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Wednesday, March 5, 2008

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Chair

Mr. Rob Merrifield

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• (1535)

[English]

The Chair (Mr. Rob Merrifield (Yellowhead, CPC)): We'll call the meeting to order.

We want to thank the witnesses for coming forward. Pursuant to Standing Order 108(2), we are studying direct assistance measures and the fiscal environment for the forestry and manufacturing sectors, so it's great to have you here with us to be able to share your input with regard to that.

I believe we have short statements from two or maybe three of you. We'll open with your short statements, and then we'll go into a question and answer period and process.

Just to let the committee know, I'll be leaving the committee for a short half-hour and we will have the deputy chair take my place for that period of time. I know everything will go fine during that period of time, so don't be alarmed.

At any rate, with that we will start.

Mr. Avrim Lazar, you will go first, and then we'll go to Jayson Myers and Pierre Laliberté. It's great to have all three of you here.

Mr. Avrim Lazar (President and Chief Executive Officer, Forest Products Association of Canada): It's good to start in the forest and work our way into the industrial heartland as we head across the table.

First of all, thank you for inviting us. We know how busy you are, and your interest in this is very important to us.

As you know, the Canadian forest industry is the largest, most successful forest product exporting industry in the world; and we're Canada's largest industrial employer, the largest employer of aboriginal people, and the lifeblood of 300 communities. Even though we've lost 12,000 positions over the last year, we still have 300,000 people directly employed. So we're not quite gone. In fact, we are the largest industrial employer.

You all know we're suffering under very difficult circumstance—the U.S. housing decline, the huge rise in the dollar, the softwood export quotas and tariffs—and I suppose that's why you wanted to chat with us.

The question, no doubt, that is in the front of everyone's mind is, can anything be done about this? The answer is yes, and it requires action from three quarters.

We have to depend most upon markets; the markets have to come back, and the indication is that they will. The demand for forest

products globally is increasing very quickly. The U.S. will get through what Warren Buffett calls a recession, though I don't think the Fed has called it a recession yet. But the markets will eventually come back; there will be markets, and we will be in a very privileged position to respond to demand from those markets. Our competitors are having land use conflicts. There will be huge demand for what we make in Canada, so the future, in terms of markets, is very positive.

The second thing we need is to be competitive, and that's industry's job. We have to be top-of-the-world competitive. Our softwood industry in the interior of British Columbia is the most efficient in the world; it is Canada's productivity champion. We've improved our productivity twice as much as the U.S. has each year. And now our pulp and paper facilities are catching up. The number of newsprint facilities in the top global quartile in competitiveness has doubled over the last couple of years. So there've been huge improvements, and the industry is working really hard to get itself to a place where it is competitive.

I can't say it's been a pretty process. It's involved rationalization, it's involved dislocation, it's involved layoffs and people having very, very painful times; but it's worth remembering that it is resulting in much better cost competitiveness and much more sustainable jobs as we go forward.

So the first bit is that markets will come back. And we're working hard at competitiveness, if not in a pretty way. The third piece is a competitive business climate, and there is where your role as government comes in. You can't fix this for us, but you certainly can play your part.

We don't want subsidies; we don't want bailouts. You don't have enough money to fix it this way, and long experience will tell everybody that it simply doesn't work that way. We don't want you to choose one company that's faltering, save them, and have another company that's doing well falter as a result. So no bailouts, no subsidies.

But there is stuff you can do that's positive and constructive. You can attract investment into Canadian mills, and that's why we've been favouring a five-year straight-line extension of the CCA two-year writedown. That costs nothing unless people invest in Canadian mills. Any other tax measures benefit people regardless of whether they invest in Canada. But that measure only—only—takes effect if people do exactly what we need, which is to invest in Canadian mills. That's why we've been hoping that eventually the extension to three years will be made into an extension for five years.

The other thing you can do is to make the tax credits for R and D refundable, so that when companies are in trouble they have access to those tax credits. Right now, you only have access when you're profitable. When you really need access to those credits is when you're not profitable. We don't want people to try to get out of trouble by asking for government handouts, but we want them to innovate their way out trouble. Refundable tax credits for R and D do exactly that. Again, they don't cost anyone a penny unless Canadian enterprises invest in research and technology. It's a very, very highly leveraged measure. I know it can be expensive, but it could easily be capped.

The other things government can do are to invest more in research and our research institutes—right now in Canada we invest less than our competitors do—and to invest more in market diversification and in telling Canada's story outside of the country.

The last budget pointed in some of these directions. The CCA was extended by one year. In the next two years a phase-out will basically take that back, so it will be an eight-year writeoff instead of a two-year writeoff. So in effect, it's been a one-year extension. We recognize that and appreciate it, but frankly, the capital planning cycles are such that people would have to move at a speed that is just not practical to take big advantage of that.

There was \$10 million for market outreach; that's a pretty small number for Canada's largest industrial employer. We're very grateful for it, but we don't think it went as far as the government could do; it was quite a bit less than what was given to the Olympic torch relay. Quite a few of my members called and said, come on, Avrim. So it was a good gesture, but we also know this is not the end of the government's actions; the government has done many, many positive things in the past, and we're looking forward to many, many positive things in the future.

I'll leave it at that. Thank you.

•(1540)

The Chair: Okay, thank you very much.

We'll move on to Mr. Myers.

Dr. Jayson Myers (President, Canadian Manufacturers & Exporters): Thank you very much, Mr. Chair, and thank you, members of the committee, for inviting us here today to speak on such an important issue.

As Avrim was saying, we're representing a sector of the economy that is really the most productive, the most innovative, the sector that is at the edge of international competition and may be today paying the price for that because of the impact of the Canadian dollar.

This is the manufacturing sector in Canada, the forestry sector. This is the source of high-paying jobs within the sector, and across manufacturing there are two million people still employed. But we often forget how dependent the high-value and high-paying services jobs are on manufacturing—whether it's transportation, communications, financial services, business services, you name it—and in the resource sector, how much that depends on adding value to our resources, to our skills, to the R and D that we do in this country.

This sector is at risk. We all know we're facing tremendous challenges from newly industrializing markets. We all know we have

to specialize. We all know we have to become much more customized, much more responsive, much more innovative. Canadian companies are being forced to do all of that at a time when the value of the Canadian dollar has risen 66% against that of its major trading partner. It's the only manufacturing sector anywhere in the world that is putting up with these currency fluctuations at the same time as it has to respond to the longer-term competitiveness issue in the economy, at a time when commodity and energy prices are coming up and both of those factors are constraining profitability.

In an average eight-hour production shift at the end of last year, it took manufacturers seven hours and fifty-four minutes on average across the country to cover operating costs, pay their taxes, cover depreciation costs, and then pay their financial charges. They had six minutes to make money—six minutes out of every eight-hour production shift—and that's the money that goes into the new product, the new market, the new training, the new organization that everybody knows they have to invest in in order to continue to grow. The biggest problem right now is cashflow in the industry. It's the cashflow that's constraining investment in research, that's constraining investment in new productive assets, that's constraining investment in R and D.

The recommendations that were put forward by the industry committee of the House of Commons and were unanimously accepted by that committee and unanimously supported by this committee went some way in offsetting those cashflow constraints. That's why they were so necessary. We have made the point that the corporate tax rate reductions that the government has introduced have been very important. This gets you in the game. But right now, given the condition of the cashflow, the condition of our key value-adding sectors, you need much more in order to compete in a game where countries around the world are subsidizing; providing tax incentives; investing directly in skills, in innovation, and in productive assets—assets that actually produce things of greater value.

So the recommendations—the five-year extension of the window of eligibility for a two-year CCA, the tax credit for employer training, the refundability of R and D credits—were important because they were incentives to encourage manufacturers to invest in innovation, in productive assets, in skills. And I think that is still essential if we're going to remain in the game. As Avrim was saying, the five-year window of eligibility for the two-year writeoff was particularly needed, just in order to give companies the time required to make a decision about investing in new technology—getting the technology, customizing it, having it delivered, and putting it in place. All of this has to be done before a company can take advantage of the streamlined writeoff. These were important issues.

•(1545)

To conclude, I agree with Avrim that government can't solve the economic problems that the manufacturing sector is facing. They can't do anything about China. They can't do anything about the faltering U.S. economy. They can't do anything to bolster the U.S. dollar. The onus falls on manufacturers and businesses themselves to make these decisions on competitive adjustment. But governments can do a lot to create the business environment that encourages investment in productive assets, innovation, and skills. That's essential if we're going to continue to build the world-class competitive manufacturing sector that we need to build in this country.

