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Mr. Dave Van Kesteren

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• (0905)

[English]

The Chair (Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC)): Good morning, and welcome to the subcommittee. We are very privileged to have with us this morning the officials from Industry Canada.

We discussed the forestry sector at the last meeting, and that was because it would have been impossible to have the industry officials prepare their brief. However, I understand they are prepared. I understand as well that we will be doing something a little bit different this morning. Rather than having each witness present their case for their allotted seven minutes, we're going to allow Mr. Hewett to address us for 20 minutes. He'll give us an overview, and then we will begin this session with questions, beginning of course with the Liberals.

Welcome, industry officials. Welcome, Mr. Bouchard.

Thank you, sir, for your patience. You may begin.

[Translation]

Mr. Billy Hewett (Director General, Policy and Sector Services Branch, Industry Sector, Department of Industry): *Merci beaucoup.*

Mr. Chair, members of the committee, thank you for this opportunity to join you today. My name is Billy Hewett. I am the Director General for the Policy and Sector Services Branch for the Industry Sector at Industry Canada. Accompanying me today are:

[English]

Emilee Pedruchny is director of the sector intelligence and analysis, information and communications technologies branch, and François Delorme is the department's chief economist and director general of the micro-economic policy analysis branch.

This morning I'll begin with an overview of the Canadian economy and industrial pressures, focusing on the broader trends in manufacturing. Then I'll complete my remarks with a sector-by-sector review of the recent performance and circumstances specific to industrial groups, as we understand you're interested in sectors in crisis, those feeling in particular the economic pressures currently pervading the economy.

[Translation]

Manufacturing directly contributes close to 14% of GDP and employs close to 1.9 million workers in Canada, mostly in full-time

jobs. It accounts for two-thirds of all goods exports and for a little over half of all R and D expenditures in Canada.

A broad range of related industries depend on the sector as a key purchaser of their products and services.

[English]

Despite the strong overall performance of the Canadian economy prior to the last part of 2008, not all sectors were performing equally well. The manufacturing sector, in fact, has been undergoing significant adjustment for much of the current decade, driven in part by strong commodity prices, until recently, and a steadily appreciating Canadian dollar.

Since peak employment in November 2002, some 345,000 jobs had been lost through to the end of 2007, mostly in Ontario and Quebec. During this period, manufacturing GDP managed to be relatively stable, although it contained a range of performance by industry.

It was within this climate that the Standing Committee on Industry, Science and Technology delivered its report on manufacturing in 2007.

More recently, and in the last number of months in particular, the economic climate has changed dramatically. The manufacturing sector has been particularly challenged by emerging cyclical factors that are having a sharp and pronounced impact. Manufacturing GDP contracted 5.1% last year, and manufacturing sales have fallen every month since August 2008 to near 10-year lows. Also, since 2007, an additional 110,500 jobs have been lost across the sector.

The situation is changing so quickly that it's hard to obtain up-to-date information on the current state of the economy. By the time official statistics become available, information is no more than confirmation of what companies and workers already know. Forecasts have been continually revised downward.

Mr. Chairman, in this environment, real-time intelligence from across Canada, such as this committee's March 12 meeting with the forest sector, presents and provides real value.

I understand that this committee is looking at sectors in crisis, and while I will identify some of these challenges going across a number of industries, I also want to pass on some other more hopeful messages that I and the government have been receiving from industry.

Dating back to the pre-budget consultations through to today, one message is clear throughout: in managing the short-term pressures, we also need to keep our eye on the future. Even in this economic climate, many firms are optimistic. They realize it is necessary to continue to invest in innovation, machinery and equipment, and in skills. These are fundamental building blocks for future growth and competitiveness, and we need to keep this longer view in mind when examining the current situation.

Not all industries are facing pressures equally. Some, such as the pharmaceutical industry, electrical appliances, and much of the services sector, have been continuing to grow. Having said that,

• (0910)

[*Translation*]

there is no doubt that an over-riding pressure facing industrial sectors since last fall is obtaining financing. This was underscored in the January 2009 release of the Bank of Canada's Business Outlook Survey.

The Survey found that the percentage of firms reporting tighter credit conditions was at record highs. Nearly two-thirds of firms reported tighter credit conditions than over the previous quarter. This includes both price and availability of credit.

Canada's exporters have been challenged not only by the sharp drop in demand from the U.S., but also by the volatility of the Canadian dollar. While the value of the dollar has retreated, it remains above the exchange rate of the 1990s and early 2000s.

One might expect that the lower dollar would help exporters, but demand in the U.S. has dropped sharply, clearly off-setting the effect of the lower dollar.

[*English*]

Increasing global competition also continues to be a major challenge for parts of the Canadian manufacturing sector. Canada used to account for the largest share of manufactured goods imported into the United States. In 2005 we were displaced by China. Like industries throughout the OECD, Canadian industries must continue to adjust to new, more globally integrated markets and value chains.

Another challenge has been the volatility of commodity prices. While prices for oil and other commodities, such as non-ferrous metals, rose sharply in recent years, the current drop has been steep as global demand falls. The effect of these and other pressures will continue to vary by industry, Mr. Chairman.

Let me now take a closer look at the performance of specific industrial sectors to provide you with a more detailed perspective.

[*Translation*]

Several manufacturing sectors face a combination of both ongoing structural challenges, and the new challenges brought about by the recession. These include information and communications technol-

ogy, electrical and appliances, textiles and apparel, furniture, leather, and pulp and paper industries.

Let me give you some examples from textiles and apparel, and the pulp and paper industry. Over the past decade, the elimination of quotas and the rise of low-cost competitors have hit Canada's textiles and apparel industries. Global competition has generated a steady, substantial decline in their domestic market share and their share of the U.S. market. The recent decline in U.S. demand and the current credit conditions have made things worse. From 2000-2008, this industry experienced average annual declines in GDP of 9.2%.

To remain competitive, the Canadian textile and apparel industries have focused on higher value added niche markets, such as high end fabrics used for body armour and carbon and glass fabrics for composites used in the aerospace industry.

In terms of the regions that have been affected most by the challenges faced by apparel and textiles, Canada has large apparel clusters in Toronto and Montreal. Montreal is the third largest production centre in North America.

Quebec accounts for 58% of Canadian apparel shipments and for approximately half of apparel employment. With respect to the textile industry, about 44% of it is concentrated in Ontario and 38% is in Quebec.

• (0915)

[*English*]

The pulp and paper industry also faces both structural and cyclical effects. Some 34% of the industry is concentrated in Quebec. Ontario has 28% and British Columbia 19%. Between 2000 and 2008, the average annual reduction in GDP of the pulp and paper industry was 2.8%. Average annual loss in employment was 4.9% during that time.

Structural challenges include a decline in demand for newsprint and the emergence of low-cost, highly efficient pulp and newsprint producers in South America and Asia.

Let me turn now to industries in which cyclical challenges are predominant.

[*Translation*]

Let me turn now to industries where cyclical challenges are predominant. These industries include the wood, automotive, plastics and rubber, steel, and chemicals industries. We have also begun to see cyclical pressures emerge in aerospace and ship and boat building. Still other areas, such as biotechnology and ICT, are being challenged in particular by venture capital financing pressures.

