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Chair

The Honourable Michael Chong

Standing Committee on Industry, Science and Technology

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• (0930)

[Translation]

The Chair (Hon. Michael Chong (Wellington—Halton Hills, CPC)): I would like to welcome you all, on this Friday, September 10, 2010 to our 34th meeting of the Standing Committee on Industry, Science and Technology.

[English]

Welcome to members of the public, to members of the committee, and to our witnesses.

[Translation]

Pursuant to Standing Order 108(2), we are meeting today as part of our study on the permanent closure of the AbitibiBowater of plants in Gatineau and Dolbeau-Mistassini.

[English]

We have in front of us this morning two witnesses from AbitibiBowater. We have Mr. Paterson, who is the president and chief executive officer, and Mr. Robertson, who is the chief restructuring officer.

Welcome to you both. You may begin with an opening statement.

Mr. David Paterson (President and Chief Executive Officer, AbitibiBowater Inc.): Thank you, Mr. Chairman.

I am here today to discuss the company and the restructuring process, from which the company will hopefully soon emerge.

Due to the economic conditions that we faced and the lack of sufficient funding within the business to continue without filing for court protection, we filed 16 months ago both in the United States and in Canada. Our main challenge at that time, which remains in the marketplace today, was declining demand for our primary product, newsprint. We are the world's largest producer of newsprint, and that market has seen a significant demand destruction. In our belief, there is no expectation for recovery in demand for that product going forward.

We also saw a significant reduction in the United States housing market. That is a key component for our company, since in eastern Canada, primarily in the province of Quebec, we are a significant producer of lumber. As we all know, the U.S. housing market has still not recovered. For many of our other products, we saw significant swings in demand and pricing due to the global economic situation we faced.

On top of that, we were faced with debt maturities and debt refinancing in the spring of 2008. That was not that long ago, but if

we remember back, that was at the height of the credit crisis, the meltdown on Wall Street, the failure of Lehman Brothers, all issues that are still affecting credit markets and capital markets across the globe.

In response, we filed for the companies as I mentioned, but we also immediately started the process of restructuring the company, which included selling assets, and which unfortunately included idling and closing assets across our system in both Canada and the United States as well as in Great Britain. Of course this unfortunately impacted employees and communities across our system. We are here today to discuss those impacts.

Throughout this process we have survived, and we are back on the road to recovery and hope to emerge from bankruptcy soon as a much more flexible company. That could not have been done without the support of the employees of the company who are continuing to operate in a safe and now profitable fashion across Canada and all of our systems.

One of the major steps we undertook was to reduce the cost of operating the company. We have reduced our SG&A, the administrative costs of running our company, by 50%, which is some \$160 million a year. That includes significant reductions in staffing at our headquarters as well as across the entire system.

Ultimately this company will succeed as we emerge with a de-leveraged balance sheet. I want to remind the committee that at the time we filed, we had approximately \$6.8 billion of debt, and we anticipate emerging with roughly \$1 billion of debt as a highly de-leveraged company coming out of this process.

Let me talk for a second about the process we've gone through. The key was, of course, to get the support of our creditors in both the U.S. and Canada. To do that, we had to develop a business plan. That business plan has been submitted and approved by the creditors. It is the base plan for our go-forward strategy, and it contemplated a very de-leveraged, very flexible, very low-cost manufacturing platform based on declining demand in newsprint and the conversion of assets away from newsprint at a pace that matched the decline in consumption of newsprint.

Another key component of the plan was the resolution of our NAFTA claim. That has been resolved and is part of our emergence plan. As we go forward, we will have to continue to battle with the demand components of our market and with the fact that, whether we produce in Canada or in the United States, we have to compete globally, remembering that we are in a free trade industry. When we compete for orders we're competing with Europeans, Asians, and South Americans. At the same time, we're selling our products primarily out of Canada to many of those same markets. Canada is our export platform and will remain our export platform going forward.

Another issue that is always a challenge for our company is the exchange rate. The relationship between the Canadian dollar and the U.S. dollar is important, because we have always been a larger manufacturer in Canada than in the U.S. We will be a larger manufacturer at emergence as well. Our costs are more than 50% in Canadian dollars, but our revenues are predominantly in U.S. dollars, so the ability to implement hedging policies on currency issues is important to us. We have to be out of bankruptcy to do that.

• (0935)

As I mentioned a minute ago, one of our strategies to deal with the decline in newsprint demand is to continue conversion projects away from newsprint, in essence to stop shrinking the company in terms of closing facilities but start converting facilities to other products, dealing with the demand destruction components to newsprint in a positive sense in the sense of reinvesting in assets and making products other than newsprint to deal with the decline.

Looking at the next steps, as we sit here today we're very close to starting the process of raising our new funds; in terms of the capital raise, that will start next week. We are in the process of resolving many issues as related to our pension obligations in Quebec, and then ultimately Ontario. All these matters have to be resolved in a successful manner in terms of our ability to exit. Our creditors want these matters resolved before they'll support the exit plan and essentially write off their debt and accept equity in replacement of their debt obligation.

Over the next several weeks, you'll see the company raising capital, concluding agreements with the provincial governments, primarily in Quebec and Ontario, and starting the process of re-engaging with our creditors, and ultimately our new investors, on the future of the company. That future needs to be one that ensures the profitability and sustainability of the enterprise so that we can meet our obligations to creditors, to investors, as well as our employees.

Let me finish my statement by saying that our goal from this entire process was not to attack the pension plans of our retirees and our active employees, and we believe we have achieved that, though the solution is not final yet. In the next few days I think you'll be very pleased to see the solution we've reached on pension obligations, both past and future, in terms of our employees.

Mr. Chairman, that's my statement.

• (0940)

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

We'll have about an hour and 20 minutes of questions and comments from members of the committee.

We'll begin with Monsieur Coderre.

[*Translation*]

Hon. Denis Coderre (Bourassa, Lib.): Thank you, Mr. Chairman. I would like to share my time with my colleague, Marcel Proulx, who is directly affected, because of the region involved.

Mr. Paterson, two things are of interest to me. Today, you will be hearing the tapes: the government will tell you that it has done so much for the industry, even though it has announced the same \$100 million five times now. In my case, there are two things that interest me: first of all, the fate of the workers, and second, the future of the industry. Without workers, there is no industry.

I know that, in a way, you are between a rock and a hard place. The government has abandoned you. At the same time, I don't understand how you quickly found the money to pay bonuses to your senior management—we are talking about \$6 million—while we wait for good news soon regarding the fate of the workers, in terms of their pensions and so on. I would like you to explain why money is available more quickly for bonuses.

At the same time, do you think that more should have been done—I know the answer, but I would like to hear it from you—for example, loan guarantees? Unlike the Conservatives, I believe we should be investing in industry and that this is not violation of the Softwood Lumber Agreement. Even the government's lawyers are saying that it is not a violation of that agreement. So, someone is being taken for a ride here, and I think it's the guys sitting over there and all the women who have lost their jobs. They are the people I am interested in today.

Voices: Hear, hear!

[*English*]

The Chair: Order.

Hon. Denis Coderre: *Alors—*

The Chair: Mr. Coderre, I have the floor.

I'd ask members of the public to restrain themselves. This is a parliamentary committee hearing, and there are people who are struggling to hear the testimony and the questions and comments from members, so please treat this as such. In the interests of everybody getting a full hearing on both sides, please ensure that you don't cause any further disruptions to the committee, or else I'll have to ask security to clear the public galleries here.

Go ahead, Mr. Coderre.

[*Translation*]

Hon. Denis Coderre: Mr. Paterson, what should the government have done to prevent the closure of the Dolbeau-Mistassini and Gatineau plants which, in my opinion, deserve to remain open?

I would also like you to explain why this \$6 million bonus should be given to senior management. Is it because you are afraid to lose that money as part of your restructuring plan? You may be afraid of losing senior managers, but I am afraid of losing workers. I would like them to also receive some help.

Could you respond briefly? After that, my friend, Marcel Proulx, will have a question for you.

[*English*]

Mr. David Paterson: Thank you.

I think there were several questions in there. I'll try to answer each one, and if I miss one, please re-ask the question.

I think we started with the question about the future of the workers and the future of the industry, and you asked me to start with the future of the workers. I think the reality, as I've mentioned, is that in our primary products—and I'll include newsprint in the overall printing and writing sector, which has been a very traditional part of the Canadian industry's product portfolio—we're facing long-term continuing demand destruction as electronic media erodes our customer base.

So if I have to say what we need to do in terms of the workers, we need to ensure that our company as well as all companies in Canada have a viable business model and plan so we can meet our obligations. At the same time, we have to begin to make new products, and we have to face the fact that we may need to help workers be redirected to new or different industries within their regions. I think it's beyond our control to stop the decline in consumption of our primary products. That's just something we all have to deal with. In the case of the worker, I think we need to be up front and open and discuss those matters. Where we don't have sustainable businesses, we need to help workers find new employment.

In our case, as AbitibiBowater, we've offered and continued to offer jobs in other facilities that are still operating in the company. I believe we've had over 200 hourly employees relocate to new positions within the company, and those positions are still available.

With regard to the industry and government policy, I think that is a strategic issue. I think the governments...and I talk about "governments" in Canada because we interact more, quite frankly, with provincial governments because of the issues related to the natural resources of water and timber.

I would say that Canada would be well served by having an industrial policy strategy for the forest products industry. We don't have a clear path forward, either as producers or as governments. So if I wanted to encourage this committee and governments to think about something, it would be that: how do we create a new strategy for Canada?

• (0945)

The Chair: Thank you, Mr. Paterson.

I think Monsieur Proulx has a question for you as well.

Go ahead.

Mr. Marcel Proulx (Hull—Aylmer, Lib.): Thank you, Mr. Chair.

[*Translation*]

Good morning, Mr. Paterson.

In 2005, the Liberal government implemented a \$1.6 billion plan to revitalize the forest industry, but the Conservative government subsequently cancelled it. The Conservative government couldn't

care less about the forest industry. The Bloc Québécois can't do anything about it. You are right: Quebec and Canada deserve a federal government whose position is absolutely clear, in order to know what to expect.

In response to a question from my colleague, the Hon. Denis Coderre, you said that employees must be redirected to other industries. I know that, in the case of the Gatineau plant, the restructuring committee is currently carrying out a study. I would say that your financial participation in that regard is minimal. Do you consider it to be a bogus study or are you sincere and in good faith when you say that you want to help the plant find a new vocation? These studies require funding. How much can you put in to help the plant find a new vocation and save these peoples' jobs?

The former town of Gatineau Mills revolved around the plant which you now own. Now you are abandoning, not only the workers, but also much of the new City of Gatineau, something we consider unacceptable.

Can you tell us that you will be investing more money, more energy and more resources with a view to finding solutions for these workers?

[*English*]

Mr. David Paterson: Thank you.

Specifically with regard to Gatineau, yes, we've committed to fund the study, and we're participating in the study. As we all know, Gatineau is a wonderful site. It's strategically well located right across the river here. It's been an industrial site for a long time. We feel that as a newsprint site it is no longer competitive. We can discuss that issue, but ultimately we are committed to participate and to fund the study.

In answer to your other sub-question, as part of our discussions with the Province of Quebec we are committing to put additional resources toward the issues you described—worker retraining and other things—but on a provincial level. We will make a commitment as part of our agreement with the Province of Quebec.

[*Translation*]

The Chair: Thank you, Mr. Proulx.

[*English*]

Thank you Mr. Paterson.

[*Translation*]

Mr. Bouchard, please.

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

Good morning, Mr. Paterson and Mr. Robertson.

We are here today to question AbitibiBowater about its financial restructuring plan and the best way of helping a community like Dolbeau-Mistassini to implement its plan to reopen its paper mill based on a unique initiative in Quebec for an integrated forestry complex.

I am troubled by the lack of respect and determination demonstrated by AbitibiBowater with respect to those communities that are, or will be, affected by permanent closures of paper mills and sawmills in Quebec. We understand that AbitibiBowater has to survive in order to keep its plants operating. However, I do question its intentions and its approach, given that AbitibiBowater is now shutting down paper mills and sawmills that it no longer wants, simply abandoning these single industry communities which have always been loyal to the industry.

Mr. Paterson, the former Manager of the Dolbeau-Mistassini paper mill has said that the mill was profitable. The resource is located close by. The workers cooperated, as did the community. So, why did you decide to shut down the Dolbeau-Mistassini mill?

• (0950)

[English]

Mr. David Paterson: Specifically with regard to the Dolbeau decision, we have a major issue there, which is related to the cogeneration facility on the site. As you know—you talked about an integrated facility—we do not own the steam facility at that site. It's part of Boralex. That contract was very disadvantageous to the company, and we worked hard, along with Boralex, to try to find a new solution.

Under the terms of CCAA, we are allowed to repudiate that contract, which we did. Once we repudiated the contract, Boralex was no longer going to supply us with steam, so, unfortunately, until that matter is resolved, Dolbeau is caught in that debate.

The facility itself, under the right energy deal, is a competitive facility and we would re-examine it, but we are not going to be successful there unless we have the proper energy agreement either through acquisition of the energy island, which we have discussed with Boralex, or through a new contract, which we have discussed. At this date neither of those has been accomplished.

[Translation]

Mr. Robert Bouchard: Mr. Paterson, if you sell a plant like the Dolbeau-Mistassini paper mill, or even the one in Gatineau, you will demand a non-competition clause, according to what we have been told. Could you explain the terms and conditions of that clause?

[English]

Mr. David Paterson: We've had no offers on either facility, but the issue for us as a company is that if the capacity remains in newsprint or supercalendered papers, that will lead to further price erosion, we believe, and further pressure on the sustainability of the company. So our position in both cases is that we will work with anyone who wishes to come and buy, as long as they don't compete with us. The duration issue I haven't addressed yet.

[Translation]

Mr. Robert Bouchard: Mr. Paterson, do you not think that demanding a non-competition clause is an excessive measure that will stifle the economic future of communities like Dolbeau-Mistassini, and even Gatineau?

[English]

Mr. David Paterson: Well, if the assets aren't sold or put back into production, clearly the local communities suffer. But ultimately

my responsibility is to worry about the 20,000 retirees and the 8,000 active employees, and our vendors and creditors.

I have to look at the big picture, and as difficult as that may be, if we do not have adequate pricing and demand for our products and we can't meet our obligations as a company, then the whole thing fails. So I worry ultimately about the 28,000 Canadian retirees and employees who are currently part of the company.

[Translation]

Mr. Robert Bouchard: Mr. Paterson, I'm sure you understand that, as Members of Parliament, we cannot endorse your financial restructuring plan without knowing the details of your operational plan.

As President, are you prepared to pledge today to table the production and operations plan for your plants and sawmills, including the ones in Quebec?

[English]

Mr. David Paterson: Well, not only Quebec, but the entire Canadian and U.S and our global footprint are part of our business plan, and we'd be glad to provide this in the detail to the committee. The business plan discusses which facilities will operate and which grades we'll make, and our forecasts for prices and buy-ins. We'd certainly be happy to provide that to the committee.

• (0955)

[Translation]

Mr. Robert Bouchard: I would like to ask one final question.

Mr. Paterson, you are shutting down plants and sawmills. I guess it could be said that you have too much wood.

Are you prepared to give your timber rights for these forests back to the Government of Quebec, so that it can use them to benefit communities in the region?

[English]

Mr. David Paterson: We're having those discussions with all provincial governments. As we all know, in both Quebec and Ontario, which are our primary operating areas, the management of the wood resource is about to change through governmental policy. We have participated in those debates, and we support those debates.

In the case of Quebec, all companies in Quebec will be giving up quota, in essence, under the new scheme, and there will be more of a free market component to wood in Quebec under the governmental plan. We support that plan.

So the answer to your question is, yes, we support providing the resource to those who wish to use it, if those people come forward. We will not fight that.

[Translation]

The Chair: Thank you, Mr. Bouchard.

[English]

Thank you, Mr. Paterson.

Mr. Wallace.

Mr. Mike Wallace (Burlington, CPC): Thank you, Mr. Chairman.

Thank you for joining us this morning.

I have a couple of overriding questions. I don't know much, to be honest with you, about AbitibiBowater. Can you tell me how many plants you have in Canada, in North America? We're discussing two that are closing in Quebec. I'd like to know a bit about how big a footprint you actually have, and then I have some questions to follow that up.

Mr. David Paterson: Okay. Well, let me try to hit some highlights, and if you would like to ask a follow-up, that's great.

Our emergence plan says we have 11,000 employees, 8,000 of whom will be in Canada. Of those 8,000 employees, roughly a little over 5,000 will be in the province of Quebec. We will have a total of 19 pulp and paper facilities, and of those, I believe 12 will be in Canada. I'm going to do a quick count here: five will be in Quebec.

Quebec will remain our largest asset resource and our largest number of employees, and finally, in terms of retirees, our retiree base is largely in Quebec as well.

Mr. Mike Wallace: Assuming your plan is approved, part of the plan is the closing of these two facilities. Are there other facilities within North America or around the world that are closing also?

Mr. David Paterson: Well, since the merger of Abitibi and Bowater, to our emergence plan, unfortunately we've had to close 3.3 million tonnes of capacity in both United States and Canada, as well as Great Britain. These are the final two in a series of closures that were required.

Mr. Mike Wallace: I have another more broad question. I know the issue is newsprint and that type of paper, but I was just at my physician's this past week, and it's completely paperless in that area. A lot of my reading is now done electronically.

There are issues facing the industry, significant issues. What's the plan to keep you, this organization and this industry, sustainable if this is the trend that's happening? Convince the committee that you are going to be a sustainable industry over the long term.

Mr. David Paterson: Well, you're fundamentally asking the question that the people we're going to ask for money to finance the exit are asking. The goal, or the real answer, is that we have to be a low-cost manufacturer of those products that we choose to make, and we have to deal with the reality of declining demand.

You're absolutely correct that it's not just newsprint but also the general printing and writing sector. Our objective and our business plan says we are going to invest to move away from printing and writing grades to other grades that have better structural demand features. We're going to do that on the platform of a very low-cost manufacturing structure that allows us to survive the cyclical nature of our business. The cyclical nature of the business will continue; that will not go away.

•(1000)

Mr. Mike Wallace: You can correct me if I'm wrong, but it's my understanding that next week, or soon, there will be some decisions made through voting on your plan. Has that plan been shared with the workers, the employees of the organization? Are they supportive of the plan, or do you have any sense of how they feel about the future? Or is it something you're not able to share with them?

Mr. David Paterson: Well, no, it's a public document in both Canada and the U.S. The systems are slightly different, but in Canada we have a court-appointed monitor who issues reports, and those are available.

Most of our employees are creditors in one fashion or another, either through.... The people who unfortunately have been let go have severance claims. Others may have other forms of claims. As creditors of the company, they have all that information if they choose to access it.

We talk about the emergence plans quite openly with various groups. I think it's a fairly open process.

Mr. Mike Wallace: Does the plan envision other plant closures in the future?

Mr. David Paterson: The plan identifies those facilities that we intend to run during the next five years. Like all business plans, the caveat is "depending on market demand".

I want to make it clear that our assumption is that we'll continue to have demand destruction in our primary products, but our business plan deals with that: rather than closing assets, it is investing and converting away from these printing and writing grades at a rate that makes sense and in segments that we believe will provide higher revenues for the company.

Mr. Mike Wallace: Right.

One of the responses to the Bloc question from Monsieur Bouchard gave an indication that there's more to the decision-making than just simply.... In terms of Gatineau, there are other business-related issues in terms of energy opportunities, in terms of being able to provide new energy at a reasonable cost and so on. Fairly complex decision-making has gone into deciding which plants are on the block, I guess you would say.

My concern, then, is this. You don't have to tell me this, because it would be competitive information, but have you identified what marketplaces might be coming available in the future that you're moving your manufacturing to for sustainability?

Mr. David Paterson: We've identified market segments. We have an investment strategy going forward, and we have a level of investment that's embedded in our business plan.

Specific to Canada, as part of the agreements that we're going to enter into with the provincial governments, there will be investment commitments on a provincial level in that. Thanks to the government, we also have the green energy initiatives under way. We're going to take advantage of those. We have the black liquor credit money that we earned, and we're going to invest that in energy projects in Canada, both in Quebec and Ontario.

So we have an active strategy of investment going forward once we emerge.

Mr. Mike Wallace: Thank you very much.

The Chair: Thank you, Mr. Wallace and Mr. Paterson.

Madame Hughes.

[Translation]

Mrs. Carol Hughes (Algoma—Manitoulin—Kapusksing, NDP): Thank you very much.

I would like to start with this question: the situation facing your company today is not that much different from what happened with Nortel: the workers are the ones who ultimately pay the price. As things now stand, it is quite clear that the workers will be paying for the emergence plan, while your senior managers are pocketing \$6 million in bonuses to the detriment of employees. What is the rationale for these bonuses? As I said, this is really detrimental to the workers and their families. It is like a slap in the face.

