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Chair

Mr. Dan Ruimy

Standing Committee on Industry, Science and Technology

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• (1530)

[English]

The Chair (Mr. Dan Ruimy (Pitt Meadows—Maple Ridge, Lib.)): Welcome, everybody, to meeting 27 of the Standing Committee on Industry, Science and Technology.

Today we were supposed to have four witnesses, but two cancelled at the last minute. We have the Canadian Vehicle Manufacturers' Association, Mark Nantais, president; and the Automotive Parts Manufacturers' Association, Flavio Volpe, president.

We are going to get right into it. Gentlemen, you have 10 minutes each to give us your state of the union, and then we will go to questions.

Mr. Nantais, the floor is yours.

Mr. Mark Nantais (President, Canadian Vehicle Manufacturers' Association): Good afternoon, honourable members. It's certainly a pleasure to be here.

I'm here actually representing Fiat Chrysler Automobiles Canada, Ford Motor Company of Canada, and General Motors Canada. Together, these companies are responsible for approximately 60% of all the production in Canada. They are also among the largest multinational companies in the world, exporting their products to 100 countries around the globe, and producing award-winning quality vehicles from Canadian plants that are among the most productive in North America.

We are very pleased that the committee has undertaken a manufacturing study, and in doing so, recognizes that auto manufacturing has been a foundation for economic growth, and sustains a healthy middle class because it is highly productive and provides high added-value, high-paying jobs.

In fact, the auto industry accounts for roughly 115,000 direct jobs and about 500,000 direct and indirect jobs across the country. For every one assembly job, there are seven to nine other jobs created in the economy. No other manufacturing sector has such a high job multiplier. Our direct contributions to GDP in 2014 were over \$18 billion, and our exports of motor vehicles and parts totalled some \$87 billion last year alone.

Innovation in the auto industry is advancing at an unprecedented speed in its products and in its business models. The next five years will bring more change than what we witnessed in the last 100 years, and we do not see that pace of innovation slowing down. The automobile is the most technologically complex item a consumer

will purchase, and the consumer is the ultimate benefactor of advanced vehicle technology in safety, fuel efficiency, and comfort.

New rapid advancements in technology, changes in consumer preferences, and new entrants into the global auto sector are inspiring new automotive products, services, and business models that will be increasingly electric, digitally connected, autonomous, and part of the sharing vehicle economy.

There is a tremendous opportunity for Canadian assembly plants to have strong quality performance and to remain at the forefront of innovation, while enjoying the same technological advantages as other plants across the globe through their embracement of global manufacturing systems.

Canada needs strong advocacy for its manufacturing sector in order to achieve its economic goals. The committee has requested input on what would strengthen, protect, and promote Canada's manufacturing sector to inform this manufacturing study. We are here to supply whatever information we possibly can to help you.

You may be aware that the Canadian Automotive Partnership Council, whose mandate is to lead a forward-looking and proactive effort to position Canada as a leading jurisdiction for automotive manufacturing, has submitted a response to the Canadian innovation strategy which provides detailed recommendations of what factors will support innovation in the automotive manufacturing sector. CVMA certainly supports those recommendations.

Today, I'd like to focus on four areas that would demonstrate the government's commitment to the manufacturing sector as a key economic driver for Canada, and increase competitiveness on a global scale.

First, we should improve access to capital and financial incentives. The terms of the automotive investment fund need to close the gap against competing jurisdictions, and ensure that Canada has the most competitive tools available. Most competing jurisdictions offer non-repayable contributions in many different forms, including cash grants, refundable tax credits, and infrastructure and training credits and grants, with contribution levels that can exceed 50% of the total investment spending. No additional taxes are incurred as a result of the incentives. The conditions are flexible and performance-based. Project evaluation and approval is nimble and responsive to applicants' business realities and investment cycles. Furthermore, lowering the investment threshold investment to \$25 million from \$75 million would certainly help increase innovation.

We also recommend that the current form of the scientific research and experimental development tax credit be revised to be more responsive. Research and development programs that are flexible and responsive to the needs of the industry and administratively efficient would help support the innovation agenda by promoting auto research excellence, and the opportunity to build on the existing research capacity. A research tax credit that is truly supportive of innovation must be robust and reflect the true cost of advanced auto manufacturing research and development, inclusive of capital equipment, and be based on a broader definition of innovation versus the current definition of science.

Second is a welcoming regulatory and intellectual property environment. While governments can assist their emerging technology champions to grow, their policies and regulations can also stifle innovation. Regulators, agencies, and institutions can have strong impacts on the decisions of global OEMs to undertake R and D activities in a given jurisdiction.

● (1535)

Canada's governments need to take a strategic approach that comprehensively addresses the specific innovation needs of the auto sector. Going forward, it would be important to identify and track regulations that encourage or dissuade automotive innovation in Canada and to propose solutions that enable investment in automotive innovation.

Industries like the automotive industry which are fully integrated with the U.S. will benefit competitively by aligning regulations and removing regulatory differences. In fact, there are material cost efficiencies for both companies and governments with this approach, ultimately benefiting consumers.

North American harmonized standards through the efforts of the Regulatory Cooperation Council enable auto manufacturers to continue to design and build once for the North American market cost efficiently, while ensuring consumers are able to purchase the greatest choice of new vehicles that are equipped with the most comprehensive safety systems and meet the most stringent emission requirements in the world. We strongly urge the government to maintain its commitment to the RCC.

Third, we need to negotiate trade agreements that are fair and balanced, providing actual benefit to Canada's auto sector.

As the government works toward furthering opportunities to expand Canada's exports, we need to ensure Canadian companies are provided opportunities to fairly compete in foreign markets on the same equivalent basis as foreign companies have in Canada's domestic market.

The CVMA submits that there are important core principles for trade policy. The first is that free trade agreements must result in fair and free trade. Second is to focus on opportunities that will support and enhance Canada's industrial and commercial strengths. Third is inclusion of currency disciplines to ensure that market access provisions in a final agreement are not undermined by a country's inclination to manipulate its currency, given the intersection of trade and finance. Fourth is to create a level playing field for Canadian companies by removing market-distorting non-tariff barriers in advance of tariff reductions.

The industry is following with interest the efforts toward a successful passage of the CETA this fall as it represents actual growth opportunities for us. Our members, as multinational companies doing business around the world, are committed to working with the government to ensure Canada's free trade agenda supports and provides benefits to the sector, and positions Canada as that globally competitive automotive producer.

Last, we need to keep the costs of doing business low. We need to provide long-term certainty to companies which make global investment decisions as many as 10 years out. As I have said, increases in the costs of doing business have a negative impact on our competitiveness as a determinant in terms of decisions to place new investment in various jurisdictions.

One of the examples most recently is the pan-Canadian framework on climate change. It will be important in that regard to collaborate with the provinces and ensure the federal government establishes a floor on the price of carbon that does not add to the costs that are already being imposed on us by the provincial cap and trade program in Ontario, for instance. Another would be the proposed increases in CPP employer contributions, which really are payroll taxes, adding costs that would not be present in other jurisdictions.

We support efforts to address the effects of climate change globally, but measures will need to be collaborative and balanced to support competitiveness and avoid unintentionally hurting overall auto manufacturing competitiveness, primarily with our primary trading partner, the United States.

Higher costs to operate in Canada could lead to new or expansion of plants with the associated jobs landing elsewhere instead of in Canada. This is otherwise known as carbon leakage and we would lose on two fronts: the environment and the economic job-related benefits.

Finally, there are critical times in our business when specialized expertise is required for new product launches, emergency production equipment, installation and repair, as well as after-sales service. Sometimes this can be on very short notice. CVMA member companies are global companies which have global teams that provide specific expertise and any delay to get temporary foreign worker expertise to Canadian facilities has repercussions on our productivity and on future investment decisions.

Delays to get expertise across the border, as needed, can lead to a shutdown in production and result in costs and lost revenues of over \$1.5 million per hour. The CVMA members would welcome opportunities to work with government to address these deficiencies in the temporary foreign worker program and replace it, perhaps, with a new "global talent" visa or "trusted employer" visa program.

Honourable members, that is a very quick overview that would support auto manufacturing in Canada. I certainly look forward to answering any questions you may have. Thank you.

• (1540)

The Chair: Thank you very much.

Mr. Volpe, you have 10 minutes.

Mr. Flavio Volpe (President, Automotive Parts Manufacturers' Association): Thank you, Mr. Chair and members, for the opportunity to come and speak. Thank you for the invitation.

I won't belabour Mark's inventory of some of the regulatory issues. There is no daylight between the vehicle manufacturers and the parts manufacturers. I'll give you a bit of a contextual overview and speak a bit contemporaneously about the industry itself so you have context for what we're talking about.

The APMA, first of all, is Canada's national association representing OEM suppliers of parts to final assembly, both to the Canadian footprint and for export abroad. Founded over 60 years ago, we represent 95% of independent parts production in Canada, and that includes many machine tool, die, and mould makers.

In 2015, shipments by our industry were \$25 billion, the GDP contribution was \$6 billion, and direct employment was 81,000 people. We also have a formal partnership with the Canadian Association of Moldmakers, representing 70 mould makers whose subsegment of the industry ships \$2 billion of products a year.

In the Canadian auto sector, we talk about innovation and we talk about chasing new investments. We talk about taking advantage of our trade relationships through trade agreements and our geographical proximity to the world's greatest economy. The first added-value sector that was built in the Canadian economy in the early 20th century was the automotive sector.

