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## **Standing Committee on Public Accounts**

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**EVIDENCE**

**Monday, March 30, 2015**

**Chair**

**Mr. David Christopherson**



## Standing Committee on Public Accounts

Monday, March 30, 2015

• (1530)

[English]

**The Chair (Mr. David Christopherson (Hamilton Centre, NDP)):** I now declare this 53rd meeting of the Standing Committee on Public Accounts in order.

Colleagues, there are a couple of matters before we begin. Let's deal right off the top with the fact that I have information from my whip, and I have confirmed it with the clerk, that beginning around 3:52 we can expect a 30-minute bell for a vote. Mr. Albas had asked me how much time we need to do at least the presentations part. We'll be hearing from two individuals prior to rotation, one for 10 minutes—and I'll explain that in a minute—and then of course the Auditor General's office for another five.

I'm in your hands as to whether you want to proceed through the bells or part of the bells or suspend at the bell. I seek the guidance of the committee as to how to proceed.

Ms. Sgro.

**Hon. Judy Sgro (York West, Lib.):** Mr. Chair, if it's a 30-minute bell and it starts at 3:52 and we're just next door, surely we could continue until 4:15 or 4:12 or something. That way we won't lose too much time, given the fact that we have very important witnesses here today.

**The Chair:** There's a suggestion on the floor that we go that way.

Mr. Albas.

**Mr. Dan Albas (Okanagan—Coquihalla, CPC):** Thanks, Mr. Chair.

I'm worried that someone will be in the middle of their turn and whatnot, so I was hoping we would just hear from the Auditor General's office and then from some officials, and then we could go do our votes and then return for a round of questions from all parties. I think that makes sense. However, we'll see what the rest of the committee has to say.

**The Chair:** Mr. Allen.

**Mr. Malcolm Allen (Welland, NDP):** I think we don't want to cut anybody off in mid-sentence, so I think if we used part of the time appropriately to get to the end of that particular round, we could then walk down the hallway. I suppose we could eat some of that 30 minutes up, if everyone was in agreement.

You don't want to say to somebody, "It's exactly 4:12, so you have two minutes left. Come back later", at the House. I don't necessarily think that would work. We can go to 4:14 if we have to or just not start that last one.

**The Chair:** I'll tell you what. Everybody seems fairly flexible about trying to find some common good, so why don't we finish, at the very least, the introductory remarks. Then we'll check the clock and I'll touch base with you again and see. There's likely to be something obvious in front of us that we can move at that time.

Does that work for everybody?

**Some hon. members:** Agreed.

**The Chair:** Very good. That gives us process.

I would also ask the committee to give a very warm welcome to a foreign delegation, colleagues from Vietnam, including their deputy auditor general. I know we would like to give them a very warm Canadian welcome for being here.

**Some hon. members:** Hear, hear!

**The Chair:** Thank you for taking the time to visit us. We're honoured by your presence.

I will be meeting with the delegation afterwards for a short briefing and any colleagues who would like to join us are welcome.

I will just remind everybody that at our next meeting, on Wednesday, we'll resume our draft study of chapter 3, on mental health services for veterans, of the fall 2014 report of the Auditor General.

I'm now ready to move us to the orders of the day. Today our hearing is on chapter 5, on support to the automotive sector, of the fall 2014 report of the Auditor General of Canada. Our format is a little unusual today, colleagues. There are three groups of presenters from the government side, and I was asked if one of them could do a 10-minute presentation, which is what the three groups would prefer, as opposed to taking the 15 minutes they would take if they took five minutes each.

I saw no problem with that and have given them the approval and the okay. Unless the committee wants to have a revolution over that, that's the way we'll proceed. We will, however, of course first hear from the Auditor General's office, which will give its opening remarks in the usual fashion. Unless there are any interventions, we are going to proceed in that fashion.

Pardon me?

• (1535)

**Mr. Jeff Watson (Essex, CPC):** That's a revolutionary idea there, Chair.

**The Chair:** Thank you, Mr. Watson. It's nice to have you join us. You're not a regular member of the committee—

**Mr. Jeff Watson:** Thank you.

**The Chair:** —thankfully.

**Voices:** Oh, oh!

**The Chair:** We'll now turn to the Auditor General's office, which is represented today by Mr. Berthelette, whom we all know very well.

Welcome to you, sir. The floor is yours.

[Translation]

**Mr. Jerome Berthelette (Assistant Auditor General, Office of the Auditor General of Canada):** Thank you, Mr. Chair.

I thank the committee for giving us this opportunity to discuss chapter 5 of our report, entitled “Support to the Automotive Sector”. It is in our 2014 Fall Report. Joining me at the table is Richard Domingue, Principal, who was responsible for the audit.

The global economic recession of 2008 negatively affected Canada's production and employment in the automotive industry. Vehicle sales declined sharply in the United States and Canada, and some companies, including Chrysler and General Motors, could not generate sufficient income to fund their operations.

In December 2008, the governments of Canada and Ontario joined the U.S. government and offered financial assistance to Chrysler Canada and GM Canada. In total, the federal government provided \$9 billion of financial assistance to support the restructuring of Chrysler and GM, including their Canadian subsidiaries.

[English]

We looked at how Industry Canada, the Department of Finance Canada, and Export Development Canada managed this financial assistance. The assistance involved complex transactions, high uncertainty, and tight timeframes. These circumstances had an impact on what Industry Canada could do to manage the assistance.

[Translation]

We found that Industry Canada, the Department of Finance Canada, and Export Development Canada managed the financial support to the automotive sector in a way that contributed to the viability of the companies and the competitiveness of the sector in Canada over the short and medium terms.

[English]

Industry Canada adequately assessed the recovery prospects of Chrysler and GM. This helped the government decide whether to participate in the financing of the companies' restructuring. However, Industry Canada had limited information on required concessions from unionized labour and other stakeholders, and on GM Canada's pension liabilities. This lack of information made it difficult for the department to understand the impact of its assistance on the long-term viability of the companies.

Industry Canada's information on the use of funds was limited to broad categories. For example, Industry Canada had limited documentation on the actual use of a \$2.8-billion loan made to GM Canada for capital expenditures, warranty claims, and other general corporate purposes. However, the department adequately monitored the companies' production commitments in Canada.

[Translation]

Mr. Chair, we also found that there was no comprehensive reporting to Parliament of information about the restructuring assistance. Based on the information publicly available, we found it impossible to gain a complete picture of the assistance provided and of the amounts recovered and lost.

[English]

In 2008, the federal government launched the automotive innovation fund program. The program's objective is to support automotive firms in their strategic, large-scale research and development projects to produce innovative, greener, and more fuel-efficient vehicles. In addition, the government expects the program to contribute to a more competitive Canadian automotive sector.

We looked at how Industry Canada managed this program. Overall we found that Industry Canada's assessment of each project proposal was consistent with the program's terms and conditions, but in our opinion its risk assessment framework was more comprehensive than required. The department could streamline its risk analysis, given that recipients assume all of the technical risks and most of the financial risks of their projects.

• (1540)

[Translation]

Industry Canada has adequate information coming from progress reports and site visits to allow the progress of each project to be tracked.

However, Industry Canada has not yet used this information to determine whether the program is achieving its objectives.

[English]

Industry Canada has agreed with our recommendations and set deadlines for their implementation. Last December the department met one of its deadlines by issuing a report entitled “Summary Report on Canada's Support for the Restructuring of General Motors and Chrysler in 2009”.

[Translation]

Mr. Chair, this concludes my opening remarks. We would be pleased to answer any questions the committee may have.

Thank you.

[English]

**The Chair:** That's very good.

[Translation]

Thank you very much.

[English]

Moving now over to Mr. Jennings, who is the assistant deputy minister, industry sector, from the Department of Industry. I would ask you, Mr. Jennings, if you would introduce not only your delegation but all the individuals who are here whom you are speaking on behalf of.

You look a little perplexed. Are you not quite ready for that introduction? However you want to handle it.... They can do it individually.

**Mr. Philip Jennings (Assistant Deputy Minister, Industry Sector, Industry Canada):** I don't know Miguel's title.

**The Chair:** Okay, you're worried about titles. Listen, the one thing we learn in politics with titles, when you're at a public event, if it's police or military and you're not sure, always guess way above what you think the rank might be. Never guess below. Give him a fancy title and away we go.

With that, sir, you have the floor.