I wonder if you could elaborate on the fact that you are providing large bonuses to senior managers, while your employees are being laid off.

[English]

Mr. David Paterson: Let me try to answer the question, and please ask another question if you so desire.

First, I'm not really familiar with Nortel, but I will make the difference based on what I know. One of our objectives here, from day one, is to protect the pension interests of our retirees and active employees. You'll see, once we announce our pension resolution, that it is quite significantly different from many other restructurings in Canada, and in fact protects workers rights to a degree that I don't think is common in the CCAA process.

Second, specifically to the management team of the company, we are participating in the cost reduction initiative, first through significant reduction in total management of the company in terms of head count. As I mentioned, we've reduced it by some 50%. The management team has received no wage increase for the last four years. The management team volunteered not to take any incentive payments during the restructuring process. To compare that with what Nortel's management actually did, they paid themselves incentives while in restructuring, and we have not done that. In 2008, under the terms of the agreement the management team had earned a synergy bonus, and the management team refused to accept the synergy bonus and did not take that payment. Finally, the management team at the senior level has agreed to a 15% wage reduction as part of this restructuring plan, as approved by the creditors.

I would point out that the incentive you mentioned has not been paid. It is an incentive that will be paid at the discretion of the new board of directors, subject to successful emergence from CCAA and chapter 11 in the U.S. and Canada.

A final comment is that one of the principles of the incentive plan was that we are spending \$12 million a month in fees to lawyers, accountants, advisers, bankers—a whole list of people—so it seemed reasonable, from our creditors' point of view, to incent management to get this process over with merely on the fact that we're spending some \$12 million per month, every month we're in this process. It seemed to be a reasonable business proposition to get the process over with and get out, and our creditors have supported that.

● (1005)

[Translation]

Mrs. Carol Hughes: I have another question. Will the outcome be positive, in terms of severance for these workers?

[English]

Mr. David Paterson: In both the U.S. and Canada, while you are in restructuring you're legally not allowed to pay severance. It becomes a claim to the court, and the courts in Canada and the U.S. will determine the level of severance payment for those employees who lost their positions during this process. The courts will decide that.

[Translation]

Mrs. Carol Hughes: Before I ask my next question, I would like to back up a bit. You negotiated a collective agreement that provided for severance pay and pensions. Not long afterwards, you wasted no time declaring bankruptcy. I am wondering whether you are acting in good faith or not.

[English]

Mr. David Paterson: I believe the agreement you're referring to was negotiated after our filing for chapter 11 in CCAA. We entered into negotiations while we were in restructuring, and in Canada and the U.S. those have been successfully completed. They have not been implemented as of yet because all the conditions have not been met. Primarily in Canada, it is the successful resolution to the pension question. Once that is resolved then the new contract is implemented, and when Canada has implemented, the management salary reductions and other benefits are also implemented.

[Translation]

Mrs. Carol Hughes: Of the 330 or 570 employees, do you know how many are still jobless? If I am not mistaken, 330 employees are located in the Gatineau region.

[English]

Mr. David Paterson: It's my understanding, having discussed and asked that question recently, that we've had, I believe, 47 employees relocate within the company. According to the latest numbers I have been told, 70% have found other employment, but I'd have to verify that number. We have provided counselling and outplacement services.

● (1010)

[Translation]

Mrs. Carol Hughes: In 2008, the Conservatives promised to hold a summit on the forest industry as an opportunity to discuss the situation in greater detail and try to identify solutions. But we are still waiting for that summit to be held. Do you think it would benefit forestry companies? Is it too late for such a summit?

[English]

Mr. David Paterson: I think developing a national plan in Canada is always a good thing. I think there's a natural conflict in these summits, because people on my side of the table, the manufacturers, don't all agree, and certainly there's a natural conflict between governments at the federal and provincial levels in terms of their objectives. But I think the objective of having a national conference is great.

To me it would be key, and it would really raise my interest level, if it were about a vision of the future and where we want to take investment, where we want to take the industry. If it were about—and this may sound harsh—how we protect jobs and industries that are dying, that would be a very difficult discussion. When your consumption of your products is declining more than 20% a year, it's very difficult to protect every job in Canada.

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

Merci, madame Hughes.

I just want to remind members of the committee that while we've invited these officials to appear in front of us today, notwithstanding that there's a court proceeding ongoing, and while we, in my view as chair, did not need to seek the approval of the court to ask them to appear—they were obliged to appear, which they've kindly done on very short notice—there is the *sub judice* convention of Parliament, which means that members are to refrain from commenting directly on the court proceedings, on the wisdom of the court, and on its decision.

I don't think anybody has crossed that line yet, but I'd just remind you that I'll rule out of order, based on that convention, anything that gets too particular about the court proceedings and about the decisions of the court, so just keep that in mind as we question the witnesses for the remaining time.

Go ahead, Mr. Scarpaleggia.

[*Translation*]

Mr. Francis Scarpaleggia (Lac-Saint-Louis, Lib.): Thank you, Mr. Chairman.

Welcome, Mr. Paterson and Mr. Robertson.

I would like to come back to the \$6 million bonus paid to the company's senior management. I am trying to follow the logic of your earlier answer to Ms. Hughes. First of all, you say that there is no reason to worry, since the money has not yet been paid. In other words, it will be paid later on. The fact remains that, for the managers, this is money in the bank. They can plan their expenses based on the money they expect to receive.

There is another thing that I don't understand. You say that you have to pay the bonus because you spend \$12 million a month on lawyers, accountants, and so on. I am having a lot of trouble understanding the connection between the two. So, with respect to those comments, there is a question I would like you to answer. Along the same lines, I imagine that the \$6 million does not constitute an annual bonus, but that the money will be paid out in one shot. How many company managers will be receiving a bonus?

[*English*]

Mr. David Paterson: Fifty-one are eligible.

[*Translation*]

Mr. Francis Scarpaleggia: It seems to me that in another respect, that logic is also somewhat inconsistent. When we're talking about a single-industry town, it can be assumed that if the plant shuts down, the employees and workers really won't have any other employment choices. However, if that does not work, managers can always go elsewhere. At the same time, you were saying earlier that the

industry is on its knees. So it is obvious that managers also have limited options available to them.

Under the circumstances, I would like to know why you feel it is necessary to pay a \$6 million bonus to your senior managers, particularly since you don't want to pay that money afterwards, and it is not really necessary to do that now in order to keep your management team. The inconsistent aspect of all of this is that workers are told they have no choice, because they happen to live in a single-industry town. However, managers do have choices elsewhere, even though the industry is on its knees and North America as a whole is undergoing a recession. I don't understand why a bonus should be paid to senior managers at your company.

●(1015)

[*English*]

Mr. David Paterson: It's not a retention bonus. It's a bonus to incent performance, or recognize performance, which is the culture that we've had, and hopefully will continue to have, to recognize performance of individuals as well as the company.

On your matter of a question concerning talent or people, yes, management tends to have more mobility than the hourly employees, historically, but we have to be able to retain people who are not industry-specific. When we look at management for our company, we want to ensure that we have the very best. It is a very difficult industry and it is difficult to attract people to this industry. We currently have over 100 positions open that we can't fill in management because of the industry we're in and the condition of being in the CCAA.

When we look for talent, we don't look within the industry. One of the things we've said we need to do is to bring successful people in from other industries to help us revitalize and re-energize this industry that we've all grown up in. We need to be able to do that, and compensation, in all its forms, is a critical part of having a successful management team.

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

[*Translation*]

Thank you, Mr. Scarpaleggia.

Mr. Blaney, please.

Mr. Steven Blaney (Lévis—Bellechasse, CPC): Thank you very much, Mr. Chairman. To begin with, I would like to commend you for managing to put together an impressive list of witnesses for today's meeting. I also note your comments and the legal opinion that you received regarding the need to avoid addressing issues related to the Companies' Creditors Arrangement Act.

I also wish to convey my greetings to the workers and family members who are with us today to follow the Committee's work as it relates to the future of the forest industry, and particularly AbitibiBowater.

I would like to come back to Mr. Proulx's comments. At the beginning of the meeting, he talked about domino money, Monopoly money—some \$1.5 billion. It is important to remember that—

Mr. Marcel Proulx: I have a point of order.

The Chair: Mr. Blaney, Mr. Proulx has a point of order.

[English]

Go ahead.

[Translation]

Mr. Marcel Proulx: Mr. Chairman, I ask that you call our colleague to order. I never mentioned Monopoly money. Mr. Blaney spends his time amusing himself, whereas we spend ours trying to help workers and their families.

The Chair: In my opinion, that is not point of order.

[English]

I ask members, if they disagree with what another member is saying, to wait for their time, wait for their intervention, when the chair will recognize and give them the floor. That way we can have an orderly proceeding here. Otherwise we will get into constant interruptions on both sides, and that will not serve members of the committee or the public in any way. So please focus on....

The member at hand is Mr. Blaney, who has the floor.

[Translation]

Mr. Steven Blaney: Thank you, Mr. Chairman. Thank you for taking that altercation into account.

Of course, it is important to remind people that, at the end of the Liberal regime, in the midst of the sponsorship scandal, after 13 years of doing nothing for the forest industry, they came forward with empty promises and what I would describe as Monopoly money

• (1020)

The Chair: Mr. Blaney, another member has a point of order.

[English]

Mr. Francis Scarpaleggia: We're trying to keep things on an even keel here. Why are we going on political diatribes?

The Chair: Well, members of this committee have the right to say what they want and to ask any questions they want. I don't think we want to start restricting the kinds of questions members are asking in terms of their political bents.

Now, you yourself may disagree with particular questions that members of the government are asking, but as I said before, please wait for your time to comment on that. Otherwise we're going to end up with a dysfunctional committee.

So please wait for your time. As I said before, members are free to express their views. You're not going to agree with everything everyone has to say, but please wait for your time, when the chair recognizes you, in order to make your case.

Mr. Blaney, you have the floor.

[Translation]

Mr. Steven Blaney: Mr. Chairman, the first thing we did when the Conservative government took office was to settle the softwood lumber dispute which had been poisoning the forest industry for more than a decade. That is what we did. Contrary to what the member of the Official Opposition has been saying, we invested considerable sums of money: \$1 billion to support communities, and \$1 billion to develop greener paper mills. There were also specific

programs introduced, assistance for workers and industry restructuring.

So, could we do more? Yes, Mr. Chairman. Have we taken concrete action? Yes, Mr. Chairman. And colleagues on this side of the table supported those measures, unlike Bloc members who opposed specific initiatives to support the industry and workers. I find that totally unacceptable.

Having said that, I have a few questions for Mr. Paterson.

Mr. Paterson, we are here today to review the forest industry's current situation. As we know, Amazon sells more electronic books than it does paper books. There is a future for books and paper, but we know that the market is struggling. We agree with that and you yourself made that point.

I have a question for you. You mentioned that, under your emergence plan, you are expecting to continue to operate 19 plants, including 12 in Canada and 5 in Quebec. First of all, when do you expect to arrive at some resolution? Can you confirm when you expect to arrive at a resolution and implement that action plan?

[English]

Mr. David Paterson: Well, as we sit here in this room today, we're effectively executing that plan today, and that is the basis of our exit financing proposal that we're putting to the banks. That is the plan we've presented to the courts, both in the U.S. and Canada. So the timeframe, hopefully, is that we would exit in October and we would exit in the form we are currently operating today.

[Translation]

Mr. Steven Blaney: Fine, thank you.

How many jobs were there before the restructuring and how many jobs do you expect to maintain and potentially create under your emergence plan?

[English]

Mr. David Paterson: Unfortunately, we've lost a total of 7,000 jobs from the day we merged to the exit, in the U.S., Canada, and Great Britain, hourly and salaried. So we've gone from 18,000 employees to 11,000, and subject to not doing an acquisition or a divestiture, we believe that 11,000 is basically our employment base, with 8,000 of those employees being Canadians.

[Translation]

Mr. Steven Blaney: So, you have 8,000 jobs in Canada and are expecting to consolidate those jobs.

[English]

Mr. David Paterson: Yes, that is our plan.

[Translation]

Mr. Steven Blaney: We know that survival committees have been formed, in cooperation with communities, for workers who have no chance of returning to work. Can you tell us about what you are currently doing to ensure that these people can work and continue to receive a decent income, in this industry or another?

[English]

Mr. David Paterson: Well, whenever we've had to close a facility in any country we operate, we've tried to provide outplacement services and other help for people to find new jobs. Specifically to Gatineau and Dolbeau, there are committees formed in each of those communities to try to find a long-term solution to keep the facility operating, either as a paper mill or as some other type of industry. We've participated, both financially and professionally, in those studies. They're ongoing.

As we look to the future, in our discussions with provincial governments, they've asked for continued support of those efforts on a provincial level, both in terms of financial funding as well as management support. We will make that commitment as part of our emergence plan.

• (1025)

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

[Translation]

Thank you, Mr. Blaney.

Mr. Nadeau, please.

Mr. Richard Nadeau (Gatineau, BQ): Thank you very much, Mr. Chairman.

Mr. Paterson, let's not beat around the bush. Let's go back to the bonuses issue. You were saying that you have a deficit of \$6.8 billion, which you would like to bring down to \$1.1 billion. At the same time, the figure of \$6 million was mentioned earlier. Let's not forget that not so long ago, AbitibiBowater gave bonuses of \$60 million, including the infamous \$27 million bonus given to John Weaver. Then, because of the outcry, you reduced that to \$14 million, but you hired him at \$80,000 a month until he reached the \$27 million. In the meantime, you are telling the workers that they have to do their share, and make a sacrifice. The \$6 million paid out to 51 senior managers corresponds to \$117,000 each. And yet, at the AbitibiBowater plant in Gatineau, you were able to convince the workers in February to accept a 10% cut in their wages and a 6% cut in their benefits—for a total cut to their income of 16%—in order to help the industry recover. Then what did you do on August 24? You announced that you would be closing the plant permanently, but that you were keeping the restructuring committee.

Your entire approach to this is parasitic, and there I am quoting Mr. Sansfaçon from the newspaper *Le Devoir*. Even Lawrence Cannon, the Conservative Minister responsible for the Outaouais Region, talked about Abitibi-Bowater's inappropriate attitude towards its workers, with respect to the restructuring it is planning. It is absolutely indecent.

Tell me, Mr. Paterson, are you shutting down the Gatineau plant indefinitely, or do you have a restructuring committee to start up the plant again? What is the real answer?

[English]

Mr. David Paterson: Well, the real answer is that we do not, as a company, intend to restart Gatineau. My understanding of the intent of the restructuring committee is to find an alternative for Gatineau and a new owner who wishes to execute that alternative, and we

would sell the facility. But we do not intend, as a company, to restart Gatineau, and that is part of our business plan.

[Translation]

Mr. Richard Nadeau: You are saying that today, but the honest thing to do would have been to say it when you announced the plant closure on August 24.

Having said that, how do you explain the fact that, since 1993—a period of 17 years—\$1 billion has been invested in upgrades at the Gatineau plant? Yet now, you are simply throwing it away. Why throw it away after investing so much money in a plant which has state-of-the-art technology now? And why this double talk with your workers?

[English]

Mr. David Paterson: Despite the investment you've referred to, Gatineau was not a low-cost facility within the AbitibiBowater family of facilities. We do not have enough orders to operate all our facilities, and we have used the same criteria with regard to all the decisions we've made on all the other mills that were closed concerning—

[Translation]

Mr. Richard Nadeau: Mr. Paterson, can you tell me whether you have looked at the restructuring plan? The idea is to move away from newsprint in favour of something else. But have you looked at all the options for the Gatineau plant which, according to Mr. Michel Girard, your Vice-President in Canada responsible for newsprint, has enormous potential? Mr. Pierre Rougeau, your Canadian Vice-President, said that recent investments in the plant, including \$3.3 million in November and December 2009 and January 2010, demonstrated the plant's potential to move into other types of production.

Have you looked at the plan? Do you intend to look at it? Will you maintain this plant which is capable of producing something other than newsprint?

• (1030)

[English]

Mr. David Paterson: As you have rightfully pointed out, we continue to invest in Gatineau. I feel we tried extremely hard to make Gatineau successful for all the reasons you pointed out. We have huge historical investment there. It is a good site as far as its geography and location go. It has some very good equipment, and it has some excellent employees. But we do not have sufficient orders to run all the facilities, and Gatineau has not demonstrated that it is a low-cost facility despite all that investment.

So if there is another owner who wants to step forward and own that facility, we will cooperate with them and with the community to find that owner.

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

[Translation]

Thank you, Mr. Nadeau.

[English]

Mr. Braid.

Mr. Peter Braid (Kitchener—Waterloo, CPC): Thank you very much, Mr. Chair.

Thank you, Mr. Paterson, for being here this morning.

Quickly to begin and to help set the context, in terms of describing your sector, is it fair to say your sector has been adversely impacted by about a decade of dramatically declining demand and that situation was exacerbated by the global economic downturn? Is that a fair statement?

Mr. David Paterson: That's a very accurate description, yes.

Mr. Peter Braid: Moving forward from that, I'm curious to know who your main competitors are in the world and in which countries they are based.

Mr. David Paterson: Specifically with the newsprint, in North America our main competitor is White Birch, which is also in the CCAA process in Canada.

On a global basis, our leading competitor is Norske Skog, in Norway. It's a Norwegian company, which is rumoured to be very close to filing for court protection in Europe.

Mr. Peter Braid: With respect to those jurisdictions then—Canada, the U.S., Norway—I'm curious to know what our productivity is like in Canada versus those other sectors. Can you comment on that at all?

Mr. David Paterson: As a company in the newsprint sector, on a productivity per man-hour or unit of investment basis, Canada is very comparable. It's a very flat curve, in that sense.

Mr. Peter Braid: In terms of your plan and your goal to become a low-cost manufacturer, are there plans to improve productivity as part of that?

Mr. David Paterson: In all our businesses, all our facilities, there's always a drive to increase efficiency across the board.

I think it may help in the context to say what are our biggest cost inputs to operating a paper mill. Number one is always fibre, either recycled or virgin fibre. Then you have energy, the labour—the cost of the people—and then you have the logistics, the cost of transporting product, because we sell our product on a delivered cost basis.

Mr. Peter Braid: Very good.

If I could move on from there, there were a couple of statements in your presentation that I found quite interesting and that I want to ask if you could elaborate a little bit on.

You mentioned that you're in the process of raising capital. Could you describe where and how you're raising that capital? Again, I'm only asking for publicly available information.

Mr. David Paterson: Sure, I'll talk in broad strokes. We go to the usual markets. We'll in effect be doing a road show and selling the story of the new AbitibiBowater to funds and investment managers, in the U.S. and Canada primarily, who are looking for higher-return investments. We will be what's called a high-yield investment. We're going to pay a significant interest rate to get that funding, vis-à-vis safe Canadian or U.S. Treasury notes, which are essentially zero today.

The investment community is looking for high-yield pieces of paper, and we hope that given our business plan and the steps we've taken, we'll be able to raise that funding quite rapidly.

Mr. Peter Braid: Very good. I wish you much luck and success through that process.

Finally, of course, going through the sort of process you have been going through, I'm sure one of the most complex, most sensitive aspects of this is dealing with wage and benefit issues. Could you elaborate a little about how you managed that process, how you involved and communicated with employees, and what some of those solutions are looking like?

• (1035)

Mr. David Paterson: Specifically in Canada, we have a unionized environment. We have two primary unions, and their representatives will comment to the committee today. We had extensive discussions with those unions and their leadership, at both the local and national levels, and we were able to reach a new agreement, which as I mentioned earlier is contingent on certain things being done primarily around the pension matters.

We are very close to all those details being worked out. As another member asked, we've asked for a significant wage concession as well as benefits concession, but I think given the facts that we're facing and the dialogue we undertook with our unions, we have reached an agreement.

Mr. Peter Braid: Very good.

I have one final question. Could you describe to us what AbitibiBowater in Canada will look like in five years?

Mr. David Paterson: If we execute the plan and we don't experience another market meltdown like in 2009—I'll put those two caveats in there—we should be less news, more green-energy-driven, through investment. In eastern Canada, we would be primarily export-oriented on our assets that are in close proximity to the St. Lawrence Seaway, and in Ontario we'd be in a North American marketplace. We need to make less news, we need to generate lower-cost energy, and we need to find alternative business models such as selling green energy to the power grid or to the consumer marketplace. All those things are in the works.

The Chair: Thank you very much, Mr. Braid and Mr. Paterson.

Madame Hughes.

[*Translation*]

Mrs. Carol Hughes: Good morning.

To begin with, I would like you to explain how it is possible for your profit projections for the period from 2011 to 2014 to amount to \$1.5 billion. That is what we read in the newspapers. If the industry is dying, how is it that you are predicting that level of profit?