It started over 110 years ago with Walkerville Wagon Works' production of the Ford Model A in Windsor, and four years later with the joint venture of Mr. Sam McLaughlin and the Buick Motor Company to provide engines to carriages to sell vehicles. The industry is bookended by Oshawa and Windsor, and 95% of this activity is on a 250-mile or 400-kilometre stretch of Highway 401.

The difference between the Canadian automotive sector and its direct competition within the Great Lakes region, which up until 20 years ago was its only North American competition, was that after the American wave of 100 years ago, Ontario and Canada were the beneficiaries of the Japanese investment wave. In 1984, 1986, and 1988, Toyota, Honda, and Suzuki, in the now wrapped-up partnership with General Motors, all invested in final assembly in Ontario.

Canada's first substantive international trade treaty was the 1965 Auto Pact, which ensured the efficient integration of the auto assembly business in the Great Lakes region. In many quantitative and qualitative measures, it's the most integrated supply chain in the world. Our supply chain successfully competed for product mandates with international competitors for over 90 years and we're very competitive in overseas markets as well.

Mark went over the industry snapshot, so I'll just add a few pieces. Of manufacturing GDP, 10% is automotive; 21% of merchandise

trade in manufacturing is automotive; and Canada represents 14% of NAFTA vehicle production in total. Our annualized rate is about 2.4 million units, all of which is happening along that stretch of Highway 401 in southwestern Ontario.

There is also heavy truck and bus assembly in Quebec and Manitoba, and specialized, very high added-value technology—I think fuel cell technology—in B.C. We're very export intensive: 75% of annual output leaves the country; 88% of vehicles assembled leave the country; and about 51% of auto parts built here leave the country.

In auto parts, we have 450 companies representing 1,250 facilities. For the machine tool, die, and mould makers, there are 200 firms, and they are concentrated very heavily within a 150-kilometre corridor from the Detroit-Windsor border.

Assembly plants are the main drivers of any automotive business. The manufacture of vehicles is a very localized venture. You put a plant in a location and your customers, whether they are Mark's members or other members, will expect that their supply happens in concentric circles around the plant.

• (1545)

Sometimes that's location, and sometimes that's timing, and sometimes you manage the location and timing within inventory requirements. The point is that if you're going to supply an auto assembler, if you're supplying an OEM, you're going to supply a very specific plant, and you're going to do it in the comfort zone as prescribed by that company.

I say that because it's very important to note that we have 19 facilities run by OEMs in Canada, from five different OEMs. That is a distinct advantage that we have specifically in Ontario over a lot of the other subnational jurisdictions in the Great Lakes and in the U.S. southeast. We have Fiat Chrysler in Brampton and Windsor. We have Ford in Oakville. We have General Motors in Oshawa, Ingersoll, and St. Catharines. We have two plants at Honda in Alliston. We have the Toyota facilities in Cambridge and Woodstock.

To note on those facilities, the first place that Toyota decided to build a Lexus brand new product anywhere outside of Japan was Canada. Then recently, in the last year, the first place where Toyota has announced the assembly of hybrid Lexuses is in Canada. In the heavy truck and transport assembly business, which my members also supply but to a much smaller degree in volume, 2.4 million light vehicles are produced and 150,000 heavy vehicles are produced. You're looking at Blue Bird in Quebec making school buses; Hino, which is a Toyota subsidiary, making class 4 to 7 trucks in Woodstock; Lion Bus, MCI, and New Flyer in Manitoba; and PACCAR and Volvo Bus in Quebec.

To note in terms of recent OEM activity in Ontario that impacts the sector, we also have the news of last month, which is that as a result of the collective bargaining agreements between General Motors and Unifor, there's a renewed commitment to Oshawa. One very important cluster bookend in our business has been secured at least for the next four years. It is incumbent on the federal government and the provincial government to partner in building up the tools that are required for the new products allocated.

Honda, as a result of the CETA negotiation, and pre-ratification, has declared its Alliston assembly plant the global lead for the Civic and CRV. I went over Toyota. Oakville assembly, for Ford, is the global exclusive for the Ford Edge platform. FCA's Windsor assembly is its lead for the minivan. While there's a lot of discussion of the product mix, and are we in the right product mix in terms of fuel efficiency and size, certainly the assets that the companies run in this country are very important assets within their families.

Much has been given about Canada's relative place in automotive assembly in North America falling to third place behind Mexico over the last 20 years, and specifically over the last five years. Of the last 11 greenfield investment announcements in North America, eight have gone to Mexico, and the other three have gone to the U.S. southeast. An important context is that the Great Lakes region and the Great Lakes cluster, of which Canada, Ontario, is one-third by units of volume, so about 7.5 to 8 million units of volume of installed capacity, is still much bigger than the U.S. southeast, which last year was 5.7 million vehicles assembled, and Mexico, which was 3.5 million. Mexico will crest around five million, but in terms of subnational jurisdictions, Ontario still is ranked either first or slightly second, depending on the year, behind Michigan. That's a very important distinction.

The Canadian supply base is a good mix of private and public companies, Canadian companies and foreign transnationals, but it's very important to note that amongst the global 100 there is a lot of Canadian representation, led, of course, by Magna, which last year ranked number two in the *Automotive News'* 100 global suppliers. But there are Linamar, Martinrea, Woodbridge Group, ABC, all globally relevant firms, all significantly materially higher than \$1 billion of activity annually, in Linamar's case, \$5 billion, in Martinrea's case, \$4 billion.

• (1550)

The traditional competition is adapting. While Canada held its own, this government and the provincial government partnered with the U.S. Treasury in a restructuring of the industry to anchor General Motors and Chrysler and, by extension, the rest of the industry in the Great Lakes. New investment and added value investment is going south.

Much has been made of the flight of suppliers. Suppliers move with customers by necessity, but what Canadian suppliers have been doing over the past five years is co-locating. When a new investment in Mexico...maybe you need to supply investment from Mexico, but you'd keep your headquarters here in Canada.

I'll leave you with a NAFTA snapshot. In partnership with the Canadian trade commissioner service in Mexico, we participated in a survey of Canadian supplier investment in Mexico, tracking how many companies, their locations, and the trends.

The gross numbers are that 55 Canadian companies have invested in Mexico, have set up 110 facilities over the last 10 years, and the growth rate is 20% year over year. Those companies have all maintained a footprint in Canada. Some have set up a service shop. Some have set up new footprints. The reality for a Canadian supplier is that there is little growth in the Canadian market, although it's solid and thanks to some of the current negotiations, but all the growth is in Mexico.

Thank you.

The Chair: Thank you very much.

We're going to go right into our questioning.

We're going to start with Mr. Longfield. You have seven minutes.

Mr. Lloyd Longfield (Guelph, Lib.): Thanks, Mr. Nantais and Mr. Volpe, for your presentations. I hope we can get through lots of questions this afternoon. I know you have a lot of important information for our committee.

We had a round table in Guelph two Fridays ago, talking to the auto parts manufacturers. We have Magna, Linamar, and we have Guelph Tool, a lot of large parts manufacturers in Guelph. Guelph also has the lowest unemployment in Ontario.

The success of those manufacturers is drawing a lot of talent, which is creating a bit of a vacuum. One of the things that was brought up in our round table was access to talent, particularly proposed revisions to the temporary foreign worker program, and the needed revisions, let's say.

Are your members experiencing some particular talent vacuums that we could put into our study?

That question is for either one or both of you.

Mr. Flavio Volpe: I'll give you a sense from a supplier's point of view.

Labour mobility is a very important piece. The more skilled workforce is an aging workforce. What we like to use as a median demographic is 55 years old, male, 25 years plus of service. There isn't a pool of succession in place, and as a result, there's a bigger demand for finding those skilled labourers anywhere we can find them. There is a shortage everywhere in the Great Lakes region, and anything that could help in sourcing them from other jurisdictions is helpful.

The frustration sometimes is in the current protocols of visa programs, where we have to have some of those skilled labourers cross the border to take care of an acute problem or an acute customer request. We work in real time, and there is an uncertainty as to whether you will get that approval in the time frame required.

Mr. Lloyd Longfield: Right, that was mentioned. Thank you.

Mr. Nantais, do you have anything to add?

Mr. Mark Nantais: Yes, on that very point, if I might, what we have, as I mentioned.... For instance, in a new product launch, the plant goes through a considerable renovation, and much goes into the logistics, the assembly line logistics and systems that are associated with that. Oftentimes the only real talent we have, or access to talent, is those parts of the global teams that actually have that responsibility. They don't necessarily reside in Canada but in our offices in the United States. Timing is very critical. Sometimes we need them for hours; sometimes we need them for several weeks at a time. Oftentimes, when we have a critical situation, we may have very little time in which to make sure that person gets across the border and deals with the problem.

It's not that we don't have that skill in Canada, it's just that those are the teams that have been designated on a worldwide basis to carry out that activity. We need them, and we need them quickly, and we need them without a lot of administrative burden associated with bringing them across the border. We have that problem.

• (1555)

Mr. Lloyd Longfield: A nuance on that are the service contracts for equipment coming across the border from other countries, that those service people aren't available at the end of the service contract when quite often that is when they are needed.

