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Chair

Mr. James Rajotte

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● (0845)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call this meeting to order. This is meeting No. 72 of the Standing Committee on Finance. Orders of the day pursuant to Standing Order 108(2), we are continuing our study of the impact of low oil prices on the Canadian economy.

Colleagues, we have two panels here this morning.

In the first panel we have five presenters. From the Bank of Canada, we have the deputy chief, Mr. Rhys Mendes. Welcome to the committee. From the Canadian Automobile Association we have the vice-president, Mr. Jeff Walker. Welcome. From the Canadian Manufacturers and Exporters, we have the president and CEO, Mr. Jayson Myers. Welcome back. From the Canadian Vehicle Manufacturers Association, we have the president, Mr. Mark Nantais. Welcome to you as well, Mark.

We're expecting to have economist Jim Stanford from Unifor, but we're having a little trouble with our video conference. We're hoping to get that up in the next minute or so.

You will each have five minutes maximum for an opening statement.

We'll begin with Mr. Mendes.

Mr. Rhys Mendes (Deputy Chief, Canadian Economic Analysis, Bank of Canada): Thank you, and good morning, Mr. Chair, and honourable members. On behalf of the Bank of Canada I'd like to thank you for this opportunity to share our analysis on the impact of global oil prices both on the Canadian economy in general and on the manufacturing sector in particular.

I should mention that our analysis is at the level of the economy as a whole. The rapid fall in oil prices is going to have both positive and negative effects on different sectors of the Canadian economy. To assess the overall impact, we used a modelling tool that we built to take account of the various channels and spillovers across sectors. We also drew on numerous surveys and meetings with firms and business associations. The bottom line is that a sizeable decline in oil prices since June 2014 is unambiguously negative for the Canadian economy as outlined in our January monetary policy report. Most of the negative effects will appear in the first half of this year.

The energy price decline will reduce aggregate income. Even though real GDP grew in the fourth quarter of 2014 by 2.4%, the real incomes of Canadians contracted. This occurred because the world price of an important Canadian export declined, and that means the loss of purchasing power for Canadians. In addition to this negative terms of trade effect, business investment is expected to be weaker. Business investment in the oil and gas sector, which is roughly a third of total business investment, is anticipated to fall by about 30% in 2015, but the effects of the oil price shock will be felt across the country.

The main transmission channels are the aggregate income effect that works through lost purchasing power and supply chain effects that work through interprovincial trade. For example, nearly one-third of the goods and services purchased by Alberta's oil sands industry are drawn from other provinces.

There are some positive but partial offsets. While Canadians are worse off than the aggregate, cheaper oil means more money in the pockets of individual consumers. They can either spend the additional disposable income or save it, and these decisions will matter for economic growth. Lower costs for firms that use oil as an input may lead to a rise in profits, output, and investment in non-oil related sectors of the economy.

It's also important to keep in mind that today's lower oil prices are mainly the result of abundant global supply as my colleague deputy governor Tim Lane pointed out in a recent speech. This supply-driven decline in oil prices is stimulating economic activity in the United States, our main trading partner. This will support Canadian exports if the export sector responds in line with historical experience.

Lower oil prices will have an impact on Canada through another channel. We are not net oil exporters and the value of the Canadian dollar tends to move with the price of oil. From 2002 to 2008, oil prices and the dollar were both on a general upward trend. You may recall that in 2008, when oil was trading at well over $100 per barrel, the Canadian dollar was almost at parity with the U.S. dollar. Today we're much lower and our dollar is at about 80¢ against the U.S. dollar. The lower dollar is improving the competitiveness of production in Canada, which should further boost exports and eventually investment. As we noted in our January monetary policy report, the manufacturing sector is expected to benefit from stronger U.S. demand, lower shipping costs, and the weaker Canadian dollar.

As we assess the ability of Canada's manufacturing sector to benefit from cheaper oil and the lower dollar, we have to recall where we're coming from. In Canada, competitiveness challenges and a prolonged period of weak U.S. demand forced many of our non-energy exporters to discard unneeded capital and eliminate jobs, or to close their doors for good. Rebuilding the lost productive capacity won't happen overnight. The bank has long been saying that in order for us to return to sustainable growth, we need a rotation of demand toward exports and business investment. Growth in our non-energy exports is showing more momentum in recent quarters, suggesting that rotation is indeed happening.

Finally let me note that our most recent business outlook survey indicated that hiring intentions and investment plans were robust for manufacturers. A majority of firms reported that they were planning investment projects aimed at increasing production. Overall, these are positive signs that the rebuilding process is under way.

This concludes my opening remarks, and I look forward to the discussion.

● (0850)

The Chair: Thank you for your presentation.

We'll go to Mr. Walker, please.

Mr. Jeff Walker (Vice-President, Public Affairs, Canadian Automobile Association): Thanks for having me. It's very much appreciated.

The Canadian Automobile Association is a representative organization of 6.1 million Canadians. We're very active in the consumer space. We're keen to stay apprised of key issues affecting Canadian consumers that cover the waterfront of the areas we're in, specifically around vehicles and things like gas prices. We've been commissioning consumer research on the changes in gas prices over the last few months. Our most recent research came out in January, and it's quite fascinating what we're observing.

The first thing to say is people are paying attention. People are paying attention both to the drop in gas prices and to the larger changes that are happening in terms of oil prices overall. The world they see is that they have cheaper gas. The world they're thinking about is not so much about oil prices. From a consumer point of view, for the most part, Canadians are seeing it through that lens at least today. They're watching it and they're doing some things that are counterintuitive economically. What we found is people are paying more attention. They're driving further to get cheap gas, as gas is cheaper than it was before. Some of the stuff that's going on doesn't always make economic sense behaviourally, but people are happy at that level. That's what we've observed.

In terms of how people see the larger impact, what we observe is that there's Alberta and there's everybody else. Albertans in the data say they're worried about the macro-economic part of this equation and the numbers. Is this going to have a significant long-term economic impact? Two-thirds of Albertans say it will have a significant effect. Everybody else, the minority in the one-third to 40%, say it will have a significant negative macro-economic effect over the longer term.

The reason, from what we see in the data, is that most Canadians still believe this is a short-term thing. They don't think that this is going to go on for a long time. We asked them how long it would be until gas prices go forward. Will they go up again over time, or will they stay down? People are still saying that this is a three- to six-month thing. They're expecting it to turn around, maybe not quite go where they were before, but not to stay down in the ballpark where it has been. Since they don't see it as a long-term thing—and I think people on this panel would say it could be—there's a gap in terms of their perception of where it's going to be macro-economically over time. We would perceive that as this goes on, there will be more Canadians who will be thinking more like Albertans already are thinking about where this is.

Let me make a couple of final points about this. What we observe now is that they are feeling pretty good economically overall, as Jason alluded to. They're not seeing, other than Alberta, prices changing in housing or job losses. Reference was made to job intentions in Ontario and other manufacturing parts of the country. People aren't seeing that. When they're not seeing that, they're not going to start saying that they're concerned. What we see is that it's a micro-economic problem today for everybody outside of Alberta. In Alberta it's a macro-economic problem. We'll see where that goes over time as people understand and recognize this could be a longer-term versus a shorter-term problem.

● (0855)

The Chair: Thank you for your presentation.

We'll go to Mr. Myers, please.

[*Translation*]

Mr. Jayson Myers (President and Chief Executive Officer, Canadian Manufacturers and Exporters): Thank you, Mr. Chair.

[*English*]

I have prepared and distributed a document analyzing the impact of lower oil prices on the manufacturing sector from our perspective. I'm not going to go into detail on that subject; you can take a look at that yourself. The only thing I could probably accurately forecast is that if you have a group of economists, you'll at least get as many, if not more, opinions about the impact of lower oil prices on the economy.

Let me focus on a couple of key issues. One is the relationship between the American dollar and the price of oil. It's important to realize that oil prices are denominated in U.S. dollars, and if the currency exchange rate of the U.S. dollar is rising against other currencies, the price of oil will naturally fall, and you don't need any change in supply and demand to effect that decline in the price of oil. There's a very strong correlation. In fact, if you take the U.S. dollar against a basket of currencies and weight it in terms of overall transactions for oil, what you find is that the U.S. dollar has fallen by 25%. That accounts for just over half of the decline in the price of oil that we've seen since last September.

This is a story about the strength of the U.S. dollar right now, which is an indication that other economies appear weak or are weakening, which also feeds into the other 50% of the equation about supply and demand in oil. Lower global demand for oil and continued overcapacity are on the supply and demand side and that's also bringing oil prices down.

That's important because the impact on Canadian manufacturing of the lower price of oil, I agree with Rhys, is net negative. However, that is being offset and will be offset over a period of time by a stronger U.S. economy, and also by the fact that the Canadian dollar is relatively low against the U.S. dollar. Rhys mentioned the impact that lower oil prices are having on economic activity in western Canada. That of course affects manufacturing across the country. We estimate that the hit on the manufacturing sector will be about $12 billion a year. It's not only because of lower demand for manufactured products and equipment particularly in the new projects in the oil sector in western Canada, but it's also because right now there's tremendous downward pricing pressure being exerted by the procurement companies, by the major oil operators, throughout the supply chain. It's not only a matter of lost production, but also of very dramatically lower pricing leverage.

The part that is offsetting the impact of oil prices, of course, is the fact that to some extent, some sectors will benefit primarily from lower feedstock costs. In the petroleum products sector, for instance, the price of petrochemicals and plastics is coming down along with the price of oil, not as rapidly, but it is having some positive cost implications for manufacturers who use those feedstocks.

On the whole though, let's not exaggerate the impact of lower oil prices on energy costs. Energy costs from oil are 0.3% of total operating costs for manufacturing. The impact is marginal. The biggest benefit will be on the purchasing power, not of Canadian consumers—because if you go down south you're going to be spending a lot of that money there, or on imported products—but the biggest benefit is to strengthen consumer recovery in the United States. The combination of a lower dollar and a stronger U.S. recovery is where the major benefit is.

● (0900)

One final point is that we can't take the lower oil price, the stronger U.S. economy, or the lower dollar for granted. Nobody is going to be competitive unless they continue to invest in new technology, new products, better skills. Competition is intense, and the currency rates around the world are also falling, so this is no silver bullet for Canadian manufacturers.

The Chair: Thank you very much for your presentation.

We'll go to Mr. Nantais, please.

Mr. Mark Nantais (President, Canadian Vehicle Manufacturers' Association): Thank you very much, Mr. Chairman, and good morning.

From the CVMA's perspective, we expect lower oil prices will have a mixed effect on the auto sector for consumer purchases and manufacturing operations. If there are four points I'd like to leave you with today, they would be as follows:

First, automobile manufacturing looks at the long term for investment decision-making and for establishing business contracts with suppliers and transportation services.

Second, the price of oil potentially impacts auto companies in two ways, both in terms of vehicle sales and in terms of production.

Third, the impacts of lower-priced oil are varied and they are not immediate, and the vehicle market response and demand for certain vehicles can adversely impact production, depending on the types of vehicles being produced at our plants.

Fourth, the suggestion that competitiveness is enhanced by a lower Canadian dollar can be misleading and may not be a factor in changing a company's outlook on competitiveness.

Prior to the decline in oil prices, Canada experienced two back-to-back record years for new vehicle sales, and forecasts for 2015 suggest another record year, with new vehicle sales growing at between 2% to 4%. Since the decline in oil prices, new vehicle sales in Canada continue to increase on an overall basis at a rate of about 2% to 3% over last year.

We are starting to see signs of regional differences in the rate of sales, however. For example, new vehicle sales in Alberta declined in January 2015 vis-à-vis last year, with overall sales in Canada continuing to increase. Thus far, the impact of lower oil prices has strengthened truck and crossover sales on a North American basis, but there is a related softening in car demand in certain segments. As such, we submit that lower oil prices and a lower Canadian dollar will still result in softening of some car-related production in Canada.

As mentioned, investment decisions are made on a long-term basis, and while the lower Canadian dollar and lower energy prices should help some input costs, the relative cost of manufacturing in Canada will have to continue to be measured against the relative cost of manufacturing in other countries that will also benefit from lower energy prices and lower currency values.

In theory, auto manufacturing plants should benefit from the recent drop in oil prices in the short term in respect of both operations and transportation costs. This is subject to any drop in oil prices being passed on to the manufacturer or customer in the form of lower energy prices. This cost reduction is not immediate, nor is it absolute.

When considering the longer-term competitiveness and factors that weigh into investment decisions, the changes in oil prices and resulting fluctuations in currency represent short-term impacts and are likely not the most critical factors in manufacturing investment decisions, nor do they guarantee improved competitiveness.

In terms of auto manufacturing, the lower cost of oil highlights the increased importance of non-energy related exports and investment to support the Canadian economy, and hence, and of even greater importance, of having the right mix of policies in place to support a competitive auto manufacturing industry and manufacturing more generally.

Annual Canadian automotive exports are at about $64 billion. About 85% of the vehicles we build in Canada are exported to the United States. It is anticipated that the added savings due to low oil prices will add to the available personal disposable incomes in the United States and that this will be positive for the U.S. economy and for the demand for products that we export there.

We cannot look at these issues in isolation, and while we have seen recent investment announcements, it is imperative that we continue to assess all the factors that affect investment decisions in the longer term. It remains critical for Canada to have globally competitive investment support strategies in place to secure reinvestment of the existing automotive footprint.

To keep pace with changes in competitive jurisdictions for auto investment, the government is encouraged to review, for example, the automotive innovation fund in the context of incentives being promoted in competing jurisdictions that are actually successfully winning some of these new investments. It should also look at the ability for large companies to exchange unused SR and ED tax credits in exchange for direct funding when used for new R and D projects. These would both be improvements.

In closing, Mr. Chairman, let me say that the committee's study of the impact of the price of oil on the economy is really a worthwhile exercise. The message I would like to impart to you today is that in a highly competitive environment for global automotive investment decisions, there are factors more in the control of government than the price of oil that would have a greater positive impact.

Mr. Chairman, thank you very much. I would be pleased to answer any questions the committee may have.

● (0905)

The Chair: Thank you very much for your presentation.

Colleagues, we are still trying to get the video conference set up with Toronto. We haven't been successful yet. We'll keep trying to do it.

Let's do six-minute rounds, starting with Mr. Cullen, please.

Mr. Nathan Cullen (Skeena—Bulkley Valley, NDP): Mr. Nantais, would you repeat the last sentence you made in your testimony, if you have it handy?

Mr. Mark Nantais: It was: The message I would like to impart to you today is that in a highly competitive environment for global automotive investment decisions, there are factors more in the control of government than the price of oil that would have a greater positive impact.

Mr. Nathan Cullen: There are factors more in the control of government...?

Mr. Mark Nantais: That's correct.

Mr. Nathan Cullen: Can you illuminate one or two specific ones?

Thank you, first of all, for your presentation.

I find this very engaging. What we're looking at here is what the impacts are, as many of you have outlined, and also what, if anything, government should be doing about it. We have a budget coming sometime this spring. We're looking at policy options, and we of course are in an election year as well, and people are considering what to do about the current situation, given what it is.

Can you give us one or two things, Mr. Nantais, that you would point to?

Mr. Mark Nantais: Sure.

First off, I mentioned the automotive innovation fund. Clearly, making that fund competitive with other competing jurisdictions and benchmarking with other jurisdictions—

Mr. Nathan Cullen: Are we competitive with Mexico right now in terms of support for the industry?

Mr. Mark Nantais: Well, you would have to look at this in the context of what is appropriate for Canada vis-à-vis Mexico: what we can afford, what we can build upon in terms of our competitiveness here, and the combination of other policies that will contribute to our —

Mr. Nathan Cullen: The straight-up subsidies that Mexico.... Mexico is doing quite well. We're experiencing our lowest market share since 1987 in the North American market as automakers, and it has been in a pretty steady decline over the last number of years, since the recession in particular. We have seen large investments heading south of the other border and less investment here. But we can't subsidize the way the Mexicans do.