Thank you.

The Chair: Mr. Laliberté, you don't necessarily have to make a presentation, but if you'd like to, the floor is yours.

[*Translation*]

Mr. Pierre Laliberté (Political Advisor, Manufacturing Sector, Fédération des travailleurs et travailleuses du Québec): Good afternoon. Thank you for this invitation. It was significant enough for us to brave the storm and travel here today. Obviously, this is not the first time we are appearing before you, and there is a feeling of déjà vu. That in itself is not necessarily good news.

To summarize the severity of the problem, during this period of global growth, Canada lost 350,000 jobs in the manufacturing sector, of which 140,000 jobs were lost in Quebec alone: this is of great concern to the FTQ. The situation in Quebec has changed radically. To illustrate the importance of the change in the manufacturing sector, the province of Quebec once recorded a trade surplus of \$9 billion, and is now running a deficit of \$10 billion. The manufacturing sector provides for 85% of exports leaving Quebec. This is not minor. Often, it is said that we are now in a service-based economy, and that the manufacturing sector, or even the natural resources sector, are part of the old economy. However, as is reflected in annual reports, it can be shown that it is within the manufacturing sector where we are on the winning side of commercial exchange with our economic partners. Therefore, this is a major concern, not only for the people we represent, but for society as a whole.

The appreciation in the value of the Canadian dollar is a major factor, and increases the competitive pressure under which our businesses operate. Some say that this is not so bad because such a situation provides for business incentives and the possibility of upgrading technological equipment in Quebec and throughout Canada. In Quebec, we observed that capital expenditures in the manufacturing sectors for 2007 hit record lows since 1994. In comparison with the peak cycle, this represents a rather considerable decline of 40% since 2001. Generally speaking, the investment we would like to see in equipment is not necessarily being made. This does not mean that this is consistent throughout all sectors, but generally speaking, and in actual fact, investment in capital and equipment is simply not being made.

As we speak, the problem in Canada is that we tend to generalize. People say that unemployment rates are not so bad. Overall figures on investments lead some to believe that things are not so bad. Presumptions are being extended as a result of what is going on in

the resource sector, mainly the oil and gas sector, and even the construction sector.

I wanted to provide you with that context and state that we are here again today because the problem remains ongoing. We are now facing a looming recession in the United States which could have a domino effect on other economies, including ours, since the U.S. is our main trading partner. This is not a particularly rosy outlook.

What can we do from a tax perspective? From the outset, I would say that I personally am in full agreement with Mr. Lazar and Mr. Myers. Their comments on capital cost allowances and refundable tax credits are absolutely relevant. The same applies to investments in research and development. We believe all of these must be enhanced. In that regard, the status quo is worrisome.

•(1550)

For several years now, Canadian exports have been increasingly comprised of non-processed products. Yet, up until the early part of this century, value-added products had been consistently increasing throughout the country. I firmly believe that we must take advantage of the lead that resulted from the resource sector boom and allocate a portion of the revenues being generated by this economic activity to help sectors that are under pressure.

The focus is truly on the issues of value-added products and productivity. It would be more appropriate to take a sectoral approach, given the respective histories and dynamics of each sector. I think we all subscribe to this idea.

We wish to emphasize two or three points. Obviously, there is the issue of training. Employers are the first to state that there is a shortage of skilled workers, and if the shortage is not evident yet, it soon will be. We have noted with some concern the proposals to open the doors to temporary workers, whereas there are many workers who are under-utilized, and who worked in now defunct industries. These very people could be trained for other jobs and trades. Yet, the money is not there. It is as simple as that.

Right now, under the provisions of the Employment Insurance Program, the federal government could invest almost one billion additional dollars to be distributed to the provinces for the purposes of training. Let us recall that we have been running a \$2 or \$3 billion surplus for several years now. This is not a trivial issue. For example, a mine in the area of Level-sur-Quévillon is bringing in 200 workers from Tunisia, and yet there are 300 forestry workers living in the community, who are more or less unemployed. Aberrations such as these are occurring, and make no sense. We need the resources now, not in five years.

For several years now we have been calling for the strengthening of the Employment Insurance Program. The objective is not to encourage people to wait for a handout. The program was originally conceived to help people in difficulty make a new start. One cannot plan for relocation when one is lacking time and necessary resources. This factor must be taken into consideration. Once again, we are disappointed. We've been calling for measures to be taken for years now. New budgetary surpluses being announced each year prove that we have the means to take action.

Obviously, one component of the problem we are confronting is monetary in nature. We have already had the opportunity to speak briefly on the Canadian dollar. The Bank of Canada slashed rates yesterday, which was the right thing to do. I do not know if this issue falls within the jurisdiction of this committee; however, this topic must be discussed.

• (1555)

[English]

The Chair: We have a point of order.

Mr. Dean Del Mastro (Peterborough, CPC): I appreciate what the gentleman is saying. I think we have a number of questions for some folks, and I wonder if you have established a time limit for each one.

The Chair: We won't let it go on very long. He actually said he didn't have a presentation.

Mr. Dean Del Mastro: We have some questions.

The Chair: That's fine.

Go ahead very quickly to finish off.

[Translation]

Mr. Pierre Laliberté: May I conclude?

[English]

The Chair: Are you finished your presentation, or do you want to finish it quickly?

Mr. Pierre Laliberté: If they'll let me, I will finish.

The Chair: That's what I suggested to you. Don't worry about him. I will let you finish if you do it very quickly.

[Translation]

Mr. Pierre Laliberté: I will conclude on that note. Mr. Del Mastro, I would have appreciated your giving me my two minutes. Obviously, you were not listening, since I stated I was about to conclude. I find it rather rude on your part, but we can move on to questions.

Thank you.

[English]

The Chair: Thank you very much.

We'll now move to questions and answers.

Mr. Pacetti, you have seven minutes.

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): Thank you, Mr. Chairman.

Thank you to the witnesses for appearing.

[Translation]

Up until the last comment, I was very pleased to hear you speak, Mr. Laliberté, because you proposed a few solutions. The committee is trying to formulate measures regarding direct assistance and tax measures to be recommended to the Minister of Finance. Two other people have raised points that we have already heard.

My question is essentially the same one I will also ask of Mr. Myers and Mr. Lazar. It is certain that the challenge, if everyone is placed in the same basket... Even in Quebec, one cannot state that the entire manufacturing sector as a whole is in crisis. For example, the aerospace sector is not experiencing difficulty. We are looking for ways and solutions which will help the sectors that are in most need of aid over the next year. However, we have to earmark this assistance to a given industry or sector for more than a year. Otherwise, we will find ourselves with the same problem the year afterwards.

You talked about staff training. We can invest in training, but we will not see the results of this training for one or two years, depending on the type of training provided. I prefer the solution suggested by Mr. Lazar and Mr. Myers, that is to invest more money in R and D and provide businesses with refundable credits. This is a very positive measure.

What can we do immediately to help industries and businesses in need? People believe that the situation is uniform throughout Quebec, but that is not true.

• (1600)

[English]

You mentioned that the markets will come back. I'm wondering which markets and what regions. Your sector is faced with challenges as well. I don't believe some of those markets will ever come back. You have to correct me if I'm wrong.

Mr. Myers, it's the same thing. I think you have a challenge where certain industries in central Canada are doing well and some are tied to the fact that we're doing quite well in the resource area. But as Mr. Laliberté said, I'm not so sure the solution is to take money from the resource area just because they have money and give it to the people who need money.

I'm looking to you guys for more concrete answers—something we can put on paper. You guys have the solutions. We've already addressed the R and D situation. With the accelerated CCA, I think the government has made one step forward.

You're here today because we're trying to conduct a study on direct assistance and measures. I haven't really heard that, other than building skills. I think that is going to be more of a long-term solution than a short-term solution.

Mr. Avrim Lazar: Direct assistance is a loaded term. If by direct assistance you mean writing cheques to companies that are in trouble, that's not assistance at all; that's basically dooming us to a lack of competitiveness. It's not the role of government.

We'd all like to have magic wands and pixie dust to wave at struggling industries. The marketplace will have its way whether we like it or not.

Mr. Massimo Pacetti: I don't mean to interrupt you, Mr. Lazar, but I'll just give you some background. The Conservative and Bloc members believe in direct assistance. They're the ones who put forward this motion, so that's why I'm asking the question. We agree with your position.