**Mr. Philip Jennings:** That's perfect.

I'm joined here by Charles Vincent, who's a senior director with the auto group in the industry sector at Industry Canada; Richard Botham, who is an assistant deputy minister at the Department of Finance; and Miguel Simard, who is the assistant general counsel of finance for Export Development Canada.

**The Chair:** That's excellent.

**Mr. Philip Jennings:** With that, thank you, Mr. Chair and committee members, for allowing me to provide you with a brief overview of Industry Canada's response to the Auditor General's 2014 fall report on the restructuring assistance provided to General Motors and Chrysler during the economic crisis of 2009 as well as the automotive innovation fund.

As you are aware, Canada has a strong automotive sector, which generates \$17 billion annually of value-added, or 10% of Canada's manufacturing GDP. With some 730 automotive suppliers supporting our 11 assembly lines and three engine plants, the industry employs some 117,000 Canadians directly, and another 377,000 Canadians indirectly. In fact, in 2014, Ontario was the largest automotive manufacturing jurisdiction in North America—larger even than Michigan.

The auto sector is also export orientated. There are 90% of Canadian-made vehicles sold abroad, the vast majority of these in the United States. The proximity to the U.S., one of the most profitable auto markets, is one of our competitive strengths. Our auto sector is truly part of an integrated North American market.

Industry Canada is always interested in views and ideas that will help us support and grow Canada's automotive sector. While we hope we will never face a situation like the crisis of 2009 again, we are also interested in learning from such circumstances and in continuously improving how we prepare and respond. In this light, we welcomed the Auditor General's four recommendations. In fact, Industry Canada has already acted upon two of them and plans to act on the other two recommendations in a timely fashion. I will discuss this later in my remarks.

As you know, Mr. Chair, late 2008 and early 2009 was a period of extreme uncertainty and volatility. Credit was tightening, consumers were scaling down and postponing their spending, and economies around the globe appeared to be heading into recession, if they weren't already. The auto sector was experiencing first-hand the impacts of consumers postponing major expenditures. Annual vehicle sales plummeted in the U.S. in 2009, from about 17 million vehicles per year to a little over 10 million.

With shrinking sales, the financial situation of all companies was becoming desperate, but for GM and Chrysler it was particularly bad, as it did not have access to capital like the others. In November 2008, GM announced it would run out of cash around mid-2009 without a combination of government funding, a merger, or sales of assets. No credit institution was in a position to help either GM or Chrysler.

While Canadian sales did not dip as much, Canadian assemblers were not sheltered by the events in the U.S., given that close to 90% of Canadian-made cars are exported to that country. Canadian subsidiaries were directly impacted by their parent companies' difficulties. There was a real risk that GM and Chrysler might shutter their Canadian operations in an attempt to restructure.

GM and Chrysler were at the time, and continue to be, the two largest carmakers in Canada, accounting for more than 55% of total production. Many of Canada's suppliers depended on contracts with GM and Chrysler. Without this work, many would not have survived, leading to a hollowing out of the suppliers and creating problems for the other original automotive equipment manufacturers.

That would have triggered a collapse of the entire Canadian automotive supply chain. The strong links and interdependencies between our supply chain and our assemblers were the key motivation for government action and support of GM and Chrysler. GM and Chrysler in Canada had to be protected from being collateral damage of the events in the U.S., not only for their sake but for the entire suppliers sector and ultimately the entire automotive industry in Canada.

Mr. Chair, as the Auditor General concluded, the Government of Canada did what it set out to do: prevent the disorderly collapse of the auto sector and ensure a viable automotive sector in Canada.

The clock was ticking. There was a very short timeframe to find a viable remedy for both GM and Chrysler. Both were in dire financial straits, and Chrysler needed to find a buyer. From the point that the crisis started and GM submitted high-level restructuring plans to the U.S. Congress in late 2008, governments had less than a month to decide whether to provide an initial set of loans. Again, once the company submitted more detailed plans, there was only about six weeks to assess their long-term viability.

As these events demonstrate, the restructuring of GM and Chrysler took place under intensely challenging circumstances. It required unprecedented collective action by the federal, Ontario, and U.S. governments.

● (1545)

While Charles and I at Industry Canada were not there at the time of the restructuring, the federal government did quickly organize an automotive response team. It was headed by Mr. Richard Dicerri and Mr. Paul Boothe, the deputy minister and associate deputy minister at Industry Canada at the time, and Mr. Ron Parker and Mr. David Moloney, who are my predecessors and who led a team of dedicated public servants who worked tirelessly and in unique ways to manage the government's response to the crisis. It supported a steering committee made up of deputy ministers from Industry Canada and Finance, as well as representatives from Export Development Canada, the Privy Council Office, and the Ontario Ministry of Finance and Ministry of Economic Development and Tourism, who all played important roles.

The team also reached out to stakeholders and experts to ensure it quickly had access to the necessary knowledge and expertise, whether on financial corporate restructuring from KPMG and Ernst and Young or on U.S. and Canadian insolvency law from Cassels Brock or on the automotive market from CSM Worldwide and Casesa Shapiro Group.

There were external discussions with those in the industry, including assemblers and suppliers, to gather essential information needed to assess and understand the risk. The government then made a responsible decision and took decisive action. Afterwards, my department monitored the two companies to ensure they fulfilled their end of the bargain and to ensure that the restructuring would deliver the desired results.

Mr. Chair, I am impressed by the work accomplished by my predecessors for the Canadian industry and its workers. Their work was the basis of the government actions and it paid off. It also proved to be pivotal in securing the immediate future of Canada's automotive industry and the economy at large. In early 2009, GM and Chrysler assembly plants directly employed an estimated 14,000 workers. Today both companies continue to be Canada's largest automotive manufacturers, employing about 19,000 Canadians, and the economic benefits extend far beyond the two companies. At the time of the crisis, the Department of Finance estimated that a total of 52,000 jobs were directly or indirectly tied to production at GM and Chrysler. Another study, by Leslie Shiell and Robin Somerville at the IRPP, estimated that in 2010 a total of 100,000 jobs, including jobs in the supplier sector, could have been lost without the restructuring. The study further suggested that in 2009 alone the economy could have suffered losses of \$23 billion had GM and

Chrysler not successfully restructured. The government's decisive actions ensured that there was business for hundreds of suppliers. The effects even spilled over into industries across the Canadian economy.

Today, all Canadian automakers, including GM and Chrysler, are investing in their operations. In the last two years in particular, each of Canada's five automotive assemblers has reinvested in Canada, and auto parts manufacturers have also invested in their operations. Another sign that the sector is doing well is that Canada's production increased to almost 2.4 million vehicles in 2014. The auto sector will continue to contribute significantly to the Canadian economy for many years to come.

All this work was and continues to be recognized, not only by the industry but also by third party analysis such as the IRPP study I mentioned, which concluded that the restructuring assistance was successful. Furthermore, Industry Canada received recognition for its accomplishments, including in the form of the Institute of Public Administration of Canada's 2010 innovative management award. I believe it is a remarkable success story that we were able to partner quickly and effectively with our counterparts at home and abroad, within and outside of government, to provide sound advice and ultimately save thousands of jobs and hundreds of businesses, and to secure a future for Canada's auto sector.

With respect to the automotive innovation fund, I am pleased that the report reflects a program that continues to be well managed. In many respects, it's still early days for the program. It was established in 2008 and seven projects have been supported. The initial projects are just now being completed, yet we know from the initial evaluation we did in 2012 that the program is meeting its short-term objectives. It has leveraged about \$2.8 billion in investments since its inception, and as the Auditor General has recommended, we will continue to report against its longer-term objectives as projects are completed.

Mr. Chair, I want to conclude my remarks by noting that we have learned a great deal from these experiences, and the Auditor General's recommendations have helped embed these. The recommendations have highlighted that clear and comprehensive reporting on support provided and the management of that support contributes to the public understanding of the restructuring success. In order to increase the ease of access to the information, last December we published a single summary report on the restructuring support and recoveries. We've also committed to undertaking a review of the management of the restructuring assistance with a focus on identifying lessons learned. This work will be completed this year.

The Auditor General also recommended reviewing how we evaluate proposals for support from the automotive innovation fund, and monitoring the performance of the program.

● (1550)

We have updated the program's risk assessment framework and made explicit the manner in which risk profiles of applicants are assessed. We will also evaluate the program again in 2017-18 to determine to what extent it achieves its long-term objectives.