Mr. Mark Nantais: No, but we have other things we can build upon, and there are other things we can do. We've had three major investments recently; that's in the context of the current competitive environment, so we can do more. Standards harmonization is another area that provides real benefits to our industry on a North American basis. These are things we're already doing.

Mr. Nathan Cullen: These are concerning trends, just the few that I mentioned and the $19 billion trade deficit we're running right now, just on auto and auto parts.

Mr. Mendes, is the bank concerned with the personal debt load that consumers are currently bearing in Canada right now?

Mr. Rhys Mendes: Yes. We have outlined on a number of occasions that the high levels of household debt create a vulnerability in the Canadian economy.

One important thing to note is, with respect to the decline in oil prices, our analysis suggested that the decline in oil prices from $110 in the middle of last year to $60 at the time we did our January monetary policy report would have reduced incomes in such a way, in the absence of any policy response, that it would have actually raised the debt-to-income ratio, which is what we would think is the key for assessing that vulnerability. The policy action that the bank took in January was aimed in part at mitigating—

Mr. Nathan Cullen: —that debt-to-income ratio.

Mr. Rhys Mendes: —that adverse impact on that debt.

Mr. Nathan Cullen: The bank took action out of concern for not just the personal debt that Canadians are holding. I don't want to put words in your mouth, but was it a stimulus initiative? Was it an effort to, in a sense, kick-start the economy?

Mr. Rhys Mendes: As I said, the oil shock was unambiguously negative for Canada overall, so we assessed that in the absence of any policy response, Canadian output would have been about 1.4% lower by the end of 2016. The output gap, that is, the difference between actual economic activity and the potential full capacity level of economic activity, wouldn't have closed until sometime in 2017. We were basically taking out insurance to give us greater confidence that we would return to a full capacity economy by the end of 2016.

Mr. Nathan Cullen: You haven't used the word, but it sounds like an attempt to kick-start it, an attempt to stimulate, but is that a loaded economic phrase? Again, I don't want to.... I'm trying to interpret the bank's initiative. It surprised everybody, as you know, but the bank took a longer view on this and felt that this was important to do.

Mr. Rhys Mendes: I think it's clear that monetary policy in Canada has been stimulative for some time in response to the after-effects of the global economic and financial crisis and that monetary policy responds to all the shocks that hit the Canadian economy in order to try to return inflation to target over the medium term.

● (0910)

Mr. Nathan Cullen: Again, I want to be careful.

Mr. Walker, I want to challenge one thing. I think it was you who talked about the consumer confidence perhaps being concentrated in Alberta, where the worries are greatest. Was it you who spoke to this?

Mr. Jeff Walker: All I said was that in Alberta what the data tells us is that the concern around the macroeconomic aspect of this has taken hold to a greater extent than it has in the rest of Canada.

Mr. Nathan Cullen: The only reason I bring it up is that I was just looking at the Conference Board's report, which showed that consumer confidence fell 11 points across B.C., Alberta, Ontario, and the Atlantic provinces. I would like to debate that, but I'm without the time to do it.

My last question is for Mr. Myers.

Do we know from the manufacturers' side of things how much of manufacturing in Canada is tied to the energy sector? Is your association able to present...? We're talking about whether there is going to be a pickup in the manufacturing industry, as has maybe been historically true, and there is some uncertainty as to whether it is in fact true.

The Chair: Just a brief response, please.

Mr. Jayson Myers: The analysis we've done is for oil sands. I'll send a copy of our analysis to the committee. It basically shows that there could be a $12 billion hit on overall manufacturing sales across the country.

Mr. Nathan Cullen: Thank you.

The Chair: Thank you, Mr. Cullen.

We'll go to Mr. Saxton, please.

Mr. Andrew Saxton (North Vancouver, CPC): Thanks to our witnesses for being here today.

My first question is for Mr. Mendes at the Bank of Canada.

Some people have characterized this as an economic crisis. Do you think this is an economic crisis?

Mr. Rhys Mendes: As we've said, it is negative for the Canadian economy. Canada's economy has, over time, demonstrated the ability to flexibly respond to various shocks. Through the period of rising oil prices, labour and capital shifted across sectors and across regions in response to the incentives created by that. Some of the same trends will likely reverse in response to lower oil prices. Overall, as I said, it is negative for the Canadian economy.

Mr. Andrew Saxton: Does the bank take into consideration that many of the jobs lost in the energy sector were in fact contract positions that will be re-established once the price goes back up?

Mr. Rhys Mendes: Our working assumption in our analysis is that the price remains constant at roughly its recent level, so in our latest monetary policy report for Brent oil prices, that was $60. That assumption is driven by the fact that, one, it's consistent with our assumption for the Canadian dollar, which we assume to be constant over our projections, and two, it's difficult to beat a constant oil price assumption. It's difficult to forecast oil prices. We did in the past use futures prices, but they didn't do materially better. For simplicity, we assume a constant oil price over our projections, and...[*Technical difficulty—Editor*]—

The Chair: Sorry, Mr. Mendes.

Is there something on that's causing a beep at our end?

Mr. Andrew Saxton: I think we can live with it, Chair.

The Chair: Okay. Sorry, I apologize for that.

Mr. Andrew Saxton: It's Mr. Cullen thinking out loud, that's all.

Voices: Oh, oh!

The Chair: I apologize, Mr. Mendes. Please continue.

Mr. Andrew Saxton: Have we restarted the clock, Chair?

The Chair: Yes.

Mr. Andrew Saxton: Thank you.

My next question is for Mr. Walker with the CAA.

How have the lower oil prices had an impact on your members?

Mr. Jeff Walker: So far, most members are pretty happy about it. This is the thing, though: again, most consumers on a day-to-day level are thinking about relatively short term, relatively micro-economic considerations, and because they fill their vehicles with gas once a week, it tends to be a reference point for how they're feeling overall. In general, as I alluded to earlier, most Canadians so far are feeling pretty good about the fact that they've saved, ballpark, 30% on gas than they had previously. It was almost like they had no idea it was coming, so it was a nice bonus for them. In the west, in Alberta and to a lesser extent Saskatchewan, you see more people reflecting a sense of, whoa, this could be a bigger picture, longer term, macroeconomic problem. The short term, “Hey, I'm getting cheaper gas,” is trumped by, “Wow, my house price might drop by 30% or 20%,” or some significant number. It depends on where you live how it weighs out in terms of people's overall feeling about what's happened on gas prices.

I would make one additional point which I think is really important. The oil price has gone from $110 to roughly $60, right? Gas prices have not dropped by that same amount. There are studies that have been done in the past. They call it the rocket and feather effect in gas prices, where they rocket up when oil prices go up, but they don't come down that fast when oil prices go down. One of the things that I believe this group might want to look at are some studies around what is happening in terms of the impact on the relationship between oil prices and gas prices at the pump for consumers over time. If you look at those proportionate changes, it isn't the same.

● (0915)

Mr. Andrew Saxton: Thank you very much.

My next question is for Jayson Myers.

Jason, have you seen that in central Canada manufacturers have actually benefited as a result of the lower oil price?

Mr. Jayson Myers: It's not so much from the downward trend in oil prices, but from the stronger growth in the U.S. and from a lower dollar. I think one of the key things—and it goes back to your previous question about employees in the oil sector—is a number of manufacturers across the country, particularly in Ontario, eastern Canada, and in Quebec, see, I think, opportunities to take some of the people who were previously employed in the oil industry and who were travelling across the country.... It is going to ease their ability to find skilled workers, particularly in the trades. That may have a positive impact on their ability to increase production and relieve some of the capacity constraints. I think that's one of the positive impacts here.

Mr. Andrew Saxton: Greater labour supply is a result.

Mr. Jayson Myers: Yes.

Mr. Andrew Saxton: Isn't that interesting. Thank you.

Finally, Mr. Nantais, how has government support for the automotive sector helped CVMA members?

Mr. Mark Nantais: It has helped tremendously not just CVMA members but all vehicle manufacturers who actually produce here. We have, as I mentioned, supports in the form of the automotive investment fund. We have a very significant effort on the issue of standards harmonization on a North American basis. We have other measures in terms of SR and ED tax credits, and yes, we can make some changes to those. These are all things that have been very helpful and will continue to contribute to new future investment considerations. The question is, though, we need to benchmark and we need to be competitive with these other jurisdictions that are upping their game. That will be the challenge as we go forward. There are many policies in place right now that are very helpful not just to the auto industry, mind you, but in manufacturing generally, including accelerated capital cost.

The Chair: Thank you, Mr. Saxton.

We'll go to Mr. Brison, please.

Hon. Scott Brison (Kings—Hants, Lib.): Thank you to each of you for joining us today.

Mr. Mendes, do you agree with private sector economist Doug Porter and others that oil prices have taken a precipitous drop, but for the mid-term there's a stabilization, and we're in a slow growth environment with lower commodity prices for at least the mid-term?

Mr. Rhys Mendes: As I mentioned, we don't actually produce a forecast of oil prices. We make an assumption that they stay near their recent levels. We do of course analyze the risks around that assumption. There are both upside and downside risks to the $60 assumption we made for Brent oil prices. On the upside, if you think about the cost of producing oil, a substantial proportion of world oil production today is too costly to be profitable at a $60 price. You can imagine that supply over time would disappear. That could put further upward pressure on prices.

On the downside, there could be further innovations in technology or cost-cutting measures that could put further downward pressure on prices. Overall, we see the risks to that $60 assumption that we made is tilted to the upside over the medium term.

Hon. Scott Brison: You're able to make your forecasts and projections despite the volatility, or you're able to build in those assumptions and potential outcomes into your forecasts.

Mr. Rhys Mendes: As I said, we make an assumption. There's a lot of uncertainty around that, of course.

Hon. Scott Brison: Sure.

The Bank of Canada has said that the fall in oil prices is unambiguously negative for growth in Canada. Is it fair to say that it's overall positive for growth in the U.S.?

● (0920)

Mr. Rhys Mendes: Yes. Our assessment is that the decline in oil prices from the middle of last year would raise U.S. GDP by the end of 2016 by about one percentage point.

Hon. Scott Brison: It's negative for Canadian growth but overall positive for U.S. growth. Would that put pressure on the federal government to potentially raise our rates in the U.S?

Mr. Rhys Mendes: I can't comment on federal policy. The positive for U.S. growth, though, is a positive for Canada.

Hon. Scott Brison: What would be the implications of higher rates in the U.S. on the Canadian economy?

Mr. Rhys Mendes: We've said that when higher rates do come about in the U.S., they're likely to be associated with a stronger U.S. economy. It's the stronger U.S. economy that would really be—

Hon. Scott Brison: Would it increase pressure on the Bank of Canada to follow through with potentially higher rates if the U.S. were to do that, or would that differ?

Mr. Rhys Mendes: Not necessarily. The bank targets inflation in Canada. The decisions regarding monetary policy in Canada would be based on the outlook for inflation.

Hon. Scott Brison: Could changes in the U.S. economy in terms of growth affect inflation and relieve pressures in Canada as well?

Mr. Rhys Mendes: Certainly.

Hon. Scott Brison: Thank you.

Mr. Walker, the impact of falling oil prices on, you were saying, the Canadian auto dealers.... You're saying that cheaper gas is going to have an impact. Are people driving bigger cars or potentially buying bigger cars? We've heard this. Is it affecting people's purchase decisions in terms of the kinds of vehicles they're buying?

Mr. Jeff Walker: Mark could probably speak to this more than I could.

What we see is the same thing that some others have alluded to. These are more long-term kinds of changes. People buy a car once every three or four years. They won't change their behaviour in the short term as quickly unless of course they have a lease and then they might want to switch over. The data will be too fresh to make any comment on that.

Hon. Scott Brison: But it's having an impact on people's confidence in terms of consumer acquisitions and purchases. That's what you're implying.

Mr. Jeff Walker: It may be in some parts of the country where they see the macroeconomic forces being more significant and more long term, as in Alberta. I'm not sure that's true anywhere else.

Hon. Scott Brison: Mr. Mendes, what do you see as the impact of softer oil prices on the Canadian employment market? Is it a softening of the employment market in Canada?

Mr. Rhys Mendes: As I said, we forecast that in the absence of any monetary policy response and any other shocks, the decline would have lowered output and economic activity in Canada.

Hon. Scott Brison: So, softer employment.

Mr. Rhys Mendes: Of course there would have been an impact on employment also.

Hon. Scott Brison: Do you see slow growth as a secular trend in Canada, in terms of there being a slow-growth economy for the foreseeable future?

Mr. Rhys Mendes: We see the trend underlying real growth in Canada as just below 2%. That is somewhat slower than, say, before the global economic and financial crisis in the mid-2000s, but a lot of it is due to just the fact that we have slower labour force growth because of an aging population.

Hon. Scott Brison: Mr. Myers, you've said that there are some positive impacts and negative impacts as a result of lower oil prices. What is the timing that you see for the positive impacts, and what is the delta between the timing for the positive impacts and the timing for the negative impacts?

The Chair: Give just a brief response, please.

Mr. Jayson Myers: I wish I could forecast like that—

Hon. Scott Brison: I have every confidence in you.

Mr. Jayson Myers: —but I think we're already seeing the positive impacts in terms of stronger consumer buying power in the United States, as well as and to some extent correlated with, a stronger U.S. dollar and a weaker Canadian dollar. Those are impacts that are being felt right now, and they are very positive. The question is, where is that going?

I would say one thing. When you see a plunge in the price of oil or any commodity such as we have seen over the last six months, it is not a good signal, particularly when it is being triggered by such a rapid appreciation of the U.S. dollar and such a plunge in other currencies. It's a signal, if not in the oil market, that we have very severe financial imbalances in the global economy. I think that's where the danger is, going ahead.

The Chair: Thank you, Mr. Brison.

We'll go to Ms. Bateman, please.

Ms. Joyce Bateman (Winnipeg South Centre, CPC): Thank you to all of our witnesses this morning. I really appreciate the discussion we're having.

We heard yesterday from a number of economists. Some of them were speaking about the fact that this is just a volatile industry. Several of them spoke to the fact that in 1998 we had a major adjustment and in 1986 we had an adjustment, and the outputs from those adjustments were always greater innovation, greater investments in technology, more effectiveness and efficiency in the industry, and so industry came out much stronger from the “crisis”.

I'd like to have your views on that. Perhaps we could start with Mr. Myers.

● (0925)

Mr. Jayson Myers: If you look at the macroeconomic statistics, I think you can draw those conclusions. In the meantime, if you look from 2002 to 2012, we've seen 20,000 manufacturing operations go out of business as part of that adjustment. So it's not an easy adjustment there, and it has very important employment effects, of course—600,000 fewer people employed in manufacturing—although we're at record levels of production right now.

Those adjustments while they take place are extremely painful, but of course the overall trend is right. That's why there's the importance of investment in new technology, the importance of investment in new products, the importance of investment in skills, making sure that we're able to attract or retain the product mandates here in Canada. That's why all of that is so important; it is what eases that adjustment.

Ms. Joyce Bateman: Would you care to speak to that?

No, that's not your area.

Mr. Nantais?

Mr. Mark Nantais: Yes.

As you know, in the auto industry we came out of the dark years of 2008 and 2009 hurting very badly. It's true that we made some very hard decisions that resulted in job losses, to the tune of about 40,000 jobs, in the auto industry. We took out unused capacity. We became much more productive. We came out being stronger, yes, but it was with a great deal of pain.

Also, and I'll talk about the relativity of what's going on, so did other jurisdictions go through that phase, and they too now recognize the value of an auto industry, and of the spin-off jobs at 9:1, for instance, which is why they're so aggressively seeking new investments.

Yes, we did come out stronger, but as we go forward and we want to keep the mandates here, we're going to have to up our game. Nothing is static in this world anymore. The competition for investment has never been greater than we have seen.... I've been around long enough to have gone through a number of these cycles, and I've never seen a cycle as deep as 2008 and 2009, but we run the risk of losing more, if we don't up our game.