Mr. Avrim Lazar: I think everybody will agree with what I've said so far. The question I heard you ask, which I assume everyone is interested in, is can something be done now that would not be destructive, that would be constructive? The answer is yes, things can be done now. They won't be magical solutions, but they will increase the number of mills and the number of jobs that are kept in Canada.

Refundability of the research credits would put cash in the pockets of those mills, those companies that are investing in research. It will put the cash in right now, rather than holding the cash in the federal treasury until at some point these companies become profitable. Rather than the government hanging on to it, saying they want to see if you're going to survive and then they'll decide if you can have your money, they could give it to you today so you could invest more in research. That's something that could be done today.

Market expansion. You asked whether there was going to be a market. The global economy is desperate for raw resources. The increase in demand for forest products is more than the entire production of B.C. every year. The fact that we are facing a difficult marketplace now in the U.S. is a temporary aberration. There will be huge demand. One of the things government could do right now is help with our market expansion and diversification program so we can get into those markets as quickly as possible to increase our penetration of them as they emerge. That can happen now.

Mr. Massimo Pacetti: What is that program you're looking for, for market expansion? Do we match dollar for dollar?

Mr. Avrim Lazar: We would love to see a—

Mr. Massimo Pacetti: You don't want us recommending. You have to recommend what you want to see. If we recommend it, you're not going to like these other guys' solutions.

Mr. Avrim Lazar: I like all you guys.

We would like to see a fund available for industry-government partnerships to tell Canada's story of environmental excellence and product quality in overseas markets. There is, right now, the Canada wood export program. It's running out of money.

All of it is in our submission to you, by the way.

The Chair: Thank you.

Monsieur Crête.

[Translation]

Mr. Paul Crête (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, BQ): Thank you, Mr. Chairman.

Thank you for accepting to appear before this committee again one and a half weeks following the tabling of the budget. You could have had the option of saying that we never listened to you well enough the first time, that you had done your job, and that you were tired of repeating the same message to people who were not listening. But instead, you decided to come back and continue trying to convince us.

I'd like to digress briefly. For us, direct assistance is not necessarily synonymous with subsidies. There are forms of direct assistance, such as Technology Partnerships Canada, among others. The debate is not about that.

If the government does not react to the additional demands being made, what type of impact will this have in the future? In a news release issued yesterday, the Bank of Canada stated, and I quote:

At the same time, there are clear signs that the U.S. economy is likely to experience a deeper and more prolonged slowdown than had been projected in January [...] These developments suggest that important downside risks to Canada's economic outlook that were identified in the *NPRU* are materializing and, in some respects, intensifying.

These are the words of the same people who, three or four months ago, were saying that there was no problem. This shows me that a catastrophe is in the making if the government does not do its utmost. I believe that we should have invested a portion of this year's surplus, among other measures. Please tell us if you have anything to add with respect to this issue.

On the other hand, what will the consequences be if we do not have a more robust and aggressive action plan to assist the manufacturing and forestry sectors?

• (1605)

[English]

Dr. Jayson Myers: Let me go first.

I think, first of all, the half percentage point cut we saw in the Bank of Canada rate yesterday was probably a good indication of looking ahead and thinking, things don't look too good. Four or five months from now, demand in the U.S. economy is expected to be very weak, and our key export markets are already in recession.

But I'll respond to your question and build on the previous question. There are new opportunities in western Canada for manufacturers in Quebec, Ontario, and across the country to take advantage of the development of energy resources and infrastructure spending in western Canada and in energy markets in the United States. There are new markets. The global economy, even with the downturn in the U.S., is growing by six Canadas a year. There are a lot of business opportunities. But in order to take advantage of those opportunities, companies have to invest in new products, in market development capabilities, in new skills, and so forth.

When we're looking at targeted investment measures, or targeted measures to assist here, I think we need to change the terms of the debate. We shouldn't be subsidizing companies. What we should be doing is looking at those measures that encourage investment in some very significant areas, like productive assets. There's a difference between store shelving and equipment. Store shelving is an asset that actually gets better CCA treatment than equipment, without the two-year writeoff. Equipment produces things. Manufacturing technologies produce things of greater value; they should be more important than other assets.

Skills development is an important investment. Innovation is an important investment. Wherever companies are selling, whether it's in the United States, in other markets, or in western Canada, they're going to be successful because they're specialized and because they're innovative. These are the key investments that we should be making in order to assist those companies make the adjustments they have to make, because the business world is very different today. I think that's where we really should be focusing our measures.

If you want specifics, apart from the ones that we've been giving, consider investments in research establishments that focus on transferring research to industrial applications. Industrial innovation is important. Manufacturers bring 80% of the new products to market. We invest billions of dollars in the research. Why don't we assist in connecting that research to the industrial applications, the solutions, that businesses are trying to bring to the market? Without those linkages, it's very easy, frankly, for the Americans, the Chinese, the Japanese, and the Europeans to step in.

[Translation]

Mr. Paul Crête: What will the repercussions be if we do not have a much more robust action plan than the one being proposed by the current government?

Mr. Pierre Laliberté: We are asking our businesses to take action with very little leeway. As was said earlier, it takes seven hours and 54 minutes for them to barely cover their costs. This statistic is most appropriate. Businesses perhaps need exactly that kind of leeway.

I agree with the general philosophy that is emerging here. We must help our businesses become more innovative, and competitive, and not unduly hand out subsidies to lost causes. I think everybody agrees on this.

I think we also have to see if there are not other tools available right now. Some of our trading partners comply with the rules, others do not. For several years, we have been pointing out that some sectors deserve safeguard measures. For example, as we speak, in Montreal, not very far from the FTQ headquarters, 600 female workers at Golden Brand are being laid off. They will be losing their jobs in a matter of weeks.

Generally speaking, the government could have shown more willpower to protect these rights. This does not mean that we need to protect the garment and textile industry indefinitely and forever, but we could have given the manufacturing sector a chance to retool itself and carry on with business. From this point of view, we are not entering the market with equal weaponry. This is obvious. Monetary and trade policies are also important factors.

•(1610)

The Vice-Chair (Mr. Massimo Pacetti): Thank you, Mr. Laliberté.

Mr. Paul Crête: Can Mr. Lazar...

The Vice-Chair (Mr. Massimo Pacetti): No. Other members will ask their questions. We have a lot of time. Your seven minutes are up.

I simply want to remind witnesses that members have seven minutes for questions and answers.

Mr. Del Mastro, it is your turn.

[English]

Mr. Dean Del Mastro: Thank you, Mr. Chair, I appreciate that.

Mr. Myers, I appreciated your presentation. I just have a couple of things I want to talk to you about.

In Advantage Canada, I've gone around and made a lot of presentations, and one of the things I've talked about is the need for the government to create the proper environment for business to flourish. I really think that's government's role. You've mentioned specific targeted initiatives, targeted investments that governments should make. I think we're making those. I think they're the right thing to do as well, in particular if you want to encourage investment into new machinery and technology and keep Canada on the cutting edge so we can compete.

Advantage Canada speaks of five different measures. So with the knowledge advantage, certainly manufacturing and industry has to appreciate the amount of money the government is investing into post-secondary and trades: a 40% increase in last year's budget, a further inflationary increase this year, plus new grants and loans to help students and help train people. With the infrastructure advantage, obviously we've brought forward Building Canada, a \$33 billion fund; we're talking about things like the new Windsor-Detroit crossing, which is critically important for manufacturing. With the tax advantage, we've already talked about moving to the lowest corporate tax rates in the G7, a 15% total tax; we've brought forward accelerated CCA rates for manufacturing, and we've extended that. With the entrepreneurial advantage, we're looking at trying to reduce the burden on business. Certainly as a person who was in small business, employing about 20 people, I know what it's like to meet a payroll and I know what it's like to have to put up with bureaucratic red tape. And of course we're working to pay off debt.

Specifically I wanted to speak to you about a couple of issues. First of all, I assume you're aware that yesterday—and I would argue that this plan is making real progress—we had a very significant announcement from ALCOA of a \$1.2 billion funding for operations in Baie Comeau, Quebec. It will create 7,000 new jobs. Obviously we know that will have an exponential effect on spinoff jobs in Quebec. I'm very excited about that.

It seems to me that the environmental changes we're making are working in attracting investment. Do you agree with that?

Dr. Jayson Myers: I think, giving full credit to the government for lowering the corporate tax rate, introducing the two-year writeoff last year in the budget, making the commitment to improve regulations to invest in infrastructure and the borders, and investing in R and D and schools and things like that—these are all extremely important things. Are there things that could be done better? Sure. Often this isn't an issue of funding; it's an issue of actually getting it done and connecting the dots and making sure that research gets into the hands of industry. That's not a fiscal issue; it's an issue with how the programs are implemented.