It is fair to say, just like all Canadians, we hope we never face such a challenge again, requiring us to use the lessons learned from the 2009 crisis.

Thank you, Mr. Chair and committee members. We will be pleased to respond to your questions.

**The Chair:** That's very good. Thank you.

We don't have bells yet, colleagues, so might I suggest that we begin the rotation? Even if we do get bells, one rotation would take us halfway through the bells, which might be a natural place to pause. Again, let's see how things unfold. We don't know what's happening in the House. The bells may not even ring.

With that, we'll start our rotation.

At the outset I mentioned that Mr. Watson is with us here today. Notwithstanding my little shot, welcome, Mr. Watson. Mr. Carrie also welcome, and also Ms. Sgro for a return visit. It's nice to have you back.

With that, colleagues, we'll go to Vice-Chair Carmichael to kick off the rotation. You now have the floor, sir.

**Mr. John Carmichael (Don Valley West, CPC):** Thank you, Chair, and welcome to our witnesses today. This is certainly an important topic. I appreciate your opening comments. Mr. Jennings, you especially commented on an area I'd like to open with and also ask Mr. Berthelette. I'm talking about the scale of the industry. I think your comments reflect it well.

The auto sector remains a vital part of our Canadian economy. The Canadian auto sector just experienced two record sales years: 1.8 million vehicles per year in Canada, which is a remarkable recovery considering where we came from in 2007-08, which you've all reiterated today. It's interesting that our government has worked hard to put in place the right conditions, with low taxes making Canada a great place to do business, and employing tools like the automotive innovation fund, which has given manufacturers incentives to do bigger and better work.

As we've heard today, one manufacturer in Alliston is building new right-hand drive cars for the CETA European market. Ford in Oakville is doing the same thing. They're building right-hand drive vehicles for Europe. That has to be an encouraging sight, particularly for those who lived through it up here in those terrific times.

In section 5.2 of the report, Mr. Berthelette, there's a pretty good summary. It talks about the extent of this industry and just how important this industry is to the overall economy. It states that:

In 2007, approximately 1.5 percent (\$21.4 billion) of the Canadian gross domestic product was attributable to the car industry, compared with about 1.1 percent (\$19.1 billion)

in 2013. In 2007, car manufacturers and parts suppliers employed 152,000 people. In 2013, the sector employed about 117,000 people.

Mr. Berthelette, I don't want to reiterate all the comments that have already been stated, but could you talk to how many jobs you estimated, i.e., the Auditor General's office, would have been lost had General Motors and Chrysler ceased production? Does this include runoff jobs such as dealers? General Motors had 700 dealers at the time; Chrysler had 450 dealers. I wonder if you could consider them as well in your total numbers.

If GM and Chrysler had ceased production, you stated in your comments that tax revenues would have decreased, and expenditures such as those for social programs would have increased. What do you estimate this could have cost the federal government?

● (1555)

**Mr. Jerome Berthelette:** Mr. Chair, we did not do any audit work related to the number of jobs that could have been lost nor the amount of money that would have been lost in tax revenues if both GM and Chrysler had gone out of business in Canada.

The information we have here is the information that we picked up while we were doing this audit. We focused on the management of the support as opposed to what would have happened had they gone out of business. I can say, I think as most of us around the table can say, particularly those working in the industry, that if they had gone out of business it would have been a big hit on the economy. That is evident, sir.

**Mr. John Carmichael:** It's interesting that here we are today at this committee meeting and there was an extensive article on a report due to be released—and I think it was released somewhere around noon by Unifor, the union representing most of the unionized workers in the auto industry—it talked about the total hit, as I recall the term they used, of some 30,000 jobs at General Motors alone just in the factory and extended into some of the parts suppliers. If you start to leverage some of those numbers—Mr. Jennings, you mentioned 100,000 jobs. I think it is probably closer to 150,000 jobs in total. It was a fairly significant number.

In the report at section 5.30, the Auditor General states:

Despite the absence of final restructuring plans, Industry Canada had high-level information on what the Canadian restructuring costs would be, how much government funding would be needed, and what the funds would be used for. The Department also had limited analysis showing how the restructuring actions would improve the financial situations of the Canadian subsidiaries, what concessions had been made by stakeholders, and how the companies would repay their loans.

Mr. Berthelette, I wonder if you could elaborate on that?

There are always lessons to be learned and ways that we can improve further, obviously. These are noted in the report we're viewing today. However, it is equally important that we note the statements such as the one above in your report where it says "Industry Canada had high-level information". I wonder if you could elaborate further on that, and then maybe Mr. Jennings could jump into that as well.

**Mr. Richard Domingue (Principal, Office of the Auditor General of Canada):** Mr. Chair, when we did the audit we saw that the information to support the decision-making process for some files was rather limited, so in the report we question the way these decisions were taken, considering that the information to support them was limited. For example, we talk about the decision to support the pension plan. We saw very limited evidence—either analysis or documentation—to support the decision to support and inject the kind of money that was injected into the pension plan, and the same for the health care trust, the same for the concession made by the unions, the dealerships, the suppliers, so when we did the audit, we saw a limited amount of information available to the departmental officials to support the decision-makers.

• (1600)

**Mr. John Carmichael:** You talked about high-level—am I finished?

**The Chair:** That's going to have to be well done. It's a minute 20 seconds over, but I wanted to give adequate time to that first round.

Moving over—by the way, colleagues, you'll see that the lights are flashing, the bells are ringing. We are good to complete one round. Then I'll suspend. We'll go and vote and then return.

With that, next up is Mr. Giguère. You have the floor, sir.

[Translation]

**Mr. Alain Giguère (Marc-Aurèle-Fortin, NDP):** Thank you, Mr. Chair.

I thank the witnesses for being here with us. I also want to welcome the delegation from Vietnam.

My question is addressed to the Assistant Auditor General.

In this regard the public service took a major political decision extremely quickly. All of the dossier nevertheless appears quite positive to me despite the difficulty in obtaining information from Chrysler and General Motors. The public service was given a very short time frame to deliver the merchandise. It had to act quickly, that is to say before both companies went bankrupt.

My analysis is quite positive with regard to our public service, which demonstrated know-how which can always be improved with experience. Is that analysis mistaken on my part?

**Mr. Jerome Berthelette:** Mr. Chair, I agree with what you say.  
[English]

I would make reference to paragraph 5.88, which is our conclusion:

...we concluded that Industry Canada, the Department of Finance Canada, and Export Development Canada managed the financial support to the automotive sector in a way that contributed to the viability of the companies and the competitiveness of the sector...over the short and medium terms.

Generally, this is a good news story.

Mr. Chair, I would then make reference to paragraph 5.23. While I just noted that it is a good news story, there are certain areas where we saw that some more work could have been done. There were areas where there was limited analysis and limited information.

We recognized, as we state in paragraph 5.25, that, "The federal government made its decisions on financial assistance in a period of high uncertainty and within tight time frames." We understand that. We think more work could have been done in terms of the analysis, maybe relying less on the material presented by the companies and doing a little more independent analysis of it, and perhaps doing a more independent challenge of the information that had been presented.

I think that a final restructuring plan would have been good. It would have provided a place where all of the details related to the restructuring could have been brought together in one place. It would have made it easier for the department and for Canadians to follow what had gone on in the restructuring, and would have made it easier for the department to report against the restructuring.

We have in appendix A, which I believe is at page 25 in my document, some suggestions related to going forward if there is ever another situation like this. We made suggestions related to the planning, monitoring, and public reporting related to such large interventions by the federal government.

[Translation]

**Mr. Alain Giguère:** Thank you.

I will now ask what is known as "the fatal question".

In light of the fact that there have been many personnel changes in the public service, will new public servants be able to learn from this experience?

Let us suppose that in a few months, for instance after the month of October, you were asked to go through this experience again. Let's say another industry had to be restructured, a pulp and paper industry, for instance, which would become a pulp and paper and chemical products industry. Would you be able to redo this excellent work, and improve it and make it a little more rigorous?

• (1605)

**Mr. Philip Jennings:** I am going to try to answer that question.



[English]

One thing the Auditor General did highlight was the fact that it would be useful to do a lessons learned exercise. While we didn't do a formal one, following the crisis we got together among partners—with Ontario and all of the federal departments—to understand what we learned from that crisis: what worked well and what didn't work well. I think the reason there was an award received for the work that was done is that principally there were a lot of very positive lessons learned.