Ms. Joyce Bateman: Thank you.

I want to follow up on a point.

Mr. Myers, you mentioned the impact, saying that a 0.3% impact is marginal. You spoke after that about the need to continually invest in innovation and technology. Could you expand on that 0.3% impact?

Mr. Jayson Myers: Sure. I think in terms of potential cost savings from a lower price of oil, the number one assumption is that it would lower energy costs for manufacturing, but energy costs from oil represent only 0.3% of total costs in manufacturing.

Ms. Joyce Bateman: Oh, okay. So this isn't—

Mr. Jayson Myers: That is not really going to mean a big cost savings on the energy side; there are potentially greater cost savings as a result of lower feedstock costs, plastics, petrochemicals, and refined petroleum products for some industries in particular.

I have to say, we're not seeing the trucking industry or the rail industry passing along the lower energy costs that they're incurring to their customers yet. That may occur over time, but we're certainly not seeing it yet.

Ms. Joyce Bateman: No, the point is well taken.

Are you passing on the differences?

Mr. Jayson Myers: Right now, probably many of those cost savings are going to be reinvested in better capacity and better productivity and in more people working.

● (0930)

Ms. Joyce Bateman: Okay, thank you.

Mr. Walker, you mentioned that you're doing a lot of consumer consultation. I know that people in my constituency are pretty darn happy to have $20 to $30 more in their jeans after they fill up than they had previously. I just wanted to give you a chance to broaden your comments on that.

The Chair: Give just a brief response, please.

Mr. Jeff Walker: There's no doubt that most Canadians are feeling quite good about the fact that they're saving money. It's giving them positive feelings in what we'll call the microeconomic context. The question in their minds is, how long will this last? They haven't thought a lot about the macroeconomic, outside of—

Ms. Joyce Bateman: We heard yesterday from experts that it's not going to last forever. I mean, this is a cyclical industry. Could you speak to that?

The Chair: Speak very briefly.

Mr. Jeff Walker: I couldn't speak to it; I'm not an economist. But if it doesn't last and all other things are equal, and if other economic indicators go bad, that's not going to be a good thing.

Ms. Joyce Bateman: Thank you.

The Chair: I'm sorry, but we're out of time.

Thank you, Ms. Bateman.

Mr. Stanford, can you hear me in Toronto?

Dr. James Stanford (Economist, Unifor): I hear you loud and clear, sir. Can you hear me at your end?

The Chair: We can, yes. Thank you so much for your patience here this morning.

Dr. James Stanford: Not at all; I thank you.

The Chair: Colleagues, I'm suggesting that we take Mr. Stanford's five-minute presentation and then resume with questioning of witnesses.

Mr. Stanford, if you would, give us your five-minute presentation and then we'll go back to questions by members.

Dr. James Stanford: All right. Thank you very much, Mr. Chair.

I'm Jim Stanford, economist with Unifor, which is Canada's largest trade union in the private sector of the economy. We represent members working in more than 20 sectors of Canada's economy, at all stages of the value-added chain, if you like, from resources to processing, manufacturing, transportation, and services. Our members are feeling the impacts of the change in oil prices—good, bad, and ugly, if you like—in all of those different sectors.

I apologize if I repeat anything that was said by the witnesses earlier and I would refer members of the committee to the brief that we've prepared at Unifor for our members on the many and various effects of the oil price decline. It's on our website, and I think it was passed around to the committee this morning.

Obviously, a decline in oil prices by half is a major shock for the Canadian macroeconomy. In my judgment—and I actually worked, in another life, as an energy economist for a few years before I joined the union movement—prices are likely to stay at this level or perhaps go even lower in the medium term. I don't see any quick change in the global forces that drove the price down to the levels that they did.

Also, it's not at all clear that the current oil price is low by historical standards. In fact, it's about equal to its 40-year inflation-adjusted average, which suggests that the price in recent years was high rather as opposed to the current price being low. I think we should shape our response to this on the expectation that prices are likely to stay at current levels or lower levels for some time to come.

As you've heard in your hearings, there are many various and contradictory economic effects from the decline in prices. Petroleum production will not be quickly affected. In fact, Canada's production is going to keep growing in the medium term. We are seeing a major retrenchment of investment in new exploration and in development and construction projects in the petroleum sector. Since that sector accounted for 30% of businesses' fixed capital spending in Canada before the decline, this is a major problem for our economy, and there will be big spinoff effects from it.

The real GDP effect will be muted. Extraction will continue to grow, investment will fall, and some other sectors are going to experience benefits, including consumer spending, benefits for energy-consuming industries, especially in the transportation sector and to a small degree, as Mr. Myers just said, in manufacturing itself.

The impact of lower oil prices on demand in the U.S., our major export customer, is unambiguously positive, and that will benefit our economy. There will be some losses among manufacturing companies that supplied the oil and gas industry with manufactured inputs, but as a share of our total manufacturing activity in Canada, that supply chain linkage was small.

The most important beneficial impact, of course, will be the decline in the Canadian dollar, which is now back to its purchasing power parity level.

I stress that the dollar today is not low. In fact, the dollar is at its appropriate level, given relative consumer prices in Canada and elsewhere.

There will be significant benefits from a lower dollar, both immediate and in the longer run, on net demand for Canadian-made goods and services in all tradable sectors, not just manufacturing, but also tourism and tradable services.

It even helps the petroleum and resource sectors themselves to grapple, by cushioning some of the impact of the decline in world prices. We're seeing some benefits of that already. For example, Canada's exports of auto parts grew by 15% last year, which is a very encouraging sign for an industry that has experienced a very challenging decade.

There are some caveats regarding the beneficial impact of the lower dollar.

First of all, the Canadian dollar has not weakened universally. Our dollar has appreciated against the euro, which is a major competitor in manufacturing markets, by 15% over the last year. There has been no change in our dollar relative to the Mexican peso, and Mexico is of course the largest source of imported automotive products to Canada. Our currency has appreciated in the last year against the Japanese yen.

While the lower dollar is beneficial, it's clearly not a cure-all for our manufacturing problems. Partly because so much capacity was lost during the last decade, it's difficult for the industry to take advantage of this space that the lower dollar provides.

Second, companies don't know how long the lower dollar is going to last. I think it is important in this regard for government and the Bank of Canada to indicate their views that in the long run the dollar should not shoot back to levels well above its purchasing power parity; otherwise the potential positive impact of a lower dollar on investment decisions will be muted.

● (0935)

We would stress very much the need for continuing strong, proactive economic strategies to help key strategic sectors, such as auto, aerospace, telecommunications equipment, and also such strategic tradable services as digital media, in which we have a lot of Unifor members working. That will be part of the response.

I think the major economic challenge to Canada's macroeconomy from lower oil prices is going to be the fallout from retrenchment in petroleum investment, and part of government's response to that can be very strong support for increased investment, both public and private, in other sectors of the economy. “Public” means support for infrastructure spending. “Private” means partnering with industry to boost investment in key sectors such as those I mentioned.

I'll leave it at that, Mr. Chair, and look forward to discussion with committee members. Thank you very much.

The Chair: Thank you, Mr. Stanford, for your presentation.

We'll continue members' questions.

[*Translation*]

Mr. Dionne Labelle, you have the floor for six minutes.

Mr. Pierre Dionne Labelle (Rivière-du-Nord, NDP): Thank you, Mr. Chair.

Good morning to all the witnesses.

My first question is for Mr. Mendes.

When you presented your analysis on monetary policy in January, the assumption was that the dollar would be worth 86¢ in U.S. currency. However, this morning, the dollar is at 78¢. If you had known at that time that we would have a 78-cent dollar, would that have changed your approach to the bank rate? To what extent would that have changed your projections?

Mr. Rhys Mendes: Thank you for your question.

[*English*]

The key thing to keep in mind is that we make a constant assumption for the dollar. As you mentioned, it was 86¢. Financial conditions more broadly have eased after the monetary policy action in January, including the dollar. That, of course, has an impact on the economic outlook. I can't update you on that right now. We'll update it on April 15, at the next decision date, when we release our next monetary policy report.

[*Translation*]

Mr. Pierre Dionne Labelle: You will do it later on.

According to Chart 15 in the document you submitted to us, labour market slack is greater than indicated by the unemployment rate. There is a phrase here that contradicts some of what we generally hear from the government, namely that "long-term unemployment is still close to its post-crisis peak".

Could you elaborate on this?

[*English*]

Mr. Rhys Mendes: Chart 15 is trying to take a broader view of the labour market than just what we get from the usual definition of the unemployment rate. We construct a measure that takes account of longer-term unemployment, underutilization of labour, wage increases. What we see is that several factors are keeping this broader measure of labour market slack above the level of the unemployment rate. Long-term unemployment is still close to its pre-crisis peak. Average hours worked remain low. The proportion of involuntary part-time workers continues to be elevated. Those factors are keeping this broader measure of labour market slack above the unemployment rate.

● (0940)

[*Translation*]

Mr. Pierre Dionne Labelle: Thank you for your answer.

Mr. Walker, I enjoyed your rocket and feather illustration. Indeed, that is something our committee thought about this week. The price of oil and the prices at the pump do not move down at the same speed.

We proposed that a commissioner be tasked to examine this mismatch to see if the whole thing makes sense. We all remember that in 2008 oil was $148 per barrel and we were paying $1.48 at the pump. Now oil is at $50 a barrel. Last week, there was even an increase in the gas price at the pump. There is something about this pricing pattern that does not work. There is something going on.

[*English*]

Mr. Jeff Walker: Well, we don't know exactly what's happening, although we do know that some of the players who are in gas retailing are in the last few months showing higher profits than they have ever shown, so we would applaud the idea of doing some research into this rocket-and-feather effect. In fact, we at CAA were talking about commissioning our own study and putting it out in the public domain, to understand what's going on.

If you see what is going on in pricing in the U.S., it's not so much the rocket and feather. It looks as though prices have gone down by close to the proportion that oil prices have gone down. We think there could be something going on in Canada. We think an academic investigation into that question is probably worthwhile.

[*Translation*]

Mr. Pierre Dionne Labelle: In terms of corporate cash, we should remember that Mark Carney, the former Bank of Canada governor, said that companies were sitting on a lot of cash. His words were corroborated by Minister Flaherty. At this time, what is happening with corporate balance sheets, since we expect a recovery in the manufacturing sector? Have you noticed an increase in manufacturers' investment? If not, is the liquidity ratio about the same? Has it changed?

[*English*]

Mr. Rhys Mendes: Firms continue to face good financial conditions and to have solid balance sheets. That continues to be the case.

We see investment picking up going forward. We're hearing from manufacturers, when we talk to them, that investment intentions have picked up and so have employment intentions.

In addition, last year we saw Canada's non-energy exports pick up. We expect this trend to continue as a result of the stronger U.S. economy and the weaker Canadian dollar. As that happens, we expect investment to pick up. Capacity utilization in the manufacturing sector is rising. As demand continues to grow, that should translate into greater investment.

Mr. Pierre Dionne Labelle: Monsieur Myers.

The Chair: Speak very briefly, Mr. Myers.

Mr. Jayson Myers: I agree. Investment in advanced technology and manufacturing is at record levels, even though we have fewer companies in the field, so we are building capacity there. As I said before, I think it will be easier to find skilled workers in the manufacturing sector. That should also be positive and help to allow production to increase, but it's going to continue to take investment in new products, new technology, and in skills training. That's extremely important for maintaining competitiveness and growth.

Part of the reason we're not seeing gas prices come down is that some of the refineries are taking profit. They're using that profit to reinvest in better capacity and improved productivity also. I think that's a very important part of what we're seeing right now, as long as those investments are being made.

The Chair: Thank you.

We'll go to Mr. Cannan, please.

Hon. Ron Cannan (Kelowna—Lake Country, CPC): Thank you very much to our witnesses.

Thanks, Mr. Stanford, for being here. There were some comments earlier about economists that you missed out on. They said that if you had five economists lined up, you'd get six different opinions. I'm not sure whether that's true.

I want to verify one of the comments you made earlier. The comment was about the impact of oil prices on employment. Maybe you could verify what your understanding is, from the present time and over.... We have heard from various witnesses that this low oil price situation could be with us for a couple of years. Maybe you could give us a prognosis, your understanding, for employment levels.

● (0945)

Dr. James Stanford: Well, the impact on both aggregate GDP and aggregate employment in Canada's economy will be a mixture of positive and negative effects, depending on what sector and what region of the country you're in.

The most negative employment impact of lower oil prices will be felt in the petroleum exploration, development, and construction sectors. This is where you're going to see immediate job losses in Alberta and in other producing regions as the companies dramatically reduce their new spending on investment, exploration, and development.

We'll see some positive impacts on employment in other sectors, those that benefit from lower oil prices, stronger consumer spending, the lower dollar, and the boost to demand in our U.S. trading partner. Those benefits tend to be more dispersed than the negative impacts in the petroleum exploration sector are, so they may not be as visible. But on a net basis, I would expect there to be very little net impact on the overall employment situation from the decline in oil prices.

Hon. Ron Cannan: Thanks.

I represent Kelowna—Lake Country. I've been there for about 25 years, but I spent the first half of my life in Edmonton, in the Alberta market, so I know that the decline has had a big impact especially in that region, as we've heard from other witnesses.

I want to know whether you still stand by this statement from your January 30 press release:

> There is less chance of Ottawa reporting a deficit for fiscal 2015-16 than there is of the Maple Leafs winning the Stanley Cup.

We'll see how that goes.

Dr. James Stanford: Even though the chances of the Maple Leafs winning the Stanley Cup are even more remote than they were then, I fully stand by my quote, Mr. Cannan.

Thank you.

Voices: Oh, oh!

Hon. Ron Cannan: All right, moving on, Mr. Myers and Mr. Mendes, I appreciate your comments.

I've been on the trade committee for more than nine years. We obviously saw a downturn in January with our trade. We had a trade surplus of about $5 billion in 2014. Does taking the energy component out of the trade equation improve the picture dramatically for Canadian exporters?

Mr. Jayson Myers: It does, both in terms of volume as well as price terms. For companies that are contracting in U.S. dollars, as the Canadian dollar falls against the U.S. dollar, that will show up as a price increase for the export side. As well, of course, a stronger U.S. economy and lower dollar will make Canadian goods relatively more competitive, although as I think the point has been made, we're also seeing other currencies fall as well.

I think we will see stronger export performance on the non-energy side of our exports, mainly manufactured products.

Hon. Ron Cannan: You mentioned competitiveness. Productivity is something I hear often from constituents in working with small businesses in our community.

How does Canada compare in productivity versus the United States?

Mr. Jayson Myers: According to our statistics, not very well, but I don't think our statistics really measure productivity very well, or manufacturing output. For instance, It's very difficult today when companies are competing more on customer service. Our GDP numbers don't differentiate very well between that increase in value as a result of service versus just a price increase.

What I look at is the capability of our companies to grow in market share. I think that is a very, very intensely competitive situation. There, frankly, our record has not been all that great over the past 10 years, particularly in the major market that we have in the United States.

My answer, in short, is that we need to do more. Companies need to do more in terms of being sure that they're bringing the products and services that their customers want, and doing that in a way that's competitively priced.

Hon. Ron Cannan: Quickly, I will ask you and Mr. Nantais, there's the RCC, regarding regulatory cooperation and harmonization and we have been working on that. There's the automotive innovation fund and accelerated capital costs. What else can the government do to help?

The Chair: One minute, please.

Mr. Nantais.

Mr. Mark Nantais: Basically, it's stay the course, but be cognizant of what's going on in other jurisdictions that are aggressively seeking these new investment decisions. Clearly they have upped their game. They are being very aggressive.

Let's continue to keep what we're doing because it's all extremely helpful and absolutely necessary, but let's be mindful of what's going on around us.