Going to the CCA issue, there's one particular issue at play here. I think we all have to realize that when Finance talks about CCA, its fundamental idea is that the depreciation, the capital cost allowance, should mirror the useful life of the asset. I don't think that's right and I think it distorts business decisions. On average, a company will get a return on the investment to cover the cost of an asset from a particular product line in about three years. Really what we're talking about here is not on the tax side, not government redirecting revenue to provide a benefit; it's just taking less money away from business. It's leaving money in the hands of the businesses that can spend it best. So I think the idea of the useful life of an asset is a good model; it extends the writeoff period to a time far beyond the financial payback the company itself sees. So there are some fundamental policy problems here. The five-year window was very, very important, just to ensure that the two-year writeoff works.

It's a great announcement about ALCOA. We have other investments that are coming in. I would guarantee, though, that ALCOA will not be able to use the two-year writeoff. I think we need to—

• (1615)

Mr. Dean Del Mastro: I understand what you're getting at, and I do apologize, because I don't have a lot of time.

I think the finance department strategy behind this comes from GAAP, or generally accepted accounting principles. That's how they're approaching it. I don't disagree with you for a minute that accelerated capital costs change the economics on whether an investment should be made or not. That's the finance side. I think they're working from an accounting side, which indicates that useful life and depreciation should be roughly matched.

I wanted to talk to you about interprovincial trade barriers, and I wanted to talk to you about VAT taxes. I am going to Alberta to work to help some of my local manufacturers and some Ontario manufacturers tap into the boom in Alberta. How can we help them with that?

Dr. Jayson Myers: That's a good question.

I hope you're going out in March and you'll be participating in our national buyer-seller forum.

Mr. Dean Del Mastro: I am.

Dr. Jayson Myers: That's excellent. We have about 900 companies from across the country coming out to do business in Alberta.

When you look at the issue of interprovincial trade, I think it's a good case study of what we have to do to remove some of these cross-border issues.

Some companies cannot install equipment—they can't use welders from Ontario, Quebec, Atlantic Canada, anywhere outside Alberta, to work in Alberta itself, because of compulsory certification in Alberta. There are transportation regulations that impede the movement of trucks across the country. Because of the lack of mutual recognition of product standards, you can't manufacture outside Alberta to go into Alberta, without going through more regulatory red tape. If you're trying to operate competitively across the country, this doesn't make a lot of sense.

When you're out there, ask about some of the difficulties. It's a great case study to identify these interprovincial trade barriers, and we should be working together to eliminate them.

The Vice-Chair (Mr. Massimo Pacetti): Thank you, Mr. Del Mastro.

Mr. Mulcair, *sept minutes*, then Mr. McCallum.

[*Translation*]

Mr. Thomas Mulcair (Outremont, NDP): Thank you, Mr. Chair.

My first question is for Mr. Laliberté. I'd like to know if he's aware of the situation in Chibougamau, at Chantiers Chibougamau. Cutting rights are now being handed over to American companies rather than the local company of Chantiers Chibougamau. Are you aware of the situation?

Mr. Pierre Laliberté: I'm not aware of the specific details of this particular situation.

Mr. Thomas Mulcair: The situation is of concern to us, and one that we are monitoring currently.

• (1620)

Mr. Pierre Laliberté: I can say that generally speaking, we asked the Government of Quebec to define clear rules on CAAF transfers. It is abundantly clear that along with industry restructuring, each factory, each mill, each village and community is at risk of losing its supply and finds itself in competition with another. Therefore, in this case, the Government of Quebec must...

Mr. Thomas Mulcair: ...do its part. You are right, this falls largely under provincial jurisdiction and is indeed a responsibility of the minister. The situation is being turned upside down in communities, and is yet another concern that is being added to the ones we are talking about.

Mr. Laliberté, Mr. Myers, and Mr. Lazar, in light of the difficulties we are aware of, I would like to know if there are any innovative ideas that are being studied using available resources. For example, I can think of different technologies which are currently being developed and some which are being used. There is the SilvaGas process that is used in the United States, but there are others which are being developed, using forestry biomass energy to replace combustible energy. We are trying to come up with a form of energy that could be used and transported, given the fact that roads, bridges, and human resources are already in place. If a factory can no longer be used as a mill, it can perhaps be retrofitted and used for different purposes.

Have you looked into that?

[*English*]

Mr. Avrim Lazar: The use of ecoENERGY and the general approach to biorefineries—thinking of a tree as a source of all sorts of chemicals—is something we've been working on quite aggressively.

There are two things that can be done right now that would speed that progress. One is the government's ecoENERGY renewable initiative for renewable power. The government did a very good job of extending it from wind to biomass. That's helped mills move to renewable energy and stay competitive. That fund is almost empty. It's a great program, but it's going to be useless in a couple of months because it's empty.

If that were refurbished with more cash, it would help more mills switch over to renewable energy. There is no problem with countervail, it improves our greenhouse gas performance, and it makes us more competitive. That is something that can be done right now—I don't know if any of those guys are listening—with a cash infusion into what is a brilliant program, which you guys created, that is now oversubscribed.

A second thing could be done right now to help move to a better use of bioenergy or the biological capacity of trees. Our Canadian Forest Innovation Council is doing research on how to extract not just more energy but more biochemicals from the trees we have in order to get more value from every tree cut down. Some contribution from the federal government to that institute would make a big difference.

Finally, and this is quite interesting, they have technology, which they have already developed, that some of the companies are not adopting because they are in such desperate shape that they don't have any receptor capacity. So funding extension workers from the institute who would go out and help companies understand and use this new technology would be very useful.

None of these are hugely expensive. All of them could be done today or tomorrow. None are anti-competitive. They are all pro-competitive, and all would make an impact.

Mr. Thomas Mulcair: All would pass the test of countervail in the softwood lumber deal.

Mr. Avrim Lazar: They would pass the countervail test, absolutely. They are all simple things that can be done, all in the direction of stuff that's happening but that could go further.

Could I just answer on Advantage Canada for two seconds? I know that wasn't your question.

Mr. Thomas Mulcair: That's fine, go ahead, and take your time.

Mr. Avrim Lazar: Advantage Canada is fabulous. It's just too slow. Finance has it right in its direction. Your government has it right in its direction. But what we're facing is a marketplace that's moving much faster than Advantage Canada is. We're in a terrible global bloodbath in which everybody is trying to take everybody else's job. And now our largest customer is heading to a recession. Our currency relative to our largest customer has gone up 36%. And we're moving at a measured pace towards the right place, but we have to go faster. It's not that you're doing the wrong thing; you're doing too little of it.

The Finance officials who are saying that we're going to be insulated, that it's all going to be fine, are depending on the petrodollar, and that's not a good place for a country to go. Let's enjoy every penny we can get from oil and gas, but let's not become completely dependent on it. That's a fundamental economic mistake.

We're saying yes to Advantage Canada, but we're saying yes, please, let's get at it at a much faster pace. Let's not pretend that we are insulated. Let's not pretend that our current well-being is our birthright. Let's realize that, just as industry has to work really hard and fast to adapt to a high dollar, the government's business climate policy has to work just as hard and just as fast.

When we close a mill and put all these people out of work, we want to see you doing something just as painful to government finances. There's no way for us to sit still, wait, and hope that we can do it at a slow pace. We've been suffering pain and working really hard. You're doing the right thing, you're just doing it as if the world was unfolding at a stately pace. And it's moving at a vicious pace.

• (1625)

Mr. Thomas Mulcair: Mr. Lazar, I can only tell you that in the eight months since I first set foot in this place, I have resisted becoming accustomed to the glacial pace of the public administration in Ottawa.

The Vice-Chair (Mr. Massimo Pacetti): Thank you, Mr. Mulcair.

Mr. Thomas Mulcair: Quebec City has a public administration that is a Lamborghini compared to the Ottawa civil service, which is a 1956 Chevrolet.

The Vice-Chair (Mr. Massimo Pacetti): Okay. Thank you.

Mr. Avrim Lazar: And they'll all use biofuel.

The Vice-Chair (Mr. Massimo Pacetti): Order.

We're into the five-minute rounds. We'll have Mr. McCallum, Mr. Laforest, and Mr. Dykstra.

Go ahead, Mr. McCallum.

