and we'll be

selling newsprint. India's market for newsprint is going way up, because they love their newspapers there.

So there are markets, and government can help.

The Chair: Monsieur Garneau.

Mr. Marc Garneau: No, that's fine. I'll give my time to somebody else.

The Chair: Mr. Lake.

Mr. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC): Thank you, Mr. Chair.

Thank you to the guests for coming. It's interesting hearing different views. One of the things we're going to be doing is studying a broad range of industries as we go through this study. I think one of the things that we have in common—although we may have different views on how to solve the problems—is that we want to help Canadians help their families, to make sure people are able to put food on their tables and afford their mortgages and everything else.

I want to come to the global context a little bit, if I could. There was a little bit of talk about it. I think sometimes we forget a bit of the global context. There have been several, or an increasing number of, third-party or external commentators who have been noting the strength of Canada relative to the rest of the world. We have the *Daily Telegraph* in London saying:

If the rest of the world had comported itself with similar modesty and prudence, we might not be in this mess.

We have *The Economist* saying:

...in a sinking world, Canada is something of a cork. It's well regulated banks are solid.... The big worry is the fear that an American recession will drag Canada down with it.

I think we're seeing the effects of that.

And *The Economist* continued:

Mr. Harper says, rightly enough, that his government has taken prudent measures to help Canada weather a storm it cannot duck.

Even President Obama has said:

And, you know, one of the things that I think has been striking about Canada is that in the midst of this enormous economic crisis, I think Canada has shown itself to be a pretty good manager of the financial system and the economy in ways that we haven't always been here in the United States.

Very recently, *The Wall Street Journal*, in talking specifically about housing, has said:

Canada is connected at the hip to the world's largest market, and collateral damage coming from the housing and financial meltdown in the U.S. can't be ducked. Tax cuts in 2007 softened the blow and kept Canada out of recession.

So there's lots of commentary. In fact, we had the IMF talking the other day about the relative strength of Canada. We've had both the IMF and the OECD talking about how Canada will come out sooner and stronger than almost any other country, because of the steps we've taken.

Obviously, we're specifically focused on the forestry sector today, but I think it's important for us to keep our eye on the big picture, because the measure of the real success of all the industries we're going to study is going to be if we can broadly get demand back up. If we can get demand back up in the U.S., if the Americans can do it through their \$1.75 trillion deficit, and if we can do it through our much more modest stimulus package here, I think that's the long-term key to success in all of the industries that we're going to be discussing.

I won't really ask for a response on that. I think I see some nods at the table. I want to get to some specific questions, if I could.

First off, I just have a quick question for Mr. Lazar about the regional breakdown of the sector. Can you maybe give us a little bit of a picture of what percentage of the industry is in what parts of the country?

• (1050)

Mr. Avrim Lazar: It's probably somewhere in our paper, in which we did table a set of facts, which is being translated. But the industry is pretty evenly balanced between British Columbia and Quebec, where the majority is. There's a lot in the Atlantic region. Even though it's not a lot in absolute terms, it is a very large contributor to the Atlantic economy. And there's industry in Ontario and Alberta, and less in Saskatchewan.

But it's pretty well spread coast to coast. It's a large part of employment all over the country, and of course it is hugely important to rural communities. There are 300 rural communities across the country whose economic lifeblood is the forest industry.

If you count direct and indirect jobs, there are somewhere between 800,000 and 900,000 across the country. The Canadian Forest Service numbers and the Statistics Canada numbers are way off. I think with this turbulence people are having trouble catching up.

But it's not a B.C. industry or a Quebec industry; it's a Canadian industry.

Mr. Mike Lake: I know that my colleagues here, Jacques Gourde and Daniel Petit, have significantly rearranged their schedules to make it out here today. And we have Dick Harris from B.C. and of course Chris Warkentin from northwestern Alberta.

So I think we can see what you're saying a little bit.

In terms of the rail issue, you touched on this issue as a problem, but how should the government respond? What ideas do you have for how the government should respond to that?

The Chair: You have 30 seconds.

Mr. Avrim Lazar: We actually have a workshop about this going on right now, as I speak. We floated a few ideas in the past, and the government had Bill C-8 in the past, which helped, but with the new economic conditions it's not enough.

We plan to come to the transportation committee, if they invite us, and certainly to any others. We're certainly going to be before the forest caucus and Minister Baird with some very strong suggestions.