Mr. Jayson Myers: I think the extension of the accelerated depreciation is key, particularly in this budget.

The other thing is that around the world we're seeing a revolution in technologies being used in manufacturing, not only product technologies, but the types of technologies being used in manufacturing processes. It's really very important that we ensure that our manufacturing sector, particularly small and mid-sized businesses, are adopting those technologies.

It's about more effort in terms of technology demonstration, de-risking the adoption of those technologies, and a part of that is better skills training, better work with universities and colleges to provide more practical experience. All of that is key.

● (0950)

Hon. Ron Cannan: I'd like more on the rocket and feather as well, thanks.

The Chair: Thank you.

[*Translation*]

Mr. Côté, you have the floor.

Mr. Raymond Côté (Beauport—Limoilou, NDP): Thank you, Mr. Chair.

I would like to thank all the witnesses for attending.

Mr. Mendes, in the past 10 years, the value of the Canadian dollar against the U.S. currency mostly followed the various oil prices on world markets. It is very interesting to see that it peaked on November 7, 2007, at $1.10; it was very high. In 2009, following the dramatic fall in oil prices and because of the crisis we were going through, the Canadian dollar went down to 76¢ against the U.S. dollar, then increased considerably, moving up with the rise in oil prices.

In your opinion, is this fluctuation of the Canadian dollar relative to the U.S. dollar linked to the strength of the U.S. dollar or to the world price of oil? Do these two factors have a roughly equivalent impact on the Canadian dollar?

[*English*]

Mr. Rhys Mendes: I think both factors do have an impact on the currency.

As I said in my opening statement, the Canadian dollar does tend to move with the price of oil. That's because we're a net exporter of oil. When oil prices go up, foreigners have to buy more Canadian dollars to basically buy our oil or to invest in our oil sector. There's a fundamental reason that it causes the dollar to move with oil prices.

[*Translation*]

Mr. Raymond Côté: Thank you very much.

In his remarks, Mr. Stanford said that it would be better to avoid excessive appreciation of the Canadian dollar relative to the U.S. dollar. The Bank of Canada has been quite active in terms of intervening in the Canadian economy. Do you think it is able to slow the appreciation of the Canadian dollar against the U.S. dollar if oil prices go back up, as this seems to be somewhat related? We can then expect that the Canadian dollar would still follow a possible increase in world oil prices.

[*English*]

Mr. Rhys Mendes: Monetary policy is focused on returning inflation to target over the medium term, and the value of the dollar is determined in markets. I think the focus on inflation is the best contribution that Canadian monetary policy can make to the economic and financial welfare of Canada, because ultimately, attempting to lean against movements in the dollar would force adjustment onto economic activity, employment, prices, and wages within the economy, and in that way would create additional volatility but also undo any or at least some of the impact of leaning against movements in the dollar.

[*Translation*]

Mr. Raymond Côté: Thank you.

Mr. Stanford, would you like to comment on the fact that the Canadian dollar may well shoot back up and could even become overvalued as a result of an increase in oil prices on world markets?

[*English*]

Dr. James Stanford: I certainly think this is an important concern going forward. The fear, and I think the legitimate fear, that the dollar may indeed shoot back up if and when oil prices do recover is indeed limiting the beneficial impacts of the lower dollar now on investment decisions.

I do disagree with Mr. Mendes on a couple of points.

Number one is the transmission mechanism linking oil prices to the value of the Canadian dollar. Why do those two variables move in tandem? It is not because of the need for foreigners to buy Canadian dollars to purchase our oil.

As you've seen, including from the Bank of Canada's own research, the net demand for all Canadian-made products, energy and non-energy, has declined during the period of the oil boom, and we have gone from a situation of trade surplus into chronic and significant current account deficits. Counting everything that Canadians make, foreigners were buying less of what we make even when the oil price was high, so it is absolutely not a function of demand for the dollar resulting from real purchases of our commodities.

I think the transmission mechanism is more through financial assets and the demand among foreign investors for Canadian assets related to the energy sector when the oil price and other commodity prices are high. Through both portfolio investment flows and direct investment flows, that was a mechanism that drove up the dollar, even though our net export performance was deteriorating badly.

I think the Bank of Canada and the Government of Canada can both play a role in breaking that link, because our dollar is considered a petrocurrency, but Canada is not, by and large, a petro-economy. Depending on how you measure it, petroleum extraction is only perhaps 5% of our national GDP.

I think the Bank of Canada needs to reconsider its view that they will leave the foreign exchange market alone. Other central banks around the world have intervened quite effectively. The bank clearly has the capacity to do that when the problem is over-appreciation; there's no limit to the bank's ability, even indirectly through the bank's positioning statements. I do notice that Governor Poloz and others have indicated that the narrow focus on inflation rate targeting may not be appropriate anymore. We've learned the hard way that there are other things the bank has to keep an eye on, including the dollar.

The federal government could also play a role by regulating those inflows of foreign capital that are driven by very high oil prices, in particular by I think a stronger mechanism for reviewing foreign direct investment in the oil patch when oil prices are shooting up. That, I think, was a key part of the transmission mechanism to a higher dollar.

● (0955)

The Chair: Thank you.

[*Translation*]

Thank you, Mr. Côté.

[*English*]

We'll go to Mr. Van Kesteren please.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thanks to all of you for being here. I'm going to throw in my favourite quote from Harry Truman about economists, which is that he asked for a one-armed economist because his economist kept saying, “Mr. President, on the one hand...and on the other hand...”.

The Chair: I think you're quoting me from the last meeting.

Voices: Oh, oh!

Mr. Dave Van Kesteren: I don't think so.

Anyway, Mr. Stanford, it's good to see you. I have to say that we've heard a lot of testimony, and I agree with everything you said in your opening testimony. I commend you for that too. I think there are a lot of opposing views, but I share virtually everything you said in your opening remarks. I'm encouraged by that, because one of the things I see within this testimony and other testimonies is that what the government has been doing is also a recognition from all sides that we need cooperation and that the days are over where we pit the one group against the other.

Somebody mentioned in their testimony—I think it was you, Mr. Myers—the need for universities and colleges to work in conjunction with industry. Maybe I'm a dreamer, but those are things that I believe are going to happen in this country. Increasingly there's an appetite for that. I commend you for your testimony.

I'm going to do a little dig, Jim, if you don't mind. One of the things that I think and personally feel is the biggest mistake we made in the automotive sector back in the 1980s and 1990s is that when we had the lower dollar we leveraged that against the automakers and we demanded higher rates. I hope the union sees that. I believe, just in listening to your testimony, that you recognize the importance of the lower dollar or the advantage we have. I hope we don't blow that like we did the last time. That's just an encouragement on your part.

I also wanted to make mention of what you talked about, Mr. Walker, in regard to the possibility of looking into the oil prices. I have to say that's been done a number of times, and there is a Competition Bureau. When it has been studied in committee, there was representation from all sides, and I know that at each particular committee, the committee members walk away and say that they guess it's explained.

I liked what you said, too, Jayson, about the fact that they're going to use that money, and they're going to use that money for investment. Again, I think we need to reiterate that it is a corporate decision. I don't know if we want to get into a position where governments will tell businesses what to do. I think we need that cooperation.

That's my little spiel. I just wanted to say that. I see that we're seeing some agreement across the board there too.

Jayson, I wonder if you could talk about the importance of—maybe we could go to you as well, Mark—what has happened to the auto industry and how it has positively affected.... I remember that back in 2006 they said that we needed a bridge, we needed harmonization, and we needed all those things you're talking about. Just tell us how that has strengthened our position in the auto industry. I'll leave it to either one of you to start.

● (1000)

Mr. Mark Nantais: Maybe I'll start, Jayson.

Had those things not occurred and continued to happen, I can say with a great deal of confidence that the most recent investments would not have happened. That's very clear.

The question is—and I've talked about upping our game—that we need to capitalize on what we have, but when you look at the packages of incentives that other jurisdictions are putting together, they are massive. Obviously, I don't think we have the wherewithal to match dollar-for-dollar that type of thing, but we have to be mindful of that, and we have to put together the best package that we can.

What has happened over the last three months with the very positive announcements I can't say is going to happen in the next three years, but we are at a point in time where we are in another investment cycle now. That's going to be driven by regulatory issues such as greenhouse gas regulations and so forth. It will be probably the most significant advancement of technology in motor vehicles that has ever occurred in our history. As Jay mentioned, this does translate into our ability to produce these vehicles and the technology that goes onto the shop floor to build them. It will be a very different game as we go forward.

It's very critical that we can maintain what we're doing, as I mentioned, while we need to look at things like whether the automotive investment fund is a permanent thing, because certainty is very critical in terms of investments through the long term. We need to look at SR and ED tax credits and how we can best use unused credits, etc., and at all of the accelerated capital costs. These are all things that are useful and necessary not just for the auto industry, but for manufacturing generally.

We've come out of that recession with a great deal of new capacity. We are operating at maximum capacity right now. To move forward, we need to look at these additional things.

Mr. Dave Van Kesteren: Jay?

The Chair: You have about 30 seconds.

Mr. Jayson Myers: Maybe I'll just focus on three key points.

The first one is the need to secure a new investment in terms of assembly, because that drives the auto supply chain. The movement of assembly down into the southern states and Mexico means that we've lost a lot of the potential for growth here in Canada, so to secure a new investment there is critical.

The second one is that the entire auto industry is going through some pretty big technological changes in response to regulatory requirements around emissions, driving, lightweighting, smart vehicles, and all of this stuff. We have to make sure that our auto parts industry in particular keeps up with that technology, and I think those investments in R and D and new technology are critical.

The third one, of course, is that our auto parts and vehicle assembly industry is a global industry. Trade, regulatory cooperation, and making sure that we have trade remedies in place so that we can effectively enforce the trade rules of our trade agreements are extremely important, as is the new opportunity.

The Chair: Thank you, Mr. Van Kesteren

Mr. Adler, please.

Mr. Mark Adler (York Centre, CPC): Thanks to all the witnesses today.

I want to begin by saying that the challenge for any government is in how it deals with events. One unforeseen event, of course, was the drop in the global price of oil.

I want to ask Mr. Myers first about what kind of role our government's economic record played, and how important it was, in the unforeseen drop in global oil prices. You remember that when we first came into government, we paid down a massive amount of public debt. We're going to be the first government of the G-7 to balance our budget. We've created 1.2 million new jobs since the depths of the recession. We have the lowest net debt to GDP ratio of any country in the G-7.

How important are those factors in light of what we see on the global scene right now in terms of lower oil prices? How has that protected us or cushioned the potential blow that this obviously could have had if we had been in a weaker position?

● (1005)

Mr. Jayson Myers: The improved fiscal situation, the steps that have been taken to encourage companies to make investments in productive assets and to be more flexible, the response of the Bank of Canada, all of that, which has been enabled by a lot of the improvement on the fiscal side, I think has been very positive in being able to cushion the Canadian economy against the rapid plunge in oil prices.

As I said before, I don't think this is an economic crisis for the Canadian economy. I think there are bigger risks out there in terms of the global financial economy and that situation. I think Canada is very well positioned with respect to our fiscal situation and our debt situation.

Mr. Mark Adler: Thank you.

Mr. Nantais or Mr. Myers, either one of you can jump in on this one. Your members are producers of goods and services, and clearly this is a.... I think a lot of people are fixated on price. Why aren't we seeing, with this drop in oil prices.... Historically, we've seen that a lot of layoffs would follow that. We're not seeing that now. Why do you suppose that is? Maybe Mr. Nantais could start.

Mr. Mark Nantais: Maybe I can speak at least to the auto industry. As I mentioned, first off, investment decisions are in the long term. The short-term impacts of the price of oil, for instance, aren't really major factors. If it tends to be a long-term trend, that may be a different story, and that long-term trend will make a difference. When we develop new vehicles, we respond, and with the fact that we export 85% of those to the U.S., and the U.S. continues—as was reported repeatedly here—to have greater disposable income, they will of course use the benefit of that to purchase new goods, and those are the goods that we export primarily.

We're at capacity, and as long as we continue to benefit from that additional disposable income and the export products they're demanding, then we'll be in fair shape. The longer term may be a different story. We all have economists who are looking at these details very closely for changing directions and trends. For the moment, we respond to the demand, and the demand is there.

Mr. Jayson Myers: I think, reiterating what Jim said, too, we're seeing sectoral and regional impacts on employment and on economic activity, particularly for the suppliers in oil exploration and oil drilling in the oil sands sector. It has a pretty large range right across the country, but particularly in western Canada, we're seeing that there. There are also the services that are wrapped around that on the retail side, real estate, for example, in western Canada.

To some extent there's a saving grace in that it is becoming easier to find people with the skills in particularly the trade sector, which is the number one constraint on growth for manufacturing across the country, so there is a positive impact here as well. I agree with Mark that these are longer-term changes, and it will take some time to adjust, but I don't see a major downturn in employment, particularly on the part of skilled trades that are no longer in the construction field with respect to oil. I think they will be easily.... There's a lot of demand for those types of people right across the country.

Mr. Mark Adler: Were there companies, airlines and so on...? I mean, nobody saw this coming in terms of the precipitous drop in the price of global oil. But were there companies that shorted when the price started to drop in order to buffer themselves against any potential increase—nobody saw it dropping as much as it did—and bought oil at, say, $100 or $110, locked in for the next year or so?

The Chair: Please make a brief response.

● (1010)

Mr. Jayson Myers: Okay.

Yes, and that's a major issue in the short term, because you have a lot of companies that have bought oil or other commodities, bought high even in terms of a higher Canadian dollar, and now, as the Canadian dollar has dropped, they're left with materials and inventory that are relatively highly priced here. In the short term, that is a problem. It really has an impact on operating cash and it's one of the problems we're seeing right now in that adjustment.

The Chair: Thank you, Mr. Adler.

Colleagues, I have a couple of questions, but I have a request from Mr. Brison. He had a question for Mr. Stanford and we didn't have the video conference set up. He's asking for the consent of the committee to ask one 30-second question and maybe a minute for the answer from Mr. Stanford.

Mr. Ron Cannan: All right.

The Chair: I'm sure it'll be a very nice, polite question, Mr. Brison.

Hon. Scott Brison: Absolutely. Mr. Stanford and I have been kicking around these parts for some time, so it's always good to hear from him.

Mr. Stanford, you made reference to the fact that oil prices are not actually at an abnormal level given historic pricing of commodities. Given the volatile nature of oil prices and commodity prices, do you think the federal government has focused too narrowly on this one sector and potentially put all its eggs in one basket over the last several years? Is it good fiscal policy to build your fiscal framework around $100-a-barrel WTI oil?

The Chair: Just a brief response, Mr. Stanford.

Dr. James Stanford: Thank you.

To the extent that our fiscal plans and our economic strategies were premised on the expectation that the oil price was high and going one way, and that we would be an energy superpower, and that this would drive our whole economy forward, then I think that was a mistake. Now, in reality, there were many other things, of course, that were being done, so we never, as a country, put all our eggs in the oil basket, nor should we have.

In at least our rhetoric, and to some extent in our policy, I think we emphasized too much that one sector and underestimated the importance of maintaining diversity in our economy and maximizing the value-added links to that natural resource sector. We wasted huge opportunities in using the growth in resources to leverage more demand for Canadian manufactured goods, for Canadian-made services and other inputs, to get more bang from the buck.

One good example of that has been how we've treated our petroleum refining industry. The graph in the handout shows you that real GDP in refining has actually declined since 2002 by over 10%. We should actually be focusing on getting more value-added out of our resource and less of a belief that pure extraction will save the day for us.

The Chair: Thank you, Mr. Stanford.

I have time for one question, and I want to follow up with Mr. Myers.

First of all, I thought your point that lower oil prices will result in a very small reduction in energy costs was a very interesting one which I just wanted to highlight.

Second, in your brief, you stated the following:

> The rapid depreciation of the Canadian dollar has increased the cost of imported materials, parts, and equipment for manufacturers across Canada....in the short-term many companies are caught with higher input costs without offsetting revenue benefits.