Hon. John McCallum (Markham—Unionville, Lib.): To follow up on that point, I might say that the federal civil service under the Liberals moved at lightning pace compared to the glacial pace we've been observing recently.

That was meant to be a lighthearted comment.

I thank you all for being here. My apologies for being a little late. It was partly because I went to the wrong room.

I would like to start off with the issue of the capital cost allowance. I notice that Mr. Lazar and Mr. Myers both, at or near the top of their list, have been asking for an extension of five years. What the government did was extend it to three years, essentially for 21 more months, and then it looks like it's being phased out.

This is my question. I would have thought, having such a short lead-in time, that it's not always terribly useful, because it takes a lot of time to make plans for these investments. Moreover, I thought the annual cost was in the order of \$560 million, and they seem to have budgeted far less, which means that maybe the government itself doesn't think there will be much take-up.

I'd like to ask what your overall view is and how much difference it makes between having this measure in for three years versus five.

Mr. Avrim Lazar: It's an enormous difference. You have to raise the money, you have to buy it, and you have to put it in use. To say that it could be done with one year's or 18 months' notice, it's just not going to happen.

I was told the government was thinking that if we made it short, people would act quickly and bring cash quickly into the Canadian economy. It's a good sentiment, but it's just not the way the world works. If people know they have a bit of time, they can actually do big projects. It is important.

Hon. John McCallum: Mr. Myers.

Dr. Jayson Myers: I agree with what Mr. Lazar has just said. Continually extending it by one year doesn't give you that much additional certainty for planning your investments. For many companies, apart from those companies that were probably going to make investments anyway in off-the-shelf technology, some of those investments will go ahead, but for any major investment, especially in the processing sectors, these do require three, four, or even five years sometimes even to get regulatory approval to put the equipment in place.

Right now for many companies making an investment decision today for equipment that won't be put in place for another two or three years will be outside that extended window anyway.

[Translation]

Hon. John McCallum: Mr. Laliberté, do you share a similar point of view?

Mr. Pierre Laliberté: Absolutely, it is not often that our union is in favour of tax cuts. In this particular case, we are in full agreement, as we are with the credits.

• (1630)

Hon. John McCallum: It is therefore unanimous.

[English]

Is it fair to infer that in a sense the government agrees with you by the fact that it budgeted so little for that additional year? Otherwise, if they thought there had been a take-up, would they not have had to similarly budget a larger sum?

Dr. Jayson Myers: If you look at last year when the government introduced the two-year writeoff and looked at the fiscal cost that it estimated, it was estimating that somewhere around one-quarter of the investment would be covered by the two-year writeoff. I think there was perhaps some indication that this wasn't long enough for some investments to take advantage of it.

Hon. John McCallum: We in our party have proposed a partial refundability for SREDS for the reasons that you have advanced, but we put in the word "partial" because we don't know what the overall

fiscal situation will be. We'd like to make it as much as possible, but we don't think we'll have the money to do it fully.

The government did something on SREDS in the budget, but as far as I recall, it wasn't refundability. Can you indicate your view of your refundability request as compared with what was in the budget on SRED?

Mr. Myers, would you go first this time.

Dr. Jayson Myers: In the budget the government did two things around the R and D tax credit system. It committed to improving the administration of the system, which is extremely important. We'll see how that works out, because that's been in the works for some time.

Hon. John McCallum: Probably at glacial speed.

Dr. Jayson Myers: In terms of the additional allowances, there was an increase in the allowance for small Canadian-owned companies to take advantage of the credit. I think the estimated benefit is around \$70 million over a period of two years.

What we were looking at was to make the tax credit refundable, or at least partially refundable, so companies that are making investments in R and D today get the credit today for those tax measures. The changes that were made will provide marginal benefits for some of the smaller R and D performers, but certainly fell short of that refundability.

[Translation]

Mr. Jean-Yves Laforest (Saint-Maurice—Champlain, BQ): The question is for Mr. Laliberté.

Earlier, you expressed agreement on Mr. Lessard's and Mr. Myers' proposed measures to address the problems affecting the manufacturing and forestry industries, particularly for Quebec. In Quebec, the forestry industry is more greatly affected than the manufacturing sector, even though the later is also experiencing problems.

The federal government unveiled a \$250 million trust fund to assist the manufacturing and forestry sectors in Quebec. Quebec's share will be \$250 million spread over three years; yet in an effort to contain the same crisis, the Government of Quebec invested close to \$2 billion in the last years.

Everybody knows there is an urgency. We know it, you are saying it. If nothing is done, things will get worse. Gathering from what everyone is saying today, more must be done. Do you believe that this one billion dollars is enough?

Money that has not been used to pay down the debt is available. The government's intention, as stated in the budget, is to take the \$10 billion to service the debt. Indeed, there are financial resources, and we are in a period of crisis.

Mr. Pierre Laliberté: Listen, it depends on what the government wants to do with the billion dollars. When we break down the amount of money in the trust over three years, it represents about \$70 million per year. We cannot go very far with that. Really, this is a transfer to the Government of Quebec for it to solve the problems that have surfaced, and God knows there are many.

Within the forestry industry, many municipalities will cease to exist if mills shut down. These problems could even result in the shutting down of entire cities and villages and the relocation of entire populations. From a different perspective, we regret that...

• (1635)

The Vice-Chair (Mr. Massimo Pacetti): Pardon me, Mr. Laliberté. I do not wish to interrupt you. I will give you time to finish your answer.

Do you mean to say that you do not approve of the distribution of funds through the provinces?

Mr. Pierre Laliberté: No, no. And that is not what I meant at all, on the contrary. I'm simply saying that in light of the new problems we face, there are no clear objectives. There's a community trust fund. This will cushion a part of the fallout communities are experiencing. That is it. Given the magnitude of the problems, I have a hard time telling you if it will cost \$2 or \$3 billion because we do not know the point of all this. Yet, what I can say is that rather than allocating \$10 billion to the debt, it would have been good to acknowledge the urgency of the situation and allocate a portion of the money to setting up a fund that will help our industry become more competitive and help our workers receive training for new trades. This was not done.

In Canada, renewing infrastructure has to be done rather urgently. We've left the problem unresolved for years, and now is the time to act. Given this, your organization has issued an interesting proposal to create a Canadian purchasing policy, similar to the American one. To my mind, this is necessary given the inevitable slowdown in housing construction. This is an interesting idea that is totally absent from the current discussion.

I will conclude on that, but want to impress upon you that the means used to date are insufficient.

Mr. Jean-Yves Laforest: Mr. Lazar.

[English]

Mr. Avrim Lazar: Giving money to provinces is something I've never quite understood; it's not part of our life. But it's different from doing the job as a federal government. The provinces should do what the provinces do, and the federal government should do its job. Its job is to create business conditions that draw investment into Canadian mills.

If you want to give money to provinces, I hope they use it well, but it's not the same thing as doing the federal government's job.

[Translation]

Mr. Jean-Yves Laforest: Let's discuss the use of the surplus, Mr. Lazar. Do you also support the use of \$10 billion to pay down the debt despite the fact that nothing was provided in the budget to support the manufacturing sector and, mainly, the forestry sector?

[English]

Mr. Avrim Lazar: As we said, there are things the federal government could usefully do to help the forest industry in terms of spending, one of which would be research, another of which would be market development, another of which would be to replenish the ecoENERGY initiative so that there's enough money there for new projects to get going. Another is that we could extend the Canada wood program, which is running out of money. All of these are within the federal responsibility.

[Translation]

We want the provinces to do what they have to do and the federal government to take on more responsibility in managing its own affairs.

[English]

rather than telling the provinces, "Go do it".

The Vice-Chair (Mr. Massimo Pacetti): *Merci, monsieur Laforest.*

Mr. Dykstra is next, and then Mr. Turner.

Mr. Rick Dykstra (St. Catharines, CPC): Thank you, Chair.

I'm going to jump right in, because I only have five minutes, and I hope you will be as short as you can in your answers, because I have about four questions.

Jayson, you guys issued a release that really slammed us. I'm not going to pull any punches here. You really took a hard shot at us, saying we weren't doing enough. You called it "Disadvantage Canada". Mr. Lazar today said Advantage Canada is the right thing to do; it's not moving quickly enough, but he said it's the right thing to do.

You call it "Disadvantage Canada". Do you disagree with Mr. Lazar's perspective on this?

Dr. Jayson Myers: No, I think the strategy that you set out is correct. Our point of view in saying that this was "Disadvantage Canada" was just to say that not making these crucial investments puts Canadian companies at a global disadvantage.