[English]

The wood industry, during the last decade, has faced increased competition from abroad, U.S. market access challenges, a rising Canadian dollar, and, more recently, the collapse of the U.S. housing market. Between 2000 and 2008, employment in the wood industry declined by more than 33,000 jobs.

The tightening of North American credit markets has made the situation even more difficult for wood and other companies that need to refinance in the short term. In some cases, companies have closed unproductive mills, curtailed production, or sold their assets.

Quebec accounts for 30% of the wood industry; British Columbia, 29%; Ontario, 19%; and Alberta, 11%.

The U.S. recession has also been very hard on the overall automotive and related industries. Ontario is home to all 13 of Canada's assembly plants and 94% of auto parts output. In January 2009 alone, motor vehicle manufacturing sales dropped 45% and motor vehicle parts sales dropped 27%.

Mr. Chairman, the subcommittee on the automotive industry in Canada is examining these issues right now, so I need not go into detail here. But I would point out some of the other industries that have been hurt by the overall slowdown in the auto producers.

The supplier industries have been hit hard. Nearly 20% of the revenue from plastics and rubber comes from sales to the Canadian and U.S. automotive and parts sector.

The plastics industry is regionally diversified. There are more than 2,500 plastics establishments in Canada, most of which are located in Ontario, Quebec, Alberta, and British Columbia. To stay ahead of competition from emerging countries, some plastics firms have been developing new technologies, such as new products to displace metal parts in automobiles. The automotive industry is one of its biggest customers, but the plastics industry also sells heavily into the packaging, electronics, and construction industries.

This has traditionally been a high-growth industry, but sales have dropped since 2006 and particularly since the start of the U.S. recession. During the six-month period from July to December 2008, the GDP loss in the plastics industry was 11.9%.

Nearly 16% of steel revenues come from sales to the motor vehicles and parts industry. Canadian steel producers enjoyed high product prices until the second quarter of 2008, when global and North American demand fell. The largest demand reduction has been from the automotive sector, steel service centres, and construction. As a result, steel production has been cut back. Two plants in southern Ontario have been closed, and steel facilities remaining now operate at 50% to 60% of capacity. Most of the steel industry's facilities are concentrated in Ontario; however, there are also operations in Alberta, Saskatchewan, Manitoba, and Quebec.

• (0920)

[Translation]

The aerospace sector has also started to face some cyclical pressures. The Canadian aerospace industry is one of the few manufacturing industries that grew consistently between 2000 and 2008, at a rate of 1.6% annually. The industry entered this recession

with a strong order book. However, the declining demand for air travel and financial uncertainties have affected the demand for commercial and business aircraft. As a result, some orders have been deferred and others cancelled. In light of this, production rates for both commercial and business aircraft have been reduced and layoffs have occurred in Canada and elsewhere. Even with these ongoing pressures, however, new product R and D is continuing.

Any slowdown in production that does occur would be felt mostly in Quebec and Ontario. In 2006, Quebec accounted for 56% of aerospace sales, while Ontario accounted for a 28% share. Smaller aerospace clusters can be found in Atlantic Canada, Manitoba and British Columbia.

[English]

Ship and boat building has also been hit by the recession. This industry is small by global standards and depends on large orders, which tend to be cyclical in nature. The downturn has resulted in many ship order cancellations, but the existing order book enables many shipyards to continue construction of vessels. However, some clients have been affected by the ongoing credit issue, and in at least one case we are aware that Export Development Canada has stepped in to help with financing.

The non-pharmaceutical part of the chemical industry is also facing challenges of a cyclical nature. This industry is regionally diversified, with over 3,000 chemical establishments in Canada: 40% are located in Ontario, 28% in Quebec, and 13% in each of Alberta and British Columbia.

Since 2005, real GDP in the chemical industry has declined 2% per year. From July to December 2008, output fell over 15%. The economic downturn has significantly reduced demand for many chemicals, which feed into the automotive, plastics, construction, textiles, and pulp and paper industries. Major international chemical companies have announced plans to close facilities temporarily and to cancel previously announced mergers and acquisitions.

Mr. Chairman, let me now turn to other industries in which financing issues are the predominant concern. These include information and communication technology, or ICT, and biotechnology sectors. Canada's ICT sector is driven by innovation and is in a constant state of change. Nearly 98% of ICT firms have fewer than 100 employees. The sector depends on research to create new products, services, and applications.

In recent years, the Canadian sector's traditional leadership in communications equipment has been declining. The sector faces competitive pressures, such as the emergence of China and India as major players. These countries offer low-cost options for manufacturing, and more recently they are able to take up significant R and D positions.

The current economic climate has resulted in a cyclical downturn in demand for ICT products. In the last quarter of 2008, ICT output fell by 2.5%. Overall, the slowdown in both product demand and access to venture capital severely challenges ICT companies. More than half of Canadian ICT shipments originate from Ontario, followed by Quebec with 19%.

Let me touch next on the biotechnology sector, which is mostly comprised of companies in human health and is concentrated in Quebec, Ontario, and British Columbia, accounting together for approximately 87% of total industry employment.

This industry has experienced positive output and employment growth during the past five years; however, many of the firms have low cash reserves and could be forced to close operations if they are unable to find partners. Canadian biotechnology firms are highly dependent for their survival and growth on the inflow of venture capital and on raising money in public markets, both of which have essentially been closed to them. In the absence of near-term funding, many Canadian biotechnology firms and their intellectual property could be sold off at discounted prices to large multinational enterprises.

The global recession has placed pressure on a number of other Canadian industries, especially mining and energy. In the past year, non-energy commodity prices fell by more than 31%, and energy commodity prices have fallen by over 57%. In the case of energy, the most significantly affected area is Alberta. Statistics Canada reports that non-residential capital spending there will fall more than 15% this year. This would represent the first such cutback in a decade. The drilling of new wells also has been scaled back, as has the development of large oil sands projects.

• (0925)

Finally, Mr. Chairman, let me close with some good news. Not all industries are facing cyclical and other pressures of the same magnitude. As I mentioned at the beginning, some manufacturing industries, such as pharmaceuticals and electrical and appliance industries, performed reasonably well during 2008. During the last half of 2008, the pharmaceutical industry output increased almost 6%, and the electrical and appliance industry output increased over 2%. Also, most service industries had positive growth in 2008. But even the service sector is not immune to recessionary forces and financing challenges. Canadian retailers, for example, are apparently encountering difficulties in securing credit to finance inventory.

[Translation]

Let me conclude by thanking the chair and members of this committee for providing us with the opportunity to appear before you. I hope this overview will be of some assistance in your deliberations.

[English]

Thank you very much.

The Chair: Mr. Hewett, thank you.

We will begin our first round of questioning with Mr. Garneau for seven minutes.

Mr. Marc Garneau (Westmount—Ville-Marie, Lib.): Thank you, Mr. Chair.

Thank you for this presentation. If I can summarize, at least the way I've understood it, certainly the effects of globalization and the value of the Canadian dollar have had a major effect on some of the industries that you've touched on today. But in other cases there seems to be a thread going through what you're saying that applies to a lot of the industries, and that is this question of access to credit and in some cases loan guarantees. Certainly a number of industries have brought that out. I was wondering whether you could expand a little bit more on that specific issue and what measures are being taken to try to make that credit more available.