[English]

Mr. David Paterson: Well, the question is whether our pricing and demand assumptions are correct in our business model. Those are in the plan. Again, we do not assume that newsprint demand recovers. We'd assume a continued decline in newsprint consumption going forward and that we will make investments both in the U. S. and Canada that lower our costs but also move us away from newsprint as our main product over that five-year plan. In our industry it's supply and demand, so when supply and demand are 92% or higher you have some pricing power. Our plan contemplates that we will not allow ourselves to get in the position where newsprint prices collapse again, because that destroyed the company. That is the fundamental basis of your question about how you get to \$1.5 billion.

I think it's in the best interests of current and retired employees that we make \$1.5 billion, because that means we're meeting our obligations.

[Translation]

Mrs. Carol Hughes: Does that include the \$130 million you will be receiving from the government under the NAFTA agreement? The reason I raise this is that an increasing number of companies are now deciding to fail. When that happens, the communities no longer have access to the resource. Once you have declared bankruptcy, you waste no time making a claim under NAFTA or filing for protection under the Bankruptcy and Insolvency Act. It seems the communities don't have the necessary resources to ensure their survival once you have declared bankruptcy.

[English]

Mr. David Paterson: I think there are several points you made there, so let me try to touch on them.

First, the NAFTA claim really didn't have anything to do with the filing. It had to do with the actions of a province of Canada related to a mill closure. Time-wise, we did that before we filed. So it was before we filed for creditor protection, and it was related to the destruction of market demand and the cost position of that asset.

To answer the second part of the question about NAFTA, the funds of the NAFTA settlement are not in the \$1.5 billion; they are in the exit financing. We will use those funds to lower the amount of debt we have to put on the company going forward, which is a very positive thing for our employees and our investors. So the less debt we put on this company, the more viable we are to deal with all the market forces we've been describing.

What was the other part of your question?

• (1040)

Mrs. Carol Hughes: There were a few of them. There was the \$130-million out-of-court settlement, and the other part was the survival of the communities.

Mr. David Paterson: Right.

Well, it is a huge challenge. The best thing for us is to be successful and profitable. As for the communities, we still operate. We're paying taxes. We're buying services. We buy over \$1.7 billion of materials and services in Canada. We pay almost \$600 million in

payroll. That's to the benefit to those communities in which we're continuing to operate.

The challenge, of course—and the members have rightfully pointed this out—is that with a facility like Dolbeau, that facility is the community. Those are the very difficult ones. We've always tried to be open to finding ways to help, but ultimately, the future of a one-mill town is very difficult if that mill is not successful.

The Chair: Thank you very much, Mr. Paterson and Madame Hughes.

Mr. Shipley.

Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC): Thank you, Mr. Chair.

Mr. Paterson and Mr. Robertson, thank you so much for being here. I'm finding it actually quite an interesting discussion, and I very much appreciate your forthright answers and how you are not trying to dodge the questions.

First of all, Mr. Chair, Ms. Hughes had a question earlier about the summit. I believe there was actually a summit with the forestry people under Minister Lunn. The natural resources committee actually requested that. It wasn't large. All people were invited. There were some forestry people, plus labour. I don't think it really got much attention. It doesn't mean that there shouldn't be another, but I believe there was one back a couple of years ago when Minister Lunn was in. I think those are important...that they start to fill the commitments that were laid out.

Mr. Paterson, we've talked in general terms, and so I'm going to leave it to you.... I don't know what sort of detail you have. We knew the collapse of the industry within the paper industry as it is. It is, I think, recognized in our day-to-day situations. Even around here, within our offices and within our own businesses, we can see the change in the need for newsprint and paper products.

You've talked about the transition and the conversions that you might be going through, but you've been very general. Maybe that's on purpose and maybe you can't go into any more detail than that, but I am interested in trying to understand whether, if you're here now and it's not working, you can take us to some part of your plan. I know you said you would provide that, but I think for the general record, it might be of interest to understand a little bit about your change in direction.

Mr. David Paterson: Sure. I am probably going to stay a little more general than you might like, because part of this is not public. Part of it is competitive. We don't really want our competitors to know what we're going to do.

There are elements or components of the pulp and paper industry that are growing and have fundamentally better supply/demand metrics than our major segments. Part of our rationalization of our manufacturing assets is that the mills we have going forward tend to have very large, fast machines. There are small machines, which are difficult. Maybe they were built back in the 1930s, 1940s, and 1950s. There are newer machines that, in our case, were built in the 1960s, 1970s, and 1980s. We asked ourselves a question: At a reasonable capital cost and in terms of investment for conversion, for that machine that is making, say, newsprint at high speed and light weights, what other products can we make that have those components that want to use recycled fibre, virgin fibre, or mechanical fibre, which are our three fibre streams, and get more revenue per unit output than we get selling newsprint? That is the fundamental decision-making process. Not all facilities are convertible at a reasonable capital cost, but enough are that we feel confident we can deal with our future view of demand destruction in newsprint.

Also, the future of newsprint, particularly for Canada, in our opinion is going to be based on exporting not to the United States—because the biggest demand destruction has been in the United States—but exporting to markets such as South America, Southeast Asia, and the Middle East, which are growing. Our company, AbitibiBowater, is the world's largest exporter of newsprint, and that segment is growing. We're growing our share in that segment. It's based off, I'll call it, the St. Lawrence Seaway and Canadian assets that can use the seaway.

So that's fundamentally the idea. We can do that in a way that doesn't create excessive risk in terms of reinvestment in the company for that, because we want to also do energy projects. We want to do green conversions and, particularly in facilities such as Thunder Bay, Ontario, where we have a craft pulping process, we're looking at alternative or new energy businesses that are not tied to paper but are tied to green energy and the byproducts we make from the paper-making process.

• (1045)

Mr. Bev Shipley: I wanted to touch on that, actually, so I'm glad you brought it up. You talked about new green energy at lower cost. Assuming that by using your products as a waste that would now become an energy source, I'm wondering two things. One is you talked about a 50% reduction, \$160 million per year reduction through the restructuring. Why is that happening now and not four or five years ago, as you were moving into it? The second is the same thing regarding the green energy. When you talked about your large investments in terms of technology, was that a part of a phase-in project, or is that something that has come up now as part of your restructuring?

Mr. David Paterson: On the first question, yes, I would say that you could find fault with the management team that went in and addressed our fixed costs, as represented by SG&A, faster, but certainly the dilemma we faced got us really focused on that. I will say that we did address it when at the time of the merger it was even higher, but after the filing we just had to take very dramatic steps to reduce our costs for running the company from an administrative point of view. More speed would have been better, yes.

Concerning green energy, both the U.S. and Canada have evolved. First, the technology is evolving and improving. Second, governments in both the U.S. and Canada have started to focus on green energy both from the environmental point of view and also as a new industry and a new source of job creation and a differentiation for mature industries. In Canada, both at the federal and the provincial levels, we are receiving incentive to do green energy projects.

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

Monsieur Coderre.

[*Translation*]

Hon. Denis Coderre: Thank you, Mr. Chairman.

I don't intend to waste time responding to Mr. Blaney's comments, but if he ever wants a letter of recommendation to work in a circus, I would be very pleased to write one for him. Workers deserve better than the petty, partisan politicking in which some members are engaging today. While that is going on, some people are losing their homes and others are losing their jobs. There are human tragedies occurring. I prefer to talk about that today.

Mr. Paterson, there has been a lot of indecency this morning. We have talked about bonuses. The poor lawyers worked hard for their \$12 million a month, so the management team deserves a bonus. In the meantime, workers are losing their jobs. You have just announced that the Gatineau plant is finished. You do some PR, you meet with the restructuring committee, and it's all very pleasant. We can hold a ribbon-cutting ceremony for the restructuring committee, but the fact is it's all over.

My first question is as follows: What do you have against Bowater? I have the sense that AbitibiBowater is pretty much shutting down everything that was previously owned by Bowater. Do you have anything against Bowater? Is your decision to cut loose these companies first part of a strategy? The Gatineau plant belonged to Bowater. As I see it, you're going a little bit too far. The Dolbeau-Mistassini plant was transferred from Domtar to Bowater, and then to AbitibiBowater. So, what's going on? What's your game? Is there a strategy behind all this? As part of your restructuring, you're getting rid of everything that previously belonged to Bowater, right? Yes or no?

• (1050)

[*English*]

Mr. David Paterson: No.

[*Translation*]

Hon. Denis Coderre: No? Okay, but I feel better for having asked the question.

[*English*]

Mr. David Paterson: You asked me a yes-or-no question, I gave you a yes-or-no answer.

Hon. Denis Coderre: You said no, okay. I trust you. You're a humble person. You're an honourable person. It's okay.

[Translation]

I have another problem. We're just talking now. Supposing the Boralex case is resolved—that the people there are able to resolve it. The fact is the resource is available on site, in Dolbeau. You don't even have to truck wood chips in from somewhere else. Supposing there is an agreement with Boralex. We have spent a lot of time talking about the Gatineau plant, but I also want to talk about the one in Dolbeau. If an agreement is reached with Boralex, would you be prepared to reopen the Dolbeau-Mistassini plant? You have abandoned the Gatineau plant; it is finished. However, if the issue with Boralex is resolved and the resource were available on site, would you be prepared to reopen the Dolbeau-Mistassini plant?

[English]

Mr. David Paterson: If I may, I'd like to say one more thing about Gatineau.

We are supportive of the work at Gatineau to find an alternative buyer. I think we've been—

[Translation]

Hon. Denis Coderre: Mr. Paterson, with all due respect, you answered that question.

[English]

Mr. David Paterson: All right. I won't answer.

[Translation]

Hon. Denis Coderre: Now, could you please answer mine? If the Boralex issue is resolved, are you prepared to reopen the Dolbeau plant?

[English]

Mr. David Paterson: We took the position at the time we were in active negotiation, and I would say today, that under the right terms we would reopen Dolbeau. But the committee needs to understand that if that happens, something else will go down, and we will have this very same conversation about another community, most likely in Quebec.

[Translation]

Hon. Denis Coderre: So, you are open to that idea. Today, friends who work for a newspaper actually printed on paper—and I happen to be one of those who believes we still need newspapers printed on paper—announced the closure of the Gatineau plant, but the door was still open for the Dolbeau plant.

[English]

Mr. David Paterson: With the understanding of this committee that something else in Canada will shut down...because we make SC papers in Canada, and we do not have enough orders to run every mill in Canada.

[Translation]

Hon. Denis Coderre: Why don't the workers, mayors and people in the region believe that? How is it that it's that easy... We're talking here. The Committee meeting is being televised and people are watching us.

[English]

Mr. David Paterson: They don't believe that there are not enough orders?

[Translation]

Hon. Denis Coderre: How is it that people have the sense... An agreement could be reached with the people at Boralex. You don't always have to bring the resource in from outside. Dolbeau is a resource region, a magnificent one.

Why have we reached a crossroads where we are now inviting you to appear? Everyone will lose their jobs. Why wasn't it possible to resolve these issues before? Why do we have to invite you to appear in order to get answers?

[English]

Mr. David Paterson: Well, you asked me here, but the... I would remind the committee that Dolbeau has been down, I believe, for over a year and a half. This is not a new issue. We had extensive discussions with Boralex, including arbitration with Boralex through the court system. We've been unable to find a solution.

The Chair: Thank you very much, Mr. Paterson. *Merci, monsieur Coderre.*

The last member for today is Monsieur Blaney.

[Translation]

Mr. Steven Blaney: Thank you very much, Mr. Chairman.

I have four quick questions for Mr. Peterson.

Can you guarantee that wages—

[English]

Mr. Marcel Proulx: A point of order.

The Chair: Monsieur Proulx.

Mr. Marcel Proulx: Mr. Paterson has been good enough to accept our invitation, and I think the minimum of respect we owe the gentleman is to name him by his real name, which is "Paterson".

The Chair: Thank you, Mr. Proulx.

Please let's try to continue this without any further interruptions.

Mr. Blaney, you have the floor.

• (1055)

[Translation]

Mr. Steven Blaney: I hope you did not count as part of my speaking time the ridiculous comments made by our friends opposite.

Mr. Paterson, can you assure the Committee that the wages and benefits of the workers, as well as what you owe to your pensioners, will be protected in future under an agreement with your creditors?

[English]

Mr. David Paterson: Well, the labour agreements we've negotiated will be part of the emergence plan and they will be court approved, as will the pension agreement. We hope to announce the settlement on that very soon. That becomes a legal requirement of the process, as approved by the courts both in the U.S. and Canada.

[Translation]

Mr. Steven Blaney: Very well; thank you.

Mr. Paterson, do you agree with me that any intervention by the Canadian government must be done in accordance with the Softwood Lumber Agreement?

[English]

Mr. David Paterson: Yes, the softwood lumber agreement needs to be complied with, and hopefully we are complying.

[Translation]

Mr. Steven Blaney: As regards your agreement with creditors, do you have expectations of the government in terms of access to funding? And if so, what do you intend to do with the funds?

[English]

Mr. David Paterson: The funds that will be available to us will be the settlement of the NAFTA, and as I mentioned earlier that will be used to reduce the amount of debt we have to put on the company at emergence.

Mr. Steven Blaney: Any other program, any other funds?

Mr. David Paterson: We have the green energy fund, which was related to the black liquor credit—the famous black liquor issue with the U.S. Those funds need to be spent, I believe by 2013, and we have plans embedded to spend those moneys on Canadian assets.

Mr. Steven Blaney: How much would that represent?

Mr. David Paterson: I think it's \$33 million for us.

Mr. Steven Blaney: Thank you.

Finally, what would have been the cost of a carbon tax on your business and the burden for your operation?

Mr. David Paterson: I'm not an expert on the carbon tax issue, but it would be very problematic, in that we burn.... It depends how carbon tax is measured. If it's applied to biomass, it would be very harmful to the industry.

Mr. Steven Blaney: Hopefully we will prevent it from this drama. Thank you.

That's my last question. I think Mr. Wallace also has a question

The Chair: Go ahead, Mr. Wallace.

Mr. Mike Wallace: Thank you.

I just have a general question. I'm also on the finance committee, so....

You talked about 2009 being a bad year.

Mr. David Paterson: Yes, it was.

Mr. Mike Wallace: Would your industry be on the leading edge of the cycle? When would have been your indication that things were slowing down for the forestry industry or the paper manufacturing industry? Is it the middle, the end? When does the natural up and down of the economy affect your industry? Is it at the beginning, or where is it in the cycle?

Mr. David Paterson: In general we tend to be a leading indicator because paper consumption is an indication of future economic activity. When people get concerned about the economy, they stop buying and they destock.

The ultimate example is that October 2008, on a volume and price basis, was our best month in probably 10 years, and demand collapsed in November of 2009. We went straight down by 25%.

Mr. Mike Wallace: That quickly.

Thank you, Mr. Chair.

The Chair: We have a very brief question from Monsieur Bouchard.

[Translation]

You have one minute.

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

Mr. Paterson, I referred to Boralex earlier. You said that there was no possible agreement, that the negotiations had been going on for a long time, but that if you were able to reach an agreement with Boralex, which provides steam, you would reopen the Dolbeau-Mistassini plant. I would like you to make a firm commitment in that regard. The mayor of Dolbeau-Mistassini is here, as well as the reeve for the Regional County Municipality of Maria-Chapdelaine, and Mr. Lamontagne, who represents the workers. I want a clear answer from you: will you commit today, in front of these representatives, if a firm agreement is reached between Boralex and AbitibiBowater, to reopen the Dolbeau-Mistassini plant?

The Chair: Thank you, Mr. Bouchard.

[English]

Mr. Paterson, very briefly.

Mr. David Paterson: I'll answer your question, but we are currently not in negotiation with Boralex. There's been nothing going on.

Yes, with the right deal we would restart Dolbeau, but something else, some other facility in Canada with the same set of issues, would have to close.

The Chair: Thank you very much, Mr. Paterson. Thank you, Monsieur Bouchard.

Thank you, Mr. Paterson and Mr. Robertson, for appearing, especially on such short notice and in the midst of these court proceedings. We thank you for that.

This meeting stands suspended to 11:30.

• _____ (Pause) _____

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• (1135)

[Translation]

The Chair: I would like to welcome all our witnesses.

[English]

Welcome back to the 34th meeting of the Standing Committee on Industry, Science and Technology on the 10th of September 2010.

We are here pursuant to Standing Order 108(2) for a study of the permanent closure of AbitibiBowater of Gatineau

[Translation]

and the Dolbeau-Mistassini plant.

[English]

We have in front of us, on the second panel, representatives from three organizations.

[Translation]

I would like to welcome Mr. Carrière, President of Local 142. Mr. Gagné is not with us today, but Mr. Lamontagne is appearing as President of the Paperworkers Division.

[English]

Lastly, we have Mr. Coles, president, and

[Translation]

Mr. Ménard, Secretary-Treasurer, National Office, Communications, Energy and Paperworkers Union of Canada.

[English]

Welcome to all three groups. We'll begin with an opening statement from the national office.

Mr. David Coles (President, Communications, Energy and Paperworkers Union of Canada): Thank you very much, Mr. Chairman and members of the standing committee.

My name is Dave Coles, and I am the president of the Communications, Energy and Paperworkers Union. The CEP represents some 130,000 members concentrated primarily in the forest, energy, and telecommunications sector.

Sitting beside me to my left—always to my left—is Mr. Ménard. He's the secretary-treasurer, with whom I will share some time in my slot.

I'd like to offer to the committee a non-partisan, paid political announcement. I have handed out to the committee a report of the sector council on some of the tasks needed to reform the forest industry. I only do that because it's an important piece of work that is non-partisan and we've worked together on it. Not only are brother Ménard and I officers of our national union but we have been workers in this industry for a long time, both out of companies that produced newsprint—brother Ménard here in the Gatineau Valley and I in a paper machine on Vancouver Island. I've also had the mis-pleasure of being the president of the national union while the forest industry spun out of control and shed many, many jobs, and we'll deal with that.

I want to start by saying that the permanent closure of the Gatineau and Dolbeau AbitibiBowater mills is merely the latest casualty in a long, long list of forest crises that have cost more than 100,000 jobs. I'm going to repeat it: we've lost 100,000 jobs, and 40,000 people are still unemployed. If we talk about the workers at these two mills, we also have to talk about the workers at the other mills that have been shut down by AbitibiBowater, such as mills in Beupré, Grand Falls, Dalhousie, Mackenzie, Shawinigan, and a number of other machines not listed that have been closed by AbitibiBowater.

There is plenty of blame to spread around for these closures, but the victims are always the same. The victims are always the same—the workers and their communities—and you'll hear from some of our members who work in those communities.

First, there is AbitibiBowater, because the company is still restructuring under CCAA. The severance pay owed to workers will likely not be paid, even though both parties agreed in a collective agreement to pay that severance if those mills were shut down. Had AbitibiBowater waited until after the vote to exit the restructuring process before it decided to shut the mills down, the workers would have received their severance. Instead they are stuck at the bottom of the creditors list. This is especially frustrating in the light—many times raised this morning—of the \$6 million in executive bonuses that are part of the restructuring agreement that is soon to be voted on by the AbitibiBowater creditors.

In negotiations, and I chaired those negotiations, we have tried to negotiate for these severances to be paid after the company would have come out of CCAA proceedings, and to Bowater's credit, the company was in agreement with that strategy. But the legal opinion we received is that such an agreement could not be reached, as it would be considered an end run around the creditors, and therefore both the company and the union lawyers advised us that it was illegal for us to bargain that severance after they emerged from CCAA. It would have created a super-priority for the creditors, our members.

Hence the second culprit: the bankruptcy legislation. Workers are the butt of jokes with the CCAA and the BIA legislation.

● (1140)

We do appreciate the changes that were finally proclaimed last year, four long years after they received royal assent, but these changes are marginal for workers. Unfunded liabilities in the pension plan remain very low on the creditors list, as does severance pay.

The legislation under the CCAA and the BIA as they now stand really forms a chapter protecting the rights of investors and trampling those of the workers whose livelihoods and whose communities are shattered when a mill shuts down. What these pieces of legislation are saying is that the sweat and blood of the workers are worth nothing compared to the capital provided by people who in many cases live thousands of kilometres away from the company's operation. This is simply wrong, and needs to be addressed by ensuring that the wages and pensions, and even severance pay, that are owed to workers are given super-priority in the CCAA and BIA legislation.

Brother Ménard.

[Translation]

Mr. Gaëtan Ménard (Secretary-Treasurer, National Office, Communications, Energy and Paperworkers Union of Canada): The third culprit, as CEP sees it, in all of these events relating to the forest industry and the crisis is currently experiencing, is the Conservative government. After five years of crisis in our industry, what has been done? It can be summarized as two zeros and a line. Loan guarantees from our federal government: none. Assistance to any company to keep it out of bankruptcy or help it emerge from bankruptcy: none. A forest summit to bring our country together with a plan: no. I admit there was a brief, four-hour meeting, as alluded to earlier by this gentleman. It was a mini summit of sorts. But that is not what we need. During the last election campaign, I met with Lawrence Cannon, a Conservative government minister. We were at the premises of a paper mill in the region, which is also covered under the CCAA. Mr. Cannon promised a summit on the forest industry. He told us that his government would organize such a summit, but we are still waiting.