The first lesson was about pooling resources, in the sense of working across organizations and understanding where there was expertise and where you had to draw on additional expertise to support the intensive work that was necessary under very tight timeframes. I mentioned already that there was financial expertise that had to be brought in. There was legal work that was done. There was actuarial work that was brought in. There were leading experts who were hired. It was about trying to, within a matter of weeks, get the intelligence that was necessary to inform the decisions that were made. That's one big lesson that was learned.

The other one was about working together and coordination. A decision that was made very early on was striking at very high levels, at a deputy minister committee, which would talk on a daily basis to keep track of where things were and to support the decisions being made.

Another one was a very novel approach, in terms of what we called “home and away teams”. There were a number of negotiation sessions that did take place outside of Canada. There was a very intense session in New York dealing with General Motors, and one with Chrysler that took place in Washington. There were senior teams where those negotiations were taking place, as well as senior teams that were in Ottawa. They were supporting each other in terms of trying to ensure we got the outcome that was desired. If Canada and Ontario were going to participate and support the companies, it was ensuring that we got the outcomes we wanted. As we've seen, the outcomes have been very strong, in the sense of both companies being very viable and vibrant now, and they're both reinvesting in Canada.

**The Chair:** Thank you.

Please keep the answers a little tighter, if you could, going forward

We can get one more in and that gives us three. That takes us to about the halfway point in the bells and then we'll suspend.

Mr. Watson, you have the floor, sir.

**Mr. Jeff Watson:** Thank you, Mr. Chair.

Thank you to the witnesses here today. To the Auditor General, thank you for the report. It audits—with respect to the restructuring of GM and Chrysler—only one of the many things that were happening under tight timelines across the government. I think the general conclusion here that this is a general good news story may be a bit of an understatement.

I want to begin where the report itself begins. I want to ask the question, because this was a credit crisis that precipitated this financial meltdown outside of Canada. There was legitimate concern—I think Mr. Jennings you hinted at this—that if the U.S. did a

restructuring of the auto industry without our participation they would have repatriated the industry back into the United States and out of Canada. Was that a legitimate concern of the government at the time?

**Mr. Philip Jennings:** There's no doubt that one of the risks and one of the reasons why it was important for Canada and Ontario to be at the table was to ensure that for any restructuring of the companies that occurred Canadian interests would be protected. That would mean the Canadian operations of both GM and Chrysler would remain in Canada.

**Mr. Jeff Watson:** Mr. Berthelette, the Auditor General notes in the report what the effects of a credit crisis look like in terms of the negative effects on the auto industry. There are no viable alternatives if the auto industry goes under. For the very same reasons there would be no access to capital, businesses couldn't purchase inventories or take on new hires, or anything like that. Is that a fair assessment as well?

**Mr. Jerome Berthelette:** Yes, Mr. Chair. I believe that's a fair assessment.

**Mr. Jeff Watson:** If I'm understanding this very well, and we've talked about the incredibly tight timelines, how long is a business-as-usual restructuring of a company, say in the United States...? Obviously, because of the integrated nature, we're talking about a U. S. parent company. What does a chapter 11 reorganization typically look like there?

**Mr. Philip Jennings:** I don't think I have an accurate assessment, but everything I've heard is much longer than was the case for both GM and Chrysler.

**Mr. Jeff Watson:** According to HG.org, a chapter 11 bankruptcy in the U.S. can take 20 years, or even longer in some cases when you include monitoring to the objectives of the restructuring. From the announcement that the U.S. is participating in December 2008 to the June 1 bankruptcy, that's an impressively tight timeline. Yet I note, Mr. Jennings, there were a couple of awards here: the Institute of Public Administration of Canada in 2010, a silver innovative management award, and the Public Service Award of Excellence in 2009. Is that correct?

• (1610)

**Mr. Philip Jennings:** It is.

**Mr. Jeff Watson:** Good.

The report, if I understand the conclusions, said with respect to the management of this particular file, Industry Canada did a good job in assessing the recovery prospects of the company, found on page 7, paragraph 5.24; that Industry Canada monitored the restructuring assistance, page 11; it monitored the production commitments, page 12; and it has been recovering the funds, page 13.

The critiques, if I understand them, are in the nature of how exhaustive the due diligence was, not that there was due diligence absent. Is that a fair assessment, Mr. Berthelette?

**Mr. Jerome Berthelette:** I believe that would be a fair assessment. Our critiques were about the amount of effort that went into the analysis.

**Mr. Jeff Watson:** I make note the Auditor General's report on this chapter was completed in September 2014. Is that fair? It's in the back, I think.

**Mr. Jerome Berthelette:** Yes.

**Mr. Jeff Watson:** At the time, it said there was no report for the public with respect to the bailout. Is that complete now, Mr. Jennings?

**Mr. Philip Jennings:** It is completed and is now posted on our website, as of December 2014.

**Mr. Jeff Watson:** You pointed out there was no "lessons learned" exercise. That is in progress, as I understand it. What is the expected completion date?

**Mr. Philip Jennings:** It will be completed by the end of this year.

**Mr. Jeff Watson:** Okay.

On the auto innovation fund—which by the way in 2008 saved Ford's Essex Engine Plant in Windsor, that's a good news story there as well—I note that the Auditor General's report says that risk assessments were completed. I think for the first time I've seen one where they said it was perhaps too exhaustive in the due diligence. We'll take that as noted.

The project risk and proponent risk profiles, the Auditor General points out, were not part of the risk assessment framework. Are they now, Mr. Jennings?

**Mr. Philip Jennings:** I'll clarify that the department has always used, and continues to use, a risk-based approach when it assesses projects. As noted in the Auditor General's report, we did not have that approach properly documented. As of October of last year, we've now included that explicitly in our documentation.

**Mr. Jeff Watson:** This fund has tremendous—

**The Chair:** Sorry, Mr. Watson. Time has expired. Thank you.

I noticed the attempt to keep that a little tighter. It really helps. I appreciate it.

Colleagues, this committee will now stand suspended. I would ask you to return as promptly as possible after we have voted so we can reconvene.

We now stand suspended.

• (1610) \_\_\_\_\_ (Pause) \_\_\_\_\_

• (1640)

**The Chair:** I now declare this meeting of the Standing Committee on Public Accounts back in order.

Colleagues, you'll recall that we had left off after three speakers from our rotation list. I'll pick that up now with our fourth speaker, and that is Mr. Allen, who now has the floor.

**Mr. Malcolm Allen:** Thank you very much, Mr. Chair.

Thank you, folks, for being with us.

Mr. Berthelette, in the Auditor General's report, on page 12 in the English at 5.45, 5.46, and 5.47, it talks about the amounts of money that were set aside as part of the whole. It talks in broad strokes about the \$2.8-billion loan made for capital expenditures, warranty claims, under general corporate purposes. It goes on to talk about the \$4-billion loan, \$1 billion of which was for the GM pension plan.

There seems to be a concern with that piece in the sense, as you raise it, that it was set aside for the pension plan but it seemed to be set aside in a trust or some sort of other account that the parent corporation, which is actually a U.S.-based corporation, seemed to control.

Can you walk me through that piece as to what you found in the sense of the lack of oversight or control, if I can use those terms? I'm not suggesting you will, but can you tell us what happened with that billion dollars in the sense of the control of it or lack thereof?

**Mr. Jerome Berthelette:** Mr. Chair, in paragraph 5.46 we make reference to the \$4 billion that had been set aside in an escrow account; \$3 billion of that money was to be used for the pension funds within GM Canada and \$1 billion was to have been paid by GM Canada. Once that \$1 billion had been paid by GM Canada, \$3 billion of the \$4 billion was made available to GM for its pension liabilities. The remaining \$1 billion was released to GM head office, the U.S. parent company.

We raise a point here that I think we've raised a couple of times in this particular chapter, that we didn't know exactly how that money was going to be used. It goes back to a point I think we made earlier in the chapter about the need for an overarching plan, a restructuring plan that would have helped us understand how that \$1 billion was going to be used by the parent company, when we went in to take a look at how this was being managed.

We have no doubt it went to the parent company, that it was used by the parent company. We just aren't sure about exactly what use was made of it by the parent company and how that helped the long-term viability of the Canadian subsidiaries, for instance. We needed some more information related to those types of details.

