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## **Standing Committee on Natural Resources**

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**EVIDENCE**

**Tuesday, April 23, 2013**

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**Chair**

**Mr. Leon Benoit**



## Standing Committee on Natural Resources

Tuesday, April 23, 2013

• (1545)

[English]

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

We're here to continue our study on market diversification in the energy sector. We have four groups of witnesses today, but before we get to that, could we quickly pass the budget for the committee so we can pay for witness costs and that type of thing and the lunch at the back?

Mr. Julian.

**Mr. Peter Julian (Burnaby—New Westminster, NDP):** Mr. Chair, we've examined it and don't see any problems.

**The Chair:** Okay, is it agreed that we pass the budget?

**Mr. Peter Julian:** Agreed.

(Motion agreed to)

**The Chair:** Okay, we have the budget. Thank you. That is passed.

It was the committee budget just for this study, not for the whole year.

We'll now focus on our business of the day.

We have as witnesses today from the Montreal Economic Institute, Youri Chassin, economist, and Germain Belzile, economist. Welcome to you, gentlemen.

From the Macdonald-Laurier Institute, we have Philip Cross, research coordinator. Welcome to you.

We have Céline Bak, president of Analytica Advisors, and co-founder of Canadian Clean Technology Coalition. Welcome to you again.

From the Canadian Auto Workers, we have Jim Stanford, economist, and Fred Wilson, assistant to the president, Communications, Energy and Paperworkers Union of Canada. Welcome to you, gentlemen.

We will have presentations of, hopefully, seven minutes. Please try to keep it to that, in the order listed on our agenda for today, starting with the Montreal Economic Institute. Go ahead with your presentation, gentlemen.

**Mr. Germain Belzile (Economist, Montreal Economic Institute):** Since I speak faster in French, I will read my statement in French.

[Translation]

Let me start by thanking the Standing Committee on National Resources for the invitation issued to the Montreal Economic Institute.

Our organization is dedicated to economic research and education. We are an independent, non-partisan and non-profit group. We accept no government financing.

The Montreal Economic Institute supports the diversification of the Canadian oil market for the following four reasons. Canada and the world will need oil for a long time to come. Diversification will help maintain and create well-paid jobs across Canada. It will reduce the prices paid by refineries in eastern Canada. Diversification can be done with respect for the environment.

I will begin with an overview of the energy situation. I will then discuss the advantages of diversification in oil markets. I will end my presentation with some suggestions.

Canada, which has a highly diversified energy portfolio, is a major oil producer and exporter. Oil production is important for the Canadian economy and for ensuring a high standard of living and well-paid jobs for Canadians. Moreover, 41% of Canadian energy consumption consists of oil products.

At the global level, the International Energy Agency forecasts that the quantity of oil consumed will rise by 14% between 2010 and 2035. Therefore, an initial conclusion may be drawn: Canada, as a whole, like the rest of the world, produces and needs various forms of energy. Oil is one of those needs. The shale oil revolution in the United States has helped lead the country from a continuous decline in domestic production to a rapid increase since 2008. This is occurring at the same time as a rapid increase in Canadian production.

The investments required to increase oil shipment capacity—especially through pipelines—have yet to be made. Therefore, producers—whether American or Canadian—find themselves with production surpluses in relation to their shipment capacity. The result is a lower relative price for this resource. Western Canada Select oil is selling for \$17 less than WTI, which in turn is selling for \$15 to \$20 less than Brent crude. The extremely low market price of Canadian oil is endangering investment in oil production, which accounts for about 15% of investment in Canada. Therefore, it is crucial to address the existing bottlenecks.

Settling this problem will enable Canadian oil to bring greater benefits to Canadians. A better flow of oil products in Canada and North America would have a number of impacts. It would reduce the price gap between western oil and world levels, enabling Canadian producers to obtain a higher price. That would stimulate investment in this sector and increase private and public revenues. It would also reduce the prices paid by eastern Canada refineries, which are currently supplied with more expensive imported oil.

A recent poll conducted for the Montreal Economic Institute found that 73% of Quebecers prefer to consume Canadian oil over imported oil. A better price would enable the two refineries in Quebec and the single refinery in New Brunswick to remain competitive and to maintain highly paid direct jobs and employment in manufacturing. That would also protect producers from a breakdown in the distribution chain, such as the problems that have recently led to a broadening of the gap in crude oil prices, to Canada's disadvantage.

Finally, by opening up the industry to fast-growing Asia, we would reduce risks by keeping Canada from having to put all its eggs in the same basket, especially in light of the oil industry renaissance in the United States.

Every day, the equivalent of 15,000 truckloads or 4,200 tanker cars of oil is being shipped by pipeline in Canada. Pipelines are much safer than other means of transportation. They use less energy, and they cost less to operate.

What can the federal government do in this area?

We believe that the federal government can directly help create added value and oil-related jobs in four ways.

First, it can inform the public of the advantages of a flourishing Canadian oil industry. A Montreal Economic Institute poll shows that people in Quebec and across Canada are poorly informed, but that their attitude becomes supportive of the Canadian industry when they are better informed.

Second, the government can facilitate investment to extend the existing pipelines eastward and to build other pipelines. Pipelines are safer, environmentally sounder and less expensive to operate than currently used rail or road transportation.

Third, it can continue to make representations to Washington for the Keystone pipeline to be approved and to defend the Alberta industry.

Fourth, it can continue to apply environmental standards that are among the toughest in the world.

We will now be pleased to answer the committee members' questions.

Thank you for your attention.

• (1550)

[English]

**The Chair:** Thank you very much for your very concise presentation. It's very much appreciated.

We go now to the Macdonald-Laurier Institute, and Philip Cross, research coordinator.

Welcome, Mr. Cross. Go ahead, please, with your presentation.

**Mr. Philip Cross (Research Coordinator, Macdonald-Laurier Institute):** Thank you. Before I joined the Macdonald-Laurier Institute I was chief economic analyst at StatsCan. We'd often be called to these types of committees to provide some background before people got into discussing the issues to get the basic facts right, so I thought I'd take a few minutes to go over some of the basic facts of natural resources and then the specific questions about the current situation. We can elaborate if you have further questions for me.

Looking at the role of natural resources and Canadian economic development generally, Statistics Canada produced a paper that looked at the contribution of natural resources to Canadian incomes over the last 100 years. It found, on balance, we were 18% richer measured by GDI than just GDP because our export prices have risen more than our import prices.

There was a theory going around in the 1950s and 1960s that in the long run the price of manufactured goods would rise and the price of commodities would fall. In fact, the exact opposite has happened over the longer term. It's not just in one decade. This is decade after decade you can see the rise in our terms of trade, with a particularly big push over the last 10 years. The arrival of China and other developed countries in the world markets radically depressed the price of manufactured goods and boosted the price of commodities.

That's one thing to keep in mind. Canada has certainly enriched itself substantially from its natural resources over time.

Second, it's a bit misleading to talk about the current commodity price boom as one entity. The increase in commodity prices has been sequential, not synchronized. Commodity prices don't all move together.

Just this week, for example, I'm sure you all heard about the sharp drop in the price of gold. At the same time, recently we've seen a substantial recovery in the price of lumber, and the price of natural gas has done well. If you look at the four large commodity groups over the boom you see energy take off first, then it levels off, then metals take off, they level off and decline, then agriculture picks up and it starts to level off, and more recently forestry has started to pick up. So they're not moving together. They're not synchronized. They don't all go up and down as one. That provides some diversification with our natural resource base.

The third point I'd make that a lot of people don't appreciate is how much we import natural resources. We aren't just exporting raw materials and importing finished goods, which is the old story. I was just calculating this this morning. Over the last decade, our volume of imports of natural resources has risen 31%, and our exports only 7%. We import things like bauxite to make aluminum. We import gold, refine it and export bullion. We import crude oil and export refined petroleum products. So that's another myth surrounding the natural resource sector that should be corrected from the beginning.

The final point I'll make about resources is a lot of what's happened in the last decade too is repairing damage we did to our resource base in the 1990s. We severely under-invested in resources in the 1990s. Our capital stock literally started to rust away. We hired next to no young people into the industry, employment generally fell, and I would argue that actually laid the basis for the shortages we're seeing today: that we chronically under-invested in resources and weren't prepared for this boom when it took off.

What happened basically in the 1990s was manufacturing led growth and resources were the laggard. We had a bit of a reversal of that in 2002 to 2008 where natural resources took the lead and manufacturing fell behind. Now, since the recovery began, we're seeing both increase, and I think that's the best balance, the best equilibrium for the economy.

To look at the specific question about the energy prices and the benefits of diversification, it's worth noting that in natural gas large divergences in the international price of gas are normal. There's one market in Europe. There's another in Asia. There's another in North America. Prices diverge for long periods of time. There may be some point to taking advantage of that.

In oil it's much more unusual. There's usually one international price. It's very unusual what happened two years ago when the price for western Canadian oil fell relative to the world price. It would be interesting to see if that continues in the longer term or whether that is just a temporary situation. Already we've seen that differential narrow substantially from over \$40, or near \$40 in the winter, to near \$10, so I'm a little more skeptical about whether there are great benefits to be gained from diversifying oil.

• (1555)

Put another way, for decades we exported oil only to the U.S. and it didn't make any difference because there's one price of oil in the world. We may be going back to that. Obviously Keystone's being approved would help with that.