Why are we talking about a summit? Because in our opinion, it would be an opportunity to bring together all the players: governments, unions, communities and First Nations. Together they could develop a plan for the future. At present, there is no plan for this industry. Across the country, we are losing power plants, our industrial fabric. But the trees are going to continue to grow. This is a renewable resource. What is going to happen? For 100 years the forest industry has provided a living to communities all across Canada. But now, plants everywhere are being shut down. And no one is coming forward with a plan to convert our industry. Yet that is what we need.

In countries where this has happened, government officials sat down with industry players, examined the situation and decided to develop a plan for the future, and find a way to convert their industries. That is what is needed, but it won't happen without help from governments. Since you read the newspapers and you heard it said this morning, you are well aware that forestry companies, all of which you are familiar with, are, without exception, on the verge of declaring bankruptcy, if they haven't already. Government assistance and a plan are clearly needed. The federal government must have a vision of the direction in which to take the forest industry, so that it can continue to provide a living to these communities. We have to convert these plants, rather than letting them just shut down and do nothing about it. This is important. Otherwise, we will end up harvesting logs and, as is the case with the oil sands, ship them off to the United States without processing them first.

I have one final recommendation to make. We have formally requested of AbitibiBowater that it not dismantle the Gatineau and Dolbeau-Mistassini facilities. We believe it's important for Abitibi-Bowater to ensure that they remain operational. With winter coming, that is very important. If the company is serious about its restructuring plan, it must ensure that these plants continue to operate.

Once again, we will require federal government assistance to convert these plants to other types of new production. But that can be done. All that is needed is for someone, somewhere, to have a vision.

● (1145)

The Chair: Thank you.

Mr. Lamontagne, you have five minutes.

Mr. Julien Lamontagne (President, Dolbeau-Mistassini, Paperworkers Division, Communications, Energy and Paperworkers Union of Canada): Thank you, Mr. Chairman.

I would like to thank the political parties for supporting this process. It's important for the workers.

I would like to come back to a point raised by Mr. Paterson. He referred to newsprint when discussing the Dolbeau-Mistassini plant. If he is not aware of this, I would just like to clarify that the Dolbeau-Mistassini plant has not produced newsprint for the last 10 years.

Our plant was equipped with two paper machines. In 1997, the building and one machine were overhauled, and in 2006, the same was done for the headbox on machine number 2. The headbox is the heart of the machine. The equipment and the plant were performing efficiently. The workers decided to go along with a plan. When machine number 2 was shut down in July of 2007, Mr. Grandmont came to see us to say that cutbacks were absolutely necessary because the plant was losing too much money. We willingly agreed. We felt it would be a way of saving our plant, which was new and cost-effective, and that steps would be taken. The workers did their part.

In February of 2008, machine number 2 was returned to service. It was the first time in North America that a machine that we had been told would be shut down was returned to service. Initially, there were five workers per machine. People familiar with the industry probably know that we were the only ones to operate that way in the industry. Everywhere else, there were more than five workers per machine.

In 2008, in recognition of the exceptional performance of the Dolbeau plant following the return to service of paper machine number 2, for commercial printing paper, Mr. Grandmont presented us with a plaque conveying the management group's congratulations to the entire team.

To thank us for our efforts, these same people shut down the plant in 2009, supposedly on a temporary basis. Three weeks later, they told us that because of Boralex, it would be impossible to reopen it. They then placed themselves under the protection of the Bankruptcy and Insolvency Act and shut down our plant permanently. That is unacceptable, and we have no intention of giving up. Over the last 15 years, almost \$400 million was invested by Alliance Forest Products. They, on the other hand, did not invest much when they came into the picture.

In March of 2009, our plant manager met with all of us to tell us that an additional effort was needed. We were told that our plant was generating some \$5 million a month and that some way had to be found to generate even more. Additional cutbacks of 20% were needed. Our departmental directors were saying that they didn't know what to do anymore, and that every drop of juice had been squeezed from the lemon. In June, we were told of a temporary closure, as I said earlier. And then the plant shut down permanently.

It's funny. Questions were asked this morning. Knowing that AbitibiBowater's plants were generating \$5 million a month, it is difficult to understand why they are being shutdown. We just don't get it.

Personally, I am appearing before this Committee to defend the workers and the community. We made considerable efforts to start up the plant again. Every time we try to propose something, we come up against the non-competition provisions. We are told that some people thought it would be possible to manufacture something in a plant that has been shut down. But it's still the same story. We don't want them to demolish that plant. We are concerned that their plan is demolish it and recover the equipment. Given that all the AbitibiBowater plants are shutting down, we are afraid they will transfer that equipment to the Abitibi-Consolidated plants.

• (1150)

The Chair: Thank you, Mr. Lamontagne.

Mr. Carrière, you have five minutes.

Mr. Gaston Carrière (President, Local 142, Communications, Energy and Paperworkers Union of Canada): Good morning, ladies and gentlemen, members of the Committee. Thank you for inviting us to appear.

At the Gatineau plant, the infrastructure is the industry flagship. It is one of the most modern plants in North America. I know that in Canada, the Gatineau plant is the most modern. In the last 20 years, \$1 billion has been invested there, including a \$400 million paper machine, a \$180 million boiler, a TMP, or thermo-mechanical pulp, machine, at a cost of \$150 million, and a \$90 million de-inking machine. And there was an \$18 million cogeneration unit three years ago. A power contract with Hydro-Québec provides for 20 megawatts for 20 years at a competitive rate. It's more profitable to sell than to buy.

In 1963, the Premier of Quebec, the Hon. Jean Lesage, negotiated a contract with the CIP paper company. It provided for 38 megawatts of power for 100 years. Today, that electricity represents some \$12 million a year, and there are 96 more years left. The employer or the government brought the parties back before the courts in 2006 because there was a misunderstanding with respect to the contract negotiated in 1963. The multinational, called Avenor at the time and later to become AbitibiBowater, won its case. It was agreed that the contract would begin in 2006 and be effective for 100 years, until 2106. As we speak, it's in the river; it's dormant. People at the multinational were told it wasn't transferable and that it was associated with the Gatineau plant. If it's worth \$12 million a year today, how much will it be worth 96 years from now? We're talking about billions and billions of dollars. That would wipe out the deficit of all of AbitibiBowater's 24 pension plans, which are \$1.3 billion in the hole.

And there are other problems at the Gatineau plant. In 2007, they shut down a paper machine. The workers were subject to rationalization. We lost 171 unionized workers and 25 non-unionized workers. These same workers were the ones who funded the pension incentive measures, because the employer had abandoned them. We were taken hostage by the employer to ensure there would be joint participation in the Quebec government program, known as the ARTT, but the condition was that there be rationalization. So, in June

of 2007, and again in December of 2007, we rationalized our working conditions; we did that twice in a single year. At the request of CEP locals in Eastern Canada, we asked that negotiations start up again in January and February of 2008, so that the multinational could secure a two- or three-year extension of the contract, with zero increase, and a job security guarantee was signed before the Dolbeau-Mistassini and Gatineau plants were shut down. They asked us for \$62 million worth of concessions, when only three weeks earlier, some \$60 million worth of bonuses had been paid out. Mr. Weaver, in particular, received \$25 million. Here I'm talking about all the company's managers, and especially Mr. Paterson, Mr. Alain Grandmont, Mr. Rougeau, Mr. Girard and Mr. Wright. They all received bonuses and now they are doing it again with the \$6 million, but that is just the continuation of what these white-collar criminals have already done.

Earlier, Mr. Paterson said they had shut down the least profitable plants. But let me tell you something: at the Gatineau plant, they did everything they could to make us look bad. All the plants where the value per tonne exceeded \$500 were at risk. In November of 2009, we were producing paper at the Gatineau plant for \$465 a tonne. In December of 2009, we produced it for \$469 a tonne. The \$4 difference was due to a change in chemical suppliers. No one sent the cavalry to save us. There was a shortage of staff, both on the union side and the employer side. No training was provided. One third of the plant had been emptied out, because of people retiring. But they never helped us. It's really too bad. I won't name any names.

The managers at the Gatineau plant asked for an assessment. They were told not to worry, that staff would soon be provided to them since plants were being shut down. The plants did indeed shut down, and at the Gatineau plant, they sent us people who were offered positions such as assistant director. They had a great time making us less efficient. We were told that we were losing orders, but it wasn't true. They took great pleasure in transferring orders to other AbitibiBowater institutions. They would group the orders that weren't profitable and pass them on to the Gatineau plant. So, we obviously were no longer profitable. It was unacceptable that we received no training or help. On top of that, they mixed up our orders.

In closing, I just want to make the point that the contract was renewed in 2009. The first meeting was with union reps and the AbitibiBowater negotiating team. There were 12 plants, two of which had shut down.

• (1155)

Immediately after saying hello to all of us, the employer stated that had he been able to shut down the Gatineau plant because of its liabilities, he would have done so. However, he didn't have the right to do that under Quebec legislation. But the employer simply circumvented the legislation and shut down the plant. In terms of liabilities, there are 1,828 workers, 1,447 retired workers, 381 workers who opted for late retirement and 21 people on long-term disability. The plant was shut down and we are convinced that it was because of the liabilities. Don't forget that the Gatineau plant absorbed everybody remaining from the former CIP plants in Temiscaming, Hawkesbury, Matane, Lachute, Trois-Rivières, Dalhousie, Maniwaki and Harrington.

Thank you very much.

The Chair: Thank you, Mr. Carrière.

And our final presenter is the Mayor of Dolbeau-Mistassini, Mr. Simard.

Mr. Georges Simard (Mayor, City of Dolbeau-Mistassini): Thank you, Mr. Chairman. Good morning everyone. I want to convey special greetings to the workers and the unions.

Appearing today to talk about a community and try and explain to people that there is no logic to what is happening now is quite a responsibility. I will try to discharge it as best I can.

First of all, I would like to give you some background. The Town of Dolbeau-Mistassini is part of the Regional County Municipality of Maria-Chapdelaine. It comprises 12 towns. The population of that RCM is 27,000 and Dolbeau-Mistassini has a population of approximately 15,000. As will already be clear to you, that leaves about 12,000 for the 11 other towns. We constitute the commercial centre and have the hospital and school that serve the entire community. Industry in Dolbeau-Mistassini provides a living to workers from the 11 other municipalities. It is truly a very important community.

Dolbeau-Mistassini covers an area of some 40,000 square kilometers. It's as large as Switzerland. Ninety-five per cent of its surface area is covered with forest. Indeed, more than 70% of the economy in our RCM is based on the forest. We have the largest commercial forest area in Quebec. Some 3 million cubic meters of wood are harvested in our area. Our slogan is: "Maria-Chapdelaine, a generous nature to share the future". Large quantities of wood, bark and chips are sent all across Quebec. We have always accepted that, except that now, our community which sprang from the forest, which has lived and still lives off the forest, wants to continue to do so. But there is something illogical happening: our plant has been shut down.

From its beginnings in 1927 until its indefinite closure on August 24, the paper mill has always been profitable. Even last year, a profit of \$45 million was expected.

As you mentioned a little earlier, the company owners sold their cogeneration plant to Boralex in 1998, which weakened the mill. The company sold it, and yet today, the company is saying that it's unhappy about that. Its managers, who brought the company to the point where it is now, are talking about restructuring. I must admit that scares me.

AbitibiBowater says it is still interested in forest operations in our area and in the Dolbeau-Mistassini sawmill. And yet we are aware of no operational or investment plan. AbitibiBowater is prepared to talk, but only based on a highly restrictive non-competition clause. That kills any possibility of recovery or even of selling the paper mill, because AbitibiBowater owns 80% of the wood in the Saguenay—Lac-Saint-Jean area. Anybody interested in buying the plant would be facing a non-competition situation. Furthermore, whatever happens, it would be forced to ask AbitibiBowater for chips and bark. To which the company will reply that it is willing to sell, but at the price that it has set. That means that two plants are now endangered—both Boralex and SFK Pâte in Saint-Félicien, which makes pulp. The fact is that AbitibiBowater, or the previous

companies, had sold those plants with promises and supply guarantees that they effectively ended with Bill C-36.

We are living amidst the resource and we cannot allow ourselves to be dispossessed without reacting; we cannot accept the idea of a closure as part of a financial restructuring carried out based on highly debatable rules. As I stated a little earlier, the plan closure will have wide ranging effects at the municipal, educational, business and social levels. It is an especially serious catastrophe for a single-industry town and RCM. As I mentioned earlier, 12 towns are affected.

I would like to briefly address the real estate market. Right now, a lot of houses are for sale. Some 300 people to be exact, and that is a very significant number. We are now in a buyer's market, as opposed to a seller's market. There will be very significant repercussions for the municipal budget. Dolbeau-Mistassini is a regional centre for services, business, and so on. Day in, day out, we are concerned about what people will do. They've never had a problem, but they have no other way of making a living. As a result, our health and social services centres have been responding for a number of months now. We don't understand how this kind of legislation could allow a company to jeopardize other companies. It seems that, based on this logic, in order for a bankruptcy to occur, the people who own the sawmills or sawmill equipment, or the workers, have to fail as well. That is totally unacceptable. We cannot accept the idea that a company could file a financial restructuring plan without unveiling its operational and investment plan.

The President of AbitibiBowater told you earlier that other plants will be shutting down four or five years from now. That means that people who think they are secure today will go through what we are going through now, because of people who have made sure that this company would end up this way.

• (1200)

Yet people are rewarded for succeeding in causing so much harm. How can anyone, at the cost of a financial restructuring, allow a company to jeopardize an entire community? The community is worried. We are convinced that September 14 and the subsequent steps are only part of a process for the company which, with the blessing and complicity of an entire system, will trot out its emergence plan, which I call a "resurrection plan". We are being held hostage by a company that has the benefit of a monopoly. We are also concerned that our sawmill will cease operations because the company has shut down its planing units. So, they will have to dry the wood, load it onto trucks and haul it.

In closing, Mr. Chairman, at the present time, fiber is being left on the forest floor which, barely two years ago, was being processed. The company decided to leave it in the forest, because it doesn't want to process it; it would result in too many chips. One has to wonder about the FSC environmental standard. At the present time, local chips, bark and logs are travelling hundreds of kilometers, whereas in our area, everything is shut down.

Today I am sounding the alarm bell for a single-industry region and appealing to you, Mr. Chairman, and everyone present. The plant back home, which is at the centre of the resource, has no right to shut down. So, we are here today to make you aware of that.

• (1205)

The Chair: Thank you, Your Worship.

We have one hour for questions and comments from Committee members. We will begin with Ms. Zarac.

Mrs. Lise Zarac (LaSalle—Émard, Lib.): Thank you, Mr. Chairman.

Good afternoon and thank you for being here today.

Mr. Coles talked about victims. After hearing your comments, I'd say that is no exaggeration. Earlier there was talk of negotiations with AbitibiBowater to obtain compensation, but later we were told that it's illegal because there was already an agreement; then a minister promises there will be a summit on the forest industry which never happens; a plant closes when the managers don't even seem to know what is manufactured there; and there is another plant with a contract which guarantees savings that other plants cannot provide. So, it is clear to me that there truly are victims.

When Mr. Lebel, the Minister of State for the Economic Development Agency of Canada for the Regions of Quebec announced funding in April of \$100 million over three years, the Communications, Energy and Paperworkers Union of Canada said it was too little, too late. Mr. Gagné is unfortunately not here today, but I would like to ask you this question. What could have been done previously? What would that change now? Is it still too late? What can be done to prevent the closure of these two plants? And five other plants may be at stake.

Could you explain what Mr. Gagné had proposed?

[English]

Mr. David Coles: Sadly, the situation in Dolbeau is not unique. It's repeated in community after community after community right across Canada and Quebec.

Our complaint is that there is no strategic plan for the industry. We have, almost on bended knees, asked the federal government to facilitate a strategic meeting at which all of the players can get together to find a way out, because, Madam, this is not over. There is much more going to happen to forest workers in Canada, and we have to stop the bleeding. It is not just about cheap rhetoric. This industry is in chaos and continues to spin in chaos.

The first thing that must happen is the government must hold strategic meetings with all of the players to make a plan for the short term and the long term. The situation in Dolbeau is no different from that anywhere else. Single-industry towns and the communities around them are dying. There is no question that money is needed, but it takes a strategic economic plan for the industry to survive. That's the first thing that has to be done.

[Translation]

Mrs. Lise Zarac: Yes, there must be a plan; I agree with you on that, particularly since it is expected that further cutbacks are coming.

In addition to a plan, to get things moving more quickly, would loan guarantees have helped to stabilize the situation, before this meeting took place?

[English]

Mr. David Coles: Absolutely. Loan guarantees have been on the agenda.

If you pay close attention—the committee should listen to this—to what Mr. Paterson said, he has to get money not at commercial rates but at exaggerated rates, and it puts at risk that corporation, White Birch, and many others that are trying to exit CCAA because they can't get loan guarantees at commercial rates. It is absolutely imperative that the federal government at very little risk—very little risk, considering the uptake it would get—guarantee the loans of these corporations that do have realistic business plans. Loan guarantees are essential.

We also have to find a way to compete with the subsidy of the United States. The American government subsidized the industry with \$2 billion cash. The Canadian government came with a program that was half the value and put our paper companies at a great disadvantage.

• (1210)

[Translation]

Mrs. Lise Zarac: The auto sector was saved. We recently were made aware of results in that regard. Do you feel you are at a disadvantage compared to that industry?

[English]

Mr. David Coles: Without question I think the forest industry has been written off by many politicians in this country. They've said it's a sunset industry. I don't believe that. I think it's a sunrise industry. Properly managed, this is a sustainable, green industry. It has to have the cooperation of not just the industry but the government and the workers.

It's a funny thing about those trees, Madam: they just keep growing. We're squandering economic diversification in this country.

[Translation]

Mrs. Lise Zarac: I would like to give my final minute to my colleague.

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): Even the Liberal Party proposed refunds for amounts invested in research and development. Those amounts can be directly allocated to the companies and improve their cash flow. Could that not be an immediate solution for a company like AbitibiBowater?

[English]

Mr. David Coles: Yes, it's absolutely necessary that this kind of rebate or economic incentive be there. The other real issue that's connected to that is research and development. Forest countries—

Mr. Massimo Pacetti: That's what we've been proposing: that money should be going for research and development. We're just waiting for the announcement, but there's nothing... We've been calling for a portion of the amount put into research and development to be reimbursable, refundable, because companies that don't have the cashflow can't wait for tax breaks if they're not paying taxes.

Mr. David Coles: The issue is this: why do you make products that people don't want to buy? To be able to make new products, you need research and development, plain and simple, just as the government has funded the aerospace industry.

Mr. Massimo Pacetti: It requires that one have a vision.

[Translation]

Mr. Ménard, I believe you are the one who said we need a vision, a plan for the future, but that there has not been one for this industry under the current government.

Mr. Gaëtan Ménard: Yes, absolutely. That has been our main criticism of this government for more than five years. That is the real problem. If we had developed a vision, if we had said yes, we could have avoided these closures and the human tragedies that are playing out in each of these communities. Everyone knew that there would be a decline in demand in the paper industry. We made representations to governments. We told them we had to convert our industry, do something else and develop a vision. That is what is lacking.

The Chair: Thank you, Mr. Ménard and Mr. Pacetti.

Mr. Bouchard, please.

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

I would like to thank you for being with us this morning and providing testimony on the closure of these two plants in Dolbeau-Mistassini and Gatineau. I would have liked to question worker representatives at the national level and in Quebec and engage in a discussion with them.

Like you, I deplore the lack of a real plan of assistance for the forest industry. The government should have made the same effort it did for the auto industry and injected comparable amounts of money in the forestry sector. It's absolutely appalling. I would like to address most of my questions to our two guests from my own region of Saguenay — Lac-Saint-Jean, and specifically Dolbeau—first, to His Worship, the Mayor, and then to Mr. Lamontagne.

Your Worship, I want to begin by expressing my thanks for your opening statement. You painted a picture of the current situation that can be described as catastrophic and tragic for the residents, such as those of Dolbeau. This is something that affects the population and many different sectors. I believe your municipality has made considerable efforts and that you as well, as mayor, have also done a great deal. I would be interested in hearing more about that. What has the community done to try to save the Dolbeau-Mistassini paper mill?