Mr. Rick Dykstra: Do you think we're not making investments?

Dr. Jayson Myers: Our assessment of the budget was that the tax measures in this budget and the investments weren't adequate to meet either the challenge or the urgency of the situation.

Mr. Avrim Lazar: Our press release said exactly that. It was in that ilk, that it was inadequate.

•(1640)

Mr. Rick Dykstra: Mr. Lazar, let me take this a little further. The whole aspect you pointed out about Advantage Canada is that it is moving too slowly, that we need to pick up the pace—despite the fact that the dollar went up in the percentages you talk about pretty much in six months. But having said that, Mr. Myers indicates that with the accelerated capital cost allowance we moved far too quickly, that it went too fast and companies aren't going to be able to react that quickly, because they can't engage as quickly as they should.

So I'm hearing you say it's not quick enough; I'm hearing Mr. Lazar say we need to extend the program, because companies can't move quickly enough to pick up on it.

Mr. Avrim Lazar: No, not quite: you're ending it too quickly; you're not doing it too quickly.

The capital cost allowance two-year writeoff needs the longer window for people to gather the cash and do the projects. If Advantage Canada were moving with more aggressiveness and more speed, you would have done exactly what Jay says.

The only difference between his point of view and mine is language. He was reacting to the fact that the budget wasn't as aggressive in terms of business climate as it could be. I'm reacting to exactly the same thing. We both agree you're doing the right thing. You're just not doing enough of it, given the gravity of the situation.

Is that fair?

Dr. Jayson Myers: Our response to the budget was certainly aggressive. It was maybe a little angry, but it was a reflection of some of the disappointment and frustration that—

Mr. Rick Dykstra: Jayson, I don't dispute the emotion that comes out of your organization, based on what they're up against right now. That isn't my issue.

My issue is that if we read the report we have here today, in 1996 this country was in the top three or four in the world in producing automobiles. Now we are languishing at seventh or eighth. That's over a 10-year period; we've been in government for two years. I'm not trying to make excuses here. We've been in government for two years and have had three budgets. Every single one of these budgets has taken an aggressive approach to making sure that corporations have an opportunity not only to exist here in this country, but to be competitive.

I would ask, if you've been making these presentations for the last 10 years, who was listening to you? I'd submit that we certainly are.

Mr. Avrim Lazar: I'd say that as a country we're negligent. The Liberals got the deficit under control and took steps, and you guys have been taking steps. But as a country we're just a little too comfortable: the provincial governments are too comfortable, industry was too comfortable when the dollar was low, and as Canadians we tend to take our standard of living as a birthright. We're all waking up.

We're all facing exactly the same thing. I'm just as aggressive with my own members in terms of the need to work harder and faster.

Mr. Rick Dykstra: I appreciate hearing that, because it's going to come collectively—

Mr. Avrim Lazar: But it doesn't let you off the hook. You're just part of the Canadian culture that thinks we don't have to—

Mr. Rick Dykstra: And we need to change that culture, because it obviously hasn't worked for the last 15 or 20 years. We need to get more aggressive, and I think we are. We have the three budgets sitting here. I recognize that all you guys want to get more aggressive and start moving in that way, and I look at your comments about the billion dollars to the provinces and to the territories. One of the fundamental reasons we did that is that if you think the federal government wants to give a billion dollars to provinces and territories and take all the credit for doing it, no, we don't. The reason we did it is that we have to set up the programs, and you know how long that takes federally. Provinces and territories have programs in place. We can fund the money directly to them, put it in a trust fund, and have them implement the programs immediately. We don't get the credit for it. We did it because it was the right thing to do, to put \$216 million in Quebec, to put \$325 million or \$350 million in Ontario.

Quite frankly, that money can be spent now. It doesn't have to wait for programs. It doesn't have to wait for budgets to be passed. We all agreed it was the right thing to do.

The Vice-Chair (Mr. Massimo Pacetti): Thank you, Mr. Dykstra.

Mr. Turner, five minutes, please.

Hon. Garth Turner (Halton, Lib.): I'm wondering if you might be able to clarify two points. One relates to our exchange rate, the Canadian dollar. We conducted a few hearings into the Canadian dollar here in the finance committee in November.

I'll read you a couple of paragraphs. This is when we had one of our meetings and the Minister of Finance was here:

OTTAWA - Finance Minister Jim Flaherty says problems associated with Canada's high dollar are diminishing, although there is no quick solution on the horizon.

After Tuesday's hearings before the finance committee in which manufacturers pleaded for relief from the impact of the strong loonie, Flaherty said while the Bank of Canada and the government have "some tools," there's no quick fix for currency fluctuations.

But he said he's pleased that retailers are beginning to pass on some of the savings from the strong dollar to consumers.

That was November. Now we're into March. Was the minister right? Were the problems diminishing from the impact of the high Canadian dollar? How do you guys assess it now?

•(1645)

Dr. Jayson Myers: Perhaps I could go first. This time last year the Canadian dollar was at 84¢. I think when those hearings took place it was probably close to \$1.10. Nobody could have foreseen that, and that rapid surge in the dollar has overwhelmed most companies. Most exporters will be in a loss position in their last quarter of last year, and we're beginning to see the consequences of that now.

I think looking forward the risk is on the upside for the Canadian dollar, even with the aggressive interest rate cut we've seen, and it has nothing to do with the Canadian dollar. It has everything to do with the weakness of the U.S. dollar and the fact that the banks of China and Taiwan and Singapore and Japan have better places to put their money than in the U.S.

Hon. Garth Turner: I understand that. The salient point, and why we had the Minister of Finance here, was that we were trying to explore the role of government and how government influences currency. There is some impact on the influence of currency, and certainly our finance minister spent a long time talking about the strong Canadian dollar, and it struck a number of us that this was not the language you want to use in a world of currency fluctuations.

Mr. Avrim Lazar: If I may, we appeared at one of your hearings and we said there is some room for flexibility in where the dollar goes. There is a range within which government can responsibly influence, and as a small, open exporting economy, we should influence it toward the bottom of that range.

I was very happy to hear for the first time, about a month ago, the Minister of Finance talk about a reasonable range. That was a recognition, and the bank seems to be migrating that way too, but there's no doubt the dollar is not a commodity, like pork bellies, that should be treated as if it has nothing to do with the.... It is the very deep structure of the economy.

Manipulating in a way that doesn't reflect the relative productivity of the two economies would be a long-term bad thing to do, but within the range it should be driven as low as is responsible. We've been saying that purchasing parity probably provides a good benchmark, which is more in the 88¢ range than in the 98¢ range.

Hon. Garth Turner: I understand that, but my simple question, yes or no.... I'm running out of time, but a finance minister of a country certainly has an impact on currency markets, and every word and syllable that he utters does so. So I'm hearing you saying that you prefer to see the finance minister talk the dollar down than talk it up.

Mr. Avrim Lazar: It all depends on the circumstances. There's no yes and no to that one.

Hon. Garth Turner: Okay, good enough.

The housing market in the United States is obviously a major impactor upon your industry, and also in Canada. I'm just reading a report here that has been published by RBC, the Royal Bank of Canada, on home buying intentions, and I wonder if you might comment on it.

The survey has indicated that, as regards people planning to buy a home, those intentions have gone down in the past four weeks, and we're now at the lowest level in Canada in the past 15 years in terms of home buying intentions. That's only going to exacerbate your situation. Is that correct?

Mr. Avrim Lazar: What really exacerbates it is the lack of intention in the States, where they have so much surplus, because we export most of what we make. But yes, of course the lack of demand in Canada exacerbates it.

The reason we're so worried about this recession and wanting to see so much more aggressive action is that usually the way the U.S.

gets itself out of a recession is an interest rate drop, which leads to an increase in housing starts. But because the problem is centred in housing, the interest rate drops are not having that kind of effect.

The Vice-Chair (Mr. Massimo Pacetti): Thank you, Mr. Turner.

Next is Mr. Wallace, and then Mr. McKay, for five minutes each.

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

Thank you for being here today. I'm sorry I've been slipping in and out. There have been issues in my riding I've had to deal with.

I have a question for you, Mr. Myers, but first I have a question out of this report, which I found interesting.

One of the recommendations you have here is to encourage the Competition Bureau to take a non-competitive approach to merger review that takes into consideration the global nature of the market. You need to explain what that means to you in the short term and the long term and what the Competition Bureau is doing that has caused you to put this down as a recommendation.

Mr. Avrim Lazar: Sure, and I can probably do it relatively quickly.