I would just be careful that diversification is not a goal in itself. Maximizing the value we get from a resource should be the goal.

I don't know how I'm doing on my seven minutes.

**The Chair:** You have two minutes left.

**Mr. Philip Cross:** Another matter with product is, it's not clear that product diversification is the best. There's always a lot of talk that we should be upgrading and refining more in this country. It's a very unusual situation now because of the price differential between what Canadian oil is getting in the Midwest and what refineries are paying in eastern Canada.

The refineries in eastern Canada are not very profitable. One was closed in Montreal last year and another one is for sale in Halifax. So when people say, "Let's refine more in Canada", it depends on where you're going to be refining. I think it would be very difficult to get the industry to make the huge investments needed to expand capacity and upgrade their refineries to refine more in eastern Canada.

In western Canada, it's a different story. Those refineries are quite profitable now. Because the price of western Canadian oil is low, they can refine it. They have a different problem. We just saw the cancellation of the Voyageur project a couple of weeks ago. It was

decided that with the cost of building a new refinery out there—we're talking about \$10 billion—there was not enough confidence that those price differentials would remain long enough to recoup the investment. So it's easy to say, "Let's diversify our markets; let's diversify our products", but it's not at all clear that's a goal in itself.

Thank you.

**The Chair:** Thank you very much, we appreciate that.

We go now to Céline Bak, the president of Analytica Advisors, and co-founder of Canadian Clean Technology Coalition.

Welcome back to our committee. Go ahead, please, with your presentation.

[*Translation*]

**Ms. Céline Bak (President, Co-Founder, Canadian Clean Technology Coalition, Analytica Advisors Inc.):** Thank you very much, Mr. Benoit.

We are very happy to be here today, and I am honoured to represent the Canadian Clean Technology Coalition.

[*English*]

I'd like to focus on three major things in my presentation today.

The first is to address the question of how significant Canadian clean technology exports can be over the next five to ten years as part of energy innovation and the diversification of our energy products. The second thing I'd like to highlight is the relationship between those exports and those of SMEs within our overall merchandise exports. The third thing will be the actual markets that Canadian companies are interested in exporting to, which are not necessarily what one would expect.

If you'd like to refer to the materials that have been provided, I am going to start with page 3. There is a graph that projects under both a mid-growth and a high-growth scenario that Canadian clean technology exports have the potential to grow to either \$10.6 billion or \$17.5 billion from their current base of about \$5.2 billion. These are conservative estimates insofar as we've taken a relatively small or a mid-size approach to the global markets. For those of you who are visual, there are some graphs to demonstrate that.

I'd like to set the Canadian clean technology exports in the context of SME exports, because obviously these are SMEs and it's an area that is not that well understood.

If you'd like to refer to the graph on page 4, you'll see the value of all non-resources SME exports versus that of exports of energy-related natural resources. You'll see that these two graphs actually converged over the period of 2002 to 2005-06, and since then have really diverged. It might be worth spending a moment to understand what some of the causes for that divergence may be.

Natural resources energy-related exports obviously follow the price of oil and gas, and SME non-resources exports have grown notwithstanding the rise of the Canadian dollar. These are companies that are small but are still able to export, notwithstanding the fact that the Canadian dollar is very strong.

What they don't cope with very well, as was seen in 2007, is a global liquidity crisis. You can see indicated in green on the graph that there is quite a substantial decline from 2007 to 2009. This refers back to my comments in the committee meeting of March 7 when I referred to the need for some thinking and policy discussion around access to debt for these companies, because their projects are going to need to be financed, and their ability to access debt will be a significant driver in terms of their ability to grow and to export.

For those of you who would like to continue to follow the graphs, I suggest you refer to page 11, which brings together the value of SME exports and adds to the graph the value of the Canadian dollar. You can see that our Canadian SMEs are quite capable of exporting, notwithstanding the rise of the Canadian dollar. This is not necessarily widely known. I have to say that the green line on the graph is the product of some relatively new data, which was obtained through a new data set that Statistics Canada has produced, which is by size of firm, so it is something to consider.

I'll close by saying that if you'd like to refer to page 15, Canadian clean technology companies are quite ambitious in terms of the countries to which they wish to export. You see on this page an indication of the top five countries in terms of their interest for exports. They are in order: U.S., Germany, U.K., France, and Brazil. These are obviously very sophisticated difficult markets to export to. The top five countries in terms of demonstration projects—this is technology that is perhaps at an earlier stage—are: U.S., Germany, U.K., France, and Mexico.

Those are some indications of the priorities for diversification of markets.

If you wish to refer to how Canadian companies think of the BRIC countries for exports and BRIC countries for demonstration projects, they're indicated on that page as well.

You may recall that the Canadian Clean Technology Coalition thinks of the industry through 10 different sectors. This information, in terms of which countries are priorities, is available for each of those 10 sectors. I have provided three copies of the report, one for each party, and I have the pages that refer to the sector priority markets, so for each of those 10 sectors, which countries are the priorities. That does vary from one subsector to the next.

With that, I'll close my remarks.

Thank you very much.

• (1600)

**The Chair:** Thank you very much for your presentation.

We go now to the Canadian Auto Workers, to Jim Stanford, economist, and to Fred Wilson, assistant to the president, Communications, Energy and Paperworkers Union of Canada.

Go ahead, please, gentlemen with your presentation, for up to seven minutes.

**Mr. Fred Wilson (Assistant to the President, Communications, Energy and Paperworkers Union of Canada, Canadian Auto Workers):** It's agreed that I'm going to start.

Good afternoon, everybody. I'm very pleased to be here with my colleague, Jim Stanford. I should say at the outset that our joint presence here is part of something new in the Canadian labour movement because our two unions, the CAW and the CEP, by Labour Day of this year will be a new Canadian union. It will be the largest private sector union in Canada when we come together. It will be a new union with a new name, and it will bring a lot that's new, hopefully to your tables as well, because we intend to be a stronger voice on Canadian industrial policy than either of us has been until now.

For those of you who don't know much about CEP, we are Canada's largest energy union. We represent over 35,000 workers in Canada's energy sector, in the upstream, in Fort McMurray, and in the Newfoundland offshore, on the platforms, and in the downstream in most Canadian refineries, gas plants, petrochemicals, and natural gas distribution.

I'm just going to make a few brief points about the subject at hand today, diversification. We are strongly for diversification, diversification of production and markets. The takeaway point that we have for the committee is we want to make the case that the current development model we're pursuing in Canada, we believe, is antithetical to those goals. In fact, our current development model is producing the opposite, increasing focus on a single product to a single market. The more export pipelines that we build, the worse that problem becomes.

I'm going to make three brief points before my colleague Jim takes over.

First of all, with regard to increasing dependence on a single product, bitumen, just as Mr. Cross said, we do import more crude oil, but we are not exporting refined products; we're exporting bitumen, fundamentally.

The basic facts are this. Since 2002 until today, oil sands production has increased by two and a half times, but the percentage that was upgraded or refined has declined from 60% to 47%.

Looking forward, most studies show, over 2025 to 2030, a further threefold increase in oil sands production, but the projection is for the percentage of that production to be upgraded in Canada to decline from our current 47% down to 35%.

The second point is that this focus on export pipelines to export various forms of bitumen blends, fundamentally to American markets, comes at the expense of diversified markets, and in the first place, our own Canadian marketplace. I'm sure there will be discussions about Line 9. We support Line 9 and can answer questions about that.

At this point I'd like the committee to take a reality check on diversification of markets even within Canada. The reality check is this. If Keystone XL is built, export pipeline capacity will exceed all new Canadian production until 2025.

Throw on Kinder Morgan or Gateway and we are going to be seriously overbuilt in terms of projected growth. I'm talking about caps figures...the most optimistic figures of increasing production to three million barrels and above.

This is at the expense of Canadian production. We've already lost two refineries in eastern Canada, most recently in 2010, in Montreal. Even more important, we're really missing the boat on jobs in Alberta itself.

I want to draw to the committee's attention the new study by Alberta's Industrial Heartland Association and Alberta Plus on the advantages of upgrading and diversification in Alberta. I've given you links to that. It's a very important study.

It's important for another reason. It uses the figure of 18,000 jobs that could be created in Alberta by upgrading and value-added processing of our resources. That, by no coincidence, is the same figure which CEP, our union, gave to the National Energy Board in 2006 when we opposed Keystone I. We put forward information by Informetrica that if that product were upgraded and refined in Canada, it would amount to 18,000 jobs.

• (1605)

My last point is with regard to our marketplace in the United States. The development model we have is utterly unsustainable. There is no way Canada will ever meet any climate target if we go to five million barrels a day from the oil sands. Our obsession with unsustainable growth and raw material exports is undermining our very market in the United States.

I'd ask the committee to reflect on this. Why is it that four years after our board approved Keystone XL in 2009, four years later, we still have an army of lobbyists in Washington trying to get this through? What is this about? Is this about dysfunctional American politics? Is this about our diplomatic failures? Or is it about our own deeply flawed regulatory process, which doesn't even take into account the very core issues that the Americans are dealing with, namely, the downstream greenhouse gas impacts in the United States and elsewhere?

We think there is a problem preventing diversification of markets. It's our problem, not others' problem, and it has to do with our regulatory process and with our policy framework.

With that, I'll turn it over to Jim.

• (1610)

**The Chair:** Mr. Stanford, perhaps you could take one minute to briefly outline what you're going over. Then, in questions, the members can get to the meat of your input.