Mr. Georges Simard: Right from the outset, when we realized that the company was struggling, we met with a manager from the paper mill. We offered our cooperation, told them that their success would be our success, and we invited them to put everything on the table. Without their asking and even before this was done anywhere else, we decided, in concert with city appraisers, to devalue the plant. With the assistance of the RCM—because, as I said earlier, the 11 other towns cooperated—we decided to return some \$500,000 in the form of a lower assessment and tax breaks every year for a two-year period.

The workers were extraordinarily supportive. We really were a team. At the time, we had struck a committee which was working on an integrated complex project, on which sat representatives of sawmills, paper mills and cogeneration plants. The workers agreed that 100 employees would be asked to retire.

Over the years, we realized that, being a bad manager, the company had not implemented the projects it wanted to carry out. Knowing that the paper mill was on one side of the river, and the sawmill right opposite on the other side, we considered the possibility of building a bridge. This bridge would have made it possible for a train to haul chips and wood bark across the river by rail, something that has to be done by truck. So, we decided to make representations to governments to extend the train route, because we know the federal government has a program. Also, we are currently involved in a project to build an industrial park on this side. We are working very hard to realize the bridge project.

Furthermore, management had, for years, been wasting \$300,000 worth of steam, in accordance with the contract it had signed with Boralex. We realized, in talking to people from the community, managers and others who work for them, that they had already considered the possibility of installing a low-pressure turbine to recover that steam, and at least try and equal the amounts they were losing. They were the ones who sold Boralex, they were the ones who signed the contract to provide them with biomass and they, too, are the ones who set the cost of steam. So, they had not done that. We told them that we would cooperate, that we would pay, that we would look for and find solutions, and we offered them our collaboration. We decided we would do that with or without them, but we are still prepared to work with them. They shut down the plant, something we learned by accident, through someone else. They didn't even call us, and even the union only found out the day after, when it received a press release. There is not a lot of trust between the two sides.

• (1215)

Mr. Robert Bouchard: Thank you, Your Worship.

Now, Mr. Lamontagne, could you describe for us the efforts that have been made by workers to help AbitibiBowater? I would also like to know whether those efforts have borne fruit.

Mr. Julien Lamontagne: All the workers accepted a heavier workload and a reduction in the number of plant workers. As the mayor stated earlier, that meant 100 fewer jobs in the plant, as a means of making it cost-effective. And it worked, because in March of 2009, we were generating revenues of \$5 million a month. We even received a plaque thanking us for our support, after machine number 2 was taken out of service, because it was a total success. They were very happy with us.

Mr. Robert Bouchard: Thank you, Mr. Lamontagne. I believe you were perfectly sincere earlier when you made your opening comments and accurately described the situation in the workplace at the mill. In your opinion, Mr. Lamontagne, why did AbitibiBowater shut down the Dolbeau plant, which was profitable, as you yourself stated? Is there an explanation?

Mr. Julien Lamontagne: AbitibiBowater is comprised of two entities: Abitibi Consolidated Inc. and Bowater Canada Inc. The Abitibi Consolidated Inc. plants were less profitable than the Bowater Canada Inc. plants and had a lower resale value. That's the reason.

In the documents we were provided subsequent to the filing of the plan for unsecured creditors, it is mentioned that the settlement for the Bowater division will be 36.5%. For the Abitibi Consolidated Inc. division, it will be 17.1%. That is exactly what they say. I believe that is the reason.

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

Mr. Simard, you heard the President, Mr. Paterson, talking about Boralex earlier. He explained why the Dolbeau-Mistassini paper mill had been shut down, which was that they had been unable to reach an agreement with Boralex. Like myself, you heard him say that if they could agree, they would reopen discussions with Boralex. I would be interested in hearing your views on this.

How do you see things working? You have just heard the President's testimony, Mr. Paterson. For almost a year, you witnessed the negotiations between Boralex and AbitibiBowater. I invite you to comment.

• (1220)

Mr. Georges Simard: I was pleasantly surprised to hear the answer given by the president of the company. He said that if he is able to reach an agreement with Boralex, he might reopen the plant. I must say that Boralex was sold by that company for some \$76 million. As I said earlier, all the contracts have been signed.

For the time being, according to Boralex's books, the plant is worth almost nothing, because the other company's monopoly is such that there won't be any bark. Boralex and ourselves are therefore in the same boat: we are dependent on AbitibiBowater. This is the first time I've heard that offer from Mr. Paterson. They have life or death control over the employees of both the paper mill and the cogeneration plant. I don't know exactly what kind of agreement there could be, but I think it is something well worth exploring.

The company president says that it is Boralex's fault. However, having seen Boralex's private books, I can tell you that Boralex was making a profit of \$10 million a year. When Bowater ended the contract, they said that from then on, bark or biomass would cost so much a tonne and steam would cost so much. According to its calculations, Boralex stood to lose \$4 million a year. The company says it is willing to make an effort, but there is no logic to any of that.

Is this a tactic so that they will be forced to give it back, even though it was sold for \$76 million? That may be the case.

The Chair: Thank you, Mr. Simard and Mr. Bouchard.

Mr. Gourde, please.

Mr. Jacques Gourde (Lotbinière—Chutes-de-la-Chaudière, CPC): Thank you very, Mr. Chairman.

I would like to thank the witnesses who are with us today. I believe they are giving extremely valuable testimony. I understand

the situation in which the mayor and the union representatives now find themselves. They are on the front line. When a closure of this magnitude takes place, it makes sense that people go to see them. It's a human tragedy, and people can't cope.

I was listening to Mr. Lamontagne's comments earlier. Can you tell me more about AbitibiBowater's infamous monopoly? That company seems to have a large market share and pretty well does whatever it wants with these plants. Is that due to all of its acquisitions, and to the fact that it owes too much money and is making business decisions to pay down its debt? The two plants we have been talking about, including the one in Gatineau, are profitable. The latter has new equipment, is making a profit, and yet the plant is still shutting down.

You have been part of the worker community in these plants and you yourself saw what happened. You are better aware than we are of what is happening in that market. Please try and explain. Did the company lack vision? Did it have a long-term vision? Is it bending under the weight of its debt load?

Mr. Georges Simard: I'm glad you asked me that question. When these companies merged, there was something abnormal about it. It was agreed that these four companies would merge into one, and yet they're still independent. Indeed, it seems as though Bowater Canada could fail, but were that to occur, Bowater in the United States could not. Abitibi-Consolidated Inc. Canada could fail, or vice versa. There is something appalling about that.

Often, when two people come together to form a group, one succeeds but the other does not. Sometimes the experience of the other will be used as a way of moving forward. But what we say back home is that Abitibi-Consolidated Inc. and Bowater were both poor companies. You can't make a rich company out of two poor ones. The expertise, planning and way of working of these people brought them to where they are now.

It was not just yesterday that newsprint stopped selling. These companies, which have 500 managers and a beautiful building in Montreal, far from the forest—which they couldn't care less about—should have hired people to plan and decide which machine would produce which type of paper, and whether they should change another machine and slowly move into biodiesel and ethanol. There is talk nowadays of all kinds of pulp that could be used in China. But they refuse. How can you possibly trust two people who were in charge and whose actions led to this?

You referred to a monopoly. Just to repeat, in Saguenay—Lac-Saint-Jean, that company owns 80% of all the timber that can be harvested annually. It has even signed contracts with other independent companies. They were located in the Saguenay—Lac-Saint-Jean, but through a contractual arrangement, they had to sell all their chips to that company, because otherwise they would not have sold them, given that this company owns all the paper mills and that all the wood chips go there. That's why these people agreed.

In Saint-Félicien, there was a large pulp mill that was sold by the company. The sky was the limit back then. The Donohue company, which was with these people, said they would provide the pulp. They later decided they would no longer do so because of Bill C-36. So, these people were really in a tight spot. They turned to a plant in our area, which is independent and had a mountain of chips. They asked the company to sell them some. It said it couldn't because it had signed an agreement with AbitibiBowater and was not authorized to sell them. As a result, they will rot where they sit.

So, there is a monopoly in Saguenay—Lac-Saint-Jean and no one did anything about it. I don't want to be too harsh, but there is sometimes talk of collusion. It is as though these four companies had decided they would take control and settle this.

It's the same as if I owned every restaurant in Ottawa and decided to close some of them even though many were doing good business at lunch time. I would decide to keep only a few of them. Some restaurants would be breaking even, others would be making a little profit, but I want to make a lot. And even if they were making a lot, how could you trust them?

In years when the Canadian dollar was worth less than 70¢, people were making money; it was coming out of their ears. But what did they do to invest in our plants or try to convert them? Nothing.

We are ready to cooperate with them. We are discussing an integrated complex—my friend will say more about this later—of sawmills, paper mills and cogeneration plants. You have to own the cutting rights and complete the processing, because otherwise, you're dependent on someone else who will sell if he wants to and at the price that he sets. That's impossible. Even if they gave us the paper mill, we would still be dead in the water because they own everything that is needed to operate it. We have been told we could never compete with them, because of the legislation. I am asking the president why he told me that. He shut down the plant saying it wasn't profitable. Well then, give it to us, and we'll find someone to step in. They reject that, because they know full well that it was profitable.

The cogeneration plant made millions of dollars—tens of millions of dollars, just like the paper mill. I can tell you it would be easier to find buyers for the sawmill, because it's a time-tested asset.

• (1225)

Mr. Jacques Gourde: I have one last question. As I understand it, you are stuck. If a competitor were to come into the market tomorrow and the market picked up, you would not be in a position to do anything. If Abitibi decides not to sell, it just won't sell, and the plant will remain closed.

Mr. Georges Simard: Yes, it's as crazy as that. It has sold three plants, it seems, at a cost of \$5 million for the old iron. Imagine: it invested \$180 million in machine number 5, which is apparently AbitibiBowater's most modern machine, barely ten years ago. People set production records on these machines. There is just no logic to any of this.

It was stated that the decision had been made to close Bowater Canada. Whether we're talking about Belgo, Beupré, Donnacona, Dolbeau-Mistassini or Gatineau, all of those are Bowater plants. The

president, who was sitting here earlier, is from Bowater, but the rest of his group is from Abitibi-Consolidated Inc. So, I wonder.

Mr. Jacques Gourde: Is there a competitor out there who could pick up these companies?

Mr. Georges Simard: I would just like to remind you, as we pointed out earlier, that the forests are still growing. So, I say to these people that if they don't want to do the processing in our region, they should at least have the decency to leave it there and we will try to find something else. When we talked to the Minister of Natural Resources for Quebec, she told us that there is no possibility of expropriation. Timber supply contracts were given to Bowater and Abitibi-Consolidated Inc. Those companies are together; they are the owners and they can't be expropriated. So the result is that you will just have to sit and watch us die. There is something wrong with that picture.

Mr. Jacques Gourde: Thank you very much.

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

Ms. Hughes, please.

Mrs. Carol Hughes: Thank you, Mr. Chairman.

I would like to express my thanks for your comments.

Mr. Simard, what is happening in your community is occurring all across Canada. In my riding, whether it's in White River, Smooth Rock Falls, Opatatika or Wawa, we have all seen this before and we continue to see it happen. I sympathize with you. I wanted to mention that you do not seem to have much hope with respect to the company and what it is trying to do. You seem to have great doubts that the company is actually trying to find a buyer or seeking a different option.

There are a lot of issues I would like to address with you today and I will try to put them in perspective. As I said, this is a national issue. We have seen job losses all across the country, from Newfoundland to British Columbia by way of Quebec and Ontario. Many of the workers are still without jobs. In most cases, it is also because they are older. But this is really a question of survival for them, for their families and for the communities. I would also like to address some other points with you.

The NDP has been saying for a long time that one of the first things to be done when a company in Canada—which might be a company in our community—is going to shut down, or even before it shuts down, is to ensure the survival of the workers, their families and the communities.

You also talked about natural resources and the fact that they should remain in the community. There was discussion of protecting pensions and severance pay. I would just like to say that the Conservatives have almost completely abandoned their responsibilities. There has been a lot of inaction. And I mustn't forget to mention that the Conservatives are not the only ones at fault, because the job losses and plant closures began under the Liberals. People saw the problem coming but the Liberal and Conservative governments did not respond.

I would like to know whether you agree with me. This is addressed to the unions and to anyone else who wishes to answer. We tabled Bill C-501, which talks about pension protection. What is important, in your view, when companies fail? Is there a significant need for a government that will respond immediately and try to resolve these problems, so that these people's lives are not ruined?

• (1230)

Mr. Gaétan Ménard: Yes, that is critically important. As we have seen a number of times in recent years, when there isn't enough money in the pension plan when a company declares bankruptcy, the pensioners and workers are the ones that pay the price. I think it's very important for pension plans to be at the front of the line. They are one of the things we worked hardest for and we have asked the Conservative government to look at this. We told them they have to find a way to protect retirees. It is not right that retirees pay the price when a company goes bankrupt. That represents millions and millions of dollars.

In the case of AbitibiBowater, we were able to save the pension plans. Mr. Paterson said this morning that an announcement will soon be made, because an agreement has been reached with the Government of Quebec. This time at least, pensioners will not be paying the price for this restructuring.

Yes, it is absolutely essential that the federal government look at the Bankruptcy Act to ensure better protection for pension plans.

Mrs. Carol Hughes: I would just like to add something. We saw what happened or what often occurs under NAFTA. I have in front of me a press release dated August 27 in which the Conservative government, in the middle of summer, announced that it had decided to resolve an issue involving AbitibiBowater and would be giving it \$130 million. Just how important is it to renegotiate or resolve the problems we have under NAFTA?

[English]

Mr. David Coles: The situation of the NAFTA settlement actually was an issue caused or created by the Province of Newfoundland taking back the resources it believed it had the right to do under an agreement with the former company. The NAFTA issue is not the cause of the forest industry problem. It's a separate issue. We have some strong opinions about NAFTA, but it's not what's causing the problem for the forest industry.

[Translation]

Mrs. Carol Hughes: We know that they decided to take back the resource. A number of communities are asking us to do that, because their survival is at stake. If the companies retain their timber lease or make sure that they retain their rights with respect to water or land... The problem is that we cannot ask an investor to come back in if he won't have access to the resource. That is why I asked the question about NAFTA. I realize that may not be directly connected to the survival of the forest industry, but it does affect the communities' ability to survive.

I mentioned the summit on the forest industry. Mr. Shipley said there had been one. I understand why there wasn't one: they are calling a four-hour meeting a summit. I wonder what can really be accomplished in four hours, particularly since this is a crisis of national proportions.

I understand the problems. Can you tell us what your thoughts are on a potential forestry summit, on how long it should last and on who should take part?

• (1235)

Mr. Gaétan Ménard: We believe that a national summit should bring together all the players. You alluded to control over the resource. We noted the problem in Newfoundland and we are seeing it again now in Dolbeau-Mistassini. That control rests with the provinces. That's why it is important for the provinces to attend such a summit, along with the federal government, provincial governments, municipalities, First Nations—who also live off the forest—workers, unions, and organizations representing workers and communities. All the players must come together and determine whether this resource can continue to be a source of livelihood for the communities and, if so, how.

What is needed is a plan. It is in that sense that we have been talking about a vision. I agree with you that the Conservatives are not the only ones to lack vision. That applies to AbitibiBowater as well, as I freely admit. However, as Mr. Simard was saying, for years money was paid out in dividends to shareholders, whose pockets were overflowing. But no investments were being made that would have allowed the company to remain on the leading edge in terms of its technology. We need to bring together a large number of players in order to develop a strategy.

The Chair: Thank you, Mr. Ménard and Ms. Hughes.

Mr. Scarpaleggia, please.

Mr. Francis Scarpaleggia: Thank you, Mr. Chairman.

I would like to thank you for your testimony. It is important testimony, in my opinion, because you have shown us just how much more complex the issue is than Mr. Paterson's comments suggested. His description of the situation was quite simplistic.

We now know, however, that there are two companies rather than one, that you had access to the best equipment, and that you worked hard and creatively to bring down costs. In other words, you did what you were asked to do as good unionists and workers. Yet you seem to be taking the rap for the bad decisions made by the company over the years and for its lack of judgment. It didn't invest enough and, if I understood correctly, gave you no mandate with respect to the products which had a better future. So, what you told us today is very important.

Just to complete the discussion on pension plans, if I understood you correctly, no current retiree will be receiving less money than expected as a result of the restructuring. Current pensioners are therefore well protected. Is that correct?

Mr. Gaétan Ménard: Yes, exactly. In this particular case, the strategy adopted by AbitibiBowater's creditors was to say they didn't want to touch retirees' pensions. Of course, as a result of pressure from us and our demands in that regard, they decided they wouldn't touch either those pensions or any amounts accumulated thus far by active workers.

On the other hand, the deficit is \$1.3 billion. What can be done about that? The company was unable to pay back that amount in the five-year period allowed under the rules. As a result, they went to see the Quebec Pension Plan people. There were also discussions with government authorities in Ontario, where there are also registered retirement plans, to see whether it would be possible to spread the payments over a longer period. An announcement will soon be made in that regard. The idea is to protect retirees.

• (1240)

Mr. Francis Scarpaleggia: Will current employees receive this pension benefit as current retirees? Will the conditions be the same?

Mr. Gaétan Ménard: What is being discussed now is emergence, meaning that the company would no longer be under the protection of the CCAA and would re-emerge, as mentioned earlier by Mr. Simard. A new pension plan, which we are very proud of, has been implemented. We negotiated it together. It's a good plan.

Mr. Francis Scarpaleggia: It's clear that the current Conservative government, for reasons which are primarily ideological, in my opinion, does not believe in taking a comprehensive, visionary approach. That is not part of its vocabulary. This government is wary of comprehensive, strategic approaches for industry in general. They claim it's a centralizing, socialist approach. We've heard that one before.

The company, municipal officials and you all agree that there is a need to hold a summit on the forest industry. I imagine the governments of Quebec and Ontario would agree. Would you be able to organize such a summit? Once it was organized, you could ask the federal government why it is the only one not to be participating. Would you be prepared to do that? Is it achievable?

[English]

Mr. David Coles: Your question is very timely.

I can say this because he gave me authority to say it. I met several days ago with Mr. J.D. Irving, the owner of Irving Paper. He urged me to continue the work our union has been doing.

I've met with every CEO in Canada with regard to holding such a high-level summit, and we will. We are hoping that the sitting government will participate, but we will go ahead and do it, one way or the other.

The one point that I think has to be made here is about the severity of this crisis. I personally am not in favour of any kind of a covenant that says you can't sell a mill, but I can't give some of these mills away when the employers say take them. In some of these situations I have travelled the world trying to find someone to operate a mill. In fact in some cases government has offered to pay people to take a mill. This crisis in Canada is very, very serious.

We have a number of companies still in CCAA; we have some on the verge of going in CCAA. If there are not radical changes to the way we treat our forests, we will have hardly any paper mills or solid wood mills running in Canada and Quebec. That's not idle talk, it's reality. We need somebody to step up.

The Chair: Thank you very much, Mr. Coles. Thank you, Mr. Scarpaleggia.

Monsieur Blaney.

[Translation]

Mr. Steven Blaney: Thank you very much, Mr. Chairman.

I would like to thank the witnesses for meeting with us today, and particularly Mr. Simard, whose community has a single industry, in a way, as well as Mr. Carrière and Mr. Lamontagne, who are making a heartfelt appeal. Mr. Ménard pointed out that there is no lack of culprits in terms of all that has occurred. Many people are to blame for these closures, but the victims never change: they are the workers and their communities. That came through in your presentations, gentlemen, and particularly the comments made by Mr. Carrière.

I am from Lévis. We have a shipyard there which has had its share of problems. As you say, these are situations that families and workers have trouble coping with. Jacques also referred to that.

I would like to come back to one point. As politicians, we have a role to play. My father is a scaler, from the Sainte-Croix school near Quebec City, in the riding of Lotbinière. He knew how to handle 2 X 4s. He still has his little piece of land in Saint-Elzéar. His land is a real garden. For Quebec and for the entire country, the forest is also an asset. As a politician, I believe in the importance of the forest industry. As Mr. Simard said, it is not only there to produce 2 X 4s, although 2 X 4s are already very good products. Some people say it's a carbon sink. That's the sort of thing we could focus on to emphasize the environmental side of it. The fact is that it stores carbon dioxide. We can tell our friends at Greenpeace that a 2 X 4 is truly environmental.

That said, I would like to return to the industrial side of this. We talked about the automobile industry, where there is competition. Companies did receive help from the government and began to pay back that money. This week, I was with Ministers Paradis et Lebel. Minister Lebel fought to secure \$1 billion for the communities. We want to be sure that this money is well invested. I want to underscore that, because it's easy to talk about what can be done, but personally, I believe we were able to accomplish something with that \$1 billion in terms of greening business. Can we do more? I think so, and I agree with Mr. Ménard on that score.

However, I can tell you that in recent weeks and months, I have supported measures aimed at helping industry, to the extent we are able, under international agreements. I also supported measures for workers. I hope they will yield the expected results.