Mr. Billy Hewett: It's clear that the one unified thread through this is challenges in terms of accessing financing. That's true. And that's a situation that is global in nature. Canada is relatively better off than other countries in terms of the health of our financial system. Having said that, there are some challenges, and some gaps have occurred.

In effect, the major thrust of the budget that was announced focused on access to financing through a series of measures, including, and in particular for the manufacturing sector, enhancements to the scope and ability of the EDC and BDC in terms of the size of the access, the range in which they can move, plus EDC's temporary expansion of its mandate into the domestic market in order to be able to provide some of the same types of services domestically that it does for export markets, and in terms of working very closely with the banks in order to coordinate, where possible, access to the financing and to close in some of the gaps left by some of the financial institutions that have withdrawn from the marketplace.

The government has also announced the creation of an asset-backed credit facility to help stimulate demand, in particular in the transportation and auto sector, and there are a number of other financial arrangements being put in place.

• (0930)

Mr. Marc Garneau: Is it your impression that these measures are now having an effect? Are they of sufficient magnitude?

Mr. Billy Hewett: It's very difficult to say across the board. Certainly we are hearing anecdotally of some positive stories about EDC and BDC stepping in to help out, for example, but I'm also aware that the finance committee is holding some discussions and hearings specifically on some of the financial issues, where some of these things will be brought out in more detail from that perspective. I think as you call your witnesses forward from the industry before this committee, you'll hear some real-time and very direct stories.

Last week I attended a half-day session where the Canadian Manufacturers & Exporters pulled together EDC, BDC, and some of the private financial institutions and manufacturers to discuss the measures that are being put in place, how effectively they are being implemented, and what the means are to access those measures. It's clear that there's still more work to go. Part of that dialogue was about making sure that people are aware of what's available and what the existing challenges are. One of the things that EDC emphasized, for example, is that in a number of cases they're actually having to work directly with the banks and the firms on a case-by-case basis to work out financing solutions, because there can be a lot of very particular circumstances, by firm, in the context of some of the larger organizations.

They're also doing some things at a sectoral level for autos and for the oil and gas sector, where there are some particular issues that they're addressing.

Mr. Marc Garneau: You mentioned ICT and biotechnology as being particularly research-intensive. You also mentioned a certain amount of drying up of venture capital. Certainly the Canadian Venture Capital Association has talked about how, over the past five years, that has diminished here but gone up in the United States, at least to the third quarter of last year.

Is the government doing anything in terms of measures to try to make that venture capital pool larger, since it's so important for these types of companies? I'd also like to hear your views on SR and ED.

Mr. Billy Hewett: I'll mention one thing, and then perhaps I'll ask my colleague if he'd like to add something more.

Specifically in terms of venture capital, the BDC is working right now with a budget allocation from last year to try to encourage some additional venture capital funding in the marketplace in terms of a late-stage fund that has some potential benefit for ICT and biotechnology. That's one measure out there.

The government has also announced some enhancements in terms of how SR and ED functions. That dimension is out there as well.

EDC is also looking at some leveraging, if you will, of some of the SR and ED credits across the country outside of Quebec, and working in Quebec with Financement-Québec to help backstop, if you will, or enhance their ability to address some of those issues as well.

Those are a couple of the areas that I'm aware of.

François, anything else? No.

• (0935)

The Chair: You have another 30 seconds, Mr. Garneau.

Mr. Marc Garneau: Okay. Then perhaps I'll come back to this later.

I'd like to pursue the SR and ED issue a little bit further. In order to give you time to answer, I'll pass for now.

The Chair: Monsieur Bouchard.

[Translation]

Mr. Robert Bouchard (Chicoutimi—Le Fjord, BQ): Thank you, Mr. Chair.

Thank you also to the witnesses for joining us here. You have given us an overview of a fairly widespread problem that affects several industry sectors, namely credit and loan guarantees. Credit conditions are tightening. When businesses try to obtain credit, doors are being closed in their face.

I'd like to focus in particular on wood and paper. Are there any international agreements in place, for example, on softwood lumber, that make it difficult, if not impossible, for businesses to secure loan guarantees?

[English]

Mr. Billy Hewett: I'm not an expert on the particular arrangements and the rights and obligations embedded within the Canada-U.S. softwood lumber agreement, so I won't comment on the specifics. However, I can indicate that, as members would be aware, the wood products industry is very export-dependent for its markets. There is a long history of market access challenges of this nature. So this is an area that requires a clear understanding.

I would also add that there are perhaps more difficult challenges in terms of pricing arrangements today, credit-related and financing-related, than in normal times. The lack of efficiency in the financial markets is challenging, but the Export Development Corporation, for example, is working with wood product exporters to try to identify where there are opportunities for improved financing of exports and for assistance that can also help to facilitate transactions. They will attempt to do so in a manner that avoids running afoul of concessionary types of arrangements that could cause some trouble down the road.

[Translation]

Mr. Robert Bouchard: Still on the subject of wood and paper, would you say that the wood and paper industry has been harder hit by the current crisis, given that exports to the U.S. market have virtually stopped, as you noted earlier, and given the cost of the resource as well? Would you say this sector has been especially hard hit?

I have another question for you. Have you any idea of the consequences on the employment front if these businesses do not get help in the form of loan guarantees? Can you describe that scenario to us? You stated that from 2000 to 2008, recessionary pressures and job losses have been staggering. Would you care to make a projection as to what lies in store for the coming months or year if the situation continues and help is not forthcoming?

[English]

Mr. Billy Hewett: There's no doubt that the wood and wood products industry is one of the most severely affected sectors. They are among others, however; the auto sector and the wood sector are clearly facing some significant challenges, and so are a number of the industries that spread around them.

The solutions for each aren't necessarily identical. As I indicated before, and as we hear from the wood products industry itself, they are very dependent on access to export markets and market diversification, and that can constrain the nature of support that can be provided by government in order to meet the long-term growth prospects of the sector.

We hear from the wood products industry that they are looking at a long-term future that does have opportunities embedded within it. A number of measures announced in the budget attempted to get at and address, or contribute to, facilities such as FPInnovations, for example, through some innovation-related research. There is some export market development funding to assist with exploiting and accessing diverse markets so that when global demand does recover, there will be opportunities to take advantage of that and to continue to work with the industry, and as I mentioned, there are the financing provisions within the budget.

• (0940)

[Translation]

Mr. Robert Bouchard: Still on the subject of wood, you maintain that this sector would be able to weather the crisis if exports and the world market recovered. Are there not other possible solutions, such as increasing demand in Canada and Quebec or encouraging people to carry out projects or do renovations that require the use of more lumber? The government could set an example by increasing its use of wood, instead of looking to other solutions.

Assistance could also come in the form of programs. Energy could be produced using wood waste left behind when the trees are felled. Perhaps this could be a job creation initiative. More wood could be used in Quebec and in Canada. Do you not see this as one possible solution to the problem?

[English]

The Chair: Could you answer very quickly, Mr. Hewett? Our time has gone.

Mr. Billy Hewett: I'm not an expert on the specific programs that would apply directly to the wood industry. Rather, what I was remiss in not saying earlier is that in the context of the broader array of measures implemented by the government and announced and being implemented now through the budget, this includes also stimulus intended to stimulate in the construction sector, infrastructure-related pieces, and home renovation.