**Mr. Malcolm Allen:** Thank you, Mr. Berthelette.

It goes back to the point I think Mr. Watson made about at the time there was a real liquidity crisis in the markets. I think everyone would agree. There was a meltdown and money was tight; it was hard to find. Canadian taxpayers' dollars went into a restructuring plan, a billion of which finds its way to the U.S. corporate headquarters. Of course for those of us...and four of us on this committee are either representatives of or tied to the auto sector one way or the other: Mr. Watson, Mr. Carrie, Mr. Carmichael, and me, who represented workers.

I know all too well, as an ex-CAW leader who was at bargaining, that you bargain and fight against each other inside your own corporation. If the liquidity ends up in GM U.S. hands...and we don't know what happened with it, they may very well have invested it. I'm speculating; I'm not asking you to speculate. They could have invested in a plant in the southern United States that takes on the St. Catharines transmission plant that I represent. We don't know that.

With money being tight, they could have used part of the money that was in escrow to take on what we thought was going to be a viable corporation up here that we were trying to bail out at the time. That's speculation; we don't know.

As you pointed out, Mr. Berthelette, I guess we should have known, and I think what Industry Canada is saying, Mr. Jennings, is that in the future we will find out and know where money is going. I believe that's what you said in your action plan. Is that correct?

**Mr. Philip Jennings:** Maybe I should clarify.

In working in partnership with the U.S. Treasury, the restructuring was set up to ensure the viability of the global company. Through that, to ensure the viability and competitiveness of the Canadian subsidiary, which are obviously the operations in Canada.

• (1645)

**Mr. Malcolm Allen:** I appreciate, Mr. Jennings, where you're heading but I don't get that much time and I know how to drag the time out because that's what I'm paid to do. The question was about reporting not about whether it's the viability of the global corporation, as you described it.

The issue is that this is Canadian money to look at a Canadian enterprise, because that's what we bought shares in. Eventually we took shares in the Canadian enterprise because they are separate. Let me tell you that this corporation has made sure for a very long time to tell us that they are two different entities, not one. They may be a global corporation but that's not how they act in Canada. They tell us they're a separate entity. Vice-Chair Carmichael, who sits at the head of the table and who knows the dealership group really well, will tell all you about how they tell you what you are doing or not doing these days, but he'll speak for himself obviously.

**Mr. John Carmichael:** With that, Mr. Allen, I'm going to call time.

Thank you, gentlemen.

Mr. Carrie, over to you.

**Mr. Colin Carrie (Oshawa, CPC):** Thank you very much, Mr. Chair.

I want to thank everyone for being here today.

As was stated, I'm not a usual part of this committee. I'm the MP for Oshawa, which is the home of GM Canada. I have to tell you, the auto industry is hugely important not only to me, but to my riding and my constituents. I have to tell you, my constituents are worried about their jobs, their pensions, and their futures.

Mr. Jennings, you mentioned in your opening that our government's actions not only saved jobs in my community in Oshawa but the entire automotive footprint in Canada. I was wondering if you could elaborate a little bit more about what the outcome would have been if the government had chosen not to work with the auto industry at this troubled time.

**Mr. Philip Jennings:** Participating in the overall restructuring of GM and Chrysler was necessary to protect the Canadian automotive sector at large, which I said in my opening remarks.

With most of the production exported to the U.S., the events that were south of the border were affecting Canadian car production and auto part suppliers. Just to put numbers in perspective, the GM production, months before the worst part of the crisis, was 150,000 units, which they were producing on an annual basis. That went down to 49,000, just to give you a sense of just how much that dropped. In terms of Chrysler, production fell from 143,000 to 30,000. You have drops of about two-thirds in the case of GM and a drop of about 80% in the sense of Chrysler.

Obviously at the end of the day having such a steep decline in terms of production really put the viability of those operations at risk. As these companies were looking to restructure, the Government of Canada and the Government of Ontario wanted to ensure that we were at the table so that any restructured company would essentially maintain the Canadian operations.

We protected those interests in terms of our negotiations with those companies. While I can't get into the details of the covenants because they are commercially confidential, there were production commitments made by the companies and there were commitments made in terms of the capital expenditure investments in Canada as well as research and development commitments to Canada.

The last thing I will just say, which is important to note as well, is that the viability of these companies not only mattered to those companies and the suppliers obviously that relied on them, but also to the other manufacturers that did not directly receive money.

I will give you just two very quick quotes. During the crisis Toyota essentially said that they were mostly concerned with the suppliers, "And if the supply chain falls apart...it could stop production at Toyota's plants, too."

As well, Alan Mulally the CEO of Ford, said in 2012, "If GM and Chrysler would've gone into free-fall they could've taken the entire supply base into free-fall also".

**Mr. Colin Carrie:** You know what? You need to be commended on the action that you took.

Again though, my concern is that a lot of my constituents are really worried about going forward. I think it might be important to talk a little about competitiveness in jurisdictions going forward, comparing Canada and the other jurisdictions. Because it is great that we were able to save that footprint but the idea now going forward is how Canada can keep these jobs and attract future investments from companies like GM and other automotive companies.

I know the government's allocated over \$1 billion towards the automotive innovation fund. I was wondering, again, Mr. Jennings, if you could give examples perhaps of how the funds attracted additional investment into Canada.

I also have a question. Comparing the federal governments in Canada and U.S., are you aware of any equivalent type of program in the American federal program?

**Mr. Philip Jennings:** Maybe I'll answer the last question first, which is that there is no federal equivalent to the automotive innovation fund in the U.S. The support that takes place in the U.S. in terms of attracting automotive investment is at the state level. That's usually a combination of either direct subsidies, tax abatements, land and infrastructure, as well as training support.

In terms of the automotive sector, I guess the first thing to note is that the industry has continued to grow. As I've mentioned, there has been investment by all the five assemblers, as well as by suppliers in Canada, but it's not without competitive challenges. At the end of the day, it is a sector where many jurisdictions do try to attract this type of investment.

It may be useful to walk through what we consider to be Canada's value proposition of why people invest. The automotive innovation fund, as you noted, has to date had a billion dollars allocated to that program. Not all of it has been invested to date, but what has been invested to date has leveraged about \$2.8 billion from investments in the private sector, including the Ontario government. What we also have is a number of programs that support research and development in the auto sector. I'll just name a couple of organizations federally: the National Research Council and the Natural Sciences and Engineering Research Council. They provide R and D support, as well as more generous tax credits that also flow to a number of sectors under the scientific research and experimental development tax credit.

Another thing I should note as well is the investment climate. It is one with lower corporate tax rates, which have been cited by many auto companies in terms of being attractive, as well as a workforce that continues to produce high-quality vehicles because of high skills.

I'll maybe just mention on that point that J.D. Power, which is a leading firm that assesses quality.... One-third of all awards that have ever been given have been given to plants in Canada, which is much higher than the proportion of the production that we have.

Maybe the last thing very quickly—

• (1650)

**The Chair:** It's a very long answer. Please make it quick.

**Mr. Philip Jennings:** The last point is just to say that on the regulatory side as well as in terms of exports, those are both areas in which Canada has seen improvement and has been seen as being increasingly attractive as a place to invest.

**The Chair:** Thank you.

We move along to Madam Sgro.

Ma'am, you now have the floor.

**Hon. Judy Sgro:** Thank you very much, Mr. Chair.

Thank you all very much for being here. I have to say that if I listen to my colleagues across the way, everything is wonderful, you did a great job, and all of that. Well, if that were the case, none of you would be sitting here before the public accounts committee. Clearly there are issues that need to be dealt with.

I want to also reiterate my and all of my colleagues' support for the auto industry. We understand how important that industry is, not just to Ontario but to all of Canada. We were all under huge amounts of pressure at that particular time, opposition and government, to assist in helping to save that industry.

I'm not being critical of the fact that we saved the industry, or at least we think we have. There were reports this morning in *The Globe and Mail* about the concern of the closing down the Oshawa plants and what that would do. I'm sure that—again, for all of us—we don't want that to happen. When the government commits to a \$9-billion bailout, my disappointment here is the fact that, yes, you didn't have sufficient information and this, that, and the rest of it, but we trust you to make sure you have everything in line. All the ducks have to be in order. It's a \$9-billion investment that we want to be successful. Clearly the pressure on the department to approve this money and to move forward once Parliament had approved it was probably very difficult, but clearly you were making decisions without sufficient information.

Could you not have held back for more information, even though the commitment was there, the money was there, and allocated it in a slower way while you got the information you needed to be able to back up your decisions? At the end of the day, Parliament's responsible for every cent that goes out, but you are also responsible. Could you not have secured more information through this process than you did?