My first question is for Mr. Simard, but before I ask it, I would like to invite Mr. Carrière and Mr. Lamontagne to comment on what my colleague, Mr. Gourde, said. He referred to the fact that you have profitable plants in which investments were made, and yet they are shutting down. There is some background to that. A number of players are involved. Perhaps you could comment.

• (1245)

Mr. Gaston Carrière: I'd like to talk about the Gatineau plant. This is a problem that affects Quebec and Gatineau. I will continue to be conservative. Here I'm not referring to the Conservative Party.

Construction of the Gatineau plant began in 1926, and the plant became operational in 1929. The first collective agreement was signed in 1933. At certain points, the plant had 3,000 or 4,000 workers. And there wasn't only the CIP plant. There was one Masonite plant, then International Plywood and Commercial Alcool began operations there; after that, there was a Ten Test plant. In the 1990s, there were still 1,500 workers. A first machine was shut down, then a second, and then another in 2007. There were investments, automation and new technologies introduced.

We have the best plant as well as a recovery plan. As Mr. Paterson said, there is a need to look to convergence and move into other market niches. This has become a national issue. My people from Ottawa are here. My Vice-President for Quebec, Mr. Gagné, is not here. He is the one who has given us the greatest support on these issues. I am not saying these people didn't do their jobs. They did and they are still doing a lot. That's their job. This has become a national issue.

Why did we not appear before the Senate Committee on Industry, Science and Technology before now? Why are two plants with enormous potential being shut down? I can't speak for the Dolbeau plant, because I never went there. But I do know it has recent infrastructure. That plant was worth a great deal of money, but its value was depreciated: it's now worth \$3 million. Tell me that the Thurso plant in the Outaouais is worth \$3 million. Millions and millions of dollars were invested there.

As for Gatineau, we assume it was a setup. That's what it is. These people did everything they could to make us look bad. In April of 2007, Mr. Cayouette said that if they shut down one machine, it would be the beginning of the end. In order to bring us on side, they threatened us. They started talking about rationalization. In 2008 and 2009, they premeditated a situation intending to make us look bad. Funds were invested in equipment, but nothing was invested in labour. There was a lack of both workers and training in the paper mills. The Assistant Director of the plant, Mr. Levasseur, even asked an assessment. Finally, they had the effrontery to give \$3,3 million to the Gatineau plant in January and February of 2010 as an investment. That is part of their liabilities. These people are trying to get around the situation. We haven't received much cooperation on the recovery plan.

We have a very good recovery plan that we don't intend to table here. But we believe in it. We will get things going again and stay the course, with or without federal assistance. We will receive assistance from the provincial government, from the FTQ, from the workers and from CEP. We will start up the plant again because it is profitable. It's a question of survival. What I deplore about Mr. Harper is that he won't help us twice. You haven't helped us enough and you should do more. Making a mistake once is not a problem, but continuing to make a mistake is. You have an opportunity to mend your ways. One thing is certain, however, and that is that we will start up the plant again.

• (1250)

The Chair: Thank you, Mr. Carrière.

Mr. Lamontagne, please.

Mr. Julien Lamontagne: What my brother has just described is exactly what we went through in Dolbeau-Mistassini. These people

behave in exactly the same fashion. When they went ahead with the merger, they wanted to take control of the resource. At the plant, they operated in exactly the same manner. Cuts were made one after the other. They invested nothing. They presented figures to prove that the plant wasn't profitable. They didn't agree on safety issues, no more than they agreed on anything else. We were always able to prove to them that the plant was profitable. Finally, when they didn't know what to do anymore, they dug in their heels on the issue of Boralax.

I am convinced that this is a setup that was prepared before the merger with Bowater. They said to themselves that other companies had made investments in these plants before Bowater had acquired them, that the equipment was new and had value, whereas the facilities were not worth much. They also concluded that it was in their interests to shut those plants down and use the recent equipment for their plants—the ones belonging to Abitibi-Consolidated Inc. That is what happened.

The Chair: Thank you, Mr. Lamontagne.

Mr. Nadeau, please.

Mr. Richard Nadeau: Thank you, Mr. Chairman.

This morning, we learned that Abitibi-Consolidated Inc. has a mega plant in Chile. In the midst of the eucalyptus forest, it produces incredible quantities of paper. Yet Mr. Paterson made no mention of this. Even people in the industry and the union were unaware of it.

The Thunder Bay example is also an interesting one. AbitibiBowater shut down the Thunder Bay plant. The Ontario government then said that it wanted to recover the money it had invested in that plant. So what did AbitibiBowater do? It reopened the Thunder Bay plant. So, it is possible to reopen plants.

Mr. Carrière, can you tell us more about the Gatineau plant's potential?

Mr. Gaston Carrière: We have to be careful. Theoretically, one of AbitibiBowater's plants should be more modern than the Gatineau plant, namely the one in Amos. It was newly built in 1982. It was previously a Donohue plant. But whether I'm talking about the old plant in Kénogami or plants in Alma, Laurentide, Clermont, Baie-Comeau, Mersey, Thorold, Iroquois Falls, Thunder Bay or Fort Frances, all of these plants are ones in which the employer should be investing, although they do not have the same infrastructure as the Gatineau plant.

The Gatineau plant is the industry flagship. When we presented our recovery plan to senior managers, we made it clear to them that they could not survive following emergence without the Gatineau infrastructure as part of their restructuring plan. In a way, their biggest blunder was the pension plan. There was a shortfall of \$1.3 billion in the 24 pension plans, which were supposed to have a capital of \$5.7 billion.

The federal government can certainly do a number of things to help us and guarantee that we will be first in line among creditors when such events occur. The federal government may want to look at what happens elsewhere in the world when multinationals get rid of workers with about as much ceremony as when they throw an empty lighter in the garbage. Some workers are being refused their pension even though they had only two days, two weeks, two months or four years left to work. Forty-four maintenance workers in their fifties will not be able to retire. In addition, 39 operational workers are discouraged, because some of them only have a grade 7 education. We even realized that there is one member of that group who didn't even complete grade 2, although he had never told me that before. He did his work and he was a good worker. We also have women workers and office employees. Some 150 workers will not be able to retire. And the situation is the same in Dolbeau, although the workers in Dolbeau, despite their bad luck, were luckier than we are, because their plant was shut down for a year and a half, whereas ours has only been closed for four months. It's appalling what they're doing. They're getting rid of their workers.

Whatever your political party, you should impose your will. There is one government that imposed its will and wasn't afraid to make decisions, and it was the Government of Newfoundland and Labrador. They seized the dam. If I had been able to seize the golf course, I would have. I asked the union's legal department to seize it. And the reason they put Dolbeau and Gatineau in the third wave of closures is because they liquidated our lay-off pay and notice. They ripped us off. Help us! In the name of the workers, I appeal to you for help! What they're doing is not right. It just isn't right. It's not just a commission. There should be a bailiff, and they should be put behind bars. They are thieves. That's what is happening. They are thieves.

Voices: Hear, hear!

Mr. Gaston Carrière: It's a good thing we are members of CEP, the Communications, Energy and Paperworkers Union of Canada, because without the union movement, we would be wearing a ball and chain and be fed nothing but bread and water. Men and women workers owe their working conditions to the union movement.

Now, as regards Gatineau and Dolbeau, please consider this tonight. The infrastructure is recent. Mr. Paterson said the industry has to be converted and move away from newsprint and specialized paper. I can speak for the Gatineau plant. Its infrastructure is recent, it is good, and we have an effective recovery plan. We forced management to support the recovery plan. The provincial government, CEP and the Gatineau LDC paid \$200,000 for a feasibility study. We have another study on protecting equipment, and the City of Gatineau will be paying for that one. They moved everything to Dolbeau. I can tell you one thing, it isn't hard to convert a plant to carton or other types of production.

I provided a document to my colleague, Mr. Nadeau, but I cannot give it to you—and I apologize—because it is not available in both languages. That document explains that these plants have to be converted to other niche production areas.

I will say more about this later if you give me an opportunity.

• (1255)

The Chair: Thank you, Mr. Carrière.

Mr. Blaney, please.

Mr. Steven Blaney: Mr. Chairman, through you, I would like to invite Mr. Carrière to table his document so that we can have it translated and make it available in both official languages before having it distributed to Committee members.

The Chair: Yes, fine. We have the document and the clerk will have it translated into English. When it's ready in both official languages, all Committee members will receive a copy.

Mr. Wallace is up now. Please be brief.

[*English*]

Mr. Mike Wallace: Thank you, Mr. Chair. I will be very quick.

First of all, Monsieur Carrière, I can understand why your brothers and sisters voted for you as the president of their local. You did a fine job there.

Mr. Coles, maybe you can answer this question for me. I have a couple of questions. I've heard two different messages today, one saying it would be easy to find buyers, and I thought I heard you say you've been around the world looking for buyers and it is difficult. Is it difficult to find buyers? Is that mainly because of what we heard earlier, that the order book is not full and there are not orders out there around the world and that is why it will be difficult to find buyers for these locations?

Mr. David Coles: Not specifically these, but in general, newsprint operations are in serious, serious trouble and we cannot raise interest in many of these operations. We can't find buyers.

Mr. Mike Wallace: Without getting into too much detail, maybe you can tell me this, if you know. Is the program that the company is trying to come out of next week reliant upon one or either of these plants being sold, for the deal they're trying to make with their creditors?

• (1300)

The Chair: Mr. Coles, briefly.

Mr. David Coles: No.

Mr. Mike Wallace: Thank you very much.

The Chair: Thank you, Mr. Wallace.

Thank you very much, members of the committee.

[*Translation*]

I would like to thank our witnesses, the union representatives and the Mayor of the Town of Dolbeau-Mistassini.

[*English*]

This meeting is suspended until 1:30.

•

_____ (Pause) _____

•

• (1330)

[*Translation*]

The Chair: I would like to welcome you all to this 34th meeting of the Standing Committee on Industry, Science and Technology taking place today, September 10, 2010.

[English]

Before we begin with our business at hand, I'd like somebody to move a motion to adopt our committee budget, which you should have in front of you, for the amount of \$16,700 in order to pay for witnesses' travel.

• (1335)

Mr. Mike Wallace: So moved.

The Chair: So moved by Mr. Wallace. Is there any debate? Seeing no debate, I'll call the vote.

Some members of the committee don't have the budget. Would you like the budget first, Mr. Pacetti?

Is there any debate about the budget for the committee for this hearing?

Go ahead, Mr. Pacetti.

Mr. Massimo Pacetti: Mr. Chair, my only question would be about the amounts used to estimate the cost for Toronto witnesses and Quebec witnesses. Are these normal estimates or are they on the high end?

The Chair: They are the normal estimates.

Mr. Massimo Pacetti: Thank you. That's it.

The Chair: Thank you, Mr. Pacetti.

Are there any other questions about the budget proposed? Seeing no further questions, I'll call the vote.

(Motion agreed to [See *Minutes of Proceedings*])

The Chair: The budget has been adopted. Thank you very much.

We have in front of us, on our third panel today, Monsieur Boivin,
[Translation]

who is the Reeve of the Regional County Municipality of Maria-Chapdelaine.

[English]

We have Mr. Stephenson, the assistant deputy minister of the trade policy and negotiations section of the Department of Foreign Affairs and International Trade. From Export Development Canada we have Madam Hendricks, the vice-president of the resources group, and Mr. Hodges, the account manager of the resources group.

Finally, from the Conseil de l'industrie forestière du Québec, we have Monsieur Lachapelle,

[Translation]

who is the Director of Supply and Markets.

[English]

Welcome to all.

We'll begin with an opening statement from Monsieur Boivin.

[Translation]

Mr. Jean-Pierre Boivin (Reeve, Regional County Municipality of Maria-Chapdelaine (Quebec)): Thank you, Mr. Chairman.

I, too, would like to thank the Committee on Industry, Science and Technology for inviting me to appear this afternoon to present the concerns of the Town of Dolbeau-Mistassini and the entire RCM of Maria-Chapdelaine regarding the closure of the AbitibiBowater paper mill.

As has already been stated, the RCM of Maria-Chapdelaine has the largest commercial forest in Quebec. Between 1927 and 2007, the year the plant became the new AbitibiBowater entity, we had an efficient paper mill located close to the resource, equipped with excellent technology and skilled workers.

In 1998, the Alliance company owned the mill. Equipment was modernized. I am referring to machine number 5, which produces a circular SCB paper, as we call it in our jargon, and machine number 2, which produces what is called book paper. There was also the addition of a cogeneration plant which produced steam and electricity. The idea was to bring down the energy costs Mr. Paterson referred to this morning. Without wanting to, those involved may actually have laid the foundations then for a future integrated forestry complex.

In Dolbeau, we had a pulp and paper unit, an energy unit and an entity that processed the sawmill's leftover wood. In Mistassini—between Dolbeau and Mistassini runs a small river—we had a sawmill for lumber, a planing unit where we produced chips and biomass residue that could then be used at the cogeneration plant. Throughout the non-organized areas—in other words, the large forest lands—we had logging operations.

In 2007, Abitibi-Consolidated and Bowater became the new entity known as AbitibiBowater. Two struggling companies were merged to create a new one which soon got into trouble as well. Everyone knew that and had predicted it. We know what happened next. This morning we were discussing the trade dispute with the Boralex group, the confirmed financial problems, the Companies' Creditors Arrangement Act and, finally, the permanent closure announced on August 24.

Prior to these events, we had a profitable paper mill and enviable facilities from any standpoint. The mill was turning a profit despite a difficult economic climate. The Companies' Creditors Arrangement Act had the effect of weakening the Boralex's cogeneration plant. That was when they began breaking up what we had and what we were so proud of—namely, an integrated forestry complex.

For us, the future means again setting up a real integrated forestry complex, what we call in our jargon a “fibre maximization centre”—in other words, a complex that meets the expectations of the Government of Quebec as well as those of the forestry community and the industry. In order to meet economic, social and environmental requirements, the following conditions must be met: the right type of wood and the right use, total processing of logs in these facilities, maximum job creation through different fibre processing units, and reduced environmental impacts by limiting transportation and transshipping. We are even talking about reduced deterioration of roads caused by hauling wood chips.

The ability to reposition ourselves as part of an integrated forestry complex rests essentially on the following: the proximity of forest lands; sawmills and pulp facilities which require little upgrading; an already established cogeneration plant interested in maintaining its operations—here I refer to Boralex—; skilled, well-trained workers such as the ones we were talking about before lunch; and a community prepared to invest in order to resume operations.

• (1340)

We want to create a complex that meets the expectations of industry, the Government of Quebec and even Mr. Paterson. Abitibi wants to move away from producing newsprint. That's not a problem in our area; we don't produce any. The facilities can be converted to produce new products; all the experts have told us that. And, as a community, we have invested close to \$400,000 to identify potential solutions. Those studies will be released soon.

We are there, with a cogeneration plant and use of the biomass. So, everything is in place. We are saving on transportation, and we are even eligible for carbon credits. We even have a rail network that connects the Municipality of Dolbeau-Mistassini to the facilities at the Port of Saguenay. So, exports are facilitated. What we want to create in Dolbeau-Mistassini is what everyone would like to see: a viable, integrated forestry complex.

The Chair: Thank you, Mr. Boivin.

Mr. Lachapelle, please proceed.

Mr. Yves Lachapelle (Director, Supply and Services, Quebec Forest Industry Council): Thank you very much, Mr. Chairman.

First of all, I would like to thank you for inviting the Quebec Forest Industry Council, or CIFQ, to appear before the committee. I would also like to extend the apologies of our CEO, Mr. Guy Chevette, who had a prior commitment and asked me to replace him.

I'm sure you can understand that the CIFQ is not appearing this afternoon to discuss a particular case. We are here to talk about the situation of the forest industry as a whole.

Our industry has, for some years, been going through a cyclical crisis which, in the softwood lumber industry, is the result of a decline in housing development—primarily in the United States—and, in the pulp and paper industry, is associated with a considerable drop in the consumption of a number of paper products, especially in the wake of the exponential development of electronic media. The Quebec forest industry is also experiencing a major structural crisis, as the cost of fibre in Quebec is the highest in North America because of its quality, and wood chips are generally the most expensive in the world.

The pulp and paper industry is in the midst of a monumental crisis because of a radical drop in the consumption of newsprint, as well as printing and writing papers. It is especially in Canada and Quebec that the consequences are being felt. Six or seven plants that produced these kinds of paper have already shut down, and I'm sure you know that newsprint production is still far too high in relation to North American and European demand. If that trend continues, the plants will continue to shut down in Quebec. That conclusion seems inevitable because of the cost structure, the distance to markets, a high exchange rate and less and less competitive labour and power

costs. We have no doubt that you are all aware of the situation in the pulp and paper industry as regards newsprint. Consequently, we are sure you are not surprised to see plants shutting down.

It is no surprise that industry consolidation is occurring, because leaders of each of the political parties, at both the federal and provincial levels, asked that the industry restructure, and restructuring involves consolidation in particular. It is not only that, but it does mean consolidation. So, the Canadian and Quebec industry begun to restructure and company consolidation is not over yet.

As you know, the industry is having trouble coping with this consolidation, because this cyclical and structural crisis is now occurring in the midst of a significant financial crisis. The reconversion of existing plants to other market niches presents major technological and financial challenges. At the same time, banks and financial institutions are refusing to refinance struggling forestry companies. As for governments, they refuse to offer loan guarantees to companies at a commercial rate, which would nevertheless be perfectly legal, based on the legal opinions we have received. I'm sure you know that in Quebec, Mr. Guy Chevette has made this request on many occasions in recent years.

We know for a fact, because we have been working on this for several months now, that a return to sustainable profitability for our industry requires innovation, but that money is lacking. In that regard, several weeks ago the federal government announced the introduction of a \$100-million program over four years to fund innovative projects. We said that this was a step in the right direction, but that it was not enough, because \$100 million for all of Canada means \$25 million per year. We know full well that a single innovative project may require investments of some \$200 million for a single plant and the program requires that the company invest 50% of that amount. However, the necessary cash is not available.

I'm sure you can easily understand the problems we are facing. Yes, there is a need to diversify; yes, there is a need to innovate. But, as I'm sure you understand, without a large scale program, the process will be very slow, even though a number of projects are already on the table. We are aware that the industry will never be the same again. We are also aware of the different avenues to be explored. There is no doubt in our mind that you are also aware that we need substantial assistance to bring all of this to fruition.

Without government aid, some development and innovation projects that companies are bringing forward will likely see the light of day, but not at the same speed as the speeches; rather, at the speed associated with financial availability.

• (1345)

The industry will never again be what it was. If the future seems promising in the mid and long term, restructuring our industry will, unfortunately, involve consolidation in the short term.

Thank you.

The Chair: Thank you, Mr. Lachapelle.

[English]

Now we're going to have representatives of the Government of Canada, beginning with Madam Hendricks from Export Development Canada.

Ms. Justine Hendricks (Vice-President, Resources Group, Export Development Canada): Thank you.

[Translation]

I would like to thank you, Mr. Chairman, and member of the committee, for giving us this opportunity to address the committee today.

Given the current challenges posed by the economic conditions, your study could not come at a better time. It is of critical importance.

[English]

Access to credit is vital for companies of all sizes. As a crown corporation, Export Development Canada plays an important role in helping Canadian companies access credit and protect themselves against a variety of risks. This is our mandate; it is what the Government of Canada created us to do 65 years ago.

What does EDC do? Briefly, we provide commercial financing and insurance solutions to Canadian companies, helping them to export and invest internationally. This includes loans to foreign companies looking to buy goods and services from Canada; working capital loans to Canadian companies to help them fulfill their export contracts; loans to help Canadian companies invest abroad; working with trusted partners by providing guarantees to banks, making it easier for them to lend; using our new domestic powers to enter into transactions that fill a financing gap; insurance to protect Canadian companies against a variety of risks, including non-payment and political risks; bonding services to help Canadian companies guarantee their performance and equity participation.

We do all of this, both directly and in partnership with Canadian and international financial institutions. We do it on commercial terms, without annual appropriations from Parliament.

While I cannot speak to or comment on company-specific information for reasons of commercial confidentiality, I would like to speak briefly about our work in forestry overall.

The forestry sector is vital to Canada's economy. The industry's annual contribution to our gross domestic product was approximately 1.7% in 2009. It is the economic cornerstone of more than 300 communities from coast to coast.

The industry is highly dependent on trade, and the recent economic downturn, as you know, has created serious challenges for forestry companies of all types and sizes. As a result of the economic downturn, we're seeing a great deal of financial restructuring in companies of all sizes. This is primarily due to increased competition from foreign producers, extraordinarily weak North American demand for lumber and newsprint, and generally weak global demand for all products.

The Canadian softwood lumber industry in particular is still experiencing difficult economic conditions as a result of the collapse of the U.S. housing market, the sector's largest customer.