**Mr. Peter Julian:** On a point of order, Mr. Chair, I think there may be some confusion. We submitted actually the CAW and the CEP, which are two separate unions, as two separate witnesses, so I think—

**A voice:** [*Inaudible—Editor*]

**Mr. Peter Julian:** Well, they're not together yet.

We did submit them as two different witnesses, so I'd ask for some flexibility to allow Mr. Stanford to make a presentation.

**The Chair:** Mr. Julian, they did ask to appear together as one group of witnesses.

But if you would, Mr. Stanford, I will give you one or two minutes to quickly go over what you want to say. Then I'm sure the members will draw the rest of the information out of you.

Go ahead, please, sir.

**Mr. Jim Stanford (Economist, Canadian Auto Workers):** Certainly, sir. Thank you for your flexibility.

I just want to add one point to the comments my colleague Mr. Wilson made about the economic impacts, direct and indirect, of Canada's exports of unprocessed or barely processed natural resources, or what's known in the literature as staple products.

There's long been a concern in Canadian economics about the structural relationships between export-oriented resource industries and the rest of the economy, including manufacturing, including other tradeable industries like services, and including the non-tradeable sector.

Both of our unions have important numbers of members whose jobs depend on resource industries, so of course resource industries are going to be a continued pillar of our prosperity. At the same time, our interest is in preserving the longevity of those jobs and extracting as much value-added opportunity in Canada as we can from them.

The goal of our research should be to better understand the interactions, the positive and negative implications, of staples exports. The goal of policy should be to enhance the net benefits of those.

I want to refer you to a study called *The Bitumen Cliff*, published earlier this year by the Canadian Centre for Policy Alternatives and available on their website. I'm one of the co-authors. It contains a detailed discussion in a modern context of some of the risks of staples dependence.

This is not a new problem for Canada. In fact, it shaped our economic history, the successive waves of staples development, export-oriented, each of which eventually petered out and left costs in its wake. The latest of those waves, obviously, is the bitumen industry.

We think there are vulnerabilities associated with an undue dependence on staples export and production. The environmental costs, of course, have been well debated. I'm more interested in the economic costs and the risks that we face resulting from changes in foreign demand, changes in technology that use the staple export, changes in the technology that produces the staple or substitutes to the staple, and the unintended consequences of a boom in staples exports on other sectors of the economy, or what I've called resource-driven deindustrialization.

The handout that's been given to the committee in both languages is an extract from this longer report about the economic evidence regarding resource-driven deindustrialization in Canada.

On the question before this committee about diversifying exports, more pipelines—I'm in concurrence with Mr. Wilson on that—will actually reinforce our dependence on unprocessed staple exports, with the resulting negative side effects, including the deindustrialization.

If we do want to diversify our economy using the resources as a successful stage for that, we should focus on adding more value upstream and downstream to the resources we extract and making our economy less reliant on volatile changes in global demand for staples.

That's where I think the second and third dimensions of your question, that is, how do we diversify the products that we're producing, and how do we diversify the energy supply base for our own industries, are more promising and where we would be in concurrence with Mr. Wilson's views about Line 9 and other options for extracting Canadian value from those resources.

Thank you for the extra time.

**The Chair:** Thank you, Mr. Stanford.

We go now to members of the committee. For the seven-minute round, we have Mr. Allen, Mr. Julian, and Mr. Hsu.

Go ahead please, Mr. Allen. You have up to seven minutes.

• (1615)

**Mr. Mike Allen (Tobique—Mactaquac, CPC):** Thank you, Mr. Chair, and thank you to our witnesses for being here. You made very good presentations, and we got a lot of good information.

Mr. Belzile, I'd like to start with you, please.

In an article in a study you did on the benefits of oil production and development in Quebec, the statement is made that "Even presuming that only a tenth of Quebec's discovered oil reserves are recoverable, this would still represent a resource worth the impressive sum of 400 billion dollars".

I'm wondering how you built up to that number. In the context of the diversification of our market, I would assume that to achieve that big a value you would have to have exports associated with it. It would be a tremendous amount plus what we have in western Canada.

Can you tell us how you developed that benefit, and what the total benefit would be to Quebec? What are some of the multipliers in that?

**Mr. Germain Belzile:** This number is not from the Montreal Economic Institute. We simply took a look at the numbers from the companies who did *les prospections*.

I'll switch to French. I can find the right words more easily in French.

[*Translation*]

Some companies have carried out exploration work. What we do know is that those figures are fairly conservative. We are talking about approximately 40 billion barrels. At 10% of the recoverable production—and that may be a conservative estimate—we would be talking about 4 billion barrels at \$100 a barrel, for a total of \$400 billion.

That resource is very small compared to the one in Alberta, but I think serious thought should be given to the development of that resource in Quebec. I think that will come as people realize how valuable the resource in Quebec is.

I think that Quebec will eventually become an oil producer, but maybe not under the current government.

Have I answered your question?

[*English*]

**Mr. Mike Allen:** Yes, part of it. The next piece of it is, with that amount of investment that we'd have and this extra oil that would be coming on the market, what does that say about the importance of pipelines?

One of the comments you made here was that some of the help you said would be needed would be facilitated investment in pipelines. What are some of the specific things you would suggest when you say government needs to facilitate investment?

**Mr. Germain Belzile:** What we had in mind was to facilitate the transport of oil from the west to the east coast. We're not looking at the production of oil in Quebec right now; maybe in the future, but not right now. At the moment, we have a big problem. In Quebec, we're buying our oil from Algeria, from the U.K., and from Venezuela. This oil is very expensive, and because of that, our two remaining refineries and all the rest of the petrochemical industry in Quebec, in Montreal, are in grave danger right now with this. We need to get access to a reliable supply of oil and at a good cost. That's western oil. We believe it would be a very simple thing to reverse the direction of the flow of oil, the east to west flow we have right now.

**Mr. Mike Allen:** In your view, as part of this, does that open up the idea of the long-term sustainability of the refinery in Montreal, but potentially the Ultramar refinery in Halifax as well?

**Mr. Germain Belzile:** I have talked to people in the refineries, in the companies. They think that getting their hands on a less costly resource would be a main factor in maintaining jobs and the companies in Montreal. I haven't talked to people in Atlantic Canada though. The two refineries in Montreal believe that if something is not done, there's a big danger of closing refineries in Montreal.

**Mr. Mike Allen:** Thank you.



Mr. Cross, I want to pick up on an article in the *Financial Post* of February 26, 2013. It talks about *The Bitumen Cliff* and the report that demonizes Canada's resource boom. One of the comments in there, disputing some of the comments that were made says, "The authors say an increase of only 16,500 jobs in oil and gas and 5,000 in mining in the last decade 'would seem to be the extent of the direct employment impact'..."

You also said that ignores the large and lengthy construction required to build oil sands plants before they produce the first barrel of oil.

Would you say the same thing is implied with the pipelines that would be required? From the numbers I've seen, there seems to be significant employment created with those pipelines to bring oil west to east.

• (1620)

**Mr. Philip Cross:** Yes, certainly these estimates of the direct impact of output in the oil and gas industry don't include the benefits or the jobs created in the years of construction it takes to build these oil sands plants. It doesn't take into account the spinoff jobs in transportation and pipelines. I'm just a little nervous about evaluating the utility of these projects solely on their impact on employment.

I remember I did a counterfactual calculation one day. Because refineries are so capital intensive, I was looking at the question of what happened to employment in Montreal when this refinery closed. Using the input-output models, you can trace through the impacts on employment. What I found was that employment would actually go up if you closed the refineries in Montreal and imported the oil, and you get this rather weird result because you hire more longshoremen, more people working on the docks, to unload the oil than you do from refining it.

That doesn't mean we should go around closing refineries to create jobs—that's not the implication at all—but I find that if you just do a narrow-minded focus on job creation, you can come up with counterintuitive results like that. So I advise against focusing too much on just the job-creation aspects of these projects. Look at the broader question of where value is created.

**Mr. Mike Allen:** We talk about direct jobs, but has either of your institutes done any work with respect to the induced jobs and what some of the multipliers are?

**Mr. Youri Chassin (Economist, Montreal Economic Institute):** We haven't, actually.

**Mr. Philip Cross:** Oh, yes. I've probably written more about multipliers than any other subject. They're one of the least understood things that Statistics Canada produces. The usual multiplier that people calculate is the ripple effect in other industries. What that rewards is industries that have a lot of linkages to other industries. Manufacturing is the poster boy for having lots of linkages to other industries. Manufacturing also imports in the auto industry and ICT goods half their inputs. Manufacturers buy their inputs from all over the world, all over the country. Construction or oil and gas don't. They have very low multipliers.

When you build a home, you're basically paying the guys who build your home. There's a little bit of materials, but there are very

low multipliers. That's the problem with multipliers. They reward industries that have linkages to other industries.

The better way to look at it is the GDP multiplier: what your impact on GDP is, not what your impact on other industries is. When you look at that—I did a paper on this three or four years ago; I can dig out the results for you—you find that manufacturing in fact has the lowest GDP multiplier, and industries like oil and gas and construction have the highest GDP multiplier.

**The Chair:** Thank you very much, Mr. Allen. That was very interesting.

We go now to Mr. Julian for about eight minutes.

Go ahead, please.