• (1655)

**Mr. Philip Jennings:** I'll attempt to answer that question.

What I iterated before was that we were working toward very tight timelines that were essentially tied to the fact that these companies in the United States were under bankruptcy protection, and we really had to restructure, under very tight timelines, in terms of how they would emerge from that bankruptcy.

The Canadian and Ontario governments decided it was important to ensure that our interests were protected through those hearings, in terms of how they would restructure. What we required from the companies were restructuring plans that were clear on what was needed for them to be viable and for them to be viable not only in the United States but in Canada.

A number of inadequacies were identified in the restructuring plans that were first identified, which was highlighted in the Auditor General's report. In all the cases, for everything that was highlighted as inadequate, we received sufficient information to make an informed decision that we needed to make to participate in that restructuring.

The other thing that is also important for our being at the table is that one key interest that emerged from the restructuring was that Canada would not be disproportionately affected by the restructured entity. We did secure commitments from both Chrysler and GM on footprint and capital expenditure, as well as research and development in Canada.

**Hon. Judy Sgro:** They certainly were continually assuring all of us of very similar things, but it's a question of just who is monitoring the dollars once they've been approved.

According to the comments from the Auditor General, you have still not used the information sufficiently to determine whether or not the program is achieving its objectives. What's your plan to improve on that particular detail?

**Mr. Philip Jennings:** What I can say about the automotive innovation fund is that in 2012 we did evaluate the program. The evaluation did show that it was meeting its short-term and medium-term objectives, but it was too early to tell whether it was going to meet its long-term objectives.

We've committed to having an evaluation when we feel that we'll have sufficient information to know the long-term impacts of that program. One is scheduled for 2017 in order to make that assessment to see whether the program meets all its objectives in the short, medium, and long term.

**Hon. Judy Sgro:** That's a very long time away.

**The Chair:** Mr. Carmichael.

**Mr. John Carmichael:** Thank you, Chair.

I'd like to return to my earlier line of questioning with Mr. Berthelette and Mr. Domingue. Very briefly, in 5.30 you make a comment that, "Industry Canada had high-level information on what the Canadian restructuring costs would be, how much government funding would be needed, and what the funds would be used for."

Mr. Domingue, we got a little off-topic in the answer to the question. I wonder if you could just give me a yes or no. Do you still stand by that statement?

**Mr. Richard Domingue:** We still stand by the statement that it had limited analysis for information.

**Mr. John Carmichael:** It had high-level information.

**Mr. Richard Domingue:** Yes.

**Mr. John Carmichael:** Mr. Jennings, I just want to follow-up on Madam Sgro's comment. We were in a crisis in 2007-09, and somebody had to make something happen, and clearly, you gentlemen did that.

In paragraphs 5.48, 5.49, and 5.50 the Auditor General talked about, in exchange for financial assistance, Chrysler Canada's commitments to production, and General Motors Canada's commitment to meeting certain production targets for vehicles, engines, and transmissions, and it goes on to list those commitments.

Could you, Mr. Jennings, or one of your colleagues elaborate a little bit further, as briefly as possible, or as the chair says, "As tightly as possible", on this statement of your successful monitoring of these targets, as well as current progress on the GM commitments?

**Mr. Philip Jennings:** Unfortunately, most of the details of the commitments are commercially confidential. However, the commitments that were put in place were really about trying to anchor those companies and their operations in Canada.

As I've mentioned a couple of times now, commitments from both GM and Chrysler were secured in terms of production, capital expenditures, and research and development.

To answer your question specifically on General Motors, General Motors does have reporting requirements under those commitments. Every year, since the restructuring assistance, they have not only met the commitments they've set for themselves but they've actually outperformed their commitments in terms of what they've committed to Canada and Ontario through the restructuring assistance.

• (1700)

**Mr. John Carmichael:** Mr. Berthelette, with the time remaining I wonder if we could go to the conclusion. In your remarks in 5.87, 5.88, and 5.89, you say:

The financial assistance provided to Chrysler and General Motors (GM) for their restructuring involved complex transactions, high uncertainty, and tight time frames during its development and execution.

You go on to say:

Nonetheless, we concluded that Industry Canada, the Department of Finance Canada, and Export Development Canada managed the financial support to the automotive sector in a way that contributed to the viability of the companies and the competitiveness of the sector in Canada over the short and medium terms.

It then goes on further to elaborate a little on that.

Appreciating the good work you do, you said "restructuring involved complex transactions" and "tight time frames", but the government nonetheless managed. The financial support assessed the risks and "tracked the progress of projects", which "contributed to the viability of the companies".

Can you elaborate on that a bit further, please?

**Mr. Jerome Berthelette:** Mr. Chair, as my colleague Mr. Jennings just stated with respect to the commitments, Industry Canada has been following up on the commitments. It has received the reports and has ensured that the commitments have been followed. That was a major condition with respect to the negotiations that I think made sense in the circumstances.

I think we can see from the results in the auto industry that in the short term and medium term both GM and Chrysler have done better and are in good shape now. I think that is something that we recognized in this audit.

**Mr. John Carmichael:** Good. Thank you.

Mr. Jennings, did you want to comment further on the conclusion?

**Mr. Philip Jennings:** From my perspective, I think the audit did make me refamiliarize myself with the information that we did have. My assessment is that the comprehensive information was sufficient to be able to make the decisions at hand at the time.

**Mr. John Carmichael:** Great.

Thank you very much.

**The Chair:** Perfect. Thank you so much.

Moving along to Monsieur Giguère, you have the floor, sir.

[*Translation*]

**Mr. Alain Giguère:** Thank you, Mr. Chair.

Mr. Jennings, I would like to direct your attention to the new fund intended in the main for technological innovation. In this regard, the Automotive Innovation Fund is particularly important because it potentially represents the future.

I noted at point 5.77 in chapter 5 that you reported on performance evaluation measures. However it seems to me that a global perspective is lacking, and that the Canadian industry should have a technological specificity all its own, under Canadian control. The purpose would be to offset the fact that investment decisions are often made abroad, since the Canadian automotive industry belongs to foreign interests.

Through this fund, how could we stabilize foreign capital on Canadian soil, while preserving intellectual property for the future?

I think Mr. Jennings and Mr. Domingue could share the time and both answer that question.

[*English*]

**Mr. Philip Jennings:** I'll maybe take a quick second to remind that the automotive innovation fund is about trying to ensure that we support research and development and innovation in the auto sector. When projects are developed by companies and they seek support by the federal government for those investments, we have an assessment against a number of criteria to ensure that we think it brings value to Canada. Those criteria would obviously include looking at the R and D element, in terms of bringing R and D capacity into Canada, and also looking at how it supports the long-term economic development of Canada.

What is similar to what we secured with the restructuring of GM and Chrysler to what we do with the AIF program is that we do ask for commitments to be made by companies in return for the federal

support of those investments. Those are similar in nature. We look for a commitment in terms of production in Canada, capital expenditures, as well as research and development.

● (1705)

[*Translation*]

**Mr. Richard Domingue:** When we did the audit, we did not examine the impact head offices have on investment decisions. We simply examined, in light of the objectives set out in the program, how the department managed the funds for these initiatives. That is why we did not examine the influence of head offices on investment decisions.

**Mr. Alain Giguère:** However, among the objectives of that project, is the interest in the short term of seeing several billion dollars' worth of investments in the automotive sector. That is very interesting, but for the long term, there will have to be investments made in safer, electric, intelligent cars, and we are really going to have to stand out in that sector.

Regarding the development of this program's objectives, are we sufficiently imaginative to look at the long-term future of the industry?

**Mr. Richard Domingue:** That is precisely why we made that recommendation to the department. We are asking it to do a follow-up and to measure the performance of the program. The objectives are very ambitious; they are to make motor vehicles more ecological, less energy-consuming, encourage innovation and make the sector more competitive. These are broad objectives to which we are not opposed.

In any case, we are not here to call those objectives into question. When we did the audit, we asked ourselves how the government could ensure that its automotive sector innovation program would allow it to reach its long-term objectives.

**Mr. Alain Giguère:** Mr. Jennings, I am giving you my last minute so that you may complete this very interesting reply.

**Mr. Philip Jennings:** Fine.

As I already said, we are in favour of the recommendation. It is important to see whether the program's objectives were reached.

We carried out a preliminary assessment in 2012 to see whether we were on the right track and would reach interim objectives. The result of that assessment showed that we had really reached our target objective.