Mr. Mark Nantais: That's a possibility. But at the same time, often when we get new equipment like that, while they may have service contracts, much of that service contract can be at times serviced by actual company resources. We obviously want to make sure we're not caught when we don't have somebody who can service them onsite or as quickly as possible. That's something we're very mindful of.

Mr. Lloyd Longfield: Thank you both.

I'm going to stay on labour for a bit because it's such an acute problem in our area. You mentioned mould maker as being a particular group that you're working with, and one of our members of the round table said that it took him two years to get his last mould maker. They talked about programs where maybe collaboration between business and education might solve that if we were allowed to put colleges right on the floor of manufacturers.

Have you had any experience with programs where colleges can put people directly on to factory floors and get financial credit and academic credit for the students who are there?

Mr. Flavio Volpe: Sure. I think the best example of this is what's happening in Windsor. On one hand, St. Clair College has a very big program with 700 students enrolled per year. They are the biggest local source of tool, die, and mould makers. But, of course, you work at a pace where you get them through the college program and then they have to apprentice and then we see whether they get poached. There's so much demand. They move around. A company down there is a supplier named Valiant, and in partnership with the CTMA, has run a program sponsored by the provincial government on a smaller scale giving 40 weeks of on-the-floor training in a shop owned by a private company where they pay minimum wage, plus the training, plus a set of tools. It was originally set up for a pipeline for Valiant's operations, and now Valiant, I think, is training people for its competition.

There is some discussion about how you put the two together—what Valiant does on the floor with certification at St. Clair—but there's obviously a need for a hybrid solution there.

Mr. Lloyd Longfield: It's something like the military offers. You get the training but you have to spend something like two years after you have the training.

Mr. Flavio Volpe: That's right.

Mr. Lloyd Longfield: Finally, from ISED, the supply chain is changing. The Internet of things has hit the automotive industry in a good way, so the supply chain needs to respond to that. Do you think Canada is keeping up to speed with supply chain changes around electronics and vehicle sensing and the Internet of things, as it relates to manufacturing autos?

Mr. Flavio Volpe: I think it is. If we overlay the geography of North America and we take two clusters—the automotive cluster and the IT cluster—we're in the middle of the biggest automotive manufacturing cluster and the second-biggest IT cluster. The problem is there's a cadence difference between how IT vendors get business, and the obsolescence time frames of it are very different from what the automotive sector is used to. It requires the two to mix a bit.

In the OEM sector, there isn't a final assembly sector in Canada, so many times it's the Canadian supplier that's working with the IT sector. There is a lot of private and public partnership programming happening, some of it by us and some of it by our American counterparts.

IHS, which is an American-based auto analysis group, says that by 2030 the value of electronics in a vehicle will exceed 35% of the total vehicle value. It was below 5% in 2000. It's incumbent now for new Canadian entrants from IT into automotive to get into the automotive supply chain before the OEMs decide on who their suppliers are. If that becomes crystallized, you're done.

• (1600)

The Chair: And you're done.

Thank you very much.

We're going to Mr. Lobb.

Mr. Ben Lobb (Huron—Bruce, CPC): My first question is for the automotive parts manufacturers. I worked in the automotive parts industry for many years, and the one issue they had in the mid-2000s was competition from China. That pretty much finished many of our competitors, but I guess it allowed us to remain in place, barely. Some of the issues they have now are scarcity of labour and also the price of electricity. This is in the province of Ontario. For them, this is a foundry that makes cast iron parts and stainless steel parts. They actually shut down on high-demand days to make money...or to save money. In some years it's to make money.

It seems a perverse reality in the province that CFOs and plant managers have to shut their plants down in the summertime, in the afternoons for sure, and in some cases for the day shift and most of the afternoon shift. This can't be the only plant in Ontario that's experiencing these issues. How do businesses make the case to invest in Ontario when that's the first issue you have?

Mr. Flavio Volpe: That's a good question. Regardless of big or small, when we take a look at the costs of energy, that is probably the biggest delta between us and our competition, both the immediate competition and the U.S. southeast.

As a volume supplier, you don't have the option to shut down. Your customers, like Mark's members, are expecting 15,000 door modules this week, so you just have to absorb that cost. If you're making tools and you're making one specific tool and it's not a just-in-time supply, you may be able to ride that time-of-use curve. The vast majority of the time you're stuck with that cost, but there's some perspective on that cost. It's a real irritant. It is, in some cases, double that of our competitive jurisdictions, but in many cases, unless you're a foundry and you're making volume parts, it's probably around 5% of your total cost. This is a business that operates on single-digit margins in EBITDA, earnings before interest, taxes, depreciation and amortization, so every point counts. If you have a business here it's not going to cause you to close the business, but if you're in competition for that investment attraction with other jurisdictions in the Great Lakes and it's even, it may be the irritant that sends you somewhere else.

Mr. Ben Lobb: Yes, and on the machine shop side the decision has been to bring it to machine shops in Michigan when they used to be in Wingham, Ontario, and Strathroy, Ontario.

Mr. Flavio Volpe: That's right.

Mr. Ben Lobb: With the issue around labour, I give full credit to the CAW. For the company in my area, the CAW negotiated a good collective agreement that would allow them to bid on and compete with most jobs out there. The issue it had was attracting people to work there at that price, so the CAW and the company were able to renegotiate mid-agreement to increase the hourly rate, and they're still having issues attracting people to work at a starting rate of around \$17 an hour plus benefits. How can that be?

Mr. Flavio Volpe: You mentioned a machine shop as an example. A machine shop has really skilled labour and there's a real shortage of those labourers, so there's a really high competition for those people.

• (1605)

Mr. Ben Lobb: This is even for people to run a CNC machine.

Mr. Flavio Volpe: We did a little survey of our members and their 80,000-plus employees—let's say about half of them are represented from Toronto to London and the other half from London to Windsor—incidence of organized labour, and then the difference in prices. We surveyed members representing 39,000 employees, about a 50% sample size. We found 14% union representation overall. The number was 17% from London to Windsor, and it was about 10.5% from London to Toronto. We found that the western end of that geography was the most difficult place to keep staff and employees, but the incidence of turnover in non-specialized business was in the single digits, and so people still stay, regardless of it, as the more skilled people get poached. These are good wages that people more or less gravitate to, especially in towns where they have.... Unlike Windsor, for example, where you have a real concentration of hundreds of companies and some choice, if you're in Ridgeway, you're either at KSR International or you're not, and so it's different from town to town.

Mr. Ben Lobb: The automotive supplier innovation program that was brought up in budget 2015 or 2014, I can't remember now, does that need to be enhanced, more grants, fewer repayable contributions? If a parts manufacturer in Ontario, or even in another province, wants to expand or they want to do a greenfield facility or what have you, does that program need to be beefed up? Obviously, we can work with the big OEMs on the huge projects in some cases, but for those parts manufacturers that employ people in small towns and on the periphery, does the program need to be more accessible with maybe a mixture of grants and repayable contributions?

Mr. Flavio Volpe: There's a family of funds, the automotive supplier innovation program, the automotive innovation fund, so I'll generally answer by saying a lot of those funds were first conceptualized in a different market for liquidity and cost of money. These are now healthy companies with good balance sheets that have access to very cheap loans. From a competitive standpoint, if Canada is going to compete for that investment, as opposed to Michigan, Ohio, or North Carolina, it's a better idea to go with grants, simply because that's the competitive space. These are mobile companies who have custom—they may supply Volkswagen in Tennessee. They might just do it out of there.

Mr. Ben Lobb: May I have one last quick question?

The Chair: In five seconds? You'll get a second round.

Mr. Masse, go ahead.

Mr. Brian Masse (Windsor West, NDP): Thank you to our witnesses for being here today.

I want to follow up on the innovation fund. We've seen a significant uptick in a number of different losses to Mexico while we've had this fund and previous funds. Why is that the case? We've had funds available and they've not been exercised.... Companies have chosen other states for them, and single states, too, such as states in the U.S. and states in Mexico.

Mr. Mark Nantais: I think the answer is multi-faceted. In terms of the AIF, that fund, we have to remember that whether it's Mexico or any other country, the benefits of an automotive industry, economically speaking, are absolutely out of this world from a job perspective, a revenue perspective, and a contribution perspective, as a cornerstone of their economy. When you have a job multiplier of seven to nine, that's pretty much unheard of, which is why everybody wants one.

On the AIF, it is a sort of repayable loan structure that is taxed. That's one thing the auto industry is very clear about: it should not be taxed. It should be more into the grant type of structure—

Mr. Brian Masse: If I could just interject there, could you describe that a bit more? What I don't think people quite understand is that you apply for a government loan and then, immediately, before you actually start to do anything, you're getting taxed on that loan. Really, it's treated as revenue.

Mr. Mark Nantais: That's right. It's taxed in the first year you receive it, in which case, when you expected x dollars, you're not really getting x dollars. You're getting x dollars minus whatever tax rate applies. You're not getting the full benefit of the fund or the loan, which is why we're saying that it should not be taxed. Other jurisdictions are not taxing those incentives.

It should be more of a grant structure, and that grant structure should not be kept to the 20% threshold. It should be upwards of 50% plus. Take a look at why Tennessee got the Volkswagen plant. On a \$1 billion investment, they got roughly \$540 million in incentives. That's \$540 million on a \$1 billion project by various means, in all various means.