The Competition Bureau reviews applications for companies to merge. Their job is to make certain that merging will not lessen competition in Canada and lead to a rise in prices. Because most of what we do is exported, most of the time they're dealing with a very small part of our activities and, as a result, make us less competitive in global markets.

So we're saying the Competition Bureau should have as a presumption to let the marketplace happen and let the mergers happen, because you have two competing public goods: a theoretical risk that prices will rise, and a demonstrable risk that jobs will be lost. Each time we've had a merger, prices have actually gone down, because our customers are bigger than us and they just turn the screw and take a bit more out of us, so that theoretical threat is actually just theoretical. When we don't merge, when we don't become large enough to compete globally—because, remember, we're selling in foreign markets 80% of what we're making—jobs are lost.

We're thinking the Competition Bureau's mandate is 10 years behind the times, because it doesn't take into account that we are a small, open exporting economy that needs to be able to bulk up to fight all the other bulky competitors in the global marketplace.

• (1650)

Mr. Mike Wallace: I appreciate that.

As a follow-up question, then—I'm from Burlington and I don't have forestry companies in my riding—is the industry going through mergers that are being turned down, or are the people afraid to go through the merger process because of the bureau?

Mr. Avrim Lazar: I have two quick answers to that.

They haven't turned us down, but they've put such a chill in it that people look elsewhere.

They've also said to companies, "That's enough; no more Canadian acquisitions." So what that's leading to is our better mills being taken over by offshore and U.S. companies. You can't become a big Canadian company, because the Competition Bureau frowns upon you for that. So it's much easier to go and buy American assets. A lot of my most efficient competitive companies are busy buying mills elsewhere because they don't want to fight with the Competition Bureau about becoming big in Canada.

Mr. Mike Wallace: That's a good point. I appreciate that, because I didn't understand what the recommendation was. I do now.

Mr. Avrim Lazar: I appreciate the question.

Mr. Mike Wallace: Mr. Myers, in the news lately there has been lots of discussion on a debate, I guess you'd call it, or a difference of opinion between the Premier of Ontario and the Minister of Finance for Canada. A number of economists, including Jack Mintz and Don Drummond and the gang, have been saying that the Ontario corporate tax system is way out of whack with other provinces. It's part of the problem that manufacturing is having in Ontario, where obviously my riding is. I'm next door to Ford, and there are lots of small and medium-sized manufacturers in my riding.

Has your organization taken a position, or does it have a concept? I know they're coming out with a budget soon at the Ontario level. Have you taken a position on where corporate taxes should go with the Province of Ontario?

Dr. Jayson Myers: We have.

First of all, we're dealing with issues in manufacturing that are far too important and urgent to have arguments between jurisdictions when we should be looking at providing solutions.

We've been on the record for some time saying there are two major tax issues that we would like the Ontario government to address. One is to reduce corporate tax rates, and the other is to harmonize the provincial sales tax with the GST. The last measure would save manufacturers \$1 billion in Ontario.

Mr. Mike Wallace: Have you had any feedback from the Province of Ontario on your suggestions? Do you expect that in the upcoming budget?

Dr. Jayson Myers: I'm meeting with the Deputy Minister of Finance on Friday.

The Chair: Thank you very much.

Mr. McKay is next, followed by Mr. Menzies.

Hon. John McKay (Scarborough—Guildwood, Lib.): Thank you, Chair.

I had a breakfast meeting with the mill manager in Dryden a couple of weeks ago. I was so depressed at the end of the meeting,

because things were sounding awfully grim, that I decided to pick up the bill.

An hon. member: And for John to do that—wow, it was bad.

Hon. John McKay: Anybody who knows me knows that's an unusual occurrence.

I want to ask Mr. Myers and Mr. Lazar how useful it is to have a finance minister running around the countryside saying, "Don't invest in Ontario." I can't imagine that does anything for the issues you folks are advocating for.

As far as the international markets are concerned, whether they are financial markets, forestry companies that might wish to invest in Canada, or manufacturing industries that might wish to invest in Ontario, the kind of spitting that's going on can't possibly be regarded as useful. Certainly the finance minister has the prerogative to express his views, but when he expresses his views in such a fashion, it can only put a damper on the investment climate, particularly in Ontario.

Have you had any direct consequence from the finance minister's insensitive commenting?

•(1655)

The Chair: Mr. Myers.

Dr. Jayson Myers: We have not seen any consequences as a result of the discussion that is going on.

We're under tremendous competitive pressure to attract and retain investment and keep product mandates. Companies are making these decisions all the time. I think we have to give credit to what all levels of government have done, but particularly what companies have done in working to secure these product mandates and investment. It sure isn't easy, and the ones that have been able to get them have done extraordinary things. I think it's a great example of what Canadian companies and their employees can do here.

But it's certainly not easy, and the discussion going on right now about who's at fault isn't helpful. What we need to do above all is put forward a common front and show companies around the world that there are advantages to being in Canada for both retaining and attracting investment.

The Chair: Mr. Lazar.

Mr. Avrim Lazar: We certainly feel just as impatient with provincial governments as we do with the federal government about improving the tax system and the competitiveness climate. We are occasionally as grouchy with them as we are sometimes with the federal government—not because we don't love them, but because we need an investment climate. Some form of competitive federalism, where provinces compete to have the best tax structure, is not a bad thing.

Hon. John McKay: When you see comments like that published in international newspapers, you can't think this is helpful in raising funds. You can't think that any company that wishes to invest in Canada is going to say, "Well, let's go invest in Ontario." If it's a dispute between the province and the federal government over the best way to proceed, surely to goodness that conversation could take place other than in a public meeting where it gets international exposure.

The Chair: Go ahead, Mr. Myers.

Dr. Jayson Myers: If I could say, having it publicized internationally is not helpful in making the pitch to retain or attract investment. I guess, though, at the end of the day the decision is above all a decision that makes economic sense for the company and is made, to some extent, on tax rates. It's made on other incentives for investment. It's made on the quality of workers. It's made on infrastructure. It's made on proximity to markets. It's made on all sorts of decisions. For many companies, it's made just on the idea that we want them here and we'll go out of our way and be at the table to get them here, and I think that's important.

• (1700)

The Chair: Mr. Menzies, for five minutes.

Mr. Ted Menzies (Macleod, CPC): Thank you, Mr. Chair.

I guess we've seen the similarities between the federal Liberals and the provincial Liberals, and they both seem to think that raising taxes increases the investment environment. Of course, we know that this isn't a fact.

An hon. member: We'll let you go on.

Mr. Ted Menzies: I do have to apologize to our witnesses that they got caught in this sort of partisan question—

An hon. member: You'd never do that.

Mr. Ted Menzies: I wasn't interrupting when my colleagues were speaking, so I would ask them to...

My point is that the role of the finance minister—now that we've started down that road—is to encourage investment in all of Canada. When he sees a weak point, then it's his job to encourage them—and that's all the finance minister is doing—to get on board with where the rest of the provinces are headed, and that's in lowering corporate taxes to make a stronger argument for you in encouraging investment.

That being said, Avrim, you piqued my interest when you were talking about other uses for wood. Quickly, if you could elaborate on that, where are we at on pine beetle? What are we going to do with all this wood? The forest industry is strapped for cash right now. We realize that. We have a huge forest fire potential coming upon us this year and in the next few years.

Can you please update us on where we are on that?

Mr. Avrim Lazar: The pine beetle epidemic is proceeding apace. They've been slowed down a little bit by weather. We don't know where they're going to go or how far, because the specialists in this area have been wrong almost every time. The numbers have exploded to such an extent that what is a very small-probability

event of a pine beetle's jumping species or moving geographically becomes almost a certainty when you go from millions to billions.

A lot of that wood is good for pulp; a lot is good for bioenergy. There are programs afoot to do that. The difficulty is that as governments create incentives to use it that way, that also creates distortions in the marketplace that aren't always healthy. For a lot of that wood, the economics of transporting it to an energy plant don't make sense, but sometimes you need to just get it out of there.

So there is nothing simple on this, and it's not the sort of thing that's easily amenable to a federal program. Is it hurting us? Yes, it is. Are we trying to cope? Yes, we are. Will it hurt specific towns badly? Yes, it will.

If there's any lesson in it, it's that investments in research on the impacts of climate change on Canadian forests is well worthwhile, and we should increase our money for adaptation research.

The other lesson in it is the sort of research that's done by our innovation institute. Right now they're working quite hard on new ways to use the beetle wood. That kind of investment would be useful too.