**Mr. Peter Julian:** Thank you very much, Mr. Chair.

Thanks to all our witnesses. I'd love to ask you all questions, but it'll come through the course of the meeting, I'm sure.

I just want to thank CAW and CEP for being here. CAW workers, of course, are very hard-working people in my community in Burnaby—New Westminster, as are the CEP workers up in the oil sands. As an NDP group, we've been up a number of times over the past few months. The CEP workers know their business. They're very talented and they've been very open and accessible in answering our questions. I'd like to thank both of you and your unions for being here today.

I want to get back to the issue of value-added, Mr. Wilson and Mr. Stanford. You both raised it.

Starting with you, Mr. Wilson, what we've seen under both the federal Conservatives and the provincial Conservatives in Alberta is a downgrading of upgrade and refining capacity. You mentioned it going from 60% of Alberta product being upgraded and refined down to 35%. What we're looking at is a loss of jobs. We've seen across the country the loss of family-sustaining jobs. Good full-time jobs are being replaced by part-time jobs, temporary jobs, and temporary foreign workers. So the economics of the current government simply don't make a lot of sense.

I'd like to have you answer the question of how many jobs we're losing by this focus on exporting raw resources rather than looking at and putting in place policies that bring upgrading and refining capacity here to Canada.

• (1625)

**Mr. Fred Wilson:** As I said, the 35% is where we would be in 2035 according to the National Energy Board's latest projection. That would be if we went to five million barrels a day, which we do not endorse for a whole number of reasons. I think it's utterly unsustainable. But if we did, we would be at 35% being upgraded.

You could look at the value-added part in two ways. You can look at it in the economic models, and Jim is better at it than I am, for sure. That's why we hired Informentica back in 2006 just to take the volume that was going to go down in Keystone I. We asked Mike McCracken what it would mean in terms of jobs if this was upgraded and refined in Alberta. He came up with the 18,000 figure. You can always run an economic model to see how those are going to play out.

In a more practical sense, in the business world, there's only so much capital and there's only so much readily available resource. How is the model being built? The problem with having pipelines driving the development model is that first of all, the export capacity is created and then the producers expand to fill the capacity in the pipeline. There's an idea that somehow pipeline capacity is trying to catch up to production. In fact, it's not that simple. They are very much linked together. Nobody is going to spend millions of dollars opening up a new field if they don't have a ready market for it. The model is being built for bitumen export. Capital is being diverted that way. For example, right now there's a proposal for a 150,000 barrel a day upgrader to make diesel fuel in the North West refinery in Alberta. It's a great idea. What they need is the capital, and they also need a partnership with a producer.

Thank you.

**Mr. Peter Julian:** Thank you, Mr. Wilson.

I'd like to move on to Mr. Stanford.

We've lost half a million manufacturing jobs on this government's watch. Tens of thousands of those lost jobs have been in Alberta and British Columbia and so we have a real fundamental problem. You've referred to it as resource-driven deindustrialization.

What kind of policies does the federal government need to put in place so that we actually look at more family-sustaining jobs being created instead of the few temporary and part-time jobs that have come from the policies of the current government? How do you think the federal government should be approaching the whole issue of product and market diversification in energy resources, both green and traditional, so that we can contribute to those good family-sustaining jobs?

**Mr. Jim Stanford:** First of all, it isn't only manufacturing that has lost jobs through this process that I call resource-driven deindustrialization. As a result of the indirect impacts of a staples boom and then the financial market implications, particularly through the exchange rate of that boom, it's also affected any other tradeable industry in Canada. Manufacturing has been especially hard hit, for sure, but tradeable services industries have lost work. Tourism, actually, has been hit proportionately worse than manufacturing because of the overvalued currency, which in part—not exclusively, but in part—is clearly related, empirically, to the boom in Canadian petroleum and mining exports.

The net impact across the goods-producing sector as a whole has clearly been negative. Yes, there are new jobs associated with export production in petroleum and some other mining industries, but the number of those new jobs, given the limited labour intensity of that production, is more than outweighed by jobs that have been lost in other export-oriented, goods-producing industries.

Part of the problem there is that the employment intensity of production in the petroleum sector is uniquely low. Each \$1 million of GDP in the petroleum extraction sector supports only half a job. Compare that to other goods-producing industries, such as manufacturing, which is more like 10 jobs per \$1 million of GDP, and even more in tradeable services.

The net impact of shifting our exports from a more diverse composite of value-added products and services, more increasingly into staples, mineral extraction, has clearly been negative on the employment side.

How do you manage that situation? What is the policy response? I think in part it is to control the pace of resource development. No one at this table, as I'm aware of, is going to shut down the oil sands—far from it—but to more carefully regulate the pace of development and export, to take measures that would enhance the Canadian value-added content of the inputs and supplies that go into the petroleum sector. For example, we purchase billions of dollars of machinery and equipment to work those mines. The vast majority of it is imported internationally. In fact, an increasing share of it is imported from the U.S. and elsewhere. There has been no concerted strategy to enhance the Canadian value-added linkages.

We talk a lot about how there are spinoffs felt by all the provinces, but in fact the data we have, which isn't very good, suggests manufacturing inputs from the rest of Canada to Alberta have in fact shrunk significantly, even as the oil boom continued along, in part because of a lack of policy response.

In addition, we'd like to see a policy strategy to enhance value-added at the downstream, in terms of using the resource, processing it, refining it, including upgrading, including refining, including petrochemicals. This is where the logic of the position to use more of the production in Canada comes from.

Finally, we need a strategy to manage the macroeconomic effects of it all. In particular, I think the key link between the oil boom and the overvalued exchange rate is experienced not through trade effects per se, but more through capital market and financial market effects. My suggestion in policy has been to more carefully regulate foreign investment in the resource sector as a way of breaking the link, in the minds of currency traders, between the price of oil and the Canadian dollar.

I think there's a range of policy tools that could be taken to enhance the benefits and reduce the side effects or unintended costs of the resource expansion.

• (1630)

**The Chair:** Thank you very much, Mr. Julian.

Mr. Hsu, you have eight minutes, please.

**Mr. Ted Hsu (Kingston and the Islands, Lib.):** Thank you.

Mr. Wilson, I looked at your statement about the NEB hearing process not sufficiently considering the upstream and downstream processes.

Could you list some of the upstream and downstream impacts you think the NEB should be considering when it's doing its calculation of overall benefit to Canada?

**Mr. Fred Wilson:** When our unions first started appearing regularly before the National Energy Board, believe it or not, the board in its decision on Keystone I said that the evidence we gave on job creation as a benefit was not relevant to the public interest. Believe it or not, that's the case. Because we appealed to the cabinet, the next time the NEB dealt with a hearing, the union was there and they did consider job creation to be part of the public interest. But at the first hearing in 2006—it's there in black and white—they said that jobs were not relevant to the public interest considerations of the board. So in the economic area, we're dragging them kicking and screaming to look at these things.

In the environmental area it's much worse. Simply put, climate change is a non-issue before the National Energy Board. It's not a factor. They do an environmental impact study. The environmental impact that they do on any pipeline project is whether the pipes are solid, what's going to be the impact on groundwater, important things. Environment Canada produces a report to the board on every pipeline assessment.

But the impacts of that project on overall development, on greenhouse gas emissions and Canada's ability to meet its international commitments are not considered at all. In our marketplace, in the United States, when they're asking whether they're going to consider Keystone XL, those are exactly the issues that are before the EPA and the Department of State, and those are the very issues they're arguing about today.

We've been asking the board, appealing to the board, to broaden its concept of environmental assessment. We've also been appealing to cabinet and to the government to fill in the policy vacuum and to connect energy strategy in Canada with our climate change goals. Until we do that, we're going to have continuing problems in our marketplace. It's only going to get worse and all the lobbyists in the world aren't going to change that.

I would end on this point. Ambassador Jacobson pretty much said that to us last February when he linked the Keystone debate in the United States with Canada's performance on greenhouse gases. I don't know how much blunter they can be, and I don't know when Canada's going to really listen to what our American market is saying.

• (1635)

**Mr. Ted Hsu:** I know that you would like to see refining jobs in Canada instead of having the bitumen exported through pipelines, but it seems to me that Suncor's cancellation of the Voyageur upgrader project means that this kind of thing is not financially viable. I wonder if you could help me sort out the economics of it. If the company is saying this is too risky and they can't make money from it, why would you be advocating this? Who would you get to

do it if it didn't seem to be economically viable after you do a risk-reward calculation?

**Mr. Fred Wilson:** What you're seeing with Suncor is a very disappointing decision. The Voyageur upgrader was on, then it was off, then it was on, and now it's off again. That project was around before the Suncor and Petro-Canada merger, and it's gone through these iterations. I think what we see is the marketplace working in a policy vacuum. It's very disappointing. It was a massive capital project.

In its absence, what will we do next? Maybe it will be smaller upgraders. Maybe it will be off-gas projects that are going to do petrochemicals. Perhaps Suncor will revive its coker project in Montreal if Line 9 is approved. It is a setback to value-added, the cancellation of the Voyageur project. We're very disappointed. It underscores why we need a policy framework for value added.

**Mr. Ted Hsu:** I'm trying to think of it in terms of economics. If there's money to be made, if there's value to be extracted, why wouldn't a private firm be willing to take that on? Maybe it is too risky. Maybe now is not the right time or something.