At EDC, the forestry sector is one of our largest and most important. In 2009, EDC provided financial solutions to 538 different forestry companies. The total volume of forestry exports supported for these companies was just over \$16 billion. As of

August 31 of this year, EDC served 456 forestry companies, for a business volume of approximately \$8.6 billion.

While EDC's services are needed in good times, they are needed even when times are difficult. In response we are stretching our capacity more than ever to support our bank and our customers. It is important to note that EDC operates in the commercial sphere just like a bank. Like any bank, customers must be creditworthy to be eligible for our support and they must demonstrate their ability to pay back a loan on market terms.

EDC is also bound by regulations of Canada's international trade agreements, such as the Canada-U.S. softwood lumber agreement. We cannot and do not provide subsidies to any industry. However, what we can do for Canada's forestry sector, we are doing.

EDC is helping forestry companies primarily by helping their banks continue to provide support. In doing so the banks are exposed to less risk themselves, and they are therefore better positioned to continue serving their customers.

EDC also provides accounts receivable insurance, ARI, to Canadian exporters, primarily to cover any losses if their customer is unable to pay for their shipment. With ARI, EDC will refund 90% of the cost. This insurance enables financing. With EDC's ARI, a company can then work with its bank to margin the insured receivables and get access to more working capital.

As the economic downturn taught us, Canadian companies need to diversify beyond their traditional markets. For the sectors to remain competitive now and in the future, they need to break into global supply chains of more emerging markets. We are seeing many of our customers doing just that already, and they are prospering as a consequence.

● (1350)

Despite the challenges we're seeing right now, new technology and emerging global markets will present future opportunities for Canada's forestry sector. EDC is actively working with Canadian forestry companies to help them grow and diversify their customer base beyond the U.S. market.

Together with DFAIT, EDC has organized forestry trade missions to Chile and Russia. Recently, EDC and DFAIT organized a reverse trade mission whereby Chilean buyers met with more than 20 Canadian forestry companies. The goal of these missions is to introduce foreign buyers of forestry products to Canadian providers, to target and penetrate global markets where the need for services matches Canadian expertise. We are also in the early stages of organizing an information session to Canadian forestry companies on exporting into China.

• (1355)

[Translation]

We have a team dedicated to the resource sector, which includes the forest industry, agriculture and fisheries. Furthermore, we have officers abroad located in the main emerging markets. We are therefore well positioned to offer our Canadian exporters the best possible support.

Thank you. I will be pleased to take your questions.

The Chair: Thank you, Ms. Hendricks.

[English]

Lastly, we'll have a representative of the Department of Foreign Affairs and International Trade, Mr. Stephenson.

[Translation]

Mr. Don Stephenson (Assistant Deputy Minister, Trade Policy and Negotiations, Department of Foreign Affairs and International Trade): Thank you very much, Mr. Chairman.

I would like to thank the committee for the opportunity to address you this afternoon.

As Assistant Deputy Minister for Trade Policy and Negotiations at Foreign Affairs and International Trade Canada, I engage on issues related to the forest sector through the implementation of the Canada-U.S. Softwood Lumber Agreement, and through my responsibilities for the management of the North American Free Trade Agreement. With me today is an expert on the softwood Lumber Agreement, Mr. Colin Bird. He is the director responsible for managing the Agreement.

The Canada-U.S. Softwood Lumber Agreement has provided stability to Canadian softwood lumber exporters at a time when the entire forest sector is facing unprecedented economic challenges and structural adjustments. It returned approximately \$5 billion to Canadian forest firms, and brought an end to the fourth round of trade litigation in this long-standing dispute. Canada worked closely with provinces and interested stakeholders throughout the dispute to achieve a lasting resolution. This close collaboration continues in the context of implementing the agreement.

Canada agreed to put in place export charges and, for some provinces, quotas for softwood lumber exports. More specifically, provinces subject to the Softwood Lumber Agreement export measures can choose between two alternative regimes. Option "A" consists of an export charge that ranges from 0% to 15%, depending on the price of softwood lumber. Option "B" includes both an export charge of between 0% and 5% as well as a quota, both of which vary depending on the price of softwood lumber. Funds collected through these export charges remain in Canada and are returned to the provinces.

Our entire industry and our government would prefer free trade in lumber. But these export measures provide a far better trade environment than the alternative of continued, and unpredictable, U.S. trade actions—by this I mean countervailing and anti-dumping investigation. Under the Softwood Lumber Agreement, the United States is prohibited from taking such trade actions.

Having agreed to export measures, Canada pledged not to provide grants or other benefits that would undermine or offset those export measures. Certain exceptions to this obligation are provided by the Agreement, for example for pre-existing measures and measures related to forest management or environmental protection. How to interpret this obligation under the Softwood Lumber Agreement remains an area where we have differences with the United States.

[English]

There is currently an arbitration under way in which the United States has challenged certain programs of Ontario and Quebec, including loan and loan guarantee programs, as circumventions of our export measures. Canada has worked closely with Quebec and Ontario to defend these programs. Among the issues before the tribunal is whether to consider benefits provided to pulp and paper operations that are associated with softwood lumber producers as potentially offsetting the export measures. Canada has argued forcefully that they do not and that they have no impact on exports of softwood lumber products to the United States.

We fully expect the tribunal to agree with us. We anticipate the tribunal's final ruling will clarify this matter, at least with respect to the types of programs at issue in this case. The tribunal's ruling is expected late this year.

The softwood lumber agreement has provided stable and predictable access to the U.S. market for Canadian softwood lumber producers. This has been especially important in the recent economic climate. The agreement has enjoyed the support of Canadian industry and provincial governments. Canada works diligently to ensure its terms are respected.

Foreign Affairs and International Trade Canada works closely with other federal departments and agencies as well as with provincial governments to ensure that initiatives in the forest sector respect Canada's obligations under the SLA. We have worked with Natural Resources Canada on significant initiatives, including the \$1-billion pulp and paper green transformation program, the \$100-million investments in forest industry transformation program that was launched just last month, and the \$170-million program of other initiatives in support of market diversification and innovation initiatives for the forest sector, about half of which will be invested in Quebec.

Together with the ongoing engagement of EDC, which my colleague has outlined for you, these initiatives seek to facilitate the development of a sustainable and competitive forest sector in a manner that respects Canada's obligations under the softwood lumber agreement and other trade agreements.

I trust that this information is useful to the committee, and I look forward to answering your questions.

• (1400)

The Chair: Thank you, Mr. Stephenson.

We'll have about an hour of questions and comments from members, beginning with Mr. Pacetti.

[Translation]

Mr. Massimo Pacetti: Thank you, Mr. Chairman.

I would like to thank the witnesses. While the subject is an interesting one, it is not particularly easy.

I would like to focus for a moment on the testimony provided by Mr. Boivin and Mr. Lachapelle. We have already heard three or four hours of testimony and we are no further ahead now than we were before. However, we do know that people will suffer, and that employees have already lost their jobs and may well lose their homes. I am trying to reconcile your testimony with that of Mr. Boivin and Mr. Lachapelle.

Mr. Boivin said that there is access to raw material, to trained workers and to plants, and that investments have already been made—in other words, everything is there. Mr. Lachapelle, you made the point in your testimony that there are other cuts still to come. The picture is more negative. You said that we were far from our market and that the exchange rate is hurting us. That is nothing new.

By way of example, I would like to tell you a story I heard in recent months. I was told that we were importing lumber from China. I wonder whether there are markets that could possibly be further away. If our competitive capacity amounts to that, I think we have a problem. I am trying to reconcile your two points of view, but I'm having a lot of trouble doing that.

Mr. Boivin, I know that you made a good presentation. I agree with you that investments have been made and that people don't understand why the companies involved are not able to manage or maintain those investments, as well as the jobs they decided to invest in last year in Quebec.

Mr. Jean-Pierre Boivin: Mr. Lachapelle talked about that.

Mr. Massimo Pacetti: You can comment once you have heard what Mr. Lachapelle has to say, because I would like to give him a chance to respond.

Mr. Yves Lachapelle: In the Quebec forest industry, we have serious structural problems. We developed based on a certain paradigm requiring that we process certain volumes. We are still trying to maintain our competitiveness by focusing on reduced costs, large volumes, and therefore, economies of scale. But we have come to the end of that paradigm.

Mr. Massimo Pacetti: Our time is limited.

You represent the companies, right?

• (1405)

Mr. Yves Lachapelle: Yes.

Mr. Massimo Pacetti: How long have they been active in Quebec? That didn't just happen yesterday. It goes back some 30, 40 or 50 years.

Mr. Yves Lachapelle: The industry developed in the 19th century.

Mr. Massimo Pacetti: Is there anything new about the need to be more innovative and up-to-date? I represent an urban riding. For two years now, the manufacturing sector has seen a decline, but other industries are starting to develop. There is nothing new in that.

Plants are now environmental. Ways have been found to re-use biomass. As I said, the workers are already trained. What is all this about needing more time to innovate?

Mr. Yves Lachapelle: The speed at which markets changed surprised us a little. Since this morning, we have been talking a great deal about newsprint production. In the 1990s, that production could easily have represented almost 60% of overall paper production in Quebec. Afterwards, some diversification occurred in terms of paper product production. In Quebec, newsprint represented at the time almost one third of our production. In the last three years—between 2007 and 2009—there was a 35% decline in the North American newsprint market. In spite of the adjustments that were made, that sudden change in newsprint consumption did not allow us to adapt to the extent that we would have liked.

In my presentation, I emphasized innovation. We are very aware and are moving forward to restructure the industry. We need innovation and demonstration. One example would be our research centres. For one thing, we no longer have the money we need to invest in research and development as we were doing before. We are starting to see the consequences of that. There is some great research being done. Products are being developed. Technologies are—

Mr. Massimo Pacetti: That is easy to solve. We could simply take a portion of the money allocated for research and development and make it refundable. The government can help you in that area. In fact, the Liberal Party proposed such a measure a long time ago. I don't know why the Conservative Party never implemented it.

My speaking time is limited and I would like to hear from Mr. Boivin.

Mr. Jean-Pierre Boivin: Is asset consolidation possible, as Mr. Lachapelle mentioned, but smart consolidation? In our region, we have the necessary supply. In our opinion, it's ridiculous to process our wood chips 400 kilometres away from our region. It's like having a spring but being unable to drink from it.

In the late 1990s, I met with Mr. Weaver. We asked him if we could implement secondary and tertiary processing. At that point, we were talking about black spruce fibre from Quebec, which is exceptional. For Mr. Weaver, the calculation was as follows: one black spruce equals one 2 X 4, and the rest goes into paper, in the form of wood chips. We make money and everyone is happy. Our shareholders are satisfied, and we leave it at that. For plywood and anything else, we go to Brazil or India, because it's cheaper. That was his vision. And, for implementing a vision of that kind, he was paid \$17 million, I believe. The people who succeeded him continued to think the same way.

On the other hand, we believe that with the trees—in other words, the fibre—that we have, we are able to do the processing right where we are. Of course, things will never be the same as they were with newsprint, but—

Mr. Massimo Pacetti: There isn't only newsprint. A number of products can be manufactured from wood.

The Chair: Thank you, Mr. Boivin and Mr. Pacetti.

Mr. Bouchard, please.

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

I would also like to thank our witnesses for being with us today.

I'm sure you'll understand that I would like to begin by addressing some questions to Mr. Boivin.

Thank you for your presentation. You briefly outlined the concept of an integrated forestry complex. You also talked about repositioning the lumber and forest industry in Dolbeau-Mistassini. Of course, that implies partnerships and investors.

In the last year, have you approached any potential investors? If so, what came of that? Why is the situation still so difficult? A paper mill shut down and the workers have been without work since being laid off.

• (1410)

Mr. Jean-Pierre Boivin: We didn't have to approach investors, because some of them contacted us. But it's important to understand AbitibiBowater's current circumstances. Prior to September 14, whatever discussions were underway, it was as though we were playing cards, except that we didn't have any cards in our hand. The players can simply be told that they have to play with AbitibiBowater. That company controls supply and has imposed non-competition clauses. So, we have no choice but to wait until after September 14 to see what's going to happen.

These investors are interested in being partners in an integrated forestry complex, but there is one question they have to ask the people at AbitibiBowater. A door was opened this morning. As recently as yesterday afternoon I was with developers in Quebec City who were talking about new energy and processing, but we have to wait. Will AbitibiBowater open the door to them? Will it supply them? These potential developers or investors are asking us if we're going to provide them with the biomass, if they can have wood chips, and at what price. If it's \$10, AbitibiBowater is not interested in supplying them. If the market price is \$20 and AbitibiBowater asks for \$30, these new companies are saying that, at that price, they cannot afford to set up operations there.

Mr. Robert Bouchard: Yes, I completely understand.

Mr. Boivin, after hearing the witnesses and the comments made thus far, it seems clear that we are now in a full-blown forestry crisis. It is apparent that management focused on the short term and that planning was shortsighted. In your opinion, was there a lack of vision at AbitibiBowater or among the people involved in the forest industry?

Mr. Jean-Pierre Boivin: That's exactly what I was saying earlier. It was the case for Mr. Weaver and for those who succeeded him.

In Dolbeau-Mistassini, we wanted to produce book paper and circular paper. Today we're told that is no longer possible, and yet they're taking our resource and sending it somewhere else. Why did they wait until 2010 to tell us there was a need for innovation? We have known that for a long time. Someone with vision could have slowly but surely steered the industry towards new technologies.

In my opinion, it is clear that the industry lacked vision. People are in place now. I'm sure you noticed that the people who solved the problem were not here this morning. The President was sent up to bat. While he played his violin in Dolbeau-Mistassini, they were talking about removing equipment. On the one hand, we were being told that they were interested in staying open, that they might be interested in partnering with Boralex to have an energy supply and reopen one or two paper machines in Dolbeau. But while that was going on, as we found out a little earlier by phone, people want to take away the equipment. So, what kind of game are they playing?

Mr. Robert Bouchard: Mr. Boivin, I'd like to know how AbitibiBowater has been conducting itself since the restructuring began. Has it taken an active part in the restructuring process at the Dolbeau-Mistassini plant?

Mr. Jean-Pierre Boivin: No. In late May, I met with Mr. Rougeau and we agreed on a certain number of things. We were supposed to bring forward potential solutions. They are right in that respect. However, as I was saying, it was impossible to prepare a business plan with people who didn't know whether or not they would have control over supply. We were not subsidized by AbitibiBowater. That was done with RCM funds. It was paid out of Dolbeau-Mistassini's own revenues, in order to move things forward.

This morning, we talked about cooperation. For example, we asked for a meeting with Mr. Paterson. We never received a response. At some point, we have to talk to one another. I was happy to see his openness this morning. In fact, as soon as we get back home, he will be receiving a letter asking for a meeting.

• (1415)

Mr. Robert Bouchard: We saw with Mr. Paterson that the solution is that Boralex produce the steam; however, the problem is that it's too expensive. What are your expectations of AbitibiBowater with respect to this restructuring—the integrated forestry complex?

Mr. Jean-Pierre Boivin: In terms of fibre maximization, we believe we have everything we need for that to be realized in Dolbeau-Mistassini. With respect to financial integration, AbitibiBowater is not expecting to operate this kind of complex. We would like AbitibiBowater to be a partner with the other players and share the stock ownership of these companies which are interested in operating, for example, a power generating station, a cogeneration plant, pellet plant, ethanol plant—anything and everything. If there is a partnership between the main fibre users in our area, we think they'll be forced to talk to one another and optimize financial performance. If they don't want to do that, then they should tell us how much it's worth and other buyers will do it instead.

Mr. Robert Bouchard: My last question is for Mr. Lachapelle.

Mr. Lachapelle, we believe the overall problems in the forest industry, and in the pulp and paper sector in particular, could have been avoided had the federal government introduced an aggressive plan to allow the forest industry to modernize and diversify its activities. We would have liked it to make the same kind of financial effort for the forest industry that it did for the auto sector. Do you share that opinion?

The Chair: Thank you, Mr. Bouchard.

Mr. Lachapelle, please.

Mr. Yves Lachapelle: Thank you, Mr. Bouchard.

Mr. Chairman, when you look at the Canadian forest industry as a whole, it is clear that operations are located in villages scattered here and there. These are isolated populations. I think we're talking about 800,000 jobs in Canada. It is one of the main industries in Canada that needs to be protected. In that respect, you are absolutely right. The federal government did the right thing when it supported the auto industry, but it should have provided the same support to the forest industry.

There are constraints; there is no doubt about that. Earlier we were talking about NAFTA, but there are ways to support our industry. As I said before, access to credit and refinancing was one avenue we were in favour of. In a few weeks or months from now, we will know the outcome of the Softwood Lumber Agreement arbitration where all these issues will be debated, and at that point, things will be clear for us.

If you don't mind, I would like to add something to the previous discussion. I would just like to point out that there are business models in Quebec. In newsprint, there are three companies: AbitibiBowater, White Birch Papers and Kruger. The first two—the two largest—placed themselves under the Companies' Creditors Arrangement Act and the last one terminated its operations. This is a very significant problem and not a simple one to resolve, because were that the case, there would also be solutions. As things now stand, it's complicated.

The Chair: Thank you, Mr. Lachapelle and Mr. Bouchard.

Mr. Gourde, please.

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

I'd like to thank the witnesses for being here.

My first question is for Mr. Boivin, but our other guests are also free to comment.

You outlined your vision of the forest in your region. You discussed this with me this morning. I would like you to provide more details. Based on what others have said, is this vision that they want to implement in the Dolbeau-Mistassini region acceptable? There must have been some issues with NAFTA. So, please tell me more about your vision and ask your partners how we can get involved.

• (1420)

Mr. Jean-Pierre Boivin: First of all, this vision is not based on a dream. It is based on a reality: the Government of Quebec wants to maximize fibre and reduce impacts.

This morning, we talked about green energy and the environment. Imagine that a log leaves Montreal bound for Ottawa. It has to be completely processed here, because of the cost. In our area, a log goes through the barking machine and then to the sawmill. The bark, called biomass, is stored. It's used to power a cogeneration plant. The log is processed into lumber and then all the small pieces can be reprocessed in a bladed-glued beam plant, and the wood can also be planed on site. As well, the chips that remain after these different stages of processing are sent across the river to the pulp plant. The bark is then shipped to the cogeneration plant and the chips are processed into pulp. Once that is done, the residue can also be processed into biofuel, ethanol or another form of energy; it can be used to produce electricity and even turned into pellets, which are in very high demand around the world. That is what is known as fibre maximization.

In our region, that complex is already almost completely in place. We feel that if we could do that, companies like AbitibiBowater would definitely find it worth their while. A case in point is black spruce fibre: the pulp can be used to enrich other types of pulp to produce a better quality paper than in China or in India. We believe

we have everything we need to accomplish that here. If all the operations are carried out in the same place, transportation costs will be lower, there will be less pollution, and we will be using green energy.

At the present time, on a bole that's about 50 feet long, a company like AbitibiBowater will stop cutting at about 10 centimetres, or 4 inches, from the end and will leave whatever remains on the forest floor. It falls to the ground and isn't used. We say that biomass can be recovered and processed at this forestry complex. So, everything is in place.

As I said a little earlier, will AbitibiBowater do this? Are there developers interested in operating sections of this complex?

We were really expecting to receive a response from AbitibiBowater on September 14. Mr. Paterson partly answered this morning, and I believe we will be getting additional answers in the coming days.

Mr. Jacques Gourde: Mr. Lachapelle, do you wish to comment?

Mr. Yves Lachapelle: At the present time, the CIFQ, in partnership with the Government of Quebec, is developing a vision of how our industry can be transformed. It deals with restructuring and the direction we need to move in. Mr. Boivin's comments are very much in keeping with that. So, there is a need.

In your presentation, I liked the fact that you talked about the right wood in the right plant. What probably hurt our industry the most was that we processed all the wood in the plants, even though certain types were not suitable for sawing. So, there have to be market opportunities and integration starts with the customers. The starting point has to be the customers and the different processes. In that regard, I also believe that this is the way to go.

On the other hand, I was talking about newsprint producers in Quebec earlier. Some companies are highly integrated, while others operate entirely on the basis of agreements with suppliers. Both have placed themselves under protection.

Mr. Jacques Gourde: Mr. Stevenson, would you say that is consistent with our regulations?

Mr. Don Stephenson: [*Inaudible—Editor*] ... there is nothing in the Softwood Lumber Agreement that would prevent it, as long as there is no direct or indirect subsidy to producers and softwood exporters which would lower the burden of the export measures laid out in the agreement.

• (1425)

The Chair: Ms. Hughes, please.

Mrs. Carol Hughes: Thank you.

I have a question for Ms. Hendricks.

What innovative measures is your organization, Export Development Canada, offering the forest industry to help it get back on its feet, or allow it to grow, develop better practices and ensure its survival?