Also, whether they are commodity-oriented businesses or other very highly value-added businesses, firms that are adding more value, putting out product mixes, and utilizing more of the log, for example, are finding opportunities relative to the competition to make sales and to contribute to customer solutions in that regard, so there are some opportunities there. Not all of the production goes to export. A significant portion does stay at home, so in terms of some of the adjustment for workers and communities, the stimulus packages, and the credits for construction, we would look for some benefit there as well.

The Chair: Thank you, Mr. Hewett.

Mr. Lake.

[Translation]

Mr. François Delorme (Chief Economist and Director General, Micro-Economic Policy Analysis Branch, Strategic Policy Sector, Department of Industry): May I briefly add to that?

[English]

The Chair: We'll give him another chance. He'll have another round; maybe he can go back to it.

He's over his time, so I think maybe we'll allow Mr. Bouchard to pick it up next time.

Mr. Lake.

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

The graphs on pages 4 and 5 of the PowerPoint slides are on percentage change in real GDP and then percentage change in employment, industry by industry. I'm curious about the actual, real changes in GDP and employment, the actual numbers. Would there be some areas of this graph that, because of large employment numbers or large GDP numbers, would look very different if we were talking about real numbers as opposed to percentages?

• (0945)

Mr. Billy Hewett: Yes. I was just looking for a copy of something I had that might have some of those percentages identified.

You're quite right that this graph is identifying percentage changes, and not all industries are starting from the same base. For example, wood products, motor vehicles, aerospace, and a number of others have more size to them, such that for any given equal percentage fall, the actual number will be greater.

Mr. Mike Lake: The ones you are identifying are motor vehicles, aerospace....

Mr. Billy Hewett: Yes. Motor vehicles and parts has 11% of the overall manufacturing share; fabricated metals has just under 8%; food manufacturing has 10%; machinery has 7.8%. We can provide this information to the committee in writing.

Mr. Mike Lake: Yes, if you could, I think it would be helpful for a comparison with what we have here, to identify where the real impact is.

We're very focused right now on the cyclical situation, the global situation we're in right now, but I'm interested in the future. Previous to my life here, I worked with the Edmonton Oilers. There was a story about Wayne Gretzky that was always told: that while everyone else was always focused on where the puck was and going to where the puck was, Gretzky used to say that he was focused on going to where the puck was going to be and focusing on that.

In this economic context, where is the puck going to be for Canada? Where should we be headed? When we come out of this very serious global situation that we're in, what are our strengths? Where should we be moving?

Mr. Billy Hewett: Perhaps I'll begin and then open it up to my colleagues who might like to add more.

As a small, open economy, Canada's competitive or comparative advantage would tend to be in moving to higher value-added, increasingly knowledge-intensive applications, whether from a resources base to begin with or a base of sectors such as ICT and biotechnology. The area in which we're not going to be as successful and in which strategies are not going to be as advantageous to pursue would be in competing against low-cost labour from China and India directly, head to head. We should rather be attempting to connect to global value chains, finding a niche where firms can specialize, differentiate their products or their services, or add new technologies. In things of this nature, whether in a commodity-based business, in a sector that's facing structural decline, or one that prior to the recession had been doing quite well, the message we hear from manufacturers is that for those who are finding ways to focus their business on providing customers solutions in the form of a product that's placed, connected with others in the value chain, at the right point—and there are challenges to doing that.... Those are the ones who see opportunity to succeed and to profit in that kind of climate.

I can't identify a specific sector or industry. It's more about setting the climate. We attempt to put in place a macro-economic framework and some marketplace frameworks and then work with industries and firms to help them exploit opportunities where they may be.

● (0950)

Mr. Mike Lake: That's a good explanation, though it's rather textbook. If you were sitting at a round table with 15 of my constituents, how would you explain that same thing?

Mr. Billy Hewett: I'll pick aerospace as an example. Aerospace is an industry that has been doing quite well. Canada's future looks quite bright in aerospace. There is a lot of innovation, a lot of R and D, and actual commercial sales. We have both an original equipment manufacturer, Bombardier, with a good global reputation, and there are also a number of small and medium-sized enterprises within the supply chain.

One of the challenges that those in the lower tiers of the supply chain will be facing is that as Bombardier looks to remain competitive on its overall production, some parts of the plane, such as the wing, may be imported from elsewhere rather than be manufactured at home. Almost everyone who is exporting is also importing.

It's important—and this is where some of the challenges come—for the medium-sized enterprises to make sure that as these shifts take place, they look to where the market is going to find their customers and their strategic alliances. That is the kind of thing that was happening prior to the recession. If sales are going to be coming from offshore, is there a way to connect to where the offshore supplier will be coming from, if it's a wing type of operation that you're selling?

I'm not sure that's the best example, but I don't know whether there is a better one. You can feel free to—

Mr. Mike Lake: Well, maybe I will ask you—

The Chair: Mr. Lake, we're well over our time.

Mr. Thibeault.

Mr. Glenn Thibeault (Sudbury, NDP): Thank you, Mr. Chair.

I want to thank each of you for coming today.

Mr. Hewett, I also want to commend you on ending your report on the positive side. It's always good to hear that there's hope out there, when you always hear doom and gloom. It's good to know there are some positive things happening, especially in northern Ontario. My riding of Sudbury, of course, is well known for being the mining capital of Canada, if not of the world, and many of our peers throughout northern Ontario have been hit hard, in the forestry sector and in general in manufacturing, in many of the value-added products that come from both of those sectors.

As I mentioned, you've talked a lot about those sectors and about how the commodity-based resources have been on a downturn and about access to credit being difficult. One of the things we're hearing in northern Ontario is that it's getting more difficult also to access FedNor. FedNor is a program that of course is in Industry Canada—it's a program, not a stand-alone—so some of my questions are going to be specific to FedNor. Hopefully you'll be able to answer some of those.

Vis-à-vis other regional development agencies, can you explain to me the system and how the amounts of funding that go into FedNor are determined? Would you be able to explain that to me?

Mr. Billy Hewett: FedNor as a program, as is the case with the other regional development agencies, is funded through the annual budget cycle.

Mr. Glenn Thibeault: Okay, so there is a determination made as to how much. Is there anything relating to “per capita” that helps determine that budget?

Mr. Billy Hewett: Being neither a FedNor program expert nor a budget maker, I can't go into the specifics, except that I will add that in the context of this current budget, there was also some programming, such as the community adjustment fund—which is two years of \$1 billion worth of funding, I believe—that is being delivered through regional development agencies across the country. There was a flat rate plus a per capita allocation that was taken into account in the distribution of that fund across the country, including, I believe, the portion that is to be delivered through FedNor.

So there is some per capita dimension that comes into play. But in terms of their overall budget and the availability of funding, I can't comment here on the spot. We could....

● (0955)

Mr. Glenn Thibeault: Sure. I would love to talk to you about that after this. I didn't mean to put you on the spot. We can discuss those questions afterwards.

You talked a little bit about global value chains. In trying to understand how that would affect many of the manufacturing sectors, what is a global value chain, first of all, and how does that affect value-added mining programs or forestry sectors? Maybe you can talk to me a little about that.

Mr. Billy Hewett: Essentially, rather than any given manufacturer of a product having to house all of the various different dimensions of production from design through extraction, and through manufacture, distribution, and marketing, all in one facility or in a vertically integrated type of an operation, it's about that business model being broken into a series of tasks, if you will. Through advances in communications, technology, and transportation, it's possible for enterprises to basically literally look around the world at where they can find the greatest value in their supply chain, from the R and D through the development, design, fabrication, and delivery.