We have to look at how we close the gap. That's one reason that we've seen an exodus—not our fair share is a better way to put it—of new investment. Out of the roughly \$18 billion in new investment over the last few years, \$10 billion went to the U.S., \$8 billion went to Mexico, and we got \$1 billion here in Canada. That's not including the most recent announcements and so forth.

It's that, and then it's the cost of doing business. This is where, again, the federal-provincial approach here to new investment decisions or in support of new investment decisions is really critical.

In Ontario, for instance, the cost of electricity was mentioned. We are high users of electricity, and we're very flat in the sense that we don't have the ability to go to off-peak hours. We have to maximize the capacity utilization of our plants. We don't have the ability, for instance, to go to off-peak hours and reduce our global adjustment cost, so we're seeing costs upwards of two to three times higher in Ontario versus our competing jurisdictions. More roughly, on average, that's about a difference of \$42 per megawatt hour versus our benchmark plants in the United States. That's one of the issues that also goes into the equation here.

There are also the costs of other regulatory issues and the complexities. These are all things that add to the cost of doing business. It's the multitude of those things that actually affect and influence a decision to invest here or not. Most recently, we've seen “or not” apply.

• (1610)

Mr. Brian Masse: Is it fair to say that essentially the investment... I mean, there has been some progress, but it's been largely driven by negotiations at the table between the workers and the company in terms of similar decisions that are being made today about collective agreements and all that. Would that be a fair thing to argue?

I know that government programs have been used a bit here and there, but again, if \$18 billion is invested in North America and we only get \$1 billion of it, it's not a successful record.

Mr. Mark Nantais: There's no question that until these most recent investment announcements we were certainly not getting our fair share. These new announcements of course don't mean it's a

given. I think it would have to be clear that it's still incumbent upon governments, both federal and provincial, to come forward and do what they need to do in terms of supporting these potential new investments.

Mr. Brian Masse: For parts and general assembly, we've dropped from number two in the world. It's interesting. I'm not trying to pick on any particular member so I won't mention the party name, but we had a member in the House of Commons when debating the automotive industry who said that NAFTA and the Free Trade Agreement actually created the Auto Pact. This came from a member who has auto in their community. There seems to be a lack of awareness, sometimes, of the importance of it to the sector, and also of the trade agreements.

Is it really impossible for us at this point in time, or is it possible with the proper strategy to win greenfield sites? Should Canada be out of the business of competing for these, or should we actually be fighting for them?

I don't think the automotive sector is dead. I don't think innovation and national programs are dead. I think the sites of other places show investment.

Mr. Flavio Volpe: Let me take a shot at that.

Traditional OEMs can be counted, right? Whatever your number or however you define them, there are 13, 17, or 20 of them.

Take a look at the prospects of the company. Take a look at what they're making. Take a look at the regulatory environment in the target markets, like corporate average fuel economy in the U.S., and you can say, “We can triage two or three targets.” Then, take a look at those targets. You don't have to put your ear to the ground to find out who else is talking to them. Take a look at their package. Take a look at our package. Build it pro forma over 20 years, and then say, “Look, on a 20-year basis, I think Canada is more competitive than anybody else.”

But, these other jurisdictions bend that NPV, net present value, curve with the package. You started on AIF, and I've been very public about this; I think every other competing jurisdiction recognizes that we are now in a very cheap money environment. A company with a good balance sheet can borrow \$1 billion at very low commercial rates.

Every other competitor says that if they're in the game—and you have to decide that you're in the game—then you're in the business of grants and/or training dollars or other contributing pieces like that.

I think it's an expectation of this industry that sooner rather than later the AIF terms get changed to reflect a competitive environment.

Mr. Brian Masse: I think funds like that are just for political reasons. They're not for getting real action.

The Chair: Thank you.

We're going to move to Mr. Jowhari. You have seven minutes.

Mr. Majid Jowhari (Richmond Hill, Lib.): Thank you to the witnesses.

I'm going to start with Mr. Nantais. Earlier this year, your association stated that the auto industry is part of the solution in reference to reducing greenhouse gases. Could you please explain how your industry is part of that solution, especially when you're only representing 60% of the production, with Toyota, Honda, and Suzuki not being part of that?

• (1615)

Mr. Mark Nantais: Suzuki is no longer here.

When we say we're part of the solution, I'm speaking from an industry-wide perspective. All automakers are investing tremendous amounts of money in new technologies to improve fuel economy, reduce CO2 emissions, and reduce other smog-related emissions at the same time.

It's the entire industry that's working towards this. The entire industry is probably one of the most technologically advanced, green-technology industries that exists. For instance, in the 2017-25 GHG emission regulations for light-duty vehicles, we are spending over \$200 billion in new technology investments, \$100 billion of which is probably going directly into electric vehicle development. You will see much more of that going forward.

Year over year, fuel economy or fuel efficiency improvements are roughly 3% to 5%. They used to be 1% to 1.2%. That's changing the entire profile, if you will, of new vehicle fuel efficiency. That will deliver about a 266 million tonne reduction in GHG emissions from the light-duty fleet between now and 2025—and beyond, actually, because these vehicles are going to be on the road much longer.

By virtue of those investments in technological advancements, we are making significant reductions in those emissions. On top of that, we now have what we call electrification taking place in our industry. That includes not just the vehicle itself, but also vehicle-to-vehicle connectivity and vehicle-to-infrastructure connectivity. These are all things that are ultimately going to help reduce congestion and move vehicles more effectively in terms of constant speeds and safer operations because they will communicate with one another.

We recently had Transport Canada officials in Detroit to look at those very technologies. I'm not going to speak for them, but I can tell you what they thought. They thought it was mind-boggling just how quickly this technology is taking place. Whether it be lightweight materials, mobile communications, sensors, software, artificial intelligence, analytics, advanced battery technologies, these are all things that we as an industry—I'm speaking of all manufacturers now—are contributing to the global change equation.

Mr. Majid Jowhari: Can you expand on the impact of reinvestment that the provinces will be making as a result of, for example in Ontario, cap and trade back into the industry? How will it help you expedite or increase that benefit and reduce emissions?

Mr. Mark Nantais: This requires a long explanation, but I'll try and be as brief as I can. We can take it offline as well.

Clearly, the cap-and-trade program poses certain requirements on industry. This requires, from a manufacturing standpoint, reductions in greenhouse gas emissions. What people don't understand is that, from a manufacturing standpoint, vehicle assembly is less than 1% of the total Ontario inventory, so we're not very energy intensive at all. Vehicles in our supply chain may be perhaps because of the products they provide to us. Ultimately, the idea with cap and trade is that if you can't meet what we call the cap decline and meet the fuel efficiency improvements, and you don't have sufficient allowances or credits, then you have to buy them.

Unfortunately, with the way it's been constructed to date and thus far for the next four years, even though they commit to giving industry allowances, because we have made so many improvements in our energy efficiency over many decades—why? Because it made good business sense to improve the bottom line—we've taken all the low-hanging fruit away. Now we're talking about high-cost energy-efficiency projects.

The idea here is, you take cap-and-trade revenues and you recycle them back into the industry, hopefully using appropriate criteria to help companies to make some of the more costly energy-efficiency improvements in their operations. Ideally here, we have to keep in mind that these are costs imposed on us in Ontario, and ultimately Canada, that our competing jurisdictions do not have.

We only use, for instance, natural gas, which is part of the cap-and-trade program, to do two things: to paint vehicles, in other words, temper the air that goes into our paint shops, and to heat our buildings. Those are two things that our competing plants, say, in Texas, don't have to do. We're automatically, potentially, paying higher costs in energy or electricity that could offset our competitiveness.

• (1620)

Mr. Majid Jowhari: I'm sorry, but I'm going to interrupt you.

On the partnerships with universities and colleges, especially on the research side, the innovation side, specifically with fuel cells and electrification, is your industry partnering with any specific educational institutions?

Mr. Mark Nantais: Absolutely.

Mr. Majid Jowhari: Can you give me an example?

Mr. Mark Nantais: With respect to vehicle manufacturers, assemblers, and parts makers, and Flavio can speak to that more eloquently than I can, I can say that the OEMs have multiple arrangements with universities, centres of excellence, and colleges across the country. They are focused on battery development. They are focused on lightweight materials. So much more now is being focused on vehicle connectivity, and at universities such as the University of Waterloo, the clusters on—

Mr. Majid Jowhari: I happened to be at the University of Waterloo and I saw—

Mr. Mark Nantais: So you know.

Mr. Majid Jowhari: That's why I asked the question.

You mentioned CETA, but what's the impact with respect to the TPP as well as free trade with China?

Mr. Mark Nantais: CETA is something that was negotiated we think in the appropriate way, where they factored in the integration of the industry. We want it to move forward. We see that export markets exist. As for China, we're not sure. We all have plants there. I'm not sure where the Government of Canada is at this point. We certainly know where the U.S. is. They don't appear to be interested at this point. Having a better understanding of what is to be accomplished by a China agreement is really important. The TPP is out there. You have the U.S. government, and I'm not sure where that government will be now or after the election.

The Chair: How about we leave it at that. I'm sure it will come up again.

Mr. Majid Jowhari: Thank you very much.

The Chair: Thank you very much.

We're going to move to Mr. Nuttall.

Mr. Alexander Nuttall (Barrie—Springwater—Oro-Medonte, CPC): I'd be interested in five more minutes on where the U.S. government's going to be in a few weeks.