**Mr. Jim Stanford:** There's another dimension to the economics of upgrading, in the western Canada context, in the sense that again, the outlet for the production there is constrained to that U.S. Midwest market, which has been oversaturated in part with our own supply. When Suncor calculates the economics of that upgrader, they're comparing the differential on one product whose price is depressed in the U.S. market, namely bitumen, against another product whose price is also depressed in that same U.S. market, namely Canadian heavy oil. It's that differential within the same saturated market that is driving the economics of their project.

If there was a different policy framework where we had a concerted strategy to use our own resources first to meet our own needs, then as part of a strategy to get western oil to eastern Canada, you could look at a different scenario entirely, because now you'd be comparing the price of bitumen versus the comparator price in eastern Canada, which is something very different. It's not the depressed western Canada select price; it's the world price, adjusted for the quality of the fuel, etc.

Again, to reinforce Mr. Wilson's point about the need for this to be within the context of a policy that commits us to a Canadian energy strategy, and value-added within that strategy, an east-west outlet for the production could change the economics of the project itself.

**Mr. Ted Hsu:** I have one minute left. I don't know if I should ask this last question.

**A voice:** Go ahead, do it.

**Mr. Ted Hsu:** All right.

This is for Mr. Cross.

You talked about the fact that what's important is to maximize the value that our resources represent. That should really be the goal. The means might be diversification of markets, but that's not a goal in itself. My question to you is whether there should be more diversification in the time direction. Companies, and the managers who manage them, and the people who get bonuses for good performance, they're very interested in short-term returns. I think they discount a lot more than society, as a whole, the future value of the natural resources, energy, accruing to people living in the future. We know that rapid development of the oil sands, for example, means that we're paying a lot for each job that we create. Wages are quite high. We know there are technological advances in the pipeline that will make oil sands extraction a lot cleaner, but in the future because it takes time to build your pilot plant and scale up. We know there's a social cost, which a former premier has talked about.

Is there a sense in which society's value extracted from the oil sands could be maximized if we diversify a little bit more in the time direction?

• (1640)

**Mr. Philip Cross:** I don't know how to answer that directly.

What I will try to bring to the member's attention is there seems to be a lot of confusion between extracting maximum value, which you noted is what I want to do, with moving further down this stage of processing. Often, they're not the same thing at all. For example, when we're talking about oil, the maximum value-added comes from the crude part, the bitumen part. Where margins are the most narrow and where people are very reluctant to invest is in the refining part, the one that's further down that we classify at Statistics Canada as manufacturing.

More generally, we talked about how what changed in the world in the last 20 years was that as the developing countries became integrated into the world economy, they especially were ferocious in competing in the manufacturing sector. Why would you want to divert resources to that one sector where you're going to meet a great deal of foreign competition and divert resources from the resource sector where they're not competing with us?

**The Chair:** Thank you very much, Mr. Cross. I'm sorry, I have to cut you off there; Mr. Hsu is well over time.

We go now to Ms. Crockatt, followed by Mr. Anderson, and then Mr. Nicholls, in the five-minute round.

Go ahead, please, Ms. Crockatt.

**Ms. Joan Crockatt (Calgary Centre, CPC):** Thank you to all of you for being here. It's great to see you.

I wanted to focus on one thing Mr. Cross said and drill down a bit. It was that maximizing the resource should be the goal. I'm thinking in terms of dollars into the economy, dollars to government that pay for important programs, and jobs, and human benefits. It's in that regard I wanted to refer to an article by Brian Lee Crowley and Ken Coates, and they've written a couple recently, on the benefits to aboriginals.

One of the things that Brian Lee Crowley said is that we're at a major moment of transition for aboriginal people and we're moving from the era of protest activism to the phase of action. He said that

there's a new generation of aboriginals that wants to move forward and sees that dependence on Ottawa isn't a long-term solution and that they don't have many options in a lot of the remote communities they live in other than resource development. He also spoke about how there have to be real and tangible benefits to aboriginals.

I wondered if you could give us a picture of what impacts and benefits you might see of market diversification of energy to Canadian aboriginals.

**Mr. Philip Cross:** I don't know if market diversification per se would bring the maximum benefit. I wouldn't diversify just for the sake of diversification. I think the maximum benefit to aboriginals is the same as the maximum benefit to all Canadians, which is extracting the most value from this product. That may not necessarily involve diversification.

I'm glad you mentioned this paper by Ken and Brian because in fact they'll be launching a major paper and project on aboriginals and natural resource development next Thursday. Ken will be in town and actually speaking to the Ottawa Economics Association. I think their basic thesis is that aboriginals have not always been properly included a lot of times particularly historically in the 20th century. We would move in, set up camps, take the resources out, and sayonara. Not enough was done to involve aboriginals in the development, in making sure that they would be equal participants. I think that's very much what Ken's and Brian's message is: to include aboriginals.

I think there has certainly been progress. Look at the unemployment rates, for example. When I look at the breakdown of unemployment, there are two groups that stand out as having double-digit unemployment in our society today. One is teenagers ages 15 to 19, and the other is recent immigrants who have been here less than five years. I was kind of expecting aboriginals to be in that group, but actually their unemployment rate is down to something like 8.8%, so all that development going on in the west, because of the shortages there, I think there has been an inducement for companies to train and develop aboriginals.

• (1645)

**Ms. Joan Crockatt:** You see that there are some benefits then. One of the things that Brian Lee Crowley said is that if the Kitimat LNG plant were to disappear, and if the Northern Gateway pipeline were killed, the Haisla, who, as you know, have recently changed and want to start talking about this, "will have lost a rare indigenous opportunity for sustainable prosperity". Do you see energy development as offering opportunities for sustainable prosperity for our aboriginal people?

**Mr. Philip Cross:** I don't think there's any question of that if they're properly consulted and engaged. Honestly, I'm not the expert in this. Whatever I've learned is from talking with Ken and Brian, which has been one of the great joys since I left StatsCan. What they talk about is that we have a different view of things in central Canada. We haven't done as good a job at collaborating with aboriginals on economic development as western Canada has done, so I think there are lessons to be learned there.

**Ms. Joan Crockatt:** Thank you.

Mr. Belzile, could I just ask you about Quebec? I thought it was interesting that you think Quebec will become an oil producer. You said Quebeckers' attitudes are changing and that they're quite favourable now to energy development. What is it that Quebeckers have needed to be informed about that has actually changed their attitudes? I'm wondering if they know things, for example, such as that the Kearn oil sands plant which opened this week has the same greenhouse gas emission level per barrel of oil as a conventional refinery in the U.S. Is it those kinds of things? What do they need to know?

**Mr. Germain Belzile:** I'll give you an example. We've been doing a few polls, in fact, in Quebec and in Canada. When we ask Quebeckers bluntly what they think of oil coming from Alberta, a small majority are opposed to it. When they're told that in fact the quantity of water used to produce oil is down, according to the experts, in the past few years, and when we give a little information and we ask them the same question afterwards, in fact their attitude is much, much different.

Also, when we tell Quebeckers that in Quebec we import our oil from Algeria, Venezuela, etc., etc., and ask them where they think we should get our oil from, well, 73% or 74% of Quebeckers say that we should get it from Canada. That would be from Alberta.

I think there's a lot of misinformation. I don't think it would be that difficult to change Quebeckers' minds about western oil. I don't think their minds are set in stone.

**The Chair:** Thank you very much.

Thank you, Ms. Crockatt.

Mr. Anderson, for up to five minutes.

**Mr. David Anderson (Cypress Hills—Grasslands, CPC):** Thank you, Mr. Chair.

I think another concern that we've had, and something that may have impacted people's minds at one time, was the use of the words "Dutch disease". I see Mr. Stanford fleeing from it as far as he can when he says he prefers to shed the term, and he's coming up with another one. Mr. Cross, you recently published a paper called "Dutch Disease, Canadian Cure". I'm wondering if you could present that to the committee, or make sure we get a copy of it for our evidence. Is that possible?

**Mr. Philip Cross:** Certainly, I'd be more than happy to share it with you.

**Mr. David Anderson:** I'd like to hear some of your comments on this because I think it's important. If we're talking about diversification, we're trying to talk about a balanced economy. I'm just wondering if you could give us your opinions on Dutch disease.

Has the resource industry contributed to an imbalance in the Canadian economy that would affect the economy's ability to diversify?

**Mr. Philip Cross:** I think the main conclusion of the paper, whether or not we did suffer from a mild case of Dutch disease, is not that interesting anymore. That was largely something that happened before the recession. The dollar has been at parity since 2007. If you were a business out there you were waiting for the dollar to go back to 63¢ to make your business viable, you went out of business a long time ago. If you're in business today, you have shown you are profitable at parity. It's been six years. It's time to move on from this debate. We're at parity. The business sector has adjusted. I thought you had some interesting graphs on how small and medium-sized businesses were exporting despite the high dollar.

I think it's misleading too to put the natural resource sector and the manufacturing sector as in opposition to each other. I touched on that in my opening remarks. You can get that impression. You'd look at the 1990s. One sector did well and the other did poorly. The reverse happened in the 2000s. It's too easy to conclude from that that we have to pick one or the other because we can't have both. Well, in the recovery since 2009, we've had growth in both sectors, the manufacturing and natural resources, and that's with parity with the U.S. exchange rate.

If you ask firms if they are bothered by the dollar, and whether this is a major constraint in their business plans today, they say no. In fact, 75% to 80% of manufacturers entering 2013 were quite optimistic about their business. They've moved on, and I think the public debate should too.