I wanted you to expand on that and perhaps address the question of whether the Canadian manufacturing sector and companies took advantage when the dollar was near parity in terms of upgrading their equipment. You talked about investing in the skills, equipment, and new products. Did they invest in new equipment? Then perhaps you could link into a much broader policy issue, which we hear a lot about, that companies are sitting on cash, to use a sort of colloquial expression.

Could you address that?

Mr. Jayson Myers: I think it comes down to all of the impacts on cashflow. Right now, in the short term for companies that are caught with high inventory costs and high materials costs and that aren't able to take advantage of the lower dollar immediately, that does eat into their cashflow and their operating cash. Over a period of time it may work out because they'll be selling at a lower dollar and making more Canadian dollars, so there is an offsetting benefit there.

It's very difficult for any company, let alone any government, to do any forecasting around prices or currencies. This is a dismal profession. I remember it was only a few years ago that some economists—I don't want to say some of us—were predicting a price of $200 a barrel for oil. It's very difficult for anybody...particularly when contracts are set over a long period of time. The price volatility and currency volatility do really affect cashflow, usually negatively, until adjustments can be made.

To your major point, we hear a lot about companies sitting on cash, and in fact, they are in their balance sheets; cash is more in their balance sheets. But that's like saying you have more cash in your RRSP. You're not necessarily going to spend that, nor should you be spending that cash immediately.

What drives investment is operating cash, which is usually after-tax profits plus depreciation. That's why the accelerated capital cost allowance is so important; it drives the cashflow that drives the investment. Right now, and really since 2011, we're seeing record levels of investment in machinery and equipment, usually productive new technologies on the part of manufacturers. A lot of that is attributable to the accelerated depreciation that has been in effect since 2007.

The operating cash drives the investment, and so all of these changes in prices and in currency values will also be affecting that cashflow in a very volatile way. I think it's very important that we continue to encourage the productive use and productive investment from that cash rather than just simply a distribution of dividends.

● (1015)

The Chair: I'm sorry to cut you off. It's a very interesting topic that I'd like to continue, but unfortunately we are at the end of our first panel.

I'll just point out that this committee has recommended the extension of the ACCA, accelerated capital cost allowance. Our work going back to 2007 has paid some benefits. I don't know when the temporary ACCA from 2007 becomes permanent, but we'll see on that.

Thank you so much for being here. Thank you, Mr. Stanford, for being with us in Toronto and your patience in setting up the video conference. We appreciate all of your comments and responses. If you have anything further, please do submit it and we'll ensure that all committee members get it.

Colleagues, we'll suspend for a minute or two.

● (1015)

(Pause)

● (1020)

The Chair: I call this meeting back to order.

We are continuing with our study of the impact of low oil prices on the Canadian economy.

Colleagues, I understand that there will be a vote in the House in an hour, so I'm not exactly sure how we're going to proceed here. We'll do as much as we can before that vote and see whether we can come back.

First of all, from the Automotive Parts Manufacturers' Association, we have the president, Mr. Flavio Volpe. Welcome.

From the Canadian Labour Congress, we have the senior economist, Ms. Angella MacEwen. Welcome back.

We have from the Forest Products Association of Canada, the executive vice-president, Ms. Catherine Cobden. Welcome back to the committee.

From the Canadian Steel Producers Association, we have the president, Mr. Ron Watkins. Welcome to you.

From Fort McMurray, we have the mayor of the Regional Municipality of Wood Buffalo, Ms. Melissa Blake.

Melissa, can you hear me okay?

Mrs. Melissa Blake (Mayor, Regional Municipality of Wood Buffalo): Yes I can, thanks.

The Chair: Welcome, and thank you for being with us from Alberta this morning.

You'll each have five minutes for an opening statement and then we'll go to questions from members.

We'll begin with Mr. Volpe, please.

Mr. Flavio Volpe (President, Automotive Parts Manufacturers' Association): Good morning, committee chair and honourable members. I'm pleased to join you today. I would like to thank you for this opportunity to share with you our views and perspectives on the effect of oil price fluctuation and the consequent foreign exchange rate on the automotive parts manufacturing sector.

To start, please allow me to introduce the Automotive Parts Manufacturers' Association. The APMA is Canada's national association representing OEM producers of parts, equipment, tools, supplies, and services for the worldwide automotive industry. The association was founded in 1952, and its members account for 90% of independent parts production in Canada. In 2013 automotive parts shipments were over $25 billion, and the industry employment level was over 80,000 people.

Much has been made about the material decline in the spot value of oil in recent months and its consequent effect on the value of Canadian currency, especially against its American equivalent. While creating a disadvantage for anyone importing American finished goods, the common position is that Canadian exporters have accrued an advantage over the immediate short term. The biggest export in the Canadian manufacturing sector is automotive, and the most diverse job-intensive subsector of that business is automotive parts manufacturing. Approximately 500 independent companies in Canada manufacture parts for original equipment manufacturers' assembly operations at home and abroad.

Parts manufacturers deal with currency risk management and manipulation, and export finished goods as a matter of course. We're here today to contribute to your committee's analysis because we believe the benefits accruing from the currently advantageous Canada-U.S. foreign exchange rate is neither permanent nor structural in the automotive parts manufacturing sector. Furthermore, from a long-term planning perspective, the longer the currency valuation outlook remains pessimistic, the more likely that OEM forecasting modellers will be planning to benefit from Canadian purchasing while ignoring escalating U.S. dollar-based input costs that develop at the same time.

Most parts manufacturers fall into a similar band, with EBITDA margins running from 8% to 12% and gross margins in the 15% to 20% range. The major inputs to a typical systems supplier or heavy manufacturing North American plant would be raw materials such as steel or resin, components from the lower tiers of suppliers, direct labour, and plant overhead.

While raw materials and lower-tier components as a percentage of sales can vary depending on the nature of the product being produced, one can generalize that they likely represent in the range of 50% of the cost of sales. For most suppliers, the underlying currency of these key input costs is predominantly the U.S. dollar. While the drop in oil prices has reduced the input costs of some non-specialized resin supply in the market, complex resins used in higher value-added applications remain relatively unaffected.

Direct labour, of course, for a Canadian supplier operating in Canada is clearly denominated in Canadian currency. In the automotive parts sector, that typically constitutes about 10% of sales costs, a relatively smaller cost compared with raw materials, and I should note, a lower percentage of costs than final assemblers.

Plant overhead is a mix of Canadian foreign currency-based exposure. Canadian-based costs include electricity, indirect labour, and local services. However, virtually all specialized and heavy machinery and ancillary equipment is based in U.S. or Euro currency costs. These costs typically run in the 15% to 20% of sales costs, with approximately half of that being in Canadian currency.

If we take these figures together as a typical volume-based auto parts supplier's cost breakdown, a supplier would have U.S. dollar content in the 50% to 65% range of costs of sales. On the revenue side of the ledger, the transacting currency typically differs by OEM, but most manufacturers would see a majority of the percentage of sales in U.S. dollars. However, increasingly during the recent term of Canadian currency overvaluation of the last five to ten years, many OEMs have begun the practice of pricing directly in Canadian dollars at the time of sourcing. Those plants do not benefit at all from the Canadian dollar devaluation.

While programs priced in U.S. dollars are benefiting in the short to mid term, they would typically see some of these gains retracted through the business planning process and purchasing repricing from their OEM customers. Many suppliers with multiple operations and OEM customers have adopted hedging programs to reduce their exposure, but the success of those mechanisms is difficult to forecast because cashflows from any given product program are based on future volume estimates. History has shown that they fluctuate materially.

I'll save you the rest on multi-jurisdictional exposure. I'll say only that a lot of Canadian companies have U.S. plants as well, and they operate Mexican plants.

● (1025)

Canadian-based plants in those portfolios are doing well against their American plants, but of course, as we've been competing with the Mexican operations, the Canadian dollar and the peso have kept pace and there are a lot of other dynamics that come into play. Foreign exchange isn't one of them.

The Chair: Thank you for your presentation.

We'll hear from Ms. MacEwen, please.

Ms. Angella MacEwen (Senior Economist, Social and Economic Policy, Canadian Labour Congress): I'd like to thank the committee for taking this study on. We think it's very important. Thank you for inviting the Canadian Labour Congress.

I'm here on behalf of 3.3 million members of the Canadian Labour Congress. We bring together workers from virtually all sectors of the Canadian economy, in all occupations, and in all parts of Canada. I'm going to be speaking from that perspective.

It has long been the position of the CLC that Canada has had an overreliance on unprocessed and semi-processed resource exports, which has had a negative impact on productivity. We heard Jim Stanford earlier talking about the need for making linkages between stuff that we pull out of the ground and stuff that we sell.

As a result of globalization and unfavourable trade deals, a high dollar, and a devastating recession, manufacturing in Ontario especially has experienced devastating losses over the past decade.

Coming out of the recession, business investments in manufacturing and other areas have been very slow to rebound. The October 2014 monetary policy report of the Bank of Canada suggested that this was because of a semi-permament loss of capacity in several manufacturing export sectors and that we should not expect to see business investment and hiring pick up until it was clear that the Canadian economy was on more solid footing.

That was before the price of oil collapsed. In the context of what normally happens to manufacturing if the price of oil collapses, the dollar lowers, and that's better for export sectors, but this indicates that we don't necessarily have the capacity for those export and manufacturing sectors to pick up the slack and carry the economy forward. Given that context, it's the opinion of the Canadian Labour Congress that the lower price of oil will be a net negative for the Canadian economy as the lower dollar will be insufficient to spur new business investment.

We've also pointed out several times that corporate tax cuts have failed to spur new business investment. If we look at the GDP data released for the fourth quarter of 2014, it's clear that there were areas of weakness showing in the economy even before the full impact of oil prices was felt. These include continued dependence on consumer spending to drive economic growth. In that quarter it grew 2% on an annualized basis. In that quarter we saw decreases in machinery and equipment investments, the export of goods falling to 0.5% on an annualized basis, and growth hinging on a buildup of inventories.

One impact of the falling price of oil we could expect to see is cuts to investments by private sector companies and public sector bodies such as the Province of Alberta and other hard-hit oil provinces. We see a shrinking potential output, which will lead to increased unemployment.

To compensate for this lack of investment in the Canadian economy and to respond to the additional negative impact that the falling price of oil will have on the Canadian economy, the Canadian Labour Congress calls for a major public investment program to create good jobs, to promote our environmental goals, to stimulate new private sector investment, and to boost overall productivity.

In October 2014, the International Monetary Fund suggested that the time was right for Canada to make some much-needed infrastructure investments. I previously testified before the committee about these investments. Clearly identified infrastructure needs could be financed through borrowing without increasing our debt-to-GDP ratios since the types of public infrastructure investment we're calling for increase growth both in the short term and in the long term.

Encouraging value-added production investment in key sectors along with green job and green skills initiatives will enhance innovation and labour productivity. These initiatives will also require active government strategies on trade, sectoral development, and domestic procurement strategies. Having a sectoral development policy that seeks to promote more investment, production, employment, and exports, especially in a diversity of sectors in the economy, is key to attaining a more desirable sectoral mix and a greater share of output and employment.

Thank you.

● (1030)

The Chair: Thank you very much for your presentation.

We'll now hear from the Forest Products Association of Canada, please.

Ms. Catherine Cobden (Executive Vice-President, Forest Products Association of Canada): Thank you very much. I appreciate the opportunity to be here.

My name is Catherine Cobden. I am the executive vice-president of the Forest Products Association of Canada.

To begin, I'd like to remind you that Canada enjoys one of the largest and best-managed fibre baskets in the world. We have a significant manufacturing presence and 235,000 Canadians who have great jobs in the rural economy.

The drop in the price of oil has been a benefit to our industry in the short term. We've had some lower manufacturing costs, and we see a favourable exchange rate that certainly helps us with our main market in the U.S.

Our prospects look better than a year ago. The recovery of the U. S. economy is taking hold. For example, U.S. housing starts have now hit the important one-million mark. The recovery is still slower than we had anticipated and hoped.

Our exports have grown by roughly 10% over the last year, and we also foresee in the longer term significant growth potential for most of our forest products, such as pulp, lumber, tissue, bio-products, etc.

I have to remind you of the difficult times we faced in the last decade. It translated into half of our global market being lost. I don't need to remind you of the story. You all know the story. We've been before this committee many times to describe it.

While our exports are inching up and we are pleased to see some of this progress, we still have work to do to capture the lost ground, and frankly, to capture our rightful place in supplying the growing global demand that's out there. I hope it's Canada that supplies it and not, for example, the Brazilians.

The sector is busy transforming and innovating, and we have done so, significantly, in partnership with governments. We've been retooling our operations, and we boast the best productivity levels in the country. We've been expanding our marketplace. We are very proud to be Canada's largest exporter to China. We've been deepening our world-leading environmental performances, and we are so pleased that global polling of our customers recently demonstrated that Canadian forest practices are viewed as the very best out there. As I think this committee is well aware, we've been investing in new technologies and products to add more value to the Canadian forest product offerings.

As we move forward, however, we really feel we must not take anything for granted. We must remember that the benefit of low oil prices is only temporary. We must recognize that exchange rates all over the world are devaluing against the U.S. dollar, and some of our major competing environments are experiencing favourable rates, much better than our own. I brought a little prop—which I will make sure I leave with the committee—on the currency of our competing jurisdictions and how it relates to the Canadian dollar.

Of course, I talked about global growth, and I see there are major investments going on in our competing jurisdictions, such as Brazil, Finland, and Sweden. They are readying to capture that growth, so we need to respond.

How do we respond? Well, I suggest we double down and keep doing what we've been doing. We have been focusing on transformation and innovation, and we've been building a strong partnership. We have great strengths: our world-leading environmental credentials, world-class fibre quality, trade agreements, and innovation expertise. We have an innovation system like no other country in the forest industry. We must build on these advantages and recognize that we are in a global race with competing nations and not just competing industries.

The drop in oil pricing and the dollar does not give us room for complacency. I would remind the committee about our past discussions of the need to continue our partnership on innovation, market activities, trade agreements, and transformational support that will propel the sector forward. It's a challenge we can take on together. We will reach our potential; we will create great jobs, and we will prosper.

Thank you.

● (1035)

The Chair: Thank you very much for your presentation.

We'll go to Mr. Watkins, please.

Mr. Ron Watkins (President, Canadian Steel Producers Association): Thank you, Mr. Chairman.

Good morning, committee members and fellow witnesses. I appreciate this opportunity to appear before you today.

My name is Ron Watkins. I'm the president of the Canadian Steel Producers Association, an industry with annual shipments in the range of $12 billion to $14 billion and employing some 18,000 people in Canada. We operate steel mills in Alberta through to Quebec. With other parts of the steel industry, we're an economic force across the country.

Today the focus of this committee is the impact of sharply lower oil prices on the manufacturing sector. You've already heard from many experts, including this morning's panel, with multiple perspectives. I will provide you our views from the point of view of the Canadian steel industry.

First, regarding the potential impact on our own production costs, we foresee modest net benefits at best. Our processes run primarily on natural gas and electricity, and the cost of the latter especially remains relatively high in Canada. Lower-priced oil could reduce our transportation costs, although that is contingent on those pass-throughs from the shippers. We've yet to experience that.

However, a key point here is that Canada is not an energy island. Our competitors in other jurisdictions are also experiencing lower energy prices, so our relative energy cost differentials have not shifted as much as absolute costs have. I think we've heard similar observations on exchange rate movements globally, as well as in North America.

Second, regarding the potential impacts of lower oil prices on our customers, and particularly our manufacturing customers, there's a range of factors at play in various sectors, as you've heard already today from other experts. Associated exchange rate effects can help exports, certainly, but they also increase input costs. Structurally, the erosion of the Canadian manufacturing base—this is a prime customer for our industry—over the past few years will not suddenly or easily be reversed by short-term shifts in input costs. Plants that closed will not reopen or be quickly replaced.