This has become urgent. The country can no longer afford to subsidize the shareholders of CN at the expense of rural communities.

The Chair: Thank you, Mr. Lazar.

Monsieur Bouchard.

[*Translation*]

Mr. Robert Bouchard: Thank you, Mr. Chairman.

My question is for Messrs. Gagné, Chevrette and Roy.

On Tuesday, my party and I introduced a motion in the House of Commons, which was supported by 152 members to 140. In that motion, we proposed to assist the forest industry by means of tax credits, loan guarantees and a policy to promote the use of wood when the government builds or renovates the buildings it owns.

I would like to hear what you have to say on that motion, briefly since you will all be speaking during the time allotted to me. Do you consider that motion realistic and does it meet the needs of the forest sector?

We'll start with Mr. Gagné.

• (1055)

Mr. Renaud Gagné: Absolutely. With very few exceptions, it's what we've been seeking for two years. In Quebec, we're working to develop a policy on the use of wood in the construction of public buildings, together with the municipalities, universities and the department of natural resources. The purpose of that policy is to ensure that, when a municipality plans to build or renovate a building, it automatically solicits bids that favour the use of wood. This involves training architects and amendments to the Building Code.

The motion is absolutely consistent with what we want.

Mr. Robert Bouchard: Thank you.

Mr. Chevrette.

Mr. Guy Chevrette: Your resolution restates our demands very clearly. I spoke at length with Stockwell Day barely two weeks ago. In view of the details we've given you this morning, that vote in Parliament should be unanimous.

Mr. Robert Bouchard: Mr. Roy.

Mr. André Roy: I find these measures entirely appropriate for the purpose of guaranteeing a present for an industry that has an enormous future.

First, we'll have to set the stage and promote the environmentally friendly aspect of wood. We must reassure the entire world that cutting down a tree is an act that can be good for the environment. Back home, I'm used to saying that it's not the trees we have to save, but the forests. As long as we have more forests than we did the day before, harvesting and cutting trees are not a problem.

Mr. Robert Bouchard: Does the forest industry have a future in Quebec and Canada?

Mr. André Roy: Few industrial sectors can imagine as flourishing a future as the forest sector. It's curious, but I think that, 40 years from now, people will be fighting on earth over land use. We'll have to feed ourselves, and 9.5 billion human beings with more money in their pockets will eat. We'll be fighting to determine whether we should use the land for agriculture, for forests or for other purposes. The construction of highways, parking lots and mega shopping centres will no longer be fashionable. Priorities will be back in the right place. People will have to be fed and housed, and wood will be in the forefront. That's undeniable from an environmental perspective.

We have to convince the entire world. Consequently, the immediate decisions will be easy to make.

Mr. Robert Bouchard: Mr. Chevette, do you have anything to add or would you like to restate what you're seeking?

Mr. Guy Chevette: I would like to repeat that we have to stop fearing the lumber agreement and ask ourselves if we want a forest industry. If that is the case, let's take the steps to save it. For your information, in Quebec, which is in the midst of a major crisis, there are 700 projects under review by research centres in Quebec and Canada, the CRIQ, PFInnovations, FERIC and Paprican. If we want to benefit from the research that's currently being done, we have to get through the crisis.

AbitibiBowater, Domtar and Tembec all have projects under consideration. Give them the chance to survive, because the basket of products is very promising. At the same time, that also responds somewhat to one aspect of Mr. Garneau's question.

Mr. Robert Bouchard: Mr. Gagné, would you like to add a few words?

Mr. Renaud Gagné: We believe so much in the forest sector that the FTQ, through its Solidarity Fund, has just acquired land from Abitibi for \$70 million. If we didn't believe in it, we wouldn't have put money into it.

[English]

The Chair: *Merci beaucoup.*

I thank you all for coming, and for your testimony. I know this was on short notice and that all of you took extraordinary measures to come here. I think as a committee we are all that much better informed about what's going on in the forestry industry. I think at this point we're at least able to construct something from this testimony.

I would like to just tell members, too, that on the Tuesday after the break we will have the Industry officials appearing, and at that point if we maybe take about half an hour to talk about which direction we want to take, would that be acceptable to all members?

Some hon. members: Agreed.

The Chair: Okay.

Again, thank you very much.

This meeting is adjourned.

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