•(1650)

**Mr. David Anderson:** In your conclusion you say that Dutch disease did not apply to Canada during the resource boom over the past decade.

I'm interested in your comments about the adaptability of manufacturers as reflected in their place in the vanguard of industry growth since the recovery began in 2009. You said that manufacturing output growth has been the third fastest of the 18 major industry groups, exceeding even mining and oil and gas. I'm wondering if you have any comments to make on that, because it seems that there has been real strength in that sector.

**Mr. Philip Cross:** Yes, and a lot of it has come though, but not many jobs. I'll agree with that. That's how firms have adapted among other things. They've boosted productivity. They're producing more and more. They're participating in the recovery. The auto sector, the housing sector, in particular, are picking up as those sectors pick up in the U.S., but firms are mostly using that increase in output to boost productivity. I suspect that gradually as we go forward, eventually there will be some hiring as they get more confidence and invest more, but for the moment its output is up.

It's also noteworthy that manufacturing firms are investing more. They've boosted investment over the last three years. Investments now near the peaks that they were at, at the very height of the ICT boom in 2000 and 2001. I think that's extremely important going forward as it shows that firms have confidence.

Mr. Hsu, you talked about the time horizon. I spend more time studying investment than any other variable because to me that shows whether firms believe this is just a one-off, or just something that's going to be for six months, or it's going to be sustainable. If they're investing more, it seems to me they have a very long time horizon. That's why I find the recent increase in [*Technical difficulty*—*Editor*] very encouraging.

**Mr. David Anderson:** I have a question for the other folks. Do you think we're in danger of overbuilding pipeline production, given the changes that are taking place in the development of the energy industry in Canada?

**Mr. Youri Chassin:** No actually, I don't think so. Mainly because it's private initiatives. They raise their own dollars. Basically, by providing the right opportunity and the right legislative framework, it shouldn't be a problem at all. Actually, it's kind of the same point. Who knows what quantity we will produce in the future, especially if the market is accessible. Basically, I think that rising investment is proof that there is some confidence. I don't think that private initiative would build more capacity than needed.

**Mr. David Anderson:** Do you think access to markets is a good thing rather than a bad thing?

**Mr. Youri Chassin:** Absolutely.

**The Chair:** Thank you, Mr. Anderson.

Mr. Nicholls, for up to five minutes.

**Mr. Jamie Nicholls (Vaudreuil-Soulanges, NDP):** Thank you, Mr. Chair.

[*Translation*]

Ms. Bak, could you elaborate on the potential of our clean technology exports to developing countries? What is the potential for our industry?

**Ms. Céline Bak:** Thank you very much for that question.

As you know, Canada has made significant investments in what is referred to as short-term financing,

[*English*]

short-term or fast-start financing,

[*Translation*]

in the context of discussions on climate change. Those investments amount to \$891.5 million. The investments were allocated to international development funds—the Asian Development Bank, the Inter-American Development Bank, the World Bank, and one of its members, the International Finance Corporation.

Those investments show that this is a priority for the government. However, we're talking about a step that is preliminary to the next stage, which is referred to as long-term finance in the world of climate change. In that next phase, \$100 billion a year needs to be invested to facilitate the creation of an energy infrastructure that could help us manage climate change.

Our clean technology companies have products that are appropriate for those markets. However, historically, we have not taken our share of the market. Let's say that there is room for improvement in this area, where Canada could play a much more important role.

•(1655)

[*English*]

**Mr. Jamie Nicholls:** Merci.

My next question is for Mr. Stanford.

You've called the Canadian discount, the price differential, a scapegoat for fiscal ailments of different governments.

First, could you explain how prices get driven down by pursuing export pipelines rather than value-added here at home?

I've also noted that the price differential has recently closed, and yet no pipelines have yet been built, which sort of puts that theory of not having the export pipelines.... It sort of puts the theory to rest that it's due to not having the pipelines that there's that wide differential.

Perhaps you could start with my first question. Could you explain how the prices get driven down by pursuing an export-driven strategy?

**Mr. Jim Stanford:** In general, I agree with Mr. Cross's views earlier, that in the oil industry in particular there's a tendency to equilibrate prices between different markets because of the largely arbitrageable nature of the products. Oil from one place can largely be substituted for oil from another place, although that depends somewhat on the quality of the products. Among bitumen, heavy crude, and light crude, there is normally going to be a differential between the qualities or grades of crude, as opposed to a differential between different markets. Then transitory supply and demand imbalances within particular markets, given the constraints of pipeline capacity or refining capacity or changing market demand, can cause them to rise one way or another.

To the extent that the Canadian discount we saw reach peak levels months ago, we contributed to it in the sense of our expansion beyond what the market could absorb of the lower grades of product, bitumen being obviously the lowest grade. The heavier crude had a smaller degree of Canadian discount, and that reduced the price of our Canadian exports relative to both benchmarks, so there was the differential versus other crude prices in that continental U.S. market we are tied to. Then the overall price in that market, in part again because of our own actions, was reduced relative to the global price.

I will point out that the Keystone pipeline and other pipelines going to the U.S. will not affect at all the second of those differentials in the discount on prices in the U.S. market relative to world crude. In fact, by some reckonings, it could make it worse by enhancing even further the supply going into that one market.

How long-lasting would that be? Other factors were at play. Obviously, the expansion of the U.S. unconventional crude production was one. Transitory refining issues were another. These are some of the reasons the discount has narrowed in recent months. How long the discount will last is obviously a matter of speculation.

I think the lesson for us should be, though, that there are risks involved in Canada as a nation putting too many eggs in the basket of unprocessed resource exports. What happened with shale oil has happened recently with shale gas. What happened with shale gas has happened with other staples we have produced in waves over our history. This is where I think it makes sense for us to take a longer-term view and elevate the goal of enhancing value-added production at all stages of the production process as part of our goal.

We don't export beaver pelts anymore and it isn't because we ran out of beavers. It's because the market for the product disappeared. Exactly the same threats have hindered our export of other staples through our history, and there's no reason to believe bitumen will be any different.

• (1700)

**The Chair:** Thank you, Mr. Nicholls.

We go now to Mr. Trost, followed by Ms. Liu and Mr. Leef.

Mr. Trost, go ahead please, for up to five minutes.

**Mr. Brad Trost (Saskatoon—Humboldt, CPC):** Thank you, Mr. Chair.

Mr. Cross, I'm not sure if you're able to answer this; if not, that's fine.

I read a paper by one of your colleagues, Mr. Brian Lee Crowley. He was making a counterpoint to Mr. Stanford and Mr. Wilson saying why Canada doesn't build refineries.

I don't know if you're qualified to speak on that as he wrote the paper, but do you have any explanation or response to what Mr. Stanford and Mr. Wilson said as to why Canada doesn't build refineries?

**Mr. Philip Cross:** I think the answer is obvious. There isn't money to be made in it. If anything, we have excess capacity. Why would you build more refineries, especially in eastern Canada, when instead of building one brand new you could buy one that's for sale in Halifax. There was one for sale in Montreal. They looked around forever trying to find a buyer. It would be like opening up more auto plants. At this moment in history, does that make sense?

That goes back to this characterization that staples are vulnerable to swings in demand. That's true of any industry. As Jim will tell you, that was true of the auto industry in 2008 and 2009. It was true of the ICT sector. Those of you who were holding Nortel and JDS stocks in 2000 know that well.

Every industry is cyclical. In fact, if you look at the historical pattern, the most cyclical parts of the economy... I always had a business cycle analysis, leading indicators, all this stuff. This is Canada; I spend more time studying manufacturing and construction than resources, from that point of view. The resource sector is actually relatively stable compared to these sectors.

If you look at the business cycle in this country, if you want to see where recessions occur, a good starting point, but it's not the only place, would be the auto and housing industries, but I don't hear anybody going around saying that if we don't invest in auto and housing, then we won't have as many recessions. It doesn't work like that. You would still have recessions. Recessions are not caused by

industry structures. But don't pretend either that we shouldn't invest in resources because that will reduce our vulnerability to recessions. It doesn't work like that.

**Mr. Brad Trost:** You made a very good point that our goal should be to add value. While we didn't quite put that in the title of the study that we're doing, I think that's the implied idea of what we're trying to get to by asking for diversification, assuming diversification can add value.

Is there anything we should be doing to add value as a government, through diversification, through opening up markets, through trade agreements? What would we do within the scope of this report that would add value to our natural resource products?

**Mr. Philip Cross:** I think there's one thing, and I haven't heard it discussed much in today's committee meeting, and it's the opportunity for arbitrage in natural gas. We touched on it at the beginning that historically, prices have always been much higher in Europe and Asia, especially in Asia these days with Japan closing its nuclear plants. They have a desperate need for natural gas. It would seem to be quite an opportunity there with prices relatively low in North America. If we could get that to liquefied natural gas facilities on the west coast and get it over to Asian markets, that would seem to be a much more promising and much longer-standing price differential. It has persisted for decades, as opposed to the very temporary differential we've seen in oil. That would be one idea.

**Mr. Brad Trost:** We have had other witnesses on other days...

My final question is to the Montreal Economic Institute. Quebec—and other regions of the country for that matter, but Quebec is where we think of first—exports a considerable amount of hydroelectricity. If we do diversification, if products through free market and other regulatory changes start to come into Quebec, other energy products like oil and so forth, does Quebec have the potential to increase its hydro exports through displacement? Does it have the potential to diversify its exports? How would an enhanced oil industry affect other natural resource energy industries in Quebec? For that matter, it could include other provinces, but I ask about Quebec because of your expertise.