Manufacturing investment needs sustainable medium-term economic conditions and supportive public policies. That is why our industry consistently advocates pro-manufacturing policies across a range of policy fields. This includes the long-term extension of the accelerated capital cost allowance—we appreciate this committee's support for that—and competitive tax rates. It is also why we emphasize strong trade remedy laws to ensure fair competition in our market to counter the injury from dumped and subsidized imports, as recent rulings of the Canadian International Trade Tribunal have demonstrated.

Third, and very importantly for our sector, decreased capital spending in the energy sector will have a direct negative impact on the demand for steel products. For us, energy is much more than a cost factor. It's a vital customer for a wide range of steel products: construction materials, fabricated structures, drilling equipment, processing plants, storage facilities, and of course, pipelines and railcars to get Canadian oil and gas products to domestic and export markets.

Mayor Blake can probably speak better than I to the range and volumes of steel that move through her community. I look forward to her testimony too.

The energy-steel relationship embodies supply chains that stretch across Canada, beginning with iron ore mined in Quebec or recycled steel from multiple sources. These materials are transformed into steel in several provinces, then formed into pipe and tube and multiple other steel products for exploring, developing, processing, and transporting oil and gas resources.

In doing so, we employ thousands of people directly and indirectly in well-paid industrial jobs. When the energy sector is going, so do these opportunities, but the converse, of course, is also true, as we have seen already with hundreds of recent layoffs in our industry. In this key respect, the decline in oil prices has a direct negative impact on Canadian manufacturing and in turn on our own suppliers.

To summarize, lower oil prices are in no way a silver bullet for an expansion of Canadian manufacturing, certainly not for our industry, particularly because of the impacts on energy sector demand. We need to look to the medium-term outlook both for energy costs and for other structural factors that ultimately drive investment decisions.

Finally, it remains important that government policies across a range of factors help to set investment conditions that will strengthen the major supply chains we serve, including the energy sector itself.

In closing, Mr. Chairman, our industry feels that Canadians really need to be dissuaded from this false dichotomy between manufacturing and energy, or worse still, between west and east. The two industries are integrated through cross-country supply chains. More broadly, we continue to encourage this committee to focus on the structural policies that will contribute to investment and production in each of the supply chains we serve.

● (1040)

Thank you very much, Mr. Chairman.

The Chair: Thank you very much for your presentation.

We'll now go to Mayor Blake in Fort McMurray, please.

Mrs. Melissa Blake: Good morning and thank you, Mr. Chair and members of the committee, for this invitation to appear and share a community perspective on this global issue. Certainly it's going to be different from the ones you've heard before.

The Regional Municipality of Wood Buffalo consists of 10 communities in 66,000 square kilometres in northeastern Alberta. We are home to five first nations, several Métis locals, and many different nationalities, with over 156 different languages spoken in the homes of our school population.

In the 2012 census we identified a resident population of 77,000 and some additional 39,000 guest workers who live on-site in project accommodations. They come from all over Canada to work in the oil sands and then take their paycheques back home, wherever that is, and that brings our population up to about 116,000. We are well educated and earn an average household income of about $190,000 per year. Unemployment is at 3.8%, and yet there is a notable wage gap. The average age is 32, and just over half of our citizens are under the age of 35. In fact, over the last five years, our local hospital has delivered anywhere from 1,100 to 1,400 new babies each year.

Ladies and gentlemen of the committee, when I say that we've seen this before, what I mean is that we've seen variations of this before. When our region experiences a downturn, we find a way to take advantage of that.

In mid-2008 we had our first breather since the rush of new oil sands development took hold a decade before. We had a chance then to catch up, a chance to plan, and a chance to get ready for what was coming next. What came next was a very busy rebound.

Even today we have $21 billion in oil sands projects that are already approved, $4 billion that are in various forms of construction, and another $26.5 billion in applications, yet that capital spending pales in comparison to what these companies will spend in operations over the life of each of those projects. Each and every year forward, that combined value will go up from the approximate $5.3 billion that it was in 2012.

On the ground, people are still working and living normal lives. They're going to doctors and taking kids to sports, arts, and anything else that kids will do. They are still getting groceries, going out for meals, and even travelling, though they may be more carefully considering large purchases like cars, trucks, or RVs.

Businesses vary, and those that have exclusive ties to industry are further constrained and being asked to do more with less. There have been layoffs, but local businesses are in fact still hiring.

The non-profit sector has long been familiar with doing more with less, but now it is strained even further. Our food bank use was up 75% this January over last, and our February numbers are worse. Thankfully, we're a community that cares, and we will be able to overcome these challenges.

My council approved the 2015 budget with the expectation that we would not need to raise taxes. Four months later we are revisiting the capital projects and discretionary spending to ensure fiscal prudence in changing economic times. Our local economy and the contractors within certainly do need projects to bid on. In times like these, it's how we help keep people working, and Canada's investment in infrastructure helps us keep these projects on our books and those people working in our communities.

Our community is really still just catching up from the more than doubling of our population since the year 2000. The work is real and it is truly needed, and so is the need to curb inflation, reset expectations, and achieve greater efficiency in the industry, but experience tells me that it is really hard to predict the price of oil in either direction. From a community perspective, the rapid upswings can be even more difficult than what we're currently experiencing.

While these are challenging times, there remains a great deal of confidence in our local community. We take a long-term view and we remain optimistic that we will see a rebound someday and that we will once again change our economic outlook and activities.

To conclude, I believe that the need for energy will never cease. I believe that the oil sands will remain an important contributor in satisfying global demands. I know humanity must adapt and innovate in an ever-changing world. I also know that we must work together to ensure that my home, my community, and my people are able to survive, thrive, and prosper for ourselves and for our nation.

We've come through darker economic days of our past even stronger than before, and I believe that we will do that again this time, too. Believe me when I tell you that you simply have to see this place before you believe anything at all about it.

● (1045)

Thank you very much for the opportunity. I certainly look forward to any questions.

The Chair: Thank you very much, Mayor Blake, for your presentation.

Colleagues, we'll begin with members' questions.

We'll do six-minute rounds again, beginning with Mr. Cullen.

Mr. Nathan Cullen: Mr. Chair, can I just check in on process?

The Chair: Sure.

Colleagues, yesterday we did have a couple of members stay through the vote; they sort of paired. We could do that again if—

Mr. Nathan Cullen: When are we expecting votes?

The Chair: The votes will be at about 11:20.

We have one vote, I understand, so we could go and vote and then come back.

Mr. Nathan Cullen: I apologize to the witnesses. We're keen to hear your testimony and to ask you questions, but we keep getting interrupted by the affairs in the House and some votes.

The Chair: Can I get a sense from members on this? Do a few members want to pair and stay, or does everyone want to go and vote?

Mr. Nathan Cullen: What is the vote? That would be an important thing to know.

A voice: Time allocation.

Mr. Nathan Cullen: It's a time allocation vote?

I'd be prepared to stay.

Ms. Joyce Bateman: It's a vote on Bill S-7.

Mr. Nathan Cullen: It's time allocation on the bill? Okay.

Sorry, Chair. I just wanted to check on that.

The Chair: Go ahead, Mr. Cullen.

Mr. Nathan Cullen: Thank you again.

Mayor Blake, thank you, and perhaps I'll start with you. I was in your beautiful community a number of years ago. We talked about the pace and scale of development, you and I. I think a detached two-bedroom home was going somewhere north of $800,000 at the time. I imagine housing prices may have somewhat returned to this universe.

Just out of curiosity, are you hearing from folks on whether there has been a decline at all in the amount of temporary foreign workers who have been going through Fort McMurray, or is that not something you'd hear about through the employers in the industry?

Mrs. Melissa Blake: I would get only random stories. The fact of the matter remains that the temporary foreign worker program has been the most significant benefit to our hospitality and retail and service sector in this community. We simply were not able to bring in enough Canadians to fill the jobs we had.

I mentioned the wage gap. That's one of the big differences we experience here. The cost of housing is one of those influences, and the cost of living is a little bit higher. Even though these jobs exist in the community, it's tough to get people to be able to integrate here and accept them.

Mr. Nathan Cullen: We also believe in a strong immigration program so that if we're in need of workers in Canada, there should be a path to citizenship. That's something you and I spoke of as well. I think you spoke in favour of it.

You said something towards the end of your presentation about the council revisiting the budget. I don't want to get into details of the municipality's affairs, but did you set a budget as the price of oil was dropping, or...? When does your cycle happen that the council would set its budget?

● (1050)

Mrs. Melissa Blake: Yes, we did. On December 12 we approved our budget for the 2015 year. Though we did know or have an awareness at that time, and we were stringent on projects that we had reviewed, at this point there's much consideration in the community about how we might be able to trim things up, or maybe delay, and ensure that every project we have is suiting the population that is actually here as opposed to the ones that are yet to come. The future is sort of more nebulous to us: that's the reason.

Mr. Nathan Cullen: I don't want to put words in your mouth, but does the council go through and then reconsider the commitments it's making, or has made, in that budget cycle, given the current context of $50-a-barrel oil?

Mrs. Melissa Blake: Indeed, and I'm not quite certain whether changes will actually be made or will happen within the next few weeks. It's a matter of just making sure that everything we have is still what we want to have.

Mr. Nathan Cullen: Excellent. Thank you.

Turning to Ms. MacEwen for a second, one of the things we're hearing is not so much that $50 oil and 80¢, approximately, are the new normal, but they're much more a return to normal in the sense that the 40-year average on oil is about this price and the loonie may be somewhere closer to its true global value. It has appreciated against other currencies, just not against the U.S. dollar.

One thing that concerns me and part of the impetus for this study was that traditionally, in previous drops in oil, the loonie also fell and manufacturing picked up, so the net impact across the Canadian economy may have been hard in communities like Ms. Blake's before, yet there would be a consequent rise in others. But we're hearing from some in the manufacturing sector that this might not be the case, that there may be something structural happening where those manufacturing jobs are not returning with a robust U.S. economy and a lower Canadian dollar. Is that something your union has occupied itself with?

First of all, am I reading the situation right? Second, is there something structural that's happened in the manufacturing sector, in which we're not seeing the return to work of those value-added jobs, and is there anything we can do about it?

Ms. Angella MacEwen: I take the Governor of the Bank of Canada, Stephen Poloz, and what they've put out very seriously, where they've said there has been a loss of capacity in the manufacturing sector in Ontario. Since we're coming out of a recession where there hasn't been a buildup in machinery and equipment, because people were cutting back, there has been complete loss of capacity and plants have been shut down.

With the dollar low it is a bad time to be importing machinery and upgrading. Since they were already upgrading at capacity, we're not going to see a lot of upgrading, and it may not make sense for them, unless they're sure that this dollar is going to stick around for a long time. Many manufacturers were burned when the dollar rose, so they may not want to set their business plan on an 80¢ dollar for a long term.

Yes, that's something we're concerned about. Things we talk about are tax treatment of investment in equipment, appreciation and depreciation, that kind of thing, and public sector infrastructure transitioning to that green economy, because the old economy may not come back. We need to transition to a new green economy. We need to look at what kind of future we're going to be building.

Mr. Nathan Cullen: So as was once said, never waste a good crisis.

Ms. Angella MacEwen: Exactly.

Mr. Nathan Cullen: If there's this feeling of change, of something significant being altered perhaps, then what is the opportunity for the Canadian economy in that moment?

Thank you, Chair.

The Chair: Thank you, Mr. Cullen.

We'll go to Ms. Bateman please.

Ms. Joyce Bateman: Thank you to all of our witnesses. I very much appreciate the discussion that we're having this morning.

It's very interesting because one of the witnesses, Ms. MacEwen, referred twice in her testimony to the devastating recession that we have come through. Our government takes a great deal of pride in having performed better than any G-7 country after that devastating recession—to use her words—and to have created 1.2 million net new jobs in that context. I didn't realize that we were kindred spirits until today.

I want to talk about the productivity issues that some of our witnesses have raised. For example, Ms. Cobden, 235,000 people put bread on the table because of your industry. That's incredible. You did speak about productivity. Could you take a few minutes to expand on that? It's very interesting.

● (1055)

Ms. Catherine Cobden: I think one of our reactions throughout the decade, which has been a very difficult time, was to focus on retooling our operations to seek better productivity than any of our competitors globally. We have a full report on this which I would be happy to submit to the clerk. I don't want to spew off a bunch of numbers for you, but there is a significant effort that has gone on by industry.

Ms. Joyce Bateman: Feel free to spew.

Ms. Catherine Cobden: In our sawmill sector, for example, we outpace our U.S. counterparts. In the overall Canadian sectors we are the leader; the only leader beyond us could be agriculture. I have my colleague here with me.

We really did have to double down, make some major changes, and continue to move on that productivity track. We've adopted tons of innovation. I could go on about this, but essentially the innovation that's come out of this innovation system I was referring to has helped us improve our productivity. What I love is that we're adopting the innovation that we've jointly invested in.

Ms. Joyce Bateman: Wonderful.

It's not just the Forest Products Association of Canada that is experiencing better productivity. We've seen data recently indicating —and I'm quoting from some information we have here—that Canada's productivity levels are above the United States' level.

I'd like to ask Ms. MacEwen if this is a fact and we have Canadian productivity levels above the United States' level. How do you label the current situation a crisis when not only is the Canadian economy diverse—I believe oil and gas is about 7.8% of the economy—but many economists, and certainly many energy experts, and many of the people who have given testimony in the last several days, are saying that now is not the time for panic or overreaction?

Ms. Angella MacEwen: I don't think anything I've suggested is that it is time for panic or overreaction.

Ms. Joyce Bateman: Good.

Ms. Angella MacEwen: I think there are things we knew and needed to do in October that would still make sense to do now and would help to take the edge off if something were to happen.

I think if there is a crisis, it will be because governments overreact and cut spending.

Ms. Joyce Bateman: You're recommending that there not be an overreaction.

Ms. Angella MacEwen: Right. I think that the advice I gave before the price of oil...still stands as good practice.

Ms. Joyce Bateman: Okay, thank you.

That's very congruent with what our Minister of Finance has done. He doesn't want to overreact—

Ms. Angella MacEwen: I disagreed with him before, though.

Ms. Joyce Bateman: But there is congruence because he's taking time.... Just as the wonderful mayor from Wood Buffalo has said, the fiscal prudence they're demonstrating is taking time to make sure they can assess it, and that's in fact what we're doing with our federal budget.

I'd like to move to Mr. Watkins.

Sir, could you speak to the productivity issues in your industry? You were commenting about high energy prices. As a proud Manitoban, you really ought to move to Manitoba because our hydro is very affordable.

Mr. Ron Watkins: One of our members is there, actually.

It's a very good question, and I'd add just a couple of points to what I think every industry has done. They have had to become more productive and more efficient in their operations. Certainly it has been a challenge for us. We're a heavily trade-exposed sector. We're competing not just with the U.S., but with Asian and European countries as well as in our own market, so we have no options but to improve our productivity and compete.

One of the interesting ways that I think our industry has changed over time—I've been with the association now for eight or nine years —is that our employment levels have gone down, but our production levels have not, so that's a productivity increase. One of the things we've actually been able to learn from is the transnational nature of our companies in a sense. They're adapting best practices from their global organizations. I can tell you that some of our practices are being adopted by sister companies in other countries.

We're working hard at it. We've made a lot of improvement. There is always more that needs to be done, and there's also a role for public policy in that domain, as you know. It's very much a key issue for us, always.

● (1100)

Ms. Joyce Bateman: Very good.

Thank you so much.

The Chair: Thank you, Ms. Bateman.

Colleagues, I want to give you an update. There's about 21 minutes until the vote. The clerk has arranged to have a bus for those members who have to go vote.

I am going to stay. I am going to pair with Mr. Cullen. If others want to pair, they can endeavour to do that, but if you do want to vote, there will be a bus provided to take you to the vote.

Before I go to Mr. Brison, may I get approval for the budget for this study?

Some hon. members: Agreed.

The Chair: That's great. Thank you.

We'll go to Mr. Brison, please.

Hon. Scott Brison: This committee has no trouble approving budgets during these volatile times.

Some hon. members: Oh, oh!

Hon. Scott Brison: Thank you very much to each of you for joining us today.

I'd like to start with Your Worship Mayor Blake.

We heard Mr. Cullen refer to housing prices in your community earlier. What is the impact of the precipitous decline in oil prices on the housing market in Alberta and in your community?

Mrs. Melissa Blake: I have a couple of quick perspectives.

We have had significant difficulty in having enough land to keep pace with the growth that we've experienced. In recent times, last year basically, we were able to secure more land, so we took that out of the equation. What was happening in the housing market preceded the price drop in oil, but we were getting to a point of stabilization.

Houses are still very expensive here; if I can recall, I think they're still over $700,000. The marketplace has seen more people putting houses on the market, and it is taking longer to move those houses, but the prices have not had a significant decline at this point.

Hon. Scott Brison: Is there a sense of concern over the level of leverage around houses and the potential that as these oil prices continue at least well into 2015, according to the private sector economists, this could create a significant drop in housing prices?

Mrs. Melissa Blake: I think market influence would have more effect on that. If we undergo significant layoffs in the community, we will have more people who are forced to put product on to the marketplace. That's when you would see an impact directly correlated. At this point, we're not actually seeing that to any great extent at all.

Hon. Scott Brison: Thank you.

Mr. Watkins, we have a period now of slow growth and lower commodity prices. These things are being predicted now to at least go into the mid-term of 2015 for certain. With bond yields at historic lows, real interest rates actually being negative, a slow-growth economy and stagnant job growth, is this a good time to invest in the kind of public infrastructure that can create jobs and growth today and also a more competitive economy to create more jobs and growth in the future?

Mr. Ron Watkins: From the point of view of the affordability for government, that's a different question, but on the point of the value and importance of infrastructure investment to our industry, it's a very important segment for producers of products like rebar, and structural steel, and so on. Basically our end-use customers in automotive and energy are very much in the same rough percentages, the 33% range, maybe 35% range, and construction would be the third next big market that we serve. Construction uses a lot of steel in a lot of different ways, so it is an important market for us.

Hon. Scott Brison: Ms. Cobden, you mentioned the importance of the U.S. economy and the potential recovery, and of course market access to that economy is important.

The softwood lumber agreement with the U.S. is to expire in October 2015. I think there may be some other events in October. I'm not certain, but with that, are you concerned about that softwood lumber agreement and the fact that the Americans have not indicated a positive interest in renewing it?

● (1105)

Ms. Catherine Cobden: The softwood lumber agreement has been a terrific agreement for the Canadian forest industry. The prevailing view, of course, is we're hoping for renewal. I think we want to hang onto that view. It is important that the Department of Foreign Affairs, Trade and Development spend time on every scenario and be ready. We really must do whatever we can to assure trade flows to the U.S. and is not encumbered. We hope for a successful outcome.

I know that DFATD is watching this very closely. I think we must be vigilant here.

Hon. Scott Brison: DFATD was watching the Keystone XL pipeline quite closely as well; it might be helpful if we had a personal relationship between the U.S. President and the Prime Minister of Canada.

Mr. Volpe, it's great to have you join us today.

Compared to previous downturns or drops in the oil industry and commensurate production and the Canadian dollar, there has been a difference in the competitive environment around the auto industry in terms of the importance of Mexico today compared to the past. Given that our dollar has basically kept on track with the peso and has dropped relative to the yen, is it possible that policy-makers are overestimating the positive impact of the lower dollar this time around for the industry?

Mr. Flavio Volpe: I think that's possibly correct. From the final assembly point of view, the growth in the auto sector in North America has been southward, in the U.S. southeast but mostly in Mexico, and so if you want to service a customer in this business, as my members do, you have to usually go to that market. Fifty-five Canadian companies have established 110 production facilities in Mexico. They serve their customers from there, and in those cases there is no advantage to a Canadian versus U.S. currency exchange.

Hon. Scott Brison: Thank you very much.

Ms. MacEwen, given the slow-growth economy we're in and the Bank of Canada affirming, along with CIBC economists, the quality of jobs today and the soft nature of unemployment and the reality of underemployment, should we be investing more and taking advantage of this opportunity to build the kinds of public and economic infrastructure we need to create jobs and growth today?

The Chair: Just a brief response, please.

Ms. Angella MacEwen: Yes.

Hon. Scott Brison: Thank you.

The Chair: Mr. Brison, it's Mr. Cannan's round. There remains 14 minutes until the vote, and he can only stay if you stay, so can you stay for his round?

Hon. Scott Brison: We have been told to return unless there's—

The Chair: I'm paired with Nathan, and Raymond is paired with —

Hon. Scott Brison: Yes, but our whip makes those decisions.

The Chair: That's fine. If you're leaving, then probably he has to go then, too.

Hon. Ron Cannan: I'll be really quick. I have one quick question for Mr. Volpe.

Congratulations on your first six months of the presidency. It's been a big curve, and a very busy one for you.

I used to be in the auto industry, and I know the new manufacturers work with your OEMs in the aftermarkets three or four years out planning for a model year, so how does the price of today's oil affect your agreements for the long term, and from government's perspective, how have our policies helped your members prepare for the drop in oil prices?

Mr. Flavio Volpe: You're correct that planning for supply to an OEM usually starts 24 to 36 months out as you bid on a program. There are very sophisticated hedging programs, and OEMs have engaged in the practice of pricing in Canadian dollars to purchase. The fluctuation in currency right now is probably a momentary capture, and for long-term planning it's a less significant factor. The more significant factor is whether we have retained or can retain OEM assembler customers close enough to Canadian suppliers to be able to supply them from a logistics point of view. This government has been active in the retention of those customers here.

Hon. Ron Cannan: I represent Kelowna—Lake Country in the Okanagan, where we have Tolko and the forest industry. I appreciate, Ms. Cobden, your work in the industry and your comments today. We have 38 new trade agreements, and I know that especially the Asian market is big for your clients and your members. I just wanted to know the employment situation. Where are we at right now, and what are the trends? Do you have sufficient or can you see a shortage, or where are we?

● (1110)

Ms. Catherine Cobden: Yes, we definitely can. It's a bit of a patchwork quilt across the country, but overall for sure, everyone is looking at hiring again, which is very encouraging. We're aiming for 60,000 new jobs by 2020. We're well on our way. We've had 8,000 in the last year or two, and we are definitely still hiring today. Given the circumstances and all the questions, I think it's important to reiterate that. It's a big focus for us for sure.

Hon. Ron Cannan: Thanks.

I have a quick question for Mr. Watkins.

We chatted briefly before the meeting. Coming from British Columbia, you mentioned that the price of oil is not the silver bullet that's going to help lower some of the costs and that one of the issues for the housing industry in British Columbia is the “*r*“ word, the price of rebar. Is there any indication that a Manitoba supplier or any of your members could provide a more affordable supply of rebar to the British Columbia housing industry?

Mr. Ron Watkins: As you know, it's an issue before the tribunal even as we speak. There was a recent determination by the CITT to establish anti-dumping duties in relation to three other countries. Our industry is prepared to compete in that market on a fair market basis, on the basis of market economics. What we find we can't compete with is foreign governments and foreign dumping practices, and that's why the trade remedy system is important.

The B.C. market is served somewhat by our members, but it's served by imports from several other countries, including the United States, and as long as that trade takes place on market-based principles, then we simply have to compete.

The Chair: Thank you.

Thank you, Mr. Cannan.

[*Translation*]

Mr. Côté, you have the floor.

Mr. Raymond Côté: Thank you, Mr. Chair.

I would like to thank all the witnesses for coming to our meeting.

Ms. MacEwen, in his presentation this morning, Mr. Myers stated that the change in the environment of the Canadian economy was not such a good thing to the manufacturing sector. Namely, he said the following:

> More generally, plunging oil prices are a signal that all is not well in the global economy. It is a reflection of uncertainty, and uncertainty is not good for investment.

Do you agree with Mr. Myers?

[*English*]

Ms. Angella MacEwen: That's true. If you look at the geopolitics going on right now in oil-producing countries like Russia and countries in the Middle East and at the decision of OPEC to increase supply, absolutely it looks as if the reason for the price of oil is global political instability, and that is of grave concern. Also, in terms of trade and growth, Europe is unstable, and the United States is uncertain and unstable with regard to how they're going to respond to that crisis. I would agree that certainly has to be taken into consideration when manufacturers are making decisions.

[*Translation*]

Mr. Raymond Côté: It seems that we have missed a wonderful opportunity to invest in order to be better positioned to take advantage of current conditions. Investment was not all that great in the manufacturing sector. There is a huge trade deficit in terms of non-energy exports. Some sectors have performed well, but overall, it is a big problem.

I re-read an open letter from a renowned economist, Joseph E. Stiglitz, published in *Project Syndicate*, where he said that the austerity recipe and the mix of corporate tax cuts associated with lower spending weakened the economy and had practically no effect on investment. He said that, on the contrary, higher taxes are not an obstacle to business investment, especially as most corporate investment is in any case financed by debt and interest payments are tax deductible.

Obviously, we have been in the grip of magical thinking in recent years. We really missed the boat; we got left behind.

● (1115)

[*English*]

Ms. Angella MacEwen: Yes, absolutely. For the past three or four years, I think, the Canadian Labour Congress has been calling for using taxes to raise more revenue to make public sector investments in the common good. Again, that's to shift to the economy of the future that we're going to be needing, with green infrastructure, the increases in public transit that the mayors across Canada are calling for, increases in retrofits to make homes energy efficient, and also to train workers to do these types of jobs that we're going to need in the future, and to make sure that workers in industries that are shifting and the industries that are shifting have the support they need to transition to a different kind of economy.

[*Translation*]

Mr. Raymond Côté: My question is for you, Ms. Blake. Thank you very much for participating in our meeting by video conference.

I do not want to stir things up, but I must say that at the time, when your former MP Brian Jean spoke about the lightening fast development of the oil sands, he mentioned infrastructure problems. You mentioned that. I think your positive attitude is quite appropriate. However, the challenge is enormous, both in terms of road infrastructure or the infrastructure associated with providing services to people.

Mr. Jean wondered about what decision should be taken in terms of hospital services in your part of the country. He clearly stated that the management of the oil sands operations was not a federal issue but a provincial one.

Are you inclined to agree with him?

[*English*]

Mrs. Melissa Blake: Very generally I am, and I think this is a significant investment in natural resource development. The fact that I have some 40,000 people who come to our region from all parts of Canada makes me believe that there is some evidence the Government of Canada is not only benefiting from it but should also contribute to some of these more collective projects. I look at the airport. That's a fine example of what would be a good investment for Canada.

[*Translation*]

Mr. Raymond Côté: Thank you very much.

Mr. Watkins, I am the member for Beauport-Limoilou, which is one of the five urban ridings of Quebec City. Many important debates are held in our beautiful city, including debates on infrastructure. A streetcar project was put on hold for a while. As Ms. MacEwen said, we must consider investing in an adequate infrastructure program to meet the challenges facing our municipalities and intercity transportation.

Given the current climate of economic restraint, independent of the level of government, the project was scaled down to become smaller and less costly. However, experts are protesting and saying that, on the contrary, this is the time to invest in infrastructure that is truly substantial and heavier, and especially more efficient in terms of public transport and traffic flow.

Considering the impact this could have on your industry, should we be much more active in terms of investing in infrastructure at different levels? This could also involve intercity transportation with a high-speed train.

[*English*]

Mr. Ron Watkins: Time is tight, but to answer the question very quickly, as I mentioned earlier, infrastructure or construction broadly is a significant end-use demand for steel products, and investments in physical infrastructure certainly pull steel demand, frankly, so that is very much an area of activity that's important to our industry.

We've been supportive of efforts by both federal and provincial governments to put in place long-term infrastructure plans and do everything we can to encourage the procuring agencies to give every consideration to Canadian suppliers.

The Chair: Thank you.

We'll go to Mr. Van Kesteren, please.

● (1120)

Mr. Dave Van Kesteren: Thank you to all of you for being here.

Following up on Mr. Côté's statement about austerity and the lowering of taxes as being a drag on the economy, I wonder if we could get an opposing view, or if there is an opposing view from the other three members. Do you feel that it's a bad idea to lower taxes and encourage governments to spend less money?

I'll start with you, Mr. Watkins.

Mr. Ron Watkins: I think this was discussed a bit in the previous panel as well, that having competitive tax rates and regimes in Canada versus our competitors is very important. I think it has benefited not simply our own industry, but we always look at the impact of tax measures on our customer base, basically, on manufacturers and—

Mr. Dave Van Kesteren: I guess my question should be, has what the federal government done in lowering corporate taxes, lowering GST, and all these other things been a positive thing for industry?

Mr. Ron Watkins: I think it has contributed to the growth in manufacturing, but we also look at some of the very specific measures like the accelerated capital cost allowance that Mr. Myers commented on earlier and the impact that's had on capital investment by manufacturing. In a sense it's not just the tax rate, but it's also the related incentive measures for investment.

Mr. Dave Van Kesteren: Ms. Cobden.

Ms. Catherine Cobden: I'm going to echo the point that we need to be vigilant on looking at our hosting conditions. I think great steps have been taken. More steps can be taken.

On the point about spending less, obviously we have a strong partnership with the forest industry and with government on our innovation system and that kind of thing, and I don't think we should be ill-informed about what other nations are doing with their industries. We need to be careful and considerate, but we still need to look at how we work together in joint investments to compete in—

Mr. Dave Van Kesteren: The two of you would agree that the two are connected.

Ms. Catherine Cobden: Yes.

Mr. Dave Van Kesteren: If we lower taxes as a government, because we're taking in less, we have to be more cognizant about it.

Mr. Volpe, what do you feel?

Mr. Flavio Volpe: In our narrow band of parts manufacturers that export but compete ostensibly in NAFTA with U.S. and Mexican jurisdictions, one of the key sales points we have for investment here is the combined federal-provincial corporate tax rate. Among all the other dynamics that we fight against, that's a positive for us for a new customer base.

Mr. Dave Van Kesteren: Thank you.

I'm going to go to Ms. Cobden for a second.

It's a great success story, and our illustrious chair Mr. Rajotte and I served in industry and we went through those trying times. Those were difficult times. I remember that we all struggled with what we should do.

This is going to be a segue to Mr. Watkins. One of the questions that was raised was whether there were other jurisdictions that have done other things in forestry. Interestingly enough, Sweden has. They started to recognize that boreal forests cover the whole planet and they're going to start producing the industry.

You've done some marvellous things. You've done innovative things. It's great to see. Again, it was very painful to watch some of these mills that were inefficient and couldn't survive close, but you did some marvellous things. I'm going to ask you both, is there something else that the forestry industry.... I'm going to ask the steel industry, because you're in the same position. Interestingly enough, while you had the opportunity when you had the high dollar, you didn't take that opportunity. I'm not being critical, but what I'm saying is that when the investment was made and when you had the opportunity to make the investment, we failed to make those investments. I'm just curious. Is there something that the forestry industry is doing besides just doing a great job milling and such, or are there some areas you're exploring that we, as Canadians, could be leaders in?

Mr. Watkins, I'm going to ask you the same question.

Ms. Catherine Cobden: First of all I have to say that it's really nice to be able to talk about some successes after the decade we've had, so that's fantastic.

Absolutely, we're exploring. We've launched Vision2020, and it was not lacking in ambition. We want to add $20 billion to our $57 billion current situation. We want to do this by ensuring that we extract as much value as we can in a sustainable way to make products to serve the world. We are on that journey. We've had some great successes with that journey thus far: the investing in forest industry transformation program, for example, and the pulp and paper green transformation program.

To your point about what Sweden, Finland, Brazil, and Russia are doing, they're gearing up already to capture the new growth that's coming, so we have to continue what we've been doing.

● (1125)

Mr. Dave Van Kesteren: The ACCA...those are all important.

Ms. Catherine Cobden: Yes.

Mr. Dave Van Kesteren: Mr. Watkins.

Mr. Ron Watkins: I'll speak to both direct and indirect ways in which this plays out. First of all, while you did not see brand new steel plants go up in Canada since then, there has actually been a lot of investment in the operations that we have. Frankly, you haven't seen much in the way of brand new steel plants in North America, largely because of the pressure from overcapacity in China and elsewhere. There has been reinvestment, productivity improvement, process improvement, and technology improvement, including environmental technologies, over this period of time.

Another factor came up in the earlier question about the impact of dumped products. If we're subject to dumped imports from other countries, that's going to undermine the competitiveness and in a sense the validity of investing in Canada, so having a strong trade remedies system is actually an important investment factor for our industry.

Mr. Dave Van Kesteren: The other thing I want to mention too is that there has been a lot of talk about green energy. I think we've done that to some degree and perhaps we haven't done enough of that. I've been to China and I've seen their mills. They are impressive, to say the least, but they're filthy dirty. They use filthy dirty coal and they don't really care about that. Interestingly enough, they're the biggest advocates of our getting into the green energy business.

Can you perhaps tell us a little bit about some of those challenges that you have with where we're going? Do you know what I'm talking about?

Mr. Ron Watkins: I'll just quickly start.

They are challenges for us too. I bet that some of the mills you saw in China were their newer ones and not some of the older ones that are still operating.

Mr. Dave Van Kesteren: They're beautiful mills, but the coal plants are—

Mr. Ron Watkins: We have a range of environmental requirements we have to meet, a lot of them at the provincial level. We do that. We invest in the technologies and new capital investments to do that.

In the long term as an industry, our industry is working globally to find new technologies to in a sense make steel in some fundamentally different ways to deal with some of the GHG questions. There is continuous effort in our industry to do so. We actually think that from a GHG point of view it is better to get Canadian steel than a lot of these foreign products.

Mr. Dave Van Kesteren: Can I just clarify that when I talked about “filthy dirty” I was talking about the air; I wasn't talking about the plants, because you're right that at the plants you could eat off the floors.

Mr. Ron Watkins: Again, it depends on whether you have environmental regulations and also whether you enforce.

The Chair: Thank you, Mr. Van Kesteren.

Mr. Cullen, please.

Mr. Nathan Cullen: That filthy dirty coal is coming from us. We supply the vast majority of that anthracite coal that goes in.

I want to turn to Mayor Blake again for a moment. I may have missed this, Your Worship, I had to step out for a phone call, but in your presentation I think you talked about taking a breath. That was during the 2008 collapse when things got off the front burner for a moment because the pace of development in trying to keep up until that point had been breathtaking, to continue the analogy.

What is the infrastructure opportunity for communities like yours right now in the context of very low interest rates and perhaps lower pressure on the workforce supply in Canada that Ms. MacEwen and others have pointed out? Is this an opportunity for the federal government to assume some responsibilities in working with communities like yours to invest for what comes next once this particular pause is over?

Mrs. Melissa Blake: I certainly think it's a great viewpoint. When I mentioned earlier about the vastness of the projects that we've had, the lag time that we had in 2008 actually helped us to catch up a little bit, but we're still behind the eight ball. We have any number of committed capital projects that have not actually even commenced in some cases.

When you look at the broader picture of where can a federal government actually get engaged, another project that comes to mind is that we currently have one road, Highway 63, that has been an incredible focus because it was so incapable of managing the volumes of traffic that we had seen. It's also the only road that will take you from outside the community right through to the oil sands plants, but it serves every neighbourhood in the region. It also carries all those modules of steel that will come up that road, as well as dangerous goods, both in and out of the community. One road for that purpose is a very concerning thing for me.

When I look at this industry and I look at the opportunity, we are mindful that a bypass road would be very beneficial to industry, and it is a significant cost that the municipality itself could never do. We are working to engage industry, we're working to engage the province, but it's another chance where the Government of Canada might say that this makes ultimate sense for us to be a participant in to pave the path to the future. I think it leads to economic diversification opportunities beyond the life of the oil sands as well.

● (1130)

Mr. Nathan Cullen: Deficits have been an issue; this government has run successive ones nationally, but is now, according to the finance minister, on track to balance.... Yet we are running—I'm just looking up the numbers here—tens of billions of dollars of infrastructure deficit across Canada, with municipalities like yours unable to meet the challenges. The Toronto Region Board of Trade, and groups from Fort McMurray, to Vancouver, Halifax, and beyond, recognize infrastructure, particularly around congestion.... I look at Highway 63 and just even the danger factor for those workers travelling south to Edmonton. I wonder, with these circumstances, why the government wouldn't see this as an opportunity to build the next stage for Canada. Thank you for that.

I want to turn to Ms. MacEwen for a moment. There is a connection—and this goes to Ms. Cobden's testimony as well as Mr. Watkins'—and it's an implicit connection between an increase in productivity and efficiency within any of our industries, and a drop in labour participation. Is it an explicit connection? I come from a forestry sector in northern British Columbia. We've seen mills, almost within the same breath, announce major investments, $10 million, $20 million, $30 million, into a mill and then within a couple of weeks the layoff announcement comes, because the mill becomes more efficient. It's just that fewer people are required to turn out the same volume, or even more in most cases.

I want to go to Ms. Cobden just for a second before I go to you, Ms. MacEwen.

How many Canadians worked in the forestry industry, say, 15 years ago?

Ms. Catherine Cobden: There were 100,000 more. I would suggest, though, that these changes are not all from productivity improvements; the vast majority of those jobs went because of structural and significant downturn in the economy.

Mr. Nathan Cullen: When we return to a more robust U.S. housing market, for example, with those investments being made in a place like forestry, we are not expecting the uptick. We were asking this of the manufacturers. This is why we are doing this study, to understand whether, if the U.S. picks up, if the dollar is lower, if interest rates are low, we are going to see a manufacturing surge back. We've lost 400,000 manufacturing jobs across Canada since this government took over. No one seems to be presenting the case that we are going to get anywhere near replacing those good-paying middle-class jobs just because of some structural changes that have gone on in our economy. Is that a fair assessment?

Ms. Catherine Cobden: I'd like to say that the position I've tried to put on the table is that we do have a tremendous potential ahead of us. It's not going to be easy, and I think we are not going to be able to get there alone. We have 60,000 jobs that we want to achieve in the next six years. That isn't making up the full lost ground. You're absolutely right. However, I would also suggest that if we got busy with grabbing the opportunities that are out there, that Sweden, Finland, Brazil, and all these other places are grabbing, we'd have a lot more jobs than that.

Mr. Nathan Cullen: I'll go first to Ms. MacEwen and then back to you, perhaps.

Can you give us one policy initiative that we should be considering right now, given the circumstance we're in, the experience we've had over the last six or seven years, specifically about manufacturing? We've lost nearly half a million manufacturing jobs. Many are predicting an energy price about here and the Canadian dollar returning to something normal.

How, specifically, would you respond to Ms. Cobden's comment? What would the Canadian government proceed with as a policy to help restore some of those manufacturing jobs or create new ones?

Ms. Angella MacEwen: We are partners with the Green Economy Network and have a paper that talks about one million climate jobs. We propose a three-pronged approach that is using public procurement to increase investment in transit. We are losing the ability to have local procurement at the provincial level under CETA, but if we use public procurement, we could purchase transit vehicles, have a capital infrastructure that's built in Canada using the steel we make here, and have a green retrofit of houses that could use forestry products that we make here in Canada. We could train workers to work in both of those fields.

Mr. Nathan Cullen: Sorry, I'm running out of time. I am trying to think of an example. Part of the so-called NDP budget of 2005 was for green infrastructure, particularly transit in Toronto. It was used to make subway cars in Thunder Bay.

● (1135)

Ms. Angella MacEwen: Exactly. That's a fantastic example that we use a lot. The sourcing of the Toronto subway is from Bombardier. It kept 500 jobs in Thunder Bay. Those are permanent, good, well-paying jobs.

We also say that investment in renewable energy itself would create one million jobs and lower our greenhouse gas emissions over the next 10 years.

Mr. Nathan Cullen: Thank you.

The Chair: Very briefly, please.

Ms. Catherine Cobden: We should think about the existing manufacturing base and how we add in these green opportunities. FPAC has a strong position in support of these ideas. You have approximately a billion dollars, give or take, of assets in each of these communities in rural Canada. Why wouldn't you build off that? Something that links innovation, environmental performance, and building off your capital stock is the kind of idea we would like to suggest is worthy of consideration.

The Chair: Thank you, Mr. Cullen.

A comment on that point is, I agree. I think the ACCA is an excellent example. It not only helps companies in terms of productivity, but it also helps in terms of newer equipment. New machinery is more environmentally sound as well, so it accomplishes two goals, in my view.

Mayor Blake, I want to clarify something. I'm from Edmonton; I'm an Albertan as well. Just to clarify, Highway 63 is being twinned. My understanding on Highway 63 is that it was not a lack of federal funds or federal priority. I don't want to blame another level of government, but the reality is that federal funds were ready to go quite some time ago. I think it was the province in terms of identifying its priorities. It's very high on the province's list. It is being twinned now. When will it be completed? Can you just clarify that the federal funds were available some time ago for that project?

Mrs. Melissa Blake: Yes, I certainly can confirm that.

My understanding, of course, is that the detriment in terms of applying those funds and making it happen is that there was no completion date for that highway until probably two years ago now, when they finally said that they would invest what they needed to complete that task by 2016. I'm very optimistic that by the end of next year we should be able to have that fully opened. What we're experiencing is great improvement. I do thank the federal government for their contribution.

The Chair: Okay. I appreciate that clarification very much.

Mr. Volpe, I wanted to get to your presentation. I thought it was very good.

One of the things that we're doing in these hearings is we're showing the complexity of the relationship between oil prices and the Canadian dollar. Also, we can't just simply say as policy-makers that if the Canadian dollar goes down, it benefits the manufacturers and it's all good. You've explained that very well. One of the things you say in your brief is, “Plant overhead is a mix of Canadian and foreign currency-based exposure. Canadian-based costs include electricity, indirect labour and local services. However, virtually all specialized and heavy machinery and ancillary equipment are based in U.S. or euro currency costs.”

Can you speak to that in terms of identifying for the committee that companies in your sector—and others may want to comment—what is a more complex picture than simply saying that when the dollar goes down there are benefits to manufacturers and exporters?

Mr. Flavio Volpe: Sure.

I think there's a contrast that has to be made in manufacturing in the primary industries and the secondary industries. If you're deriving goods from primary industries in market and you're dealing in Canadian currency, it's one thing. On the secondary industries we're assembling subproducts and inputs from not just the U.S., but from European, Asian, and South American origins. There really is a complex matrix of what goes into the product.

With the customers in my business, we don't deal with the retail customer; we deal with a couple of dozen final assemblers. Their footprints are all over the world. They're certainly in three different countries on this continent. We're dealing in a whole bunch of different currencies, both for input and for output. Some of the most important people on their teams for us are their modellers, their futurists, and their program planners. They don't worry about the price of oil in the short term.

The Chair: In terms of your suppliers, you're dealing with at least three currencies.

Mr. Flavio Volpe: That's right.

The Chair: In terms of your customers, are you dealing with three currencies as well?

Mr. Flavio Volpe: On a declining scale I'd replace three with dozens, but in terms of important currencies, the North American ones are the ones we're primarily dealing with, that is, with the addition of the euro.

● (1140)

The Chair: Okay.

Overall, though, is the declining dollar a net benefit?

Mr. Flavio Volpe: Inasmuch as you're exposed to an American customer dealing in their currency, there is a momentary capture, but those customers also then turn around. What we talk about is that customers will look at what we sold them this year and then ask for give-backs. Then when they price the next program, they like the lower dollar as much as you do. The problem is we buy our goods in U.S. dollars so we have to push back.

The Chair: I assume your members hedge.

Mr. Flavio Volpe: Yes. They've learned to hedge over the years, but there were structural differences up until maybe 10 years ago. We were dealing with a 62¢ to 65¢ Canadian dollar and lots of Canadian final assembly production. Then the world fell apart. Now everybody understands that if you're going to survive, you have to hedge. It's not just hedging on currency, but also hedging on footprint. There are a lot of strong Canadian companies that supply their customers from U.S. plants and Mexican plants, so they have all their other input costs like labour in that domestic currency.

The Chair: You said you hedge not only on currency....

Mr. Flavio Volpe: You also hedge with your production, geographically, and hedge on currency from your operation within Canada, both on buying and on selling.

The Chair: You hedge in terms of how much you allocate here, depending on currency or depending on a host of factors?

Mr. Flavio Volpe: There are a host of factors. If I wanted to serve a customer that assembles in Tennessee, I might decide to set up a plant in Tennessee and serve that customer there as a Canadian company but with a Tennessee footprint. The same could be said for Coahuila. That helps buffer the currency that our customers are already hedging just on a transactional basis.

The Chair: Okay. That's fascinating. I appreciate that.

Mr. Watkins, you talked about something that I believe in very passionately. We set up these false dichotomies between west and east, between manufacturing and energy, as you know, because you've been to Nisku in my area. You have a member there, Tenaris. You have other members in the area who very much are linked to the energy sector. When people say, “Here's energy and here's manufacturing, and they're two halves of a dichotomy and they don't meet”, you know very well that in fact they're integrated. In fact, the other panels have said that manufacturing and energy are much more directly linked than they have been in the past.

I know that was in your closing, but could you expand on that?

Mr. Ron Watkins: Thank you, Chair.

It's very important to understand that connection. I tried to explain earlier. I know you're talking about Tenaris in your own riding, but again, the products they are supplying through there originate with steel made somewhere else. We think this supply chain effect across the country is very important to showing how manufacturing and energy are not just compatible with each other but are interdependent.

As I explained earlier, we can trace the pipes in Nisku or in the ground in Wood Buffalo back to an iron mine in Quebec as the starting point, to a steel mill in Ontario or Quebec, or Regina or Calgary, as the processing point, and onward.

It's not just that material is moving; there's a value-added at each one of those steps. This is a value-added chain across the country whereby we get Canadian steel into the oil and gas segment. That's why we're so keen on that development. We're equally supportive of the efforts to spur LNG investment in British Columbia. That's a very steel-intensive business, not just at the port but back into the gas fields as well and in transporting the gas to port. These are essential relationships.

What's really changed in our industry over the years is the proportional importance of that in terms of our production.

We grew up as an industry based largely on automotive and construction. The energy sector is kind of in the ballpark with automotive as an end use of our steel products. That's energy broadly defined. It's a very important set of relationships.

The key point to your question is that it doesn't all happen in Alberta. A lot of what's happening in Alberta is actually causing things to happen in provinces east of there.

The Chair: I appreciate that very much.

Thank you, all.

This has been a fascinating panel.

Mr. Cullen.

Mr. Nathan Cullen: Ms. Cobden, you talked about trade to China. Do you have a value ratio for value-added versus raw export to China?

That's been a curiosity of mine. Is that something you could provide? I don't necessarily mean now.

● (1145)

Ms. Catherine Cobden: Absolutely.

I would just say that only a very small component is made up of raw logs. I know that question continues to be raised by this committee, but the value components are pulp, lumber, and paper. We'll get all of that to you.

Mr. Nathan Cullen: That would be helpful. Thank you.

The Chair: If you can provide that to the clerk, we'll ensure all the members of the committee get it.

If there's anything further that any one of you wishes the committee to consider, please do provide that and we'll ensure all the members get it.

I know there are some other questions, but I think we'll have some conversations offline after the meeting.

Thank you so much for being with us and responding to our questions.

The meeting is adjourned.