If a small parts maker in Canada can sell the value of their particular unit of production into an engine manufacturer in the United States for diesel vehicles or to someone who is producing wood product for prefabricated homes, they can connect into a larger manufacturer, who is then actually the international seller. They don't have to be expert in everything.

Basically, it's about that business model being divided up into a series of tasks. There are both opportunities and challenges associated with that. If you're a very small producer and you have someone down the road who is actually trading internationally, it's not necessary to do the trading yourself, but there are opportunities to tap into a global value chain by connecting into other operations that do so.

Mr. Glenn Thibeault: Great.

I have more time, obviously.

The Chair: Yes, just about a couple of minutes.

Mr. Glenn Thibeault: What you're talking about is getting me a little excited here, because we have a mining cluster in Sudbury that's doing a phenomenal job in the supply sector in the creation of mining innovation. Many of the companies are finding it difficult right now. We have some big mining companies in Sudbury, but how do they get their technology out? Is there a program or are there programs available through Industry Canada that will allow them to do that and support them? Maybe it's FedNor. Are there other programs they could access to market themselves so they can be part of this global value chain?

Mr. Billy Hewett: Generally speaking, what we're looking at is a combination of both. The FedNor type of regional development agencies have some on-the-ground federal presence, and the Department of Foreign Affairs and International Trade is also attempting to align its resources along a sector basis so that it can assist with the export market development and investment attraction business, such that you have Industry Canada attempting to take, if you will, a bit of a border-in perspective in terms of competitive positioning, and then DFAIT looking at a kind of a border-out perspective, but there's a cross-hatching between them.

We're attempting to connect with those firms and those enterprises through a provision of sector expertise in the two departments and through the specific programming, of which there's a suite. The Province of Ontario also has some programming with its new Ministry of International Trade and Investment, where they're attempting to help connect up.

The Chair: Thank you, Mr. Thibeault.

Round two is five minutes. We will begin with Mr. Garneau.

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

The Conference Board of Canada talks about Canada's performance in innovation as being, I would have to say, lacklustre. In the recent statistics—and they've been keeping them for quite a while—I think we were thirteenth out of a number of countries. Certainly, countries ahead of us, like Switzerland and Ireland, shouldn't seem to be sort of out of our own reach. We should be able to do as well.

This is not a new problem. It does go back a ways. I'd like to have your personal take on why that is and what it is that we're not doing right to be ranking higher on innovation. What solutions do you in the policy sector think we should be focused on?

• (1000)

Mr. Billy Hewett: As you allude to, it's a complex topic in terms of the innovation cycle, the ability to not only develop the new technologies but to be a part of an innovation system that involves both the research and then the ability to translate that into a commercializable product or process. I don't have a personal opinion to share with you on that, but rather I would suggest that the government, the department, is attempting to continue to work to address both the funding for, if you will, basic research and facilities and architecture, and to try to work continuously with the private sector to try to find ways to help, whether it be through consortia or other arrangements, and some co-funding in some cases, to bring closer together the private sector, the people who actually commercialize these applications, with the R and D capacity. It's a work in progress. I think that's a fair way to put it.

Mr. Marc Garneau: It's been in progress for quite some time.

Do you look at best practices in other countries? Why is it that Ireland and Switzerland and Finland and the United States have got their act together? I'm curious about it and I was just wondering if you have identified things they seem to do particularly well that make them more innovative.

Mr. Billy Hewett: We do look at best practices, and we also look at how to apply those and where they can apply most effectively here. Not every practice translates directly. So if there was something more specific on that that we could follow up with, we could do that, but I don't have anything more concrete to add off the top of my head right now.

Mr. Marc Garneau: One of the elements of a national innovation system—that's a term I'm sure you're familiar with that the Europeans use—is the availability of tax credits, and I'm talking about where the federal government comes in, and venture capital as well. CATA and BIOTEC Canada have commented on the fact that the process for SR and ED tax credit applications is cumbersome. They're difficult to fill out and get approval for.

Is this something you're aware of and are working on, and are steps being taken?

Mr. Billy Hewett: Yes, the SR and ED tax credit is, as I understand it, the largest federal tax expenditure on this, and it is an area where the Department of Finance has identified the operation of the program as being a need for an opportunity to enhance how it's actually being administered. That is an area they're attempting to enhance right now. Some additional funding was provided to them, I believe a year ago, with a view to enhancing that operation. So that is an area, yes, that I'm aware of, that has been identified.

Mr. Marc Garneau: What about refundability to non-Canadian companies that are doing research in this country? Is that something that's being looked at or does it have to be a Canadian company?

Mr. Billy Hewett: I would have to defer a specific tax policy question like that to the Department of Finance.

Mr. Marc Garneau: Has it been looked at? That's my question.

Mr. Billy Hewett: I would say the government is aware that a number of different stakeholders have identified refundability and some of the rules around refundability as areas they do ask and have asked the Department of Finance to look at.

Mr. Marc Garneau: Do you know what percentage of companies doing work in these fields such as biotechnology and ICT are non-Canadian owned and working in Canada? Is there a significant number, in your opinion?

• (1005)

Mr. Billy Hewett: I don't know the specific statistics on that. There are a combination of multinational R and D-related activities as well as a large number of smaller Canadian-owned entities. I would have to get back to you, if you'd like, on specific information on that.

The Chair: Thank you, Mr. Hewett.

Mr. Bouchard, did you want Mr. Delorme to finish that question before the last round? You were way over your time. I just have to keep the time as fair as possible.

Mr. Mike Lake: Mr. Chair, is it my turn now, as I believe?

The Chair: My apologies.

I'll add, "when your turn comes".

Some hon. members: Oh, oh!

The Chair: Mr. Lake.

Mr. Mike Lake: Thank you, Mr. Chair.

I'm interested in following up on the comment you made regarding competing against low-cost labour in other areas.

The first question I have in that regard is whether, in situations in which we are competing against jurisdictions where there's low-cost labour, there are any measurements of the quality of the products we're competing against. For the outputs that may have been traditionally strong outputs here for Canada, are there measurements of the quality of the products we're importing from other parts of the world, whatever they might be, in specific areas?

Mr. Billy Hewett: I don't know that we have broad measures, but certainly when we do work, for example, in the areas of logistics and low-cost country sourcing, the analysis that tends to come back will speak to the experiences of individual firms as they source product domestically or from one country or another. As a general statement, I would suggest that whereas we have seen, as countries move into international markets from a low-cost labour perspective, that the quality isn't necessarily all there at the outset, particularly when there is an almost commodity-based sort of pricing, increasingly, with the presence of large emerging market suppliers such as China and India, the quality is coming up. So the nature of the competition, if you will, is not static, and that essentially puts us in a position of

having to be on top of our game, if you will, and continuing to strive to move forward.

Mr. Mike Lake: There are, I guess, a couple of follow-up questions to that. I'm looking at this in terms of life support versus transition support. Are there specific industries in which we might be better off cutting off the life support and moving to transition support, taking some of the skills of the workers? We have some really good skill sets that might be used in areas in which we actually have an advantage, if we invested in transition versus life support. Are there specific areas that you might be able to point to?