Anyway, I'd like to pick up on some things you alluded to on carbon taxes and the cap-and-trade system. In your response to Mr. Jowhari, you noted that there's a lot of hope that if the system works and if they do what they say they're going to do, there'll potentially be reinvestment.

At the same time, in your opening remarks, Mark, you outlined that you're starting negotiations for an exemption on the carbon tax if it contains higher thresholds than what we see in the cap-and-trade system. How far are you with that? Is it something that you feel there's an opening for?

Mr. Mark Nantais: If I may, I'll throw out a point of clarification.

We're not looking for an exemption. What we're really trying to stress here is that if the federal government is attempting to ensure that there's equal challenge across the country in terms of reducing greenhouse gas emissions, and if they're going to establish the floor on a carbon price to do that, it really has to coordinate with those provinces that already have plans in place, such as Ontario, Quebec, Alberta, and British Columbia.

The key thing here is that we cannot allow the stacking of additional costs on top of those plans that already exist. To do so would further undermine our competitiveness. So recognize the plans that are in place. If the government feels it has to use that as the basis to persuade other provinces, well then, it has to be done, but it has to be done in collaboration with those provinces.

Mr. Alexander Nuttall: I think the government, to be fair, has outlined that they're expecting this to be across the country in some sort of uniform manner that puts a cost on carbon.

I guess the question that you still leave me with is if there's going to be an increase cost on carbon in Ontario by 2022, which is generally what the feeling is, you're saying it will put an additional issue in your hands based on competitiveness with those just south

of the border, or way south of border in Mexico. To me, there is only one answer for you, which is to look for exemption, like we did with ORPP.

This leads me to the second question. Have you looked for and negotiated an exemption on any CPP changes and payroll taxes that are coming?

•(1625)

Mr. Mark Nantais: There's a lot of things there.

First off, I think with the federal government and Ontario, when you talk about exemption, I guess it would be Ontario that needs that exemption, in that sense.

I think really what we're talking about is to recognize that there is a cap-and-trade program there, that they are imposing costs already on the price of carbon, and that should be sufficient at this point in time. It doesn't mean that won't change in the future, but for us, we're already incurring high electricity costs that we don't see south of the border in our competing plants in the United States, and additional costs of carbon and whether we have to buy credits, which is really a tax on our business that we don't have in those other jurisdictions. That's what we need to avoid, so it doesn't further undermine our competitiveness. We still have a lot of good things going on in Ontario and Canada.

The issue for climate change is not to have something that's necessarily an issue across Canada per se, although we as a country have to meet our commitments that we have now made internationally. The real issue here, from a competitive standpoint, is north-south, whether it be the United States or Mexico. Our primary competitor right now, given the cost of labour and so forth, is really the United States, so we can't be adding to those costs.

On the CPP, under the ORPP originally.... We have some fabulous companies as well that have rich pension plans, which are defined benefit plans or a combination of defined benefit and defined contribution. They are rich plans, and under the ORPP, the issue of equivalency was there. It was acknowledged and it was accepted. We don't have that commitment at the CPP level. We could well be adding cost in that respect to our plans that are already significant and quite rich plans. That's the issue.

Mr. Alexander Nuttall: Does your association have targets on an annual basis for job creation within our marketplace?

Mr. Mark Nantais: I'm not aware of any targets. We hire on the basis of need. Obviously, if we're expanding, whether it be in response to the need to produce a certain number of vehicles in our plants, then we will hire. Similarly, the same holds true for our supply chain, and they supply us, so if we're going all out.... We're pretty much at full capacity now. There were some announcements made, because of expansion, to hire new people. I wouldn't say we set targets, but we will respond to need.

Mr. Alexander Nuttall: Thank you, Mr. Chair.

The Chair: Mr. Arya, you have five minutes.

Mr. Chandra Arya (Nepean, Lib.): Mr. Nantais, your association seems to represent only North American manufacturers. It doesn't include, say, Toyota Canada or Honda Canada. Is that correct?

Mr. Mark Nantais: Yes, officially that is correct.

Mr. Chandra Arya: Why?

Mr. Mark Nantais: That's the way it has always been. They have established their own associations. We don't represent Honda manufacturing or Toyota manufacturing, but I can say on manufacturing issues that we have many discussions. In many instances they support what we say with respect to manufacturing issues, but they're not officially members.

Mr. Chandra Arya: Basically, you represent the voice of the North American manufacturers.

Mr. Mark Nantais: We do. We represent those companies which have been here for 100 years, supplying many high-paying jobs.

Mr. Chandra Arya: From 2009 to 2015, employment in the vehicle manufacturing grew by 16%, while production rose by 72%. What is the reason for these productivity gains?

Mr. Mark Nantais: If you want to remain competitive, you have to be productive. We reinvest in our plants, refurbish those plants. We look for productivity gains, so automation, other processes—

Mr. Chandra Arya: It's quite substantial. Employment only grew by 16% and production went up by 72%. That's quite a significant rise.

Mr. Mark Nantais: That speaks amazingly to our workers, and to our facilities which are very productive, some of the highest quality, award-winning quality plants that exist. That speaks tremendously well for Canada.

• (1630)

Mr. Chandra Arya: Mr. Volpe, between 2005 and 2009, production dropped by 50% and employment fell by 37%, but between 2009 and 2015, production increased by 60% while employment rose only by 16%.

Mr. Flavio Volpe: I think there are two things. Along with Mark's theme, parts are getting more sophisticated and the competition is getting more sophisticated. You're having multi-component modules that you're supplying to your customer, and the customer is asking for you to put more value on a specific piece that you're supplying. That means automation. Sometimes it means robots, but mostly that means process improvements in manufacturing. It's a global trend.

The window that you have taken captures the worst year in automotive history, in 2009. If you broke that number out from 2005 to 2009, that drop really is the crash of 2009, when the North American production number went from 17 million a year to nine million a year. I would probably use a different window than that.

Mr. Chandra Arya: Your presentation was quite interesting. It was interesting to hear the rich history of how the parts manufacturing industry grew here, but for me the most critical thing was in your last sentences. You said there has been a 20% growth in capacity in Mexico, whereas there has been very little growth in Canada.

Have we reached a plateau, or are we already in the sunset phase here?

Mr. Flavio Volpe: The automotive business works in cycles. We usually accept, colloquially, that there are seven-year cycles, and that's a build-up of new production, retiring of old production. The OEMs have moved to a global platform. The Ford Fusion you buy here is the same one that you would buy in Europe and the same one that you would buy in Asia. Many of the assets are very similar around the world.

Mr. Chandra Arya: My point is, are we going to see an increase in capacity ratios here?

Mr. Flavio Volpe: We could. I was getting to that.

Frankly, Canada had a really good run in the 1990s, 1960s and 1970s. There was a dip in the 1980s, and a dip in the 2000s.

Mr. Chandra Arya: I want to concentrate on the smaller member firms, the ones which have 50 to 100 members. How are they finding access to finance? How are they finding commercializing research and development?

Mr. Flavio Volpe: The automotive business works on a process, especially with Mark's members, the PPA, production part approval, process. You win a bid. You speculate on that bid. You build some tooling. You win the bid from him. You take your documentation to the bank, and the bank says they'll finance the build-up of your tooling and the retooling of your line.

In terms of volume, there hasn't been a better time for automotive parts producers since I've been around, and there's no issue in access to commercial financing to supply volume parts.

Access to competitive research and innovation financing and tax credits, it's a bit of a wavy pool, especially when you're competing with other jurisdictions where the public partner is a little bit more aggressive. I would give Canada and Ontario a passing grade.

The Chair: Thank you very much.

Mr. Dreeschen, for five minutes.

Mr. Earl Dreeschen (Red Deer—Mountain View, CPC): Mr. Chair, I'd like to share my time with Mr. Lobb.

Mark, when you spoke earlier, you talked about commitments that governments could show to help with some certainty. You talked about improving access to capital, intellectual environment, and negotiation of fair trade deals. In the fair trade part, you talked about currency manipulation and issues associated with that. You also talked about other issues such as keeping business costs low, and Mr. Nuttall spoke to some of those. With CPP payroll taxes, 95% of the people working right now are not going to see anything out of what is there, yet you and your workers are going to have to pay that right away, and we have the tax implications of massive debts that are engaged here.

Mr. Masse spoke about how workers and companies have made the adjustments. My fear is the barriers that might exist. One of the things you spoke of was whether Canada was going to be more competitive or less competitive on a 20-year basis. From your position, are there unintended consequences that we had best be aware of so that we are able to advance this out on a 20-year spectrum?

• (1635)

Mr. Mark Nantais: Thank you very much for that question. I think what needs to be done here is this. From a policy standpoint, and ultimately a regulatory standpoint, governments, whether it's this government or any other government—and the continuity, by the way, is really important in terms of certainty for future investment decisions—have to look at it through a lens of the economic realities and benefits. If we don't do that, then we're going to run up short in terms of, for instance, costs that will add to our cost of doing business here.

I don't care if you're an existing company, or whether you're a potential new candidate for investment in Canada. It all comes down to not one issue but multiple issues that are all summed up in terms of the total cost of doing business here. If we're not competitive on that basis, then we're not likely to get new investment in any major way, which is probably why we've lost out on some investment to date.

You always have to look at policy development through that lens. That doesn't mean you can't still achieve environmental objectives, or other objectives, but ultimately, if we don't do that, then we're not in the game. The real issue here, the challenge, is staying in the game relative to our competitors. From a government standpoint, any government, whoever is in power federally and provincially, needs to look at it in that context.