• (1705)

**Mr. Germain Belzile:** In Quebec we use a lot of hydroelectricity. In fact, we heat our homes with it and it's not very efficient. What would be much better would be to heat our homes with natural gas and to export electricity to other places where they produce electricity with coal or whatever. I believe that if we had better access to natural gas we could use our resources better and maybe export more electricity. It's quite a possibility, but it's not something for the short run.

**The Chair:** Thank you, Mr. Trost.

Ms. Liu, go ahead.

[*Translation*]

**Ms. Laurin Liu (Rivière-des-Mille-Îles, NDP):** Thank you, Mr. Chair.

This has been a very interesting discussion. We briefly talked about public consultation and the National Energy Board's process. Ms. Crockatt mentioned this in her questions. We know that the Conservative government has sabotaged the process. I am a Quebec MP from the north shore, in the Montreal region, and my constituents are telling me that we need a strong and real consultation process, instead of just information sessions provided by oil companies. That's what I hear when I go door-to-door in my riding.

My first question is for Mr. Stanford.

Recently in the House of Commons, we spent a lot of time discussing the purchase of Nexen by CNOOC. This is a fairly important issue. The government and a number of stakeholders claimed that the government needed those foreign investments to realize its energy potential. However, you are rejecting that claim outright. Could you explain your talking point to us?

[English]

**Mr. Jim Stanford:** Thank you.

In answering the question, Mr. Chair, I'd like to just clarify something for the record in regard to Mr. Trost's first question in the last round, where he asked Mr. Cross about the issue of building more refineries or not, and whether we should build more refineries.

I want to clarify for the record that neither Mr. Wilson nor I have suggested that we should build more refineries. Our proposals were about ensuring that Canadian petroleum production was used in existing Canadian refineries.

I think a different implication was left by the question, and I just wanted to clarify that for the record.

**Mr. Fred Wilson:** More upgraders.

**Mr. Jim Stanford:** Upgraders are required in part to transport the production to the Canadian refineries.

On the issue of whether foreign capital is needed to develop our petroleum resources, I don't think it is. Foreign capital can be thought of in a real sense or in a financial sense.

In a real sense, it would be involving the foreign company bringing actual equipment or proprietary technology of some sort to the operation that would enhance our capacity as a country to produce the product in question. In our case, in fact, Canada has the technological advantage. One of the reasons CNOOC wanted to purchase Nexen was indeed for its proprietary technology.

In the sense of acquiring actual money, if you like, purchasing power or credit, in order to finance the undertaking, we've heard over and over again that Canada's financial system, our banking system, is very strong, and would indeed be capable of supplying the overall industry, to the extent that we wanted to expand its production, with the capital that was required.

Relying on foreign investment to develop staples, export-oriented projects, includes a number of downsides, if you like, including obviously the foreign control over the direct decisions that are being made and the extraction of dividends and profits on that capital and being repatriated to foreign owners. In fact the net outflow of interest

and dividends is one of the reasons Canada has a very serious current account deficit today.

Once we decide how much of that resource we want to develop, and how fast, I don't.... I haven't seen a case where we are dependent on foreign companies in order to do it.

[Translation]

**Ms. Laurin Liu:** Thank you.

I would also like to follow up on a point you raised in your presentation. You said that manufacturing input has declined despite the increased development of oil sands. Could you give us more information about that? If you have any statistics or additional information, we would like you to send them to the committee.

• (1710)

[English]

**Mr. Jim Stanford:** Thank you.

Well, the claim is often made that manufacturers in other parts of Canada have benefited from the oil sands development because of the inputs they sell to those projects. Now, certainly there are manufacturers who sell to those projects; that's without doubt. But the amount purchased by Alberta of manufactures made elsewhere in Canada has in fact declined to the extent that we have data.

It's unfortunate that our interprovincial data on trade—Mr. Cross could comment on this as well—are actually out of date. We receive annual data on interprovincial trade through our input-output program, as compared with the monthly data on international trade that we receive on our transactions with other countries.

Up to 2009—this is the most recent data we have—exports of manufactured goods from Ontario, Quebec, and other manufacturing regions outside of Alberta to Alberta were declining in absolute terms, and declining very sharply as a share of Alberta's purchases of manufactured goods.

There has not been a boom to the rest of Canada's manufacturing sector from the expansion of oil sands investment. In fact, in part because of the exchange rate, manufacturers everywhere in Canada, including Alberta, have seen a decline in their market. That's why manufacturing output and employment in Alberta also declined, despite the boom being right there.

**The Chair:** Thank you, Ms. Liu.

We go now to Mr. Leef, for up to five minutes.

**Mr. Ryan Leef (Yukon, CPC):** Thank you, Mr. Chair.

Thank you to all our witnesses.

Mr. Cross, I want to ask you a question.

I think your point that maximizing the price for resources should be the end goal, and not necessarily diversification, resonates with everyone here.



We had a presentation last week from Natural Resources Canada that talked about the supply and pipeline capacity issue. They're forecasting that at our rates of growth the supply for pipeline capacity would be exceeded by 2015. The graph we have shows that if you don't add a Keystone-type pipeline by 2015-16 through to 2020, then we'd have the product but there would be no way to ship it. If we added the Keystone pipeline, then by 2018, with the rate of growth, we would move outside of its capacity and move well into the depth of the Gateway pipeline, if that were to be developed.

The interesting characterization made in that testimony was that there are only going to be one or two projects to supply oil to market and that if we don't get in on that game, we will lose out. That is how it was characterized.

I appreciate your point that jobs shouldn't be the only measure of importance. But I would like you to comment on what impact we would face in terms of jobs and opportunity for the Canadian economy and the Canadian people, the spin-off or peripheral benefits of these sorts of things, and the social and environmental benefits from our investment when we have that kind of growth, if we were to lose out on any one of our pipeline options. What if they all went to the United States, or completely different options were explored, because we missed that opportunity?

**Mr. Philip Cross:** I don't think it's just a matter of accessing the U.S. market. A lot of it is the geography within the U.S. market. If we were accessing the northeastern U.S. or the gulf coast or the U.S. west coast, that would be a different situation. The problem is that all that oil is being stranded in one place, in the midwestern U.S., which is what's depressing the price.

I find it interesting that this differential has just opened up over the last couple of years. It's a completely new phenomenon, and yet it's spurred.... I've heard ideas about putting in a pipeline through the west coast; running one up through Alaska and accessing the west coast; that if B.C. is going to be difficult, there's the idea of running something up the Churchill. We're now talking about converting one of the gas pipelines to eastern Canada, and of course increasing our flow to the south.

We're basically looking in every direction because there's a lot of money on the table. This morning I calculated that if our export price had increased at the same rate as our import price of oil, we would have picked up \$8.5 billion in 2012. That's the best estimate I can come up with on how much money has been left on the table because of this.

If you throw \$8.5 billion on the table, you're going to get a lot of ideas, but I suspect that because there's so much money involved, you just need one or two of these projects to go through and that will eliminate this unusual differential.

• (1715)

**Mr. Ryan Leef:** Depending on which of the one or two of the projects are feasible and get to the table first, the others will be left out.

The other explanation we heard is that energy contracts, as an example, tend to be very long term because of the infrastructure cost. Therefore, the seller and the purchaser are going to make long-term

agreements, which doesn't necessarily lend itself to inviting alternative energy sources or creative energy solutions.

How would you characterize that? We're seeing a bit of an energy race in that market right now, to try to be the first viable option on the table.

**Mr. Philip Cross:** Very much so. I couldn't agree more.

At most, one or two of these six or seven big ideas are going to go forward. There is not enough to fill all of these pipelines.

**The Chair:** Thank you.

Now to Mr. Thibeault, for up to five minutes.

**Mr. Glenn Thibeault (Sudbury, NDP):** Thank you, Mr. Chair, and thank you to the witnesses for being here today.

I'll start with Mr. Stanford. I'm an avid reader of The Progressive Economics Forum. I'm very intrigued by one of your papers that came out less than a year ago, called "Energy McCarthyism". Some of your paper is very interesting. It reads:

Opposing a bitumen-exporting pipeline in Canada these days makes you a foreign-financed subversive. And it seems that questioning the economic effects of the bitumen export strategy makes you equally seditious. I call this "energy McCarthyism," and it should be rejected forcefully not just by those concerned with Canada's deindustrialization and staples dependency, but by those worried about the quality of our democracy.

I think that's very important, and it leads to a very important graph that we should get your feedback on. The graph shows that in the last decade, Canadian petroleum exports grew by close to two percentage points of GDP, which is fairly impressive. But Canada's exports of everything else—manufacturing, services, tourism, the things that we're talking about, value-added—declined by several times as much. As you outline here, the two offsetting trends are not unrelated. You say:

No wonder Canada is mired in a large, chronic international payments deficit, even as we scrape the stuff out of the ground faster than ever.

Can you elaborate a little more on the decline by several times as much by the manufacturing, services, and tourism sectors, and would you be able to provide this graph and more information on that to this committee?