Mr. Billy Hewett: I don't think I'll be speaking directly to the idea of removing life supports, but there's always a balance to be struck. I mentioned macro policy and market framework policies. There are also funding and support systems at different levels of the government that apply to skills enhancement, training, education, communities in transition, adjustment—the ability, if you will, to adjust and be agile, such that, as the market forces and the life cycle of firms and industries are moving, they can help facilitate and enable those communities, those workers, or those firms.

In some cases we have some programming, such as in the textiles area, where we have had for a number of years some programming in place to help facilitate the transformation when firms are looking to go into higher-value, more competitive positioning; also in the innovation system, where we attempt to have funding in areas that will allow for market opportunities and for successful firms—your RIMs, if you will—to emerge.

Can I identify specific ones? Even in an industry such as textiles, where there has been a structural decline occurring, or... I'll drop back for a moment to an industry I'm personally more familiar with, which is the agrifood sector. Just go back to the wine industry in Canada. A number of years ago it was seen as not being particularly competitive internationally. But through a process of adopting standards, putting in higher value and new breeds of grapes, adding technology to the processes, and doing some good marketing, it's an industry that has managed to turn itself around, and there are investments flowing into the grapes and wine industry.

• (1010)

The Chair: You're right out of time, Mr. Lake.

Mr. Mike Lake: It goes fast.

The Chair: Mr. Bouchard, have you thought about my proposal?

[*Translation*]

Mr. Robert Bouchard: Yes.

The Chair: You have the floor, Mr. Delorme.

Mr. François Delorme: I simply want to add something, further to your question about the wood industry. In his presentation, Mr. Hewett drew a clear distinction between those industries facing structural challenges and others like the wood, steel, aerospace and auto industries that are grappling with recessionary pressures.

I would like to respond to your comments about internal solutions. These industries are very export oriented. One of the keys to the recovery of these industries is, as we all know, the recovery of certain specific sectors such as the housing and auto industries in the U.S.

Currently, residential housing market indicators in the U.S. show that in about 16% of cases,—and the figures vary greatly from state to state—the value of the mortgage exceeds the actual value of the house. In some states, the mortgage may even be 50% higher. So then, we know that this is one problem that needs to be resolved.

We need to see some improvements in these sensitive areas and in the U.S. economy in general, as well as some solutions in order for the positive effect to rub off on highly export-oriented sectors of the Canadian economy.

For example, if we look at automobile dealerships in the U.S., we see that their inventory levels are at historic highs. When we compare their current situation with other recessions in the past 20 or 30 years, we realize that these high inventory levels are truly unprecedented.

Inventory levels need to come down, especially in the case of U.S. manufacturers, before the U.S. auto industry can turn the corner and before the general effect of this recovery is felt in the U.S. and Canadian economies. Obviously, the initial signs of a turnaround will be seen in sectors that are very much geared to exports. I just wanted to put this situation in context.

Thank you.

Mr. Robert Bouchard: Mr. Chair, it is all well and good to wait until exports recover, but in the meantime, players are exiting the market. That brings me to my next question.

I've met on occasion with people who work in the wood industry. They maintain that their businesses are not registering any profits, but merely losses, on the R and D side. Money invested in R and D represents a non-refundable credit. They are wondering if maybe this non-refundable credit could be converted into a refundable credit. Even if they are not receiving any benefits, they could carry out R and D activities and derive some benefits.

I'd like to hear your views on this subject.

[English]

Mr. Billy Hewett: Unfortunately, I'll have to give a similar answer to the one I gave previously.

The operation of the research credits is a matter of tax policy with the Department of Finance. It's definitely an area that a number of industries perceive as beneficial. But from a tax policy perspective, to date, the refundability has been limited within the program. As I say, I'm not an expert in the program. I believe there is some level of refundability for certain types of enterprises below a certain threshold.

As I indicated previously, Canada is also exploring what it can do to assist firms with financing by their leveraging the credits they have. But I suspect the solutions there might tend to be individual, firm by firm.

I want to emphasize something that EDC and BDC stressed in their presentations to industries. For the most part, they're looking to deliver their enhanced level of service through, or working directly in cooperation with, individual banks or private sector financial institutions, because they are deemed to be a more effective way of getting right to the street level and connecting up with individual enterprises.

• (1015)

The Chair: Thank you, Mr. Hewett.

Mr. Lake.

Mr. Mike Lake: I'm going to follow up on my line of questioning, if I could.

In terms of the skill sets we have, one of the things I think we would be remiss if we didn't approach in this study would be opportunities coming out of this situation in the long term. There is obviously going to be a lot of focus on the difficulties in various sectors, but I also want to take a look at what our answer is and where we go with this.

One of the questions I have is what we can do in Canada that can't be done in other places. We talk about areas where we're losing on the labour costs because we can't compete against low-cost labour, but what things can we do, skill-set-wise, that can't be outsourced right now? What are our skill sets?

By way of an example, I'll throw something out. We have a structural issue in the auto industry. I think there's a recognition that a restructured auto industry will employ fewer Canadians than it did previous to this challenge. But there are those who would point to the fact that some of the skill sets auto workers possess would lend themselves well to making wind turbines and things like that, or rail.

What areas are there like that? What skills do we have that we'll be able to use in this global context moving forward?

Mr. Billy Hewett: I don't think we should be too specific, but over the last year or two, for example, we began to hear about companies such as the auto parts sector—so let's say a tool and die maker—where traditionally the market has been autos and they are looking at whether they can apply that technology, that skill set, and sell it into the oil sands. More recently there have been questions such as whether there are auto parts manufacturers that could, for example, apply the types of technologies in terms of advanced materials and whether some of the R and D that is actually taking place there, that skill set, can be applied in aerospace. Wind turbines are another one we've heard about.

So without being too concrete, we are increasingly hearing about firms trying to look around creatively to explore different market opportunities through diversifying: "I'm a very good production manager. I'm coming in on spec. I'm meeting my customers' requirements, but now I need to look at what other kinds of markets might apply to this."

When I spoke earlier about there being a level of optimism out there, that was for those firms that are doing what you're referring to. They're looking at where the opportunities are—for example, finding low-carbon footprint energy sources, whether it be reducing the impact of oil sands production through application of technologies, or wind turbines, or other opportunities out there.

Those are the kinds of things we're hearing stories about. When and how they come into fruition, time will tell.

• (1020)

Mr. Mike Lake: In terms of the cyclical challenges you were talking about, prior to this global situation we were experiencing shortages in labour in many parts of the country. I anticipate that once we get through it, we'll get back to the situation where we have shortages in labour. When do you expect a bounce-back, and more importantly, I think, where do we expect to bounce back? Where do we expect we'll soon see shortages in labour emerging and what will the needs be?

The Chair: Very quickly, could someone answer that question?

[Translation]

Mr. François Delorme: All I can add is that the situation in extremely sensitive sectors is expected to bounce back as the crisis eases. Cyclical shortages of skills are to be expected. From a structural standpoint, I couldn't tell you which sectors might experience job shortages. Obviously, we know that in the case of certain industries like construction and most likely in other areas of the technology sector, once the recovery takes hold, problems could arise in terms of balancing the supply of and demand for jobs.

[English]

The Chair: Thank you, Mr. Delorme.

Mr. Thibeault.