Mr. Earl Dreeshen: Thank you.

I'll leave a couple of minutes for my colleague.

Mr. Ben Lobb: Thank you.

I would like to ask Mr. Nantais a question about Ontario's global adjustment on electricity bills. Can you tell us if your members pay the global adjustment price on their electricity bills, or are they exempt from those?

Mr. Mark Nantais: No. We pay all of it, which is really part of the issue.

Mr. Ben Lobb: Do you get a special rate at all from the Province of Ontario for electricity bills?

Mr. Mark Nantais: We have to pay the global adjustment and whatever the industrial rate is for us in that location. We don't get any breaks at this point in time. It becomes a question of what Ontario is going to do to address that issue, not just for industry, but also for rural residents—I'm one of them—who are experiencing exceptional electricity rates right now that are not very affordable.

Mr. Ben Lobb: The other question I will ask is around the CPP rate increases, and this is from one employer who has close to 1,000 employees, and I've talked to other ones as well. I'm not going to argue the merits for or against it, just the fact that for every dollar an employee puts in, the employer also has to put in. Subsequently, they feel the RSP they have with their company is pretty generous. In

addition to the health tax, they pay the CPP, EI, WSIB, the property, and all that stuff. Their plan was to reduce the amount of their RSP to the same amount as the CPP adjustment, so to the employee there's really no net benefit. It's just taking one from the other and maintaining the same employer contributions.

Do you have any thoughts on that, or have you got that far along with the companies you represent?

Mr. Mark Nantais: The companies I represent are evaluating this now, but I think the example you've given really is an indication of what a company needs to do to stay in business and competitive. That would be a perverse consequence of this initiative, but it speaks to what companies need to do to remain competitive.

It's pure and simple, as I see it. Ultimately, we have to provide a reasonable retirement plan for all Canadians, but how can we do it in a way that's not going to unduly or unfairly penalize those companies that have been responsible, that have provided reasonable, fair, and generous pension plans to their employees? How do we do that in a fair way?

The Chair: Thank you.

We'll move on to Mr. Sheehan. You have five minutes.

Mr. Terry Sheehan (Sault Ste. Marie, Lib.): I'd like to thank our presenters. Right before the session started, I was over in Japan. I'm co-chair of the Canada-Japan Inter-Parliamentary Group, and we had an opportunity to visit a Toyota plant in Nagoya. We met with their executives who are responsible for North American production. It was a great conversation about the importance of the auto sector industry. During that conversation, we talked about government support for GM and others. They mentioned that they were for supporting what I would think would be almost their competition in the area, General Motors, etc. They told us it was because of the person sitting beside you: because of the auto parts suppliers. Their feeling was that if people like GM go elsewhere—and hence the critical mass—the auto supply people go with them, and it makes it challenging for them to stay in Ontario.

My first question is for you, Mark. What is it that we as a government can do to support the auto sector industry, in particular noting that we have a big innovation agenda? When I worked for the government, for the Ministry of Training, Colleges and Universities in Ontario, I used to go into auto shops. If you walked onto the floor, you'd see a bunch of tools on the wall. Now when you walk into an auto shop, it's like going into NASA. There are computers everywhere. What can we do to support the innovation agenda for that industry?

Mr. Volpe, every riding wants to know what it would take to get an auto manufacturing parts place in their riding. What things do you guys look for, and what does your industry look for?

Thank you.

• (1640)

Mr. Mark Nantais: I'll start.

I mentioned a couple of things, including the AIF. We're very grateful for the fact that the fund has been extended, but now it's a question of how we can improve it from a tax treatment perspective. We read things in the paper that maybe the government's considering going to a grant structure. That would be a great thing, although I'm not sure I've seen any official announcement of that yet. There are also SR and ED credits. We're talking about what qualifies and what doesn't qualify. In terms of the shop or on the floor, what makes a difference there can help as well.

These are all things, but the key is in how we adjust it and close the gap between ourselves and our competing jurisdictions. Right now we take an envelope approach—the federal government and Ontario, for instance. That envelope needs to be expanded. We shouldn't be talking about 20%. We should be maybe talking about 50% plus, as I mentioned.

These are the things that can help, but they will also help because the assembly plants are kind of the nucleus. That's what attracts the suppliers, the supply chain that creates the concentric circles around us. Now we're getting into the fact that it also supports engineering facilities. It's not likely you'd have an engineering facility if you didn't have assembly here. I can say that pretty confidently. The fact that we do means that we do have, certainly in my member companies, research and engineering facilities here. Supporting them and expanding these programs so that they apply to some of the activities in those facilities as well is something that will not only help the auto industry but also help us become even more diverse and be able to promote and carry forward the innovation agenda more effectively and more broadly.

I think that is what's key when we go forward. We are challenged right now in trying to find talent in the areas I mentioned—lightweight materials, sensors, artificial intelligence, communications. We need engineers in those areas, and we need them now.

Those are the things that I think could be very helpful to us.

Mr. Flavio Volpe: Let me just add a quick answer.

What does our jurisdiction need to do? Look, in the end, to land an OEM investment there, it's one person, an actual human being, on one side of the table talking to another actual human being. On the OEM side of the table, it's usually site selectors or their company executives in Detroit or in Germany or in Japan or in other capitals. Who represents Canada and Canadian interests? The model that competing jurisdictions use is one group, ProMéxico, which is a concierge service for current investors and the desk that they use for foreign direct investment.

Part of Minister Freeland's mandate letter earlier this year said that the government is looking to create an investment in Canada office. Let's do that yesterday. That's the most significant. The rest of these things are silos. If we have someone going for that investment, it'll work.

As well, what do parts suppliers look for in a community? It's really two things: labour force and then the infrastructure to get that product out, on highways or on rail, to your customers.

• (1645)

The Chair: Thank you very much.

Mr. Masse, you have two minutes.

Mr. Brian Masse: With infrastructure, the Windsor-Detroit corridor, how important still is a new border crossing to the people you represent?

Mr. Flavio Volpe: Do you want to give our answer jointly?

Mr. Mark Nantais: Yes, sure.

That's it. That's the most important thing.

Mr. Brian Masse: It is.

Mr. Mark Nantais: To continue to follow the current process for a new border crossing as quickly as you can.

Mr. Brian Masse: That's the big thing.

The other thing I want to note though is that Japan, South Korea, and China haven't emerged by accident in this industry, and it's similar with the growth now in Mexico and now in the United States. There have actually been concerted government programs and plans to actually win the industry in itself. I think we've been too soft as a country on a number of different things. First of all, on the automotive innovation fund, the mere fact that we have to renew it is embarrassing. Why do we have to continue to renew a fund that has never exhausted? That should show us something right there. We don't need any new money for it because it's not working in their current context.

The other thing too is non-tariff barriers. How important are those things in the trade agreements? I'll leave it to both of you for a final word. Look at Korea, for example, and South Korea in particular, obviously. We open up a market that you can't sell into. What good is that?

Mr. Flavio Volpe: In the Canada-Ontario automotive investment story, you talk about parties of all stripes at both levels of government do really well in crisis. So the world is falling apart in 2009, and Canada comes up with \$13 billion to keep the industry there. An OEM says they're going to close shop unless we come to the table. We come there. We've shown an ability that when the sky is falling, to keep it up.

Other jurisdictions treat this like sports franchises. You want a sport franchise, you sell your city and why that league is going to do good business there. Do you have the customers? Do you have access to market? What are the other portfolios you could sell? Then they bid. We end up bidding but we end up begging to be at the table and then being outbid.

On non-tariff barriers, I know Mark has a lot to say about it. I'll just say this. Our very public problem with some of the terms of the rules of origin in the newly negotiated TPP were that it didn't recognize two instruments that Japan uses to keep North American product out. One is a displacement tax. If you buy a vehicle that has more than two litres of displacement and typically, let's say the three and a half litre basis that North American vehicles come with, you pay 37,000 yen a year. Then on a one-time basis, there's a weight tax. If it's over the typical weight, it's another 37,000 yen. By the way, you're welcome to sell your product over here but the consumer is going to get nailed for 74,000 yen. They're not going to buy it.

Mr. Brian Masse: And Malaysia negotiated a better deal than Canada for our parts.

Mr. Flavio Volpe: I'm on the record on that one.

The Chair: Thank you.

We will have part of another round because there are some questions that folks still want to ask.

We are going to go to Mr. Baylis. You have seven minutes.

Mr. Frank Baylis (Pierrefonds—Dollard, Lib.): I'm going to touch upon the first thing, Mr. Nantais, that you brought up on regulatory innovations and how some regulatory activity could be an obstacle. Also on alignment, can you expand on that? First of all, which regulator are you speaking about and what are you looking to see? What would be helpful in that area?

Mr. Mark Nantais: Overall, the most helpful thing could be... The Regulatory Cooperation Council was initiated back in 2011. That was put in place really to remove differences in regulations between Canada and the United States in the interests of improving the competitiveness of industry and consumers, because ultimately consumers benefit. In our case, regulations as it affects the vehicles, so technical regulations, differences between Canada and the United States, primarily speaking, need to be removed. We've made considerable progress since then, but we still have a way to go.