**Mr. Jim Stanford:** Certainly, sir, I could provide the graph and the sources for the data, which came from Industry Canada and from Statistics Canada. It is in a way interesting and ironic that Canada's exports have declined so dramatically as a share of our GDP over the last decade, which is precisely the timetable during which our exports of unprocessed or barely processed petroleum products expanded so dramatically. We are exporting more petroleum. Petroleum exports as a share of our GDP have increased by about two percentage points, as I mentioned.

But the decline in exports of virtually everything else that we produce, other forms of merchandise.... Tradable services, as I mentioned, have declined as a share of GDP. Our tourism has declined dramatically as a share of our GDP. Those outweigh the increase in our exports of petroleum by a ratio of about 6:1. The overall net impact on our trade performance has been very negative. We are one of the few countries in the world that export less as a share of our GDP than we did 10 years ago. This seems to go counter to the idea that we're living in a more globalized economy.

The impact is that we have shifted a larger proportion of our work and capital inputs from tradable sectors to non-tradable sectors, in particular private services, but to some extent public services, which have been less affected by the impact of the resource boom on the currency. We have more production and employment in sectors where Canadians are producing for other Canadians, which isn't all bad, but there are implications of that for our productivity performance and for our trade balance. Our exports have declined; our imports have not declined proportionately, and in the course of exporting all of these non-renewable resources, we've actually seen our trade balance and our current account balance deteriorate dramatically. Canada's current account deficit today is about 4% of GDP. That's a very large and worrisome trade current account imbalance. It contributes to growing international indebtedness by Canada and is something that reflects the deindustrialization that is an unintended side effect of the resource boom.

• (1720)

**Mr. Glenn Thibeault:** I've heard that we need to be adding more value both upstream and downstream. In relation to that, in your opinion, is adding value building a pipeline or is it expanding our manufacturing base, looking at the green economy, enhancing our services?

**Mr. Jim Stanford:** I think there is value to be added in resource sectors. In that regard the services, the green economy, and so on are also important priorities for our economic strategy, but given that we are going to continue to produce resources, my point is that we should add as much value upstream and downstream as possible. Let me give you as an example the machinery and equipment used in the petroleum sector. They use these enormous trucks and all kinds of capital equipment and so on. Very little of it is made in Canada. You have a company like Caterpillar that sells billions of dollars' worth of equipment to these mining projects in northern Alberta, but recently shut its only Canadian manufacturing facility.

We actually are capable of producing that type of equipment in Canada, but it's going to take active policy to connect the dots and make sure we're doing it. If we just leave it to the short-term private decisions of the companies making the investments, they will go foreign, and that's why we have a \$7 billion trade deficit in mining and construction equipment.

**The Chair:** Thank you, Mr. Stanford.

Thank you, Mr. Thibeault.

We'll go now to Mr. Calkins, followed by Mr. Anderson to close the meeting off.

Go ahead, Mr. Calkins.

**Mr. Blaine Calkins (Wetaskiwin, CPC):** Thank you, Chair.

I'm going to ask all my questions right up front of the various witnesses.

My first question is for Mr. Belzile. You talked about Quebeckers. I fly back and forth to Edmonton; I'm an Alberta member of Parliament. Often the flight that I fly home on originates in Montreal, lands in Ottawa, and then goes on to Edmonton. I can say that on virtually every flight I'm on there are a number of francophones, quite clearly, all wearing a Suncor or Syncrude or other type of jacket. They're going out there; they're going to work. They have their lunch pails with them and their workboots on. I just want to say on behalf of my province, I'm just so glad to see so many economic benefits, because I know that money's coming back and it's on the table for the families of those workers who come out and help us.

That's been happening right across the country. We've had folks coming from all four corners of this great nation of ours to help the Alberta economy grow. We used to have folks coming from Saskatchewan, but they've all gone back now that they have a conservative-minded government back there. So we're going to need even more Canadians coming to help us with that.

You talked about the lack of information, and I'm just wondering what you think the government's responsibility is for providing information to all Canadians about the values and benefits. What do you think industry's responsibility is? Have you any comments? You talked about a lack of information, and I actually see it as purposeful misinformation campaigns that have been at work in various parts of the country.

Mr. Cross, you talked about market diversification. I have a question for you. I'm wondering if you have anything more to offer the committee on whether or not we should be pursuing more active market diversification for our energy resources or product diversification, or is there some kind of sweet spot on both that would be valuable?

Ms. Bak, I have two questions for you on your slides. On the slide on page 4 you said that for the SMEs in non-resources we've seen a dip in 2007 to 2009. You said it was a liquidity issue, yet we saw a spike for resources. They all borrow money from the same bank, so the liquidity issue would have been the same. Can you explain to me what the difference there is?

On slide 13 you have a forecast of the diversification of up to 70% of our products. It looks like almost one-third, one-third, one-third, and it looks as if we're unhinging from a dependency on the United States from that perspective. Can you tell us what assumptions and economic factors are at play for that forecast?

• (1725)

**The Chair:** You have about 40 seconds each.

Let's start with Ms. Bak.

**Ms. Céline Bak:** Yes, there are banks that service all, but the size of transactions and the capital available to smaller companies is not the same as the capital available to bigger companies.

With regard to the slide on page 14, these are not economic assumptions; they are the forecasts by the companies. This is business saying these SMEs expect their markets to be the following.

**The Chair:** Thank you.

Mr. Chassin.

**Mr. Yuri Chassin:** As for the lack of information, there is a responsibility for the federal government to say that the environmental impact is evolving in the oil sands and in the oil industry in general.

The kind of information we provided in our poll was, for example, on the use of recycled water in the process, or the evolution of greenhouse gas emissions per barrel. There is simple information that might be useful out there in the public debate, and might be put out there more. For example, there's a report from the Royal Society of Canada that debunked a lot of myths, and we haven't heard a lot about it.

Also, on clear rules for foreign investment, we heard some myths about this and we feel that the rules are probably not clear, but there are still people who think the decisions will be foreign and won't be in the Canadian interest, which is strange because companies don't have that much nationality.

I think there is still a role for the federal government to play there.

**The Chair:** Mr. Cross, we'll have a very brief answer, please.

**Mr. Philip Cross:** I think there are more opportunities for market diversification than for product diversification. I noted, particularly with natural gas, that getting access to Asian markets presents a lot more opportunities to me than having more refining of oil in Canada.

**The Chair:** Thanks very much, all of you, for being concise.

Mr. Anderson, you have about four minutes.

**Ms. Céline Bak:** Mr. Chair.

**Mr. David Anderson:** Go ahead.

**Ms. Céline Bak:** I'm sorry, Mr. Chair. I should have said that if you'd like to know about banks and access to capital, I recommend to you the article in the *Financial Times* regarding the European Central Bank and its ability to add liquidity for SMEs and to buy securitized debt from SMEs.

Thank you.

**Mr. David Anderson:** I'd like to ask you a couple of questions, Ms. Bak.

What do you see as the current technologies or proposals that are most promising in your area in terms of diversification in the future?

I also want to ask you, what is the timeline for diversification in the industries you're dealing with? We've heard from other witnesses that there is a timeline. As the economy recovers around the world, we're going to have a lot of other competition in those kinds of things.

Would you address those two things?

**Ms. Céline Bak:** In terms of most promising, I recommend that the committee take note of the findings of the report, but top of mind,

some of the most promising would include community-sized renewable energy technology. For remote communities in the north, and including our own mines that are all over the world, there are certainly very relevant technologies that are ready today. Waste-to-energy technology is a Canadian strength.

I should also say remediation, which is where there is extraordinary potential in markets such as China. I was in Beijing last week. There are 300,000 recorded contaminated sites in China, and there are different technologies that use more or less energy to remediate those sites.

From a green buildings perspective, we have a number of very strong technologies. One of those would be geoexchange, which is a way of taking an existing building and basically drilling access to the ground's heat to make the building neutral.

● (1730)

**Mr. David Anderson:** Tell me about timelines.

**Ms. Céline Bak:** In terms of timelines, you saw our export projections. It takes a generation to build an industry. This is a 15-year-old industry today, so within the next 10 years we could, if we put our minds to it, build a \$60-billion industry that generated \$40 billion in exports. I've given you information for the next five years.

**Mr. David Anderson:** Mr. Chassin and Mr. Belzile, I'd like to ask you the same thing. In terms of energy or non-renewable energy, what projects or proposals do you see as most promising here in the future?

**Mr. Germain Belzile:** Listen, humanity once lived in the Stone Age, and we didn't go to the Bronze Age because we lacked stones. We did it because we found something better. Eventually we're going to go to different energies, but not tomorrow.

In fact, predictions are that we'll still need a lot of oil for at least two generations, so let's not forget that. In fact, oil is very valuable, and if we want to maximize our income as a country we have to invest where we can produce things that are very valuable. For the moment, that's oil. Eventually, everyone will probably drive electric cars, but not tomorrow morning, and it's going to take a long while.

**Mr. David Anderson:** Some of us live in rural areas. It might take us longer than others.

**Voices:** Oh, oh!

**The Chair:** Thank you very much, Mr. Anderson.

I'd like to thank all of you for being here today. We do appreciate it very much.

Thanks very much to all you for another extremely interesting meeting: from the Montreal Economic Institute, Mr. Chassin and Mr. Belzile; from the Macdonald-Laurier Institute, Mr. Cross; from Analytica Advisors, Ms. Bak; and from the Canadian Auto Workers, Mr. Stanford and Mr. Wilson.

We are going to votes now. The meeting is adjourned.





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