The last thing I should mention is that when we assess a project, its value in Canada is not the issue. Even if we still have to launch an assessment, we try to see what the long-term value of the investment will be. We always try to ensure that with the funds that are available to support the projects, the truly long-term automotive sector projects will be supported. That is one of our objectives, and that is how we obtain information to make recommendations to the minister, so that he knows which project to support through the fund.

[English]

**The Chair:** Thank you, all.

Moving along, back to Mr. Watson, you have the floor again, sir.

**Mr. Jeff Watson:** Thank you, Mr. Chair.

I just want to return, first of all, to the context. When we're talking about restructuring, it's easy with the passage of time to remember precisely how difficult the time was when this decision was being made. Unemployment in Oshawa, for example, in 2009 was at or above 10%. In Windsor I remember it being as deep as 15.3% at the depths of the recession, and that was without losing the auto sector and all of those related jobs.

It's not just numbers. It is, of course, families, and what that could have meant to them. Windsor, I dare say, would have been a ghost town. This is what the Center for Automotive Research in Ann Arbor said in its study of the U.S. auto bailout. They said that a collapse of GM and Chrysler "would have produced a Depression Era economy in much of the upper Midwest." I think our Prime Minister at the time suggested that if the industry had gone under, it would have blown a gaping hole in the Canadian economy. That recession could have been significantly worse than it was. We are talking about how the restructuring was implemented precisely because this government actually authorized the funds to be used.

I appreciate the talk of support by members opposite, but the reality is that the authorization for these programs came from Conservative members standing up on that, including funding for the auto innovation fund in 2008 and in 2013-14, as well as through restructuring in the budget of 2009. We don't get results if we don't in fact advance the money.

Regarding the report on the auto innovation fund, Mr. Jennings, we already established that risk assessments that were completed may be exhaustive in some ways. I asked whether the additional criticisms of the Auditor General have already been incorporated into the risk assessment framework of the department. You suggested that has been done.

The program has a number of safeguards. I point to page 18 of the Auditor General's report. There are three safeguards identified there, if I'm correct. The funds are disbursed only after the recipient has invested its own money. That's a significant safeguard. That support is unconditionally repayable. Can you explain what that means?

• (1710)

**Mr. Philip Jennings:** That means companies must repay any assistance provided to them. "Unconditionally" just means it's not an option.

**Mr. Jeff Watson:** If the product were to flop, the taxpayers would still be safeguarded under that one.

Finally, for projects presented by Canadian subsidiaries, repayment is guaranteed by the larger affiliated companies or the parent companies in the United States. That's a significant safeguard.

The report notes that Industry Canada monitors these funded projects.

**Mr. Berthelette,** I want to return to appendix A. You mentioned something here, and I'd like your comment on this. In the planning, with regard to minimum requirements, you've laid out here in bullet number 2 that:

Use of public funds is minimized, as required by the circumstances, and adequate compensation is obtained for the risks taken. Public assistance is not a substitute for greater concessions by stakeholders.

Is that the Government of Canada's advice, or is that your advice to the Government of Canada when it approaches planning?

**Mr. Jerome Berthelette:** Mr. Chair, that would be our advice to the Government of Canada, to our colleagues, when it comes to the planning.

**Mr. Jeff Watson:** I take it that the Auditor General typically refrains from giving policy advice, but this is suggesting that greater concessions—presumably from unionized workers, for example, or bond holders—would be preferred over public assistance. Do you stand by your advice? Is it typical for the Auditor General's office to give the government policy advice in that regard?

**Mr. Jerome Berthelette:** I'm not sure we're giving policy advice; however, we are suggesting that—

**Mr. Jeff Watson:** You're saying greater concessions by stakeholders are preferable to public assistance.

**Mr. Jerome Berthelette:** —when it comes to private corporations coming to government asking for support and assistance, it should be incumbent on the companies to ensure that all stakeholders have already made whatever concessions are required before asking for public funds.

**Mr. Jeff Watson:** Our Unifor knows about that advice, thank you.

**The Chair:** Thank you.

Moving along to Madam Sgro. You now have the floor.

**Hon. Judy Sgro:** Thank you, Mr. Chair.

Mr. Jennings, how and when do you plan to report the final cost of the financial assistance to Parliament?

**Mr. Philip Jennings:** As I mentioned before, we put a report on the web. As highlighted by the Auditor General, there was no one place where all the information was together. A report was posted in December 2014, which essentially highlights all the funds that went into the restructuring, as well as all the funds that have been recovered to date.

The final recovery of some funds that make up the equity in General Motors is not yet known. The Government of Canada still owns equity in the company and the two principal factors that will determine the value of those recovered funds will be the share price for General Motors, as well as the exchange rate, so any depreciation in the exchange rate for Canada leads to more recovered funds.

The report highlights what the value of those funds was at the time the report was written, but that has been fluctuating since that point. I should also say that since the report was published, General Motors did call an option on its preferred shares. They bought back preferred shares from the Government of Canada, and Ontario exercised its rights to sell its remaining shares to General Motors, which took place in February of this year.

• (1715)

**Hon. Judy Sgro:** Why do Parliament and Canadians have to wait until 2017 or 2018 to know whether the program achieved its goals? That's a long time.

**Mr. Philip Jennings:** You mean the automotive innovation fund?

**Hon. Judy Sgro:** Yes.

**Mr. Philip Jennings:** As I mentioned, in 2012 we conducted an evaluation of the automotive innovation fund. It found that it was on track to meet the objectives. However, it did conclude that it was too early to be able to have a full assessment of the impact of the program, given that it was four years into the program.

We have committed to another evaluation, so we're able to assess that it is meeting its long-term objectives. That date has been set for 2017.

**Hon. Judy Sgro:** So we'll have to wait till then to find out how things are going.

**Mr. Philip Jennings:** We know that the immediate and medium-term objectives of the program are being met, but to know if the long-term objectives are being met will be evaluated in 2017.

**Hon. Judy Sgro:** On the finance side, I assume Finance can answer the question, or maybe it's Mr. Jennings again. What are the federal borrowing costs associated with the financial assistance that was provided to GM and Chrysler in 2009?

**Mr. Richard Botham (Assistant Deputy Minister, Economic Development and Corporate Finance Branch, Department of Finance):** I'm sorry, I don't know off the top of my head. I'd have to look at the bond rates at the time and I can do so.

**Hon. Judy Sgro:** You have no idea what the borrowing costs have been to date?

**Mr. Richard Botham:** The borrowing that the Government of Canada undertakes is not specific to particular transactions, so there was no specific borrowing rate for the funds related to support GM and Chrysler. The best rate, the reference rate, would be the long-term rate at the time. I do not know off the top of my head what that was in 2009, but there wouldn't have been a specific borrowing to support these transactions.

**Hon. Judy Sgro:** To the Auditor General—and again thank you for the good work you've done on this particular file—can you explain why you think it's bad practice for Industry Canada to conduct its own analysis of projects rather than rely on the analysis of companies?

**Mr. Jerome Berthelette:** Mr. Chair, I think the analysis of companies is a source of information, but ultimately I think officials should take whatever opportunity they have to seek out additional information, which Industry Canada did in part. But they should also get assistance to help challenge the information that is being brought forward by the company to ensure that the amount of public funds being invested in the company is the minimum required in the circumstances.

**Hon. Judy Sgro:** Mr. Jennings, have you had any indication that the industry will be seeking additional assistance in 2016? Have they put you on notice for that?

**Mr. Philip Jennings:** What I can say is that we have an automotive innovation fund that does have moneys in it. We're in discussions with companies on an ongoing basis in terms of where the federal government could partner in terms of investments that secure the long-term footprint of the auto sector in Canada. As is the case for many investments under the automotive innovation fund, we often partner with the Province of Ontario to support some of the those.

**Hon. Judy Sgro:** How much is left in the fund currently?

**The Chair:** Sorry, Madam. Time has expired.

Back again to Mr. Carrie. You have the floor, sir.

**Mr. Colin Carrie:** Thank you very much, Mr. Chair. As my colleague brought up, this is hugely important in my riding because this represents real families and real people in my community. It was flippant when my Liberal colleague across the way said, "You know, we're talking about these things, it's hunky-dory". This is a very serious issue and not only what happened in the past. I think everybody is pleased that we were able to save our footprint. It's about moving forward. Maybe we can talk a little bit about what's hunky-dory and what's not hunky-dory and moving forward.