Ms. Justine Hendricks: Thank you for your question, Ms. Hughes. It's important to point out that Export Development Canada's role when it comes to innovation will depend on the way we are able to serve forest industry exporters. There are a variety of products, including insurance, bonds and financing. It is through these products that we are able to support innovation. Forest companies can use these products to ensure their survival or help them with their efforts abroad.

How do we offer these solutions? We create partnerships with financial institutions—for example, if there is a specific need. However, I do want to point out that, ultimately, that need must be connected to an export. That is how Export Development Canada can play a role.

Mrs. Carol Hughes: You mentioned a little earlier that you provide commercial financing. The unions were saying that they need loan guarantees at commercial rates. I am wondering what the difference in rates is, as you see it.

Ms. Justine Hendricks: In terms of the rates we can offer, we did point out that we are unable to provide subsidies. Furthermore, we cannot take any actions that could be interpreted as enabling a lower market rate. Therefore, if several banks are participating in a funding arrangement, EDC cannot offer a lower rate than the current market rate. We cannot play that kind of role.

Mrs. Carol Hughes: And what is the market rate based on?

Ms. Justine Hendricks: It depends on the industry and the structure of the financing that is requested. Depending on what we are presented with, we might do the same thing the financial institutions would. We will look for the best commercial rate that can be provided for that type of structure, basing ourselves on what the company is looking for. It may vary according to the loan structure, but we always comply with market conditions and structures.

Mrs. Carol Hughes: Let's talk about the auto industry. They were given loan guarantees. The government provided funding to that industry. And yet, at the time, this was more of a regionally-based problem.

The forest industry needs a lot more, because this is a national problem. If I'm not mistaken, Quebec provided \$140 million. That is clearly not enough, and the fact is that we are seeing our industries disappear. In your opinion, what can be done to ensure the survival of the remaining companies, since they are the ones that are going to make it possible to carry on?

Ms. Justine Hendricks: Thank you for your question. Once the government has decided where and how it wants to help, our role is to be at the table with these companies and help them with insurance, bonding and funding, in accordance with commercial standards. We will have to look at how we can help them. We are not involved in developing the policy structure *per se* or in program definition.

• (1430)

Mrs. Carol Hughes: My other question is for Mr. Stephenson.

If the government were to provide loan guarantees to forestry companies—that is what they are asking for—what potential repercussions would that have with respect to NAFTA?

Mr. Don Stephenson: As I explained earlier, as long as there is no subsidy embedded in these loans, and the conditions reflect market

conditions, there will be no impact. That would be allowed under the Agreement. The Softwood Lumber Agreement with the United States does impose certain financing conditions. The fact that such an agreement exists is, to some extent, what differentiates this particular situation from the one that prevailed in the auto sector.

Mrs. Carol Hughes: So it would be possible, then?

Mr. Don Stephenson: Yes, as long as there are no subsidies and that the arrangement is based on commercial conditions.

Mrs. Carol Hughes: In terms of the NAFTA decision on AbitibiBowater, which represents some \$130 million, there is good reason to wonder about future rulings.

[English]

Are you fearful, as I am, that this decision sets a dangerous precedent?

Our experiences with investor state disputes have been mixed.

I wonder if you could share with us your insights as to the improvements that are required to the current investment regimes, particularly after your team's recent participation in the World Investment Forum in China.

Mr. Don Stephenson: Actually, my team isn't back from China yet, so I can't put it in the context of those discussions.

I'm not quite sure what future dangers exactly you'd like me to address, but with respect to the settlement—

Mrs. Carol Hughes: Well, the dollar figures.

Mr. Don Stephenson: —with AbitibiBowater under chapter 11 of NAFTA, this was to compensate, as required by NAFTA, for the expropriation of assets. In that sense, I don't think there is anything to either fear or correct in NAFTA chapter 11.

[Translation]

Mrs. Carol Hughes: Basically, if you consider the current situation and what happened, the company was located in Newfoundland and Labrador and it was the one that decided to leave. Resources really have to be allotted to the province to ensure that other investors can be attracted. Maybe that part of NAFTA doesn't really work very well.

[English]

Mr. Don Stephenson: The NAFTA works in the following way: if a company, or an individual, for that matter, owns assets and those assets are expropriated by the government, fair compensation is required. To me, that seems straightforward and an appropriate policy.

[Translation]

Mrs. Carol Hughes: I think—

[English]

The Chair: Thank you, Madame Hughes. Thank you, Mr. Stephenson.

Mr. Scarpaleggia.

[Translation]

Mr. Francis Scarpaleggia: Thank you, Mr. Chairman.

Mr. Stephenson, you were saying that if the federal government were to provide loan guarantees to the forest industry, they would have to be provided based on commercial conditions that reflect the market. Could you give me an example of the kind of conditions that would be associated with a loan guarantee? In other words, how would a loan guarantee provided by the government be structured?

• (1435)

[English]

Mr. Don Stephenson: In fact I'm not an expert in making loans or loan guarantees. I think that would be the expertise of my colleague from the EDC.

[Translation]

Mr. Francis Scarpaleggia: I'm talking about a government loan guarantee here. Perhaps you could try to answer the question.

Ms. Justine Hendricks: It's important to bear in mind that, depending on the industry and the standards that apply, a guarantee can be structured in many different ways. As a Crown corporation, we often provide guarantees in cooperation with the bank. If the loan is for \$5 million, for instance, we may offer a percentage of that loan in the form of a guarantee, which then means the company has access to better or additional working capital.

Mr. Francis Scarpaleggia: Does the company have to pay fees?

Ms. Justine Hendricks: Yes, it has to pay back the loan; it is a bank loan.

Mr. Francis Scarpaleggia: Yes, I understand it has to repay the loan to the bank, but in order to receive a guarantee, does it have to pay a fee to your organization?

Ms. Justine Hendricks: Because this is done in partnership with a bank, if there are fees to structure the loan, those fees are payable to the financial institution.

Mr. Francis Scarpaleggia: Are you talking about administrative fees?

Ms. Justine Hendricks: Yes, exactly.

Mr. Francis Scarpaleggia: If the government decided to provide a loan guarantee to the forest industry, it seems to me the government would simply tell the bank it was guaranteeing the loan and there would be no fees to pay. The industry and the bank are not required to pay fees to the government. As I see it, a loan guarantee is a simple enough matter to provide, but it has to be arranged in accordance with the standards that apply to all commercial loan guarantees. I don't understand; it seems to me it's a fairly simple process. You provide a loan guarantee to the industry. In that case, Mr. Stephenson, could a loan guarantee under which no fees are payable by anyone be perceived as an anti-trade measure?

[English]

Mr. Don Stephenson: It is my understanding that loan guarantees are provided under commercial terms. That is to say, you do pay fees, both interest and administrative, for those services.

Ultimately the question of whether or not a loan or a loan guarantee is in conformity with the agreement would be the subject of a tribunal decision. In fact, we have a tribunal proceeding under way now that might resolve some of this question.

[Translation]

Mr. Francis Scarpaleggia: I see.

Earlier we were talking about export markets for our forest products. The point was made that the North American market is in decline, that it is very difficult to sell to the United States and that there is a need to look to new markets, particularly in China. If I understood correctly, we are now trying to penetrate markets in China for our forest products, but on the other hand, China is also a competitor in terms of forest products, is it not?

Mr. Yves Lachapelle: There are different markets, of course. Let's take the example of furniture. I don't recall who alluded to this, but it was mentioned that logs are purchased in Canada, taken to China and that the products are then sold back to us more cheaply than what we can ask. That is the reality.

Let's talk about newsprint. In North America and Europe, it's on the decline. In emerging countries, such as Asia and China, newsprint consumption is rising considerably. So, there are opportunities, mainly in Western Canada, in terms of exports to these markets.

Mr. Francis Scarpaleggia: So China is not as competitive when it comes to newsprint?

Mr. Yves Lachapelle: That's right. In fact, China is causing us some problems, because the Chinese have largely focused on recycled fiber. They have penetrated our traditional newsprint markets using recycled fiber, such as what we produced in Gatineau. They have created a demand for paper that is not necessarily of a high quality—in other words, for unsorted paper. I can't speak for the other provinces, but in Quebec we have seen all the municipalities move into paper recovery, along with metal. That's the reason why our businesses are having trouble finding high quality paper. The costs of high quality paper are huge and it often goes to Asia to meet their needs.

• (1440)

The Chair: Thank you, Mr. Lachapelle and Mr. Scarpaleggia.

[English]

Mr. Braid.

Mr. Peter Braid: Thank you, Mr. Chair.

Thank you very much to the witnesses for appearing this afternoon.

Madam Hendricks, I would like to start with a couple of questions for you. You indicated that in 2009 alone \$16 billion in credit financing was provided to forestry companies across Canada. That's a significant amount. Do you know what proportion of that was dedicated to the province of Quebec?

Ms. Justine Hendricks: Yes, I do. Out of the \$16 billion that we supported in 2009, \$11.9 billion was for the province of Quebec, and that was given to 223 individual companies.

Mr. Peter Braid: You also spoke in your presentation about efforts under way to expand export markets, specifically in Chile, Russia, and China. Could you elaborate and update us on the short- to mid-term potential that exists in those three markets?

Ms. Justine Hendricks: I will talk perhaps in general terms for the three markets. As I mentioned in my presentation, we have been making efforts to bring some international buyers to Canada to expose them to some of our Canadian capabilities in the forestry sector. What we will do in this regard, and what we have done, is to source some key international buyers who would be interested in our forestry companies as a result of what we do and the efforts we're able to bring to the table. We see potential. The work we've done with Chile has been ongoing for quite a few years now. What happened with the reverse mission was just this past July. We plan on going to a key show in Chile next year.

In terms of China, as Monsieur Lachapelle commented a few minutes ago, a lot of concentration about the opportunity in China you tend to see out of British Columbia. It certainly does not mean that there are opportunities for the forestry sector in Quebec, but we would undertake this in a similar fashion. We would go to a trade show to seek out some key international buyers to come to Canada and do what we call a matchmaking so they would have an opportunity to be front and centre with some of our top Canadian forestry companies.

Mr. Peter Braid: Thank you very much for that additional information.

Mr. Stephenson, to your mind has the softwood lumber agreement been successful?

Mr. Don Stephenson: The best measure of that is the support it enjoys in the Canadian industry even in the face of the economic downturn, and that support, since I took the job two years ago, has been unanimous. All of the provinces that are captured by the agreement are in support, as are all of their industries.

I would comment that many representatives of the industry have indicated to me that whatever their position was when the agreement was signed, they support it today. I guess they would argue, therefore, that it has provided some stability in the face of a horrible market.

Mr. Peter Braid: That is based on feedback you have received from both provinces and the forestry companies within those provinces? Is that correct?

Mr. Don Stephenson: That's correct.

Mr. Peter Braid: Can you be more specific concerning the feedback you've received either from provinces or from forestry companies on the lumber agreement?

Mr. Don Stephenson: Immediately upon taking the job and several times since then I have consulted... We have permanent consultative mechanisms with both the provinces and the industry, and I have been given a consistent message in all of those discussions that I should take as my first objective, my highest objective in respect of the agreement, its protection and its maintenance above all other things, and so that's the objective we all put first in respect of the agreement.

I would even say with regard to the disputes we have had under the agreement that they are evidence of the agreement actually working, and that there is a mechanism under which to have disputes but still enjoy the stability of access to the U.S. market.

• (1445)

Mr. Peter Braid: I believe you explained earlier that under the terms of the agreement both direct and indirect subsidies are not allowed. Is that correct?

Mr. Don Stephenson: Yes.

Mr. Peter Braid: Can you provide other examples of situations or initiatives that are not allowed under the agreement?

The Chair: Just briefly, Mr. Stephenson.

Mr. Don Stephenson: In fact, the agreement doesn't exactly say that you can't give a subsidy or a benefit. It says you can't give a benefit, direct or indirect, that reduces the burden of the export tax, the export measure, the export charge, because on the U.S. side of the border they wish to see us impose this charge to level the playing field—at least in their minds—with respect to the competition in lumber.

As I said earlier, there are two or three kinds of subsidies that are sheltered under the agreement, subsidies that existed prior to the agreement, that address issues of forestry management or that go to first nations, for example. But otherwise, almost any other kind of subsidy could be challenged by the U.S. under the agreement.

The Chair: Thank you.

Monsieur Nadeau.

[*Translation*]

Mr. Richard Nadeau: Thank you, Mr. Chairman.

Mr. Lachapelle, a little while ago, we were talking about the federal government's \$10 billion investment in the auto industry. You were questioned about this. That fact is that it was a very good thing for the auto industry.

I hope we are wrong, but we think that since the Conservatives would really like to get their hands on some NDP ridings in Southern Ontario, they targeted their assistance to that industry. A political decision was made. On the other hand, only crumbs were offered to the forest industry, along with untenable conditions, since it has to do its share, even though it is not in a position to do that now, as you explained earlier. I hope that this can be corrected. When you make the same error twice, that's serious; but if there is a recognition that a mistake has been made and if Quebec is not abandoned by the current government, we can take another look at the situation. The forest industry and paper mills, which are located not only in Quebec, but in Ontario, New Brunswick, British Columbia and several other places as well, are suffering enormously because of this government.

I would like to address another aspect of the situation and talk about the industry as a whole. We spent a lot of time this morning—and rightly so—talking about two plants in particular—the ones in Dolbeau-Mistassini and Gatineau. However, there are others. We could have opened the umbrella a little wider and taken a close look at all the plants. The workers feel cheated and they have every reason to feel that they have been had by AbitibiBowater. And we have also seen how this company deals with people who want the industry to work, even though they may not be directly involved in that industry, but still want to ensure that their residents have jobs in the paper mills and the forest industry. And then there are the small- and medium-sized businesses—the subcontractors—which work with the paper mills, either in terms of transportation or in other areas. They don't work in the plant, but they haul the products, first for processing purposes, and subsequently for sale or reprocessing.

So, a lot of people feel they have been had. How does the industry intend to compensate the people who have been penalized by plant closures?

Mr. Yves Lachapelle: That is quite a question.

One thing is for certain, and that is that all the parties in our industry are closely connected. You mentioned the small businesses, the suppliers and the customers of our different companies. The future of one depends very much on the future of the other. In that sense, we must try to develop a common future and closer ties between companies.

With respect to your question, the Companies' Creditors Arrangement Act exists. Of course, it does lead to certain consequences that affect everyone. No one is immune to that. Now, what should we do next? Should we be working to fix what was done in the past or should we be looking to the future? In my opinion, we must look to the future because we have a fantastic resource. It is a tremendous asset for Canada and for Quebec, and we have to find a way to once again allow it to serve the people.

• (1450)

Mr. Richard Nadeau: Mr. Lachapelle, I agree with you, we do have to work to develop the future. In any case, we have no choice. Tomorrow is coming, yesterday is behind us, but the fact remains that people are suffering now as a result of decisions that were made yesterday. Do you see what I mean?

As we heard this morning, people are now losing their pension funds or are in danger of losing a significant part of their pension. We're told they will lose only 25% of their pension fund, but in other places, it's 40%. I'm sorry, but that is huge!

Furthermore, some suppliers are losing 100% of their contracts. That means they are losing the money owed to them, and that doesn't include the contracts they will be losing in future. All of that is extremely difficult.

Mr. Boivin, how do you see the current situation? I'm talking about the SMEs and the complex you are proposing. Given how difficult things now are, as you see it, how could this improve their situation?

The Chair: Thank you, Mr. Nadeau.

Mr. Boivin, please.

Mr. Jean-Pierre Boivin: Some people are hurting, including the carriers. They absolutely need help. In order to restructure the industry, support will need to be provided. Let's not forget that, in the resource regions, the industry did get help. It wasn't the companies that grew the forest. They are given that timber, with very little to pay in way of royalties. The forest roads are built for them. Once the trees have been cut down, we do the replanting for them. Again, these people are being subsidized. So, the industry has received benefits. In any case, that is certainly what happened in Quebec.

In terms of a complex like the one we have been discussing, there is no doubt that government assistance will be required. How will these people be able to recover and develop a vision for the future? In my opinion, the government will have to act as facilitator.

This morning we were talking about the workers. In terms of the shares to be received, these same workers will be required to pay the taxes associated with them in advance. The problem is they don't have the money for that, no more than the carriers do. They're making repairs every night using a staple gun, so to speak. They need help, they need guarantees. In that sense, the governments of Quebec and Canada have to help them.

The Chair: Thank you, Mr. Boivin.

Mr. Blaney, please.

Mr. Steven Blaney: Thank you very much, Mr. Chairman.

I am happy to be part of a government which, for the past four and a half years, has been there for the workers and the forest industry. Today I heard Mr. Nadeau talking about peanuts. But in the last four and a half years, I've seen some pretty large peanuts being given to the forest industry. Unfortunately, I also saw Bloc colleagues abandon the forest industry on a number of occasions when there was a need to invest. And we saw what the Liberals did.

It's important to remind people that when we took office, we resolved the softwood lumber dispute. It's important to remind people of that today, when we have witnesses here describing how the industry should evolve. It is also important to remind people that, as early as 2007, we invested \$1 billion in the Community Development Trust. Our support for the forest industry didn't begin yesterday. We will continue along the same lines with Ministers Lebel and Paradis. We have invested \$1 billion in greening the paper mills.

I'm sure Mr. Lachapelle would acknowledge that that is a positive measure. Of course, there are the workers. But we're talking about \$1 billion for communities, not including the \$235 million provided by the Canada-Quebec Forest Task Team, the \$170 million set aside for regional diversification, and the \$100 million provided for industry transformation.

Of course, in the last two years, through the Economic Action Plan, at a time when Quebecers were most in need of help, Bloc members refused to allocate \$8.3 billion for additional help for the workers as well as \$60 million for older workers, to help them relocate.

The record is there. Can we do more, and continue to do more? I can tell you that we certainly will. Today we saw that the industry needs help. So, yes, we will extend a hand to people in the industry, and work with them.

Today we also talked about financial assistance for industries. Export and Development Canada officials are with us today.

Ms. Hendricks, Export Development Canada allocated \$16 billion in 2009 to support Canadian industry. That was alluded to this afternoon. Can you tell us how many forest industry clients benefitted and, of that \$16 billion, what amount was specifically allocated to Quebec?

• (1455)

Ms. Justine Hendricks: The data I mentioned apply to 2009. The \$16 billion that benefitted the forest industry was allocated to 538 companies, including \$11.9 billion to 223 Quebec companies.

Mr. Steven Blaney: Can you tell us what form of assistance was provided? Was it financial assistance for products sold to the US, for example? You talked about financial facilitation. Is that on a commercial basis? The amount was \$16 billion, but what form did it take?

Ms. Justine Hendricks: Yes, the \$16 billion in assistance relates to the products we offer. It includes receivables insurance, bonding and financing. Most of the \$16 billion will be allocated in the form of receivables insurance. I don't have the specific details about the markets involved, but in general terms, the most significant one is certainly the US market.

Mr. Steven Blaney: I'd like to talk about your 2010-11 projections. We have been given signals today that the industry is experiencing a major structural crisis. Are you expecting the assistance you provide to increase? How do you see things? Do you have any projections or estimates with respect to market trends?

Ms. Justine Hendricks: I can tell you that in August, support amounted to approximately \$8.6 billion. Thus far, 456 businesses have benefitted from that support. We are a little ahead when compared to last year at the same date, in terms of our results. I can

tell you that not only is the trend continuing, it is on the rise, in terms of our support.

Mr. Steven Blaney: There is a slight increase.

Mr. Lachapelle, Mr. Chevrette came to Sainte-Justine. Rotobec is a company that specializes in high tech equipment that is exported around the world. Sainte-Justice is on the US border. Do you not agree that \$1 billion for greening is money that helped the paper companies?

Mr. Yves Lachapelle: There is no doubt that effort was made both at the federal and provincial levels. That cannot be denied. But that is not the issue. The needs and the conditions in many cases, and particularly the magnitude of the problem, are the real issue. I referred to the program you announced not long ago. It represents \$100 million over four years. The idea is a good one. It's about supporting innovation. We need demonstration in order to create markets. The fact remains, however, that this is inadequate. Companies must contribute at the level of 50%.

No bank is interested in the forest industry. If you talk about the forest to a banker, he will turn around and look somewhere else. We really are of no interest. Yes, exports are supported, and that's a very good thing. Some \$16 billion in export value is supported through your programs. That is not insignificant, but today, companies need oxygen. Many Quebec companies, whether they have multiple plants or are family businesses, have demonstrated extraordinary imagination in seeking new market opportunities and developing new products. But they have reached their limit. That's what we were saying earlier. The consolidation process is not over yet. Unfortunately, we have not yet hit bottom. In that sense, there is still time to act.

The Chair: Thank you, Mr. Lachapelle and Mr. Blaney.

I'd like to thank all our witnesses, as well as Committee members.
[English]

Thank you for your participation today.

This meeting is adjourned.

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