Mr. Glenn Thibeault: Thank you, Mr. Chair.

I want to go back to the questioning I was talking about a little bit earlier. I'm not necessarily into FedNor, but in relation to the programs that are available through Industry Canada, I had the opportunity to meet with many of the mayors from northern Ontario, from the smaller communities to the urban centres—I consider my riding, which is Sudbury—and they were talking a lot about not being sure of the programs that are available through Industry Canada. Yes, we all know about FedNor.

How are we able to inform our mayors and our industries, the value-added industries, about the programs that are available through Industry Canada?

Mr. Billy Hewett: Good question.

We actually have some specific programs in that area, but having said that, it's also an area where we do hear from companies and from associations that just navigating the array of programs, whether they're Industry Canada's or others, is one of the challenges we face.

In particular, we run a couple of programs specific to this. One is Canada Business, which is a web-based program, largely, that attempts to navigate through, and it is targeted more at the small and medium-sized enterprise capacity. Then in terms of regulatory and setting up a business, there's a BizPaL side of things that's important

but won't necessarily get at the array of programs. Those are two things that I would indicate right there. Contacting FedNor itself should also be another avenue.

Mr. Glenn Thibeault: Is there any way you can provide it to me? I'll give you an example.

There are certain companies and there are certain mayors out there—well, they're reeves. You own the company, you're front line, and you have one other person. To be able to access the Internet takes them offline, which reduces their production. You see how that's cyclical. There's a reeve, and they have a part-time staff person who's answering all of the calls from their constituents, answering tax questions, along those lines.

As MPs, is there something we can do, or maybe a program that you can provide us that we can share with these struggling businesses and the mayors?

Mr. Billy Hewett: Certainly if someone wants to make contact, either through a FedNor or directly, we attempt to do some navigation. Once again, it tends to be more web-based. We don't have offices spread throughout the country. We have some regional offices, which is where I would tend to point people towards.

If the FedNor and/or the regional office is seeming to be not sufficient, I'm at a bit of a loss where to go from there. But certainly if MPs contact us, or contact a regional office and then they contact us, we do what we can to respond and identify what might be worth exploring.

• (1025)

Mr. Glenn Thibeault: Great. I appreciate that.

Some have criticized the red tape sometimes in accessing these funds. Maybe you can talk a little bit about whether steps have been taken to make these funds a little more accessible.

Mr. Billy Hewett: We're certainly taking steps all the time, and in particular in the current climate, to try to improve and enhance the efficiency and the delivery of programming, whether it be funding arrangements or trying to reduce red tape on regulation, but to do that in a manner that also respects, if you will, our accountability to the taxpayer.

The Chair: One minute.

Mr. Glenn Thibeault: I love that. I always have a little more time, so I'm excited about that.

We talked about FedNor, because that's northern Ontario, but right across the country are there programs that could be used to a greater extent to help companies and communities get through this economic downturn?

Mr. Billy Hewett: That's one of the ironies, that in some cases there are unused funds in programs. And that's always unfortunate, particularly in times like these. That's why I say we're doing what we can to work through the front lines to try to bring greater focus, if you will, such that the moneys that are available are actually getting into the hands of those who need it.

Mr. Glenn Thibeault: Great.

Thank you.

The Chair: Thank you, Mr. Hewett.

Members, we are approaching the time when we were going to suspend and go to future business. We have time for one more round—actually four more minutes. Is there somebody else who has a specific question or possibly a few questions, and is it the will of the committee that we just extend our time somewhat? I think we can finish off the future business rather quickly. Is it agreed, then, that we will go another 15 minutes? At 15 minutes, though, we will have to suspend. Is that agreed?

Some hon. members: Agreed.

The Chair: Mr. Lake.

Mr. Mike Lake: I want to move to the oil and gas sector, a specific area of interest to my constituents in Edmonton. One of the issues that gets brought up fairly regularly in our area is the impact the oil sands have, and maybe more broadly the oil and gas sector, not just in northern Alberta but across the country in terms of economic impact. Maybe you could speak to that for a moment in terms of jobs created across the country and in terms of economic impact.

Mr. Billy Hewett: It would be very difficult to give any specific or concrete answer to that. Generally speaking, yes, economic opportunity and growth in one part of the country has a positive benefit and spillover into other parts of the country. At the same time, commodity prices and energy costs—for example, in the manufacturing sector—can be a challenge that has to be dealt with. So the volatility and the need to be able to adjust is always there. Certainly over the last several years, as the oil sands were booming, the manufacturing sector was going through some significant adjustments in central parts of Canada. A number of firms...and certainly provincial governments were working with firms to try to help connect some of these companies in, so they could help meet some of the skills, some of the supply needs that were being drawn out into the oil sands area. So there are pros and cons, on balance. The oil sands are obviously a major contributor to the Canadian economy.

Mr. Mike Lake: That's an interesting point you make. Obviously when oil prices are high, that has some negative effects. Of course, there's nothing we can do about world oil prices in terms of those negative effects, but if we can recognize some of the benefit and spread that benefit around, that can be a good thing, especially in times—

• (1030)

Mr. Billy Hewett: It can be a good thing, and certainly the purchasing power of the Canadian dollar was enhanced during that period of time as well.

Mr. Mike Lake: There are some who would point out that during this global slowdown, and because of the impact of the global slowdown, there's been a cooling down of the industry in Alberta. You don't want to go too far, but it hasn't necessarily been all negative in terms of bringing down some of the costs of some of the projects. I know we've seen that in terms of some of the infrastructure projects that the governments are undertaking in Alberta. The costs have come down significantly because of the cost of labour coming down.

But moving forward, there may be a concern that when things get back to normal, the escalation will begin again. There are some who

would say that's had an impact in the past on this value-added potential in Alberta because labour has been so difficult to come by. It has made it difficult to expand those value-added opportunities—while they may be very, very attractive in Alberta—because the cost of labour has been so high. They couldn't find the workers to actually add the value. I don't know if you want to comment on that.

[*Translation*]

Mr. François Delorme: I would have to agree with you completely. Earlier, I mentioned the technology and construction industries, but I could also have referred to the energy sector in Western Canada. That is what we are seeing. Despite a desire to increase production, the resources to hire more people cannot be found. This is one limitation that we contend with. It's not that businesses are unwilling to increase production, but merely that they do not have the means to accomplish this feat.

[*English*]

Mr. Mike Lake: Thanks for that.

As we go through the study, I think it's important for us to keep an eye on those opportunities, because they will arise again, and we should, in my view, be transitioning towards them.

I guess with the last of my time here I will ask for any suggestions you have for us as we move forward in our study and decide what we're going to do. Have you any suggestions for areas or opportunities where we might focus in terms of that transition? Are there groups that we should ask to come before us to speak to those opportunities?

Mr. Billy Hewett: While the messages in our prepared remarks were, of necessity, focused on some of the serious challenges faced in the short term, you are absolutely right. In particular, when we talk about cyclical effects, whether they be in a resource-based or a commodity-based sector, or aerospace and others, once global demand comes back, opportunities will be there to be exploited. So, yes, we would hope that in your deliberations the committee will find a way to address both some of the short-term challenges and the longer-term opportunities.

If the committee would like, we certainly have available some of the statistics that go back a little further in history, which could fill the gap, if you will, between the manufacturing report that your committee put out, through to about six months ago, so you would at least have that. Once again, it's backwards looking, but—

Mr. Mike Lake: Let me ask—

The Chair: Your time is up.