I'll give you an example. It would have cost the industry over \$300 million on the minor difference between a particular regulation between Canada and the United States, something which really wouldn't have affected public safety. There's an example where we can avoid costs by removing differences in regulations. We have touch points on virtually every aspect of the vehicle when it comes to regulations, with remission and safety, whatever.

The other piece of this that we haven't really talked about here that does actually tie into what Mr. Masse said with respect to the border is the Beyond the Border initiative. We need to make sure that the border is as efficient as possible, that we remove the impediments in customs procedures and regulations while ensuring that we maintain security. The U.S. has always maintained that security trumps everything. We don't disagree with that, but our industry after 9/11 was one of the first ones to come forward with trusted trader programs.

● (1650)

Mr. Frank Baylis: Are you satisfied with the Regulatory Cooperation Council as it's working now? Is that doing its job? Does it need to do more, faster?

Mr. Mark Nantais: No, we believe it is doing its job. It has done its job to date. There's always room for improvement, but our most important point is that it needs to continue.

Our regulatory agencies should be working together, right from the point of research that goes into a regulatory development through to the actual promulgation of that regulation.

I don't think we'll ever fully align on legislation because of the differences between the U.S. political system and our political system, but right from the early stages of regulatory development... We have niche capabilities here, through Transport Canada and Environment Canada, as does the U.S. with NHTSA and the department of the environment. We should be capitalizing on our respective capacities, working together on these things. That doesn't

mean giving up our sovereignty per se, but I can say that it has real efficiencies from a cost standpoint for both industry and government, and ultimately it has consumer benefits.

So please continue with that program.

Mr. Frank Baylis: It's on the right path.

Mr. Mark Nantais: Absolutely.

Mr. Frank Baylis: Okay.

Mr. Volpe, you mentioned an example in which Ontario won the first Lexus outside of Japan, and then you mentioned a couple of other examples in which we were global leaders. What was it that brought us those wins, and how can we use that ability to attract new business?

Mr. Flavio Volpe: The context is geography and proximity to market. The most lucrative market for any retailer is the U.S. northeast, and it doesn't hurt that you're part of this collective Great Lakes-Midwest manufacturing cluster. No one is going to be able to change geography. The reason we won the Lexus product was that we also have a very... Canadian plants have won 38% of J.D. Power Initial Quality awards even though we have 14% of production. From the machine tool, die and mould making businesses to the volume suppliers to the final assembly, we have quantifiably demonstrable quality advantages. It's a culture of quality that's better than most of our competition has.

When Toyota Motor Manufacturing Canada talked to Toyota in Japan, it said, "We're going to build where we sell. We're going to do a Lexus in North America," and the argument was that this is a brand in which quality and precision are number one. It said, "Where's the place we can take the least chance and be closest to our northeast U.S. market?" That's why we won.

Mr. Frank Baylis: There is the combination of the geography—we're in the right place—and that particular advantage of quality. As far as being in the right place goes, we can't change that, but if we're competing with, for example, the U.S. southeast, or Mexico, we're in a better geographical place, but we're losing those. We still have the quality, so what is it that we're losing then?

Mr. Flavio Volpe: The human beings that help make those decisions are site selectors. Our industry is a cluster business. If you've had eight investments in Mexico over the last five years and you get hired as a site selector for JLR, you'll say, "The freshest examples of wins and the freshest information on packages are in the U.S. southeast and Mexico, so I'm going to put those on my short list. Do I need to add a long list? Maybe I'll add something from the Great Lakes." Who's the most active one there? In people's mindset, it's probably Michigan, so we haven't made the long lists in the last five or six years.

I say five or six years, and that was after the extraordinary step that both the federal government and the provincial government took by stepping in to save the industry. The reason we're not getting there—and I'm going to be nice—is that at both levels of government, I'm not sure we understand that there are people who are doing that work for the OEMs, and that you have to chase those specific people and say, "here's our offering."

We put up programs, and we say come in and play.

Mr. Frank Baylis: We're not actively and aggressively out there. We're not proactively out there selling it.

Mr. Flavio Volpe: We're not.

Mr. Frank Baylis: Quickly, with reference to the automotive innovation fund, you made a lot of statements about how it doesn't compete. Would it be possible for you to put together a simple document that says that this is Canada's deal, and these are the deals that we're competing against, and this is where we're behind? Could you put together something very specific, and then pass that to our chair? I'd like to read something exact instead of just broad statements that we're not there. I'd like something that shows in exactly which areas we're not there.

• (1655)

Mr. Mark Nantais: That specifically is hard to do on the basis that some of these jurisdictions don't disclose that, companies don't disclose ultimately what the deal was, so to speak.

I mentioned earlier in my remarks the Canadian Automotive Partnership Council. I strongly urge the committee to review the report "A Call to Action II", which will speak in large measure to these things. More recently, some of the CAPC recommendations that have been developed, as well as the work of the automotive adviser, Ray Tanguay, are all things that would speak specifically to that issue. I don't think we'll give you specific numbers per se, but there has been publicly reported data that can be made available.

Mr. Flavio Volpe: I would briefly add that Ray Tanguay, who is the adviser both for Canada and Ontario, has compiled those numbers, but I haven't seen them published publicly yet. If you contact him, he's tracked as many deals as we can with the public numbers that are available.

The Chair: That would be great, thank you.

We're going to move to Mr. Nuttall. You have seven minutes.

Mr. Alexander Nuttall: Frank, I'm delighted that you asked that question because I think one of the things we're missing—it's all through the government—in this report right now is measurables. You start talking about these things all the time and it's really just air. Until you can really define it and bring it down to what the business case is versus other jurisdictions, whether it's in auto or anything else, it might as well just be throwing the dart in the air and hoping it hits the board.

Mr. Volpe, I apologize that I haven't asked you questions, but there was one other thing which Mark said in the first five minutes that I want to address, regarding the changing face of auto manufacturing.

GM is a prime example. They are investing in, I believe, 51% of Lyft, re-engineering, if you will, the plan to hire 1,000 engineers, mostly in Ontario. Seeing that move forward, are we in the process

of leaving auto manufacturing behind? Is this a fundamental shift to R and D by GM and away from auto manufacturing in Ontario over the next five years, for the duration of their plan to hire their engineers and put all this into play with the self-driving vehicles?

Mr. Mark Nantais: It's a shift, but I don't think it's a shift away from manufacturing. We still have to manufacture vehicles. We've most recently heard announcements in conjunction with the collective agreements. These are new commitments by these companies in terms of the manufacturing, and so too are commitments to this new Internet of things in the automotive industry, which is unseen and unknown. It is part of the future.

I think what we're seeing here, aside from the commitments to assembly, are commitments to the new side of the business, if you will.

Mr. Alexander Nuttall: With the technology that's coming down, and is quite frankly already there, we're just trying to figure out how we—I mean your companies—are working with the government to try to figure out how this is accepted into the current transportation systems, etc.

Is it your understanding that by having the R and D and technology here for the self-driving vehicles, we will put forward the best case for the manufacturing of those vehicles? Is there a benefit to us in retaining the manufacturing of those vehicles by having the R and D here as well?

Mr. Mark Nantais: I think the R and D is essential to the companies and to the industry, but a lot of it goes on elsewhere. There's so much of this going on, and we're so resource constrained at this point in time, and we have such capacities and universities and research hubs here with such capacities, why wouldn't we do that here? Particularly when you look at Waterloo, McMaster, what used to be AUTO21, these are all examples of expertise that lies here in Canada that we should be exploiting. We need this as an industry, whether it's in Silicon Valley or whether it's in the Silicon Valley of the north. We should do it here because we have so much demand and so much need in the areas that I've mentioned. It only makes sense.

• (1700)

Mr. Alexander Nuttall: I appreciate it. In a—

Mr. Mark Nantais: Sorry, if I may, we need to get ahead of the curve here a bit. We have governments at both levels saying, "Why wouldn't we be part of demonstrations of autonomous vehicles", and things like that. Quite frankly, those decisions were made five years ago. We need to get ahead of the curve here.

Mr. Alexander Nuttall: Absolutely. I hope at some point we will be getting into a study on the sharing economy, as well, which we didn't endeavour to encompass where those two worlds mixed.

Mr. Fergus and Ms. Hutchings, I asked a question before about targets. Does the government have targets on auto manufacturing? Are there goals in place that drive policies that then drive programs?

Mr. Greg Fergus (Hull—Aylmer, Lib.): It would be difficult for the government to set policies for what level of manufacturing should be happening. As a result, that is really a decision that is borne by the people who do the manufacturing, the membership of our two witnesses here, and other memberships that were taken through the other automobile manufacturers. To specifically answer your question, no.

What we want to do is to set up the right framework so there would be more manufacturing and more advanced manufacturing in that industry. I can't think of one person who wouldn't think that it is not one of the most valuable manufacturing sectors that we have in our country.

Mr. Alexander Nuttall: For sure. We all agree on that.

One of the things that was said was that we don't have somebody who is, for the lack of a better word, attacking the decision-makers or at least those who are recommending the placement of investments, whether it's here, in Mexico, or somewhere in the United States. In the world of finance, where I come from, any time you apply measurements and you apply targets, you encourage people to go and do those things. That's more where I was going at the start. If the government can put in place targets, maybe something we can put into this report.... When governments place targets on stuff, it also encourages the employees. They know what they're measured on, and we have those people going and vehemently putting our case forward rather than putting it on a website and hoping somebody responds.

The Chair: I see an eagerness by Mr. Volpe to respond.