Just to go on the record, we're against the beetle.

Some hon. members: Oh, oh!

Mr. Ted Menzies: Volkswagen might be upset.

HasBill C-8, on shippers' rights, impacted you positively?

Mr. Avrim Lazar: I just want to say that's one of the best things that have happened in a long time. We've been suffering because of the unfettered power of the railways. This creates fairness. It means that with final offer arbitration, the reasonable gets to win as opposed to the powerful. I have to compliment the government for introducing it. I have to compliment the opposition parties for supporting it and passing it. I thought that was an example of government working the way it should. We watched the debate in committee. It wasn't partisan; it was constructive.

Again, we really want to salute you and say thank you for doing it.

Mr. Ted Menzies: Do I have time for one quick question?

The Chair: You have 30 seconds.

Mr. Ted Menzies: I want to ask something on softwood lumber and the WTO ruling. Is it fifty-fifty?

Mr. Avrim Lazar: Arbitrators will do what they will. We're not particularly unhappy with it. We would have liked to win all of it.

We have noticed in the current market that hanging onto this agreement for a few years is going to be important. Not everyone was happy with the terms of the agreement, but right now it's the only agreement we have. If we lose it, we're in big trouble.

• (1705)

Mr. Ted Menzies: We'd better keep the government we have, then.

Thank you.

The Chair: Thank you.

Monsieur Crête.

[Translation]

Mr. Paul Crête: Thank you, Mr. Chairman.

I would like a brief response from the witnesses.

Would you be prepared to support a report calling on the federal government to enhance its action plan as quickly as possible to support the manufacturing and forestry sectors, which would involve the use of part of the \$10 billion surplus for this current fiscal year, in light of the measures you proposed today? Would you agree, in whole or in part, with that?

Mr. Avrim Lazar: If that included the measures we put forward, we would agree.

Mr. Pierre Laliberté: Absolutely.

Mr. Paul Crête: It is not because this is a self-evident truth. I want the committee to realize that you feel that the government has not done enough and that if there are no additional measures taken, we will be dealing with significant problems down the line.

[English]

Mr. Avrim Lazar: Yes, and if

[Translation]

these additional measures are taken immediately, they would be welcome.

[English]

If it comes in the next fiscal update, a little later, we'll still give them a hug and a kiss.

I don't want to get you guys too excited now.

[Translation]

Mr. Paul Crête: What would you say is the current proportion of jobs which are not within the manufacturing sector but depend upon it? Pay and accounting services have been greatly centralized and are no longer accounted for under the manufacturing or forestry services, yet they are support services. Would that represent a large number of jobs that we should also bear in mind?

Mr. Avrim Lazar: In our case, it amounts to 600,000 jobs.

[English]

That's 600,000 jobs in the service sector. I can't give you an exact number, but that's the order of magnitude. We have 300,000 direct. The 600,000 indirect is almost all service sector. Every time a forestry guy loses his job, two service sector people lose their jobs.

Dr. Jayson Myers: It's the same for manufacturing.

[Translation]

Mr. Paul Crête: Thank you very much for your contribution and your relentlessness.

[English]

The Chair: Thank you.

Mr. Pacetti.

Mr. Massimo Pacetti: Jayson, you brought up something that perhaps we could recommend. I brought it up during the pre-budget consultation— the commercialization, bringing the R and D to market. It's a challenge. In both Quebec and Ontario, some good

inventions or innovative products come out and then they just seem to fall off the face of the earth.

During the pre-budget consultations, we had some presentations from the universities. One was Brock University; another was Queen's. They have some money, but they're not comfortable working with industry. I think this is the first time industry has brought it up. I think your association is the first one. There's money for the R and D, but there doesn't seem to be any money for bringing products to market. Nobody has given us a great idea on how to do that.

Some of the venture capitalists are looking for the "valley of death" type of scenario.

[Translation]

I will ask Jason to respond first. And then, I would like to hear your comments, Mr. Laliberté.

[English]

Dr. Jayson Myers: I think it's extremely important. In my mind, research is transforming money into knowledge. Innovation is taking knowledge and creating something of greater value. The issue is, what solution does business need that they can apply the knowledge to? How can we build more collaborative relationships between the research going on in universities and colleges, which is extremely important, and the industrial application?

We've seen a lot of direct grants to universities, which have sometimes actually diluted some of the collaborative grants, particularly at the provincial level. Through some sort of collaborative research system, researchers in universities and colleges should be able to bring their ideas to industry, rather than trying to take it to market themselves.

Mr. Massimo Pacetti: In my understanding, the universities are not necessarily comfortable with doing it, but they have no choice because industry is not willing to subsidize. Are we looking at setting up a separate fund? Because it's not part of R and D, it's the next cycle.

Dr. Jayson Myers: No, it's the most important. This is where the money is spent, in the prototype development, the engineering, the scale-up. If you don't do that, you can't do this—

• (1710)

Mr. Massimo Pacetti: I'm aware of all that, but I'm wondering whether we fund it separately, in a separate fund, or is it a venture capitalist...?

[Translation]

Mr. Laliberté, perhaps you have some suggestions.

Mr. Pierre Laliberté: I am not a specialist in the matter, but I can say that technology transfer centres are important, especially in the current context; they are clearly crucial for a large number of small and medium-sized companies which do not have the means to hire leading-edge engineers. It gives them access to technological support and to the knowledge that exists in the area. They may also access the intermediate stages of knowledge dissemination. Moreover, institutes which specialize in research on certain sectors of activity serve as a link between universities. There can be some sharing.

Mr. Massimo Pacetti: Would it be preferable for the institution to be private or public? That was really my question. This is what Genome Canada, Biotech and a few others are trying to do. These people work with pharmaceutical companies. At the end of the day, there is not enough money, not enough venture capital and these people are not really ready. In Quebec, the Fonds de solidarité does invest somewhat, but not in a speculative way. This sector is experiencing a crisis.

Mr. Pierre Laliberté: I would say there are two parts to that. Part of the fixed costs must be borne. In this regard, the government has a part to play. With respect to more random or per-project funding, I think the industry is in a better position to play that part. If only for the upkeep and the establishment of institutions, I think the essential factor is having operating budgets.

[English]

Dr. Jayson Myers: But that itself depends on industry continuing to spend on R and D and new technology.

We hear a lot about receptor capacity. If I have a business and talk about receptor capacity, it means I have something my customers don't want. It offers no solution. Maybe that's true of the research in some cases, or maybe there are other people who want it. If we can develop the ability of industry to select and develop the research—in some cases it's incremental solutions and innovation—I think we would be much further ahead in our ability to take new products to market. And colleges have a great role to play too.

Mr. Massimo Pacetti: Quickly, is this a problem just in the small and medium-size companies? Are the big companies taking advantage of what they have in terms of research and bringing it to market? Are they be able to do it?

Dr. Jayson Myers: The bigger companies are certainly more capable of finding out where the research is and working with industry. I think most of the big companies do that very well, but not only from Canada, from around the world.

The Chair: Thank you very much.

I want to thank you for coming in. Your testimony before the committee is very valuable.

Mr. Del Mastro.

Mr. Dean Del Mastro: I have one more quick question.

The Chair: Okay, I'll allow a very quick question.

Mr. Dean Del Mastro: Mr. Lazar, you mentioned that being competitive was one of the three things we needed to do. I want to speak specifically about competitive taxes, because I want to get your position on something.

We have Don Drummond, Dale Orr, Finn Poschmann, and Jack Mintz all on the record about a value-added tax. Do you have a position on value-added taxes for the provinces as opposed to retail sales taxes? They all argue it would boost our productivity and assist with investment in new technology. Do you have a position on that?

Mr. Avrim Lazar: We don't have an official position on it. I can tell you that the provinces, for the most part, have been not as quick as the federal government in reforming their tax regimes, and we've been encouraging them strongly. We've also been encouraging what the Department of Finance is now trying to get, which is tax harmonization. That would get us part of the way there.

It's a federation. Everyone has to pull the weight. It's a country. We, as industry, have to do our part. Labour is certainly doing their part; I think they're paying a bigger price than anyone would like. We'd like to see the provinces move harder and faster, just as we'd like to see the federal government move harder and faster.

Dr. Jayson Myers: I think that's right. We've certainly been in support of value-added taxes as the way to go, rather than embedded taxes. In many cases this is a fixed cost that industry has to pay. That's not the way to run an efficient or effective tax system.

Another set of fixed costs—here's the segue into what I wanted to rephrase—is the user fees charged by government departments. Four years ago the User