Mr. Mike Lake: Mr. Delorme, I think, wants to comment too.

The Chair: Be very brief.

[*Translation*]

Mr. François Delorme: That is an excellent question. Whether we're discussing the transition period, issues tied to innovation or venture capital, as discussed earlier, I'd like to know if you've given any thought to inviting people who work directly in this field, for example, officials from the Business Development Bank or from Export Development Canada. They evaluate financing capacity and lend money.

We've talked about various structural issues. During the transition period, it is truly difficult to improve business financing to help them weather these hard times. I think it would be a good idea for the subcommittee to consider inviting officials from BDC or EDC to appear, if it hasn't already thought about doing so.

[English]

The Chair: Mr. Garneau.

• (1035)

Mr. Marc Garneau: Thank you.

I would like to ask formally, Mr. Hewett, if you could see if there are statistics on the number of firms that do perform R and D in Canada but whose ownership is foreign-based and therefore are restricted from taking advantage of SR and ED credits. I'd be interested in knowing whether they are significant or small in number.

Again, to cite the Conference Board of Canada, they came out with a report last year that put forward the idea of playing to our strengths. They specifically chose, or came up with, a number of areas where they felt there were going to be significant markets worldwide for the technologies Canada was well placed to take advantage of. Amongst them were water management and regenerative medicine; the other one was energy-related.

Within your branch at Industry Canada, how do you approach the idea of playing to our strengths or focusing on areas where we could do particularly well? For example, I know that in the aerospace sector there is the SADI funding, which specifically looks at aerospace and defence. But in a more general way, do you come forward with policy that is focused on playing to our strengths?

Mr. Billy Hewett: I'd say in a more general way, yes, we attempt to work both in terms of policy and in terms of on-the-ground direct contact at the firm level in a manner that takes advantage of our strengths.

In so doing, we don't attempt to pick winners per se or decide who those are going to be. Rather, in the sector I represent, we have five different industry-specific groupings focusing on autos, aerospace, defence, marine, and also resource-processing industries, where there are also other mandates in Ottawa. Natural Resources Canada, for example, has some crossover and a direct mandate in that area.

There is the life sciences industries branch, to try to look not just at biotechnology but also at pharmaceutical medical devices and other advances in that area, as well as in terms of service sectors, service industries, consumer products, and textiles in that area. Then there's also the ICT sector.

So those are Industry Canada's. We definitely do look to work with and help to enhance, if you will, Canada's value proposition on a sector-by-sector basis. On the programming, we have some small programming that may be sector specific, but by and large it's not about targeting particular sectors; rather, it's about working with the industries themselves.

Mr. Marc Garneau: Yes. It sounds like it's a more general approach as opposed to specifically saying, "Hey, where is there a big market in the future for a particular product or service and is

Canada good at that and should we...?" It doesn't look like you get that specific.

Mr. Billy Hewett: We certainly do attempt to work with industries, with firms, and with other levels of government on specific sectors. We do work closely with Foreign Affairs and also with the firms themselves to help promote and take advantage of those strengths. We don't decide on our own which they are.

Mr. Marc Garneau: Do you deal with IRBs?

Mr. Billy Hewett: Our sector does deal with IRBs. I'm not the IRB expert per se, but yes.

Mr. Marc Garneau: Okay. When IRBs are involved because we make a foreign purchase, do we establish certain criteria with respect to the nature of the IRBs? There have been complaints that some of the IRBs we're getting here in Canada are of a pretty basic nature in terms of metal-bashing as opposed to allowing us to rise within a particular industrial sector and increase our capability to produce more sophisticated products.

Mr. Billy Hewett: Yes. I'm aware of that concern, if you will. We do attempt, through the administration of the IRB program, to get back the greatest value for the taxpayer, for the defence sector, and for the Canadian industries that are supplying in and have that capability. There has been a policy review under way with respect to IRBs, where one of the questions is the very one that you've raised.

• (1040)

The Chair: RIB is a return of business?

Mr. Mike Lake: No. It's IRB.

A voice: Industrial—

The Chair: Oh, okay.

Monsieur Bouchard.

[Translation]

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

You stated that the budget included programs aimed at assisting the wood and paper industry. I believe you extolled the virtues of these programs, or at least you spoke very positively about how they could help these industries. During our first meeting on the forestry and paper sectors, we heard from one witness that the programs were ill-suited to the industry. He even went so far as to say that the marketing program was not appropriate, that industry officials were currently in survival mode and in dire need of credit.

Can you tell me if Industry Canada is in a position to say that the wood and paper industry is well acquainted with its programs? Is the information getting out to this industry?

[English]

Mr. Billy Hewett: I just want to know if I understand the question. Are you asking whether we are doing everything we can or whether the sector is fully aware of the financing-related programming that's available currently?

[*Translation*]

Mr. Robert Bouchard: Let me put my question to you once again. Are your programs known to the wood and paper industry? According to one of the witnesses who testified before our subcommittee, programs are ill-adapted to the wood and paper industry. He cited the marketing program as an example, claiming that now was not the time to engage in marketing when the focus was on trying to survive. What the industry needs more are loan guarantees.

So then, let me repeat the question. Is the wood and paper industry aware of the programs you spoke of that are included in the budget?

Mr. François Delorme: The only answer I can give you is that during the course of our discussions with finance department officials, further to Budget 2009, about decisions regarding access to credit for businesses, one of the concerns expressed was the need to simplify as much as possible the delivery of these assistance programs, specifically by adopting the single window approach to service delivery. It remains to be seen how this would work. Discussions are taking place.

Let me just say that this concern has been voiced and discussions are under way with officials from the Department of Finance. We are trying to simplify the process in order to make it as effective and as workable as possible.

Mr. Robert Bouchard: By single window, do you mean one-stop service where the industry could access all of the programs?

Mr. François Delorme: That's exactly what I mean.

Mr. Robert Bouchard: I see.

Earlier, Mr. Lake asked what you might like to recommend to the subcommittee in terms of potential witnesses and solutions. Admittedly, you have described the situation clearly to us this morning, but I don't think any solutions have been put forward.

Who do you suggest the subcommittee call as witnesses to get some direction or possible solutions to the problems plaguing the wood or other industries? Would meeting with representatives of industry associations put us on the right track? You suggested that we meet with officials from the Business Development Bank of Canada or with consultants. Who do you think should be invited here to shed some light on possible solutions or to make some recommendations to us?

● (1045)

[*English*]

Mr. Billy Hewett: What we've attempted to do is simply just provide the overview. So what I would encourage is if the committee is interested in understanding what individual sectors are experiencing and is attempting to get at issues like the financing question, then by all means invite the industry sectors of interest, those that are facing the challenges. If you want to make sure you understand whether there's a communication and availability issue, you may wish, as my colleague has indicated, to invite the Business Development Bank of Canada or Export Development Canada so that you get both sides of the story and you can hear for yourselves how well it's working or not working.

The Chair: Thank you very much, industry officials, for your testimony this morning and for your help. Again, we appreciate your effort and your time.

We are going to go in camera. Members, we will have about 10 minutes to discuss what we're going to be talking about in the next few minutes.

Thank you again.

[*Proceedings continue in camera*]

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