Mr. Flavio Volpe: May I make a suggestion? The Canadian Automotive Partnership Council, which includes OEMs, parts makers, labour, and academia, has been in place since 2003. When it was launched in 2003, the original letters of invitation—and by the way it has representation in the federal government and in Quebec and Ontario—they set as a notional target the maintenance of 20% of the automotive footprint in North America. At the time, that number was probably a reflection of where it was, and it said “Let's have a floating target”. Different governments, different stripes, and different years have floated, but I think the concept of finding a number was one that was helpful to frame the discussions that resulted initially in those 2003 to 2005 major investment targets that we've all floated away from. They were original principles that the members of CAPC, and many of the original members who are still part of it, would probably see some value in.

The Chair: Thank you.

Mr. Masse, you have seven minutes.

Mr. Brian Masse: I was part of that original CAPC meeting. It was well done. We brought not only the industry together on a competitive level, but we also brought together the parts people, the tool and die makers, the mould makers, and basically everybody involved from producing a vehicle to actually selling it and servicing it. Allan Rock created that.

Since then, though, I don't think CAPC has been very active, not in the last 10 years anyway, in my opinion. It's had some goals, and it's had some things. You could go on the website. Some governments have not really had any meetings at all.

The reality is that we can't actually create our own strategy. Many have. There's ProMéxico. I was in China, and I met with their auto industry. They had over 100 companies. It was similar to when Canada created the industry. We had over 100 automotive manufacturers at that time. You mentioned Walkerville. It is interesting how one of the first manufacturers got free hydro to produce their vehicles in Windsor. You also have the whole strategy behind the United States right now, with Obama and also with some trade restrictions, even on the border, that have made it more difficult to compete within the realm of our integrated market.

We have training. We have patents. We have R and D. We have a skilled workforce. We have safety productivity that's through the roof in terms of our competition. It's very attractive. We have the history. We just don't have a game plan when we get down to the 10-yard line. It's like we get down there in a football game, and we decide to spike the ball before getting a touchdown because we don't want a greenfield site anymore.

I think what's really important is to see us come out of this with specific things. One of the things that hasn't been touched on is the extension of the capital cost allowance. We're going to review that, and I think it's one of the things that this committee came to a good resolution on before.

Back in the original plan, I argued for a 10-year window, five years with the potential for a five-year renewal. I wonder what your thoughts are on that. I know that we keep getting about two-year renewals, and so forth. Those are some of the investment strategies that have already had decisions made on them.

What I'm looking for are the mid-term to long-term ones. Would extending the capital cost allowance to five years with a five-year renewal, for a total of 10 years, at least help?

One of the reasons I like that strategy, and it does have its detractors, is that it's harder for those who take advantage of the capital cost allowance to move a piece of equipment to China. Whether it be tool and die, mould making, or whatever it might be, if Canadian taxpayers are going to invest in it, the writeoff and everything for that which they invest in as a population is harder to actually dislodge through a general corporate tax cut. It's a carrot-and-stick approach that is a little more appropriate in my evaluation.

At any rate, I'd like to hear what you think about whether or not the capital cost allowance should be continued. To credit certain governments, they have extended it, so it hasn't disappeared, but it hasn't been to the longer cycle that some are advocating.

● (1705)

Mr. Mark Nantais: I think somebody commented earlier on why wouldn't we extend these things. I also mentioned in that context that industry needs certainty. Certainty does not mean knowing whether that policy is going to be in place three years from now or not, or whether that AIF is going to be at that level four years from now or two years from now. Whether it be capital cost allowance, the parts incentive fund, an AIF, or any other, I would suggest they should be solidified, entrenched, made permanent.

Let me put it in another context. We've talked about job multipliers and things like that. In fact, one of Flavio's largest company members did a financial analysis on automotive company incentives. They put it in dollar terms. It was based on an example of a \$100-million investment, which is small in terms of our playing field. You need to think of it as an investment, and on that investment, you get your money back within three years. That's a return on investment that's very short, unlike many other industries. In eight years, you more than double your investment.

To put it in those terms, you get incredible returns by getting new automotive investment. However, you won't get new automotive investment if there is a lot of uncertainty. Decision-makers who are part of the investment cycle 10 years from now need to know if that is going to be there in 10 years or not. It's just like collective agreements. People think, "We're in good shape; we have some good agreements in place." Well, guess what? They're only there for four years.

Our industry, the petroleum industry, and any other major industry, including aerospace, need long-term certainty. To the extent that any government can provide that certainty, or when you hand off from one government to another, having discussions about how you maintain that certainty for industrial investment would be absolutely critical to and greatly welcomed by any sector.

• (1710)

Mr. Brian Masse: You're saying that it's basically a permanency of the capital cost allowance.

Mr. Mark Nantais: Yes. I think that's less important to large manufacturers, but it's still important. It's certainly important to small and medium enterprises, absolutely.

Mr. Brian Masse: Another one that hasn't been touched on, which I'm hearing some concern about, is the SR and ED tax credits. People actually do support the SR and ED tax credits and so do a lot of companies, but it's about the access to them. The problem is the difficulty of access. It seems to be a nagging concern that I keep hearing about over and over.

Do you have any suggestions on improving that? I just met with the mould makers again, and they appreciate and support it as an initiative, but the problem they often have is that going through the changing rules related to accessing it seems to make it a little more onerous than what they'd like to have.

Mr. Flavio Volpe: That's right. Let me add another element to it about smaller companies. Typically, mould makers have less than 50 employees, and in some cases less than 20 employees, so you have a finite number of people who are making moulds and servicing the customer.

Some of the bigger firms, and especially our bigger firms—our biggest firm is as big as any automaker—will have staff on board to help pursue a tax credit, and they understand the changes and they'll try to influence those changes. A mould maker with 20 people has somebody who's doing something else and is having to take the time away to go and chase the credit.

The Chair: That's excellent. Thank you.

In this last round, we have four minutes. Then we're going to break for a couple of minutes and go in camera to discuss something.

Mr. Sheehan, you have the last four minutes.

Mr. Terry Sheehan: I'm going to share my time with Greg, so I'll ask a very quick question.

We've had some witnesses who have taken the approach that the manufacturing study we're undertaking is good because there's commonality to a lot of sectors, while others have said that perhaps a specific one on auto, aerospace, or steel is important.

Could I have your thoughts on that very quickly, please.

Mr. Flavio Volpe: I think any study is going to include an inflection on trade dynamics and trade agreements. I think on those you need to go industry specific. Rules of origin and regional content rules are different for those, and we have different competition in those different manufacturing sectors.

Mr. Mark Nantais: Tariffs are different.

Mr. Flavio Volpe: Yes, the tariffs are governed under the different agreements Canada is in. Specifically on trade, look at the different subsectors.

Mr. Terry Sheehan: Thank you. I'll let Greg ask a question now.

Mr. Greg Fergus: Thank you, Terry.

Monsieur Nantais and Mr. Volpe, I would like to get back to a point that was raised by my colleague Mr. Nuttall in regard to investments in research and development.

According to the World Intellectual Property Organization, WIPO, Canada does very well in terms of higher education investments in research and development. We do very well in government investments in R and D. Where Canada doesn't do well—it might speak to your sector, and it might not—is in business investments in research and development. We rank 15th in the world among OECD countries. We rank fifth among G7 countries.

I have two questions. Given how important it is to innovate, why do you think Canadian businesses—perhaps some are in your sector and perhaps some are not—are not more innovative? Following up a little on what Mr. Masse or Mr. Nantais raised in terms of SR and ED, what do you think we should be doing to encourage more innovation through research and development in the automotive sector?

Mr. Flavio Volpe: I'll give you just a quick look from the supply sector. We're very good at innovation, with a very high spend.

Where we fall is on commercialization. That's the nature of our business. Our customers will ask us to take a look at a piece and see if we can get it to them lighter, faster, or stronger. We do that, and then they may award that program through an assembly plant that isn't in Canada. We may be able to supply it, but we're left to supply it in that concentric circle of supply.

I think that is going to change materially if Ontario IT companies get into the supply chain properly, as the commercialization of intellectual property in that space is a much straighter line.

• (1715)

Mr. Mark Nantais: I think I would support those comments as well.

Part of it is the way the companies are structured. The engineering facilities, for instance, where we do innovative work and research and development, have been historically located in head offices elsewhere. Pulling those projects out and putting them in Canadian facilities has always been a challenge. Certainly, my companies have them here.

This is where Minister Bains' work on the innovation agenda is going to be very helpful, I think, because I am assuming that he will be looking at these very issues. I know that my companies have been, and will continue to be, a big part of that discussion.

I mentioned a couple of things today that I think could help, and I know there are many more that individual companies, because of their individual circumstances, will speak to more directly.

I think the timing is right. What is going on in our industry is going to drive a lot of this, because we are going to need to innovate, and we are innovating, I think.

As Flavio says, we are spending a lot of money. How we rank in the standings globally, how that plays out, is a different issue. Other countries, such as Germany, have very specific programs, and they have been at it for a long time.

Certainly, our view is that we can do more, do it better, and make a move faster.

The Chair: Excellent.

I want to thank Mr. Nantais and Mr. Volpe for their engaging the committee. They certainly seemed very engaged today. Thank you very much for coming.

We are going to suspend for two minutes, and then we'll come back and wrap it up.

[Proceedings continue in camera]

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