I asked you the question about the automotive innovation fund that she brought up now and with that—if we compare federal Government of Canada versus federal government in the United States—you even stated that the Americans don't even have an equivalent program, a program that has leveraged billions of dollars in investment in Canada. You talked about the support for research through our granting councils that we have here in Canada. You also talked about the corporate tax rates.

I believe, Mr. Jennings, in the United States the highest U.S. corporate rate is 39.1%. Do you know what the Canadian corporate tax rate is?

• (1720)

**Mr. Philip Jennings:** Federally it's 15%.

**Mr. Colin Carrie:** Fifteen percent, that's right.

I would say if we're looking at jurisdictionally federal to federal, Canada has a really good story.



Let's talk about something that may not be hunky-dory because this is what my constituents are talking about right now in Oshawa. When I talk to businesspeople, people who are retired, and pensioners living in their homes, they're talking about the highest electricity rates in North America. I believe Ontario has the highest rates for industry in North America. They talk about bringing in a job-killing carbon tax that would increase the cost for manufacturers not only of heating their plants but providing electricity to their plants and transporting goods in just-in-time delivery systems through their plants.

This is what we're talking about at the provincial level. They're also talking about raising payroll taxes though something they've invented called the Ontario retirement pension plan.

When we're looking at jurisdiction to jurisdiction, I was wondering.... You know that Ontario competes against many jurisdictions across North America. Is there any jurisdiction, any whatsoever that you'd know of that at this time, any state in the United States that is raising the price of electricity for manufacturers, threatening to put in taxes such as a job-killing carbon tax that would raise the price of anything, or payroll taxes with these pensions? Are you aware of any jurisdiction that we compete against that is doing the exact same thing that would raise the cost of doing business to Canadian companies or international companies?

**Mr. Philip Jennings:** Unfortunately, I don't think I'm able to answer that question.

**Mr. Colin Carrie:** Well, I can tell you. I did some research. I don't think that there is any other jurisdiction that, when they want to attract investment like we're trying to attract, is raising the cost of business such as that. Thank you very much for that.

While I have some time I'd like to talk to Finance. We heard today that the Ontario Liberals...Jerry Dias made a few comments about how the Ontario Liberals bailed on the stocks they had invested in the auto industry. What entity manages the government's equity in General Motors?

**Mr. Richard Botham:** The entity that holds the shares on behalf of Canada is Canada GEN Investment Company. It is a subsidiary of the Canada Development Investment Corporation, which is a crown corporation that reports through the Minister of Finance to Parliament.

**Mr. Colin Carrie:** You can confirm again that the Canadian government, the federal government, still has our investments and the Ontario government has sold theirs, right?

**Mr. Richard Botham:** That's correct.

**Mr. Colin Carrie:** That's correct.

While you have the floor, could you explain a bit about Finance's role during the restructuring?

**Mr. Richard Botham:** Sorry?

**Mr. Colin Carrie:** What was the Department of Finance's role during the restructuring of these companies?

**Mr. Richard Botham:** There are two parts to the department's role. One took place during the period in which the financing was arranged. The financing was provided through Export Development Canada, but through a specific business line referred to as the Canada Account. The Minister of Finance has a responsibility in

respect of authorizing. His concurrence is required in respect of authorizations for using that particular instrument .

There was also a role for the Department of Finance in working with colleagues in the way that Phil outlined in terms of deputy minister committees. Our department wanted to keep apprised of developments because of potential fiscal implications, so we were involved in that work. The department has been involved—because as you asked in your first question in terms of where the holdings are managed—and has a role in maintaining relationships with the crown corporation on this, and other files as well, but has a role in monitoring that.

● (1725)

**The Chair:** Thank you. The time has expired.

Mr. Allen, you have the floor, sir. You will be our last questioner.

**Mr. Malcolm Allen:** Thank you, Mr. Chair.

Mr. Berthelette, you already walked through this with Mr. Watson, but on page 9, paragraphs 5.32, 5.33, and 5.34 talk about the nature of concessions in the sense of whether or not Industry Canada had enough information on those concessions to do an analysis. You seem to indicate that they took the company's word for certain expectations that were met, that they had a basic understanding of what they thought they needed as concessions, felt that was met, and said, okay, we'll advance the loans based on that.

But could they have underestimated or overestimated those concessions, with the lack of analysis? In other words, could there have been more concessions from the unionized side on the health care benefits, with an analysis that wasn't totally complete? Is the suggestion here really about a deficiency of analysis so that you really don't know whether there were enough concessions made or whether there were more concessions made than what they anticipated?

Is that what I'm seeing in those three paragraphs?

**Mr. Jerome Berthelette:** Yes, Mr. Chair, that's a fair statement.

**Mr. Malcolm Allen:** So in essence the government maybe needed to lend the company less money, based on.... Of course, there was \$1 billion that GM eventually did need because they self-financed the pension plan. Perhaps they needed to give them less money because there were greater concessions given by the labour force to the company than we perhaps knew about because there was a bit of deficiency in the analysis—albeit it's difficult to do, Mr. Jennings; I understand the timeline you were up against.

Listen, some of us have a real vested interest in making sure that General Motors actually succeeds. I'm one of those people in this country. I happen to be a retiree from General Motors, so I have a vested interest. It goes beyond my general community. I have other colleagues around here as well who have folks in those communities and represent those folks—as Mr. Carrie said, “real” folks in those communities, and I agree with him.

On page 15, Mr. Berthelette, you talk about the lack of comprehensive reporting to Parliament.

I do accede, Mr. Jennings, that your department finally finished the report by the end of last year.

Mr. Berthelette, from what I'm reading at paragraphs 5.62, 5.63, and 5.64, are we talking about the sense that Parliament actually didn't receive any timely reporting in any succinct way, other than unless you chased three or four departments to figure things out, as to what actually happened with a report back on where the moneys were spent? Is that what I'm reading there?

**Mr. Jerome Berthelette:** Yes, Mr. Chair. As we say in paragraph 5.63, we found it impossible to gain a complete picture of the assistance provided, as no single entity had pulled the information together and put it forward in a clear or coherent manner.

**Mr. Malcolm Allen:** Mr. Jennings, in the recommendation... which you agreed with, by the way. Congratulations on finally pulling this thing together at the end of 2014. It seems to be taking the lead.

Heaven forbid we ever have to do this again, but in life one never knows. On a go-forward basis, there has to be a group of departments involved. Clearly you can't do it as Industry Canada, by yourselves. You need Export Development Canada, you need Finance, and you need all the rest of the folks.

As part of your analysis, sir, would there be a lead now so that there's a lead report-back group? In your view, would that be important, based on Mr. Berthelette pointing us to appendix A in the chapter? Is it something that you might want to think about doing, or make a recommendation at some point to your own group internally that there be some lead?

**Mr. Philip Jennings:** I think the departmental response to the Auditor General's report is that we agree with the finding that having clear, comprehensive reporting on the support would have contributed to the public understanding of what the government did in terms of restructuring support.

I'll just add that all the information in the report was public but not put together in one place. Obviously putting and pulling together the information in one place does add to a better understanding of the success of the restructuring assistance.

**Mr. Malcolm Allen:** There's no question that if it's different places, and I read one part that looks negative, you look bad. But in the overall report you might actually look good. It's not even a question of finding the good part; we might find the bad part before we find the good part. That wouldn't necessarily be helpful.

Going back to Mr. Carrie's point about going forward—I'm certainly not going to talk about Ontario Hydro—it would seem that all this good work will go for naught if indeed there is no placement of product in those two plants in Oshawa. There's one running out in 2016 and one running out about a year to 18 months later. It would seem, as much as Mr. Carrie's told us all about the great things that are getting done, that General Motors of Canada, in Oshawa at least, doesn't recognize them very well, because they're still refusing to put product.

That's not a question, that's simply a statement. I'm not asking Mr. Jennings to respond to that, unless, of course, GM of Canada has told him something that he hasn't told the rest of us in this country yet—that they're going to put a great product in Oshawa, which is deserving of the folks who work in Oshawa.

No doubt you're going to tell me that my time is up, Mr. Chair.

• (1730)

**The Chair:** You're right again. Thank you.

**Mr. Malcolm Allen:** Thank you very much.

**The Chair:** With that, this hearing has concluded.

I want to thank our guests. Our apologies for the interruption, but these things do happen.

Thank you all very much for being here.

There being no further business before this committee, it now stands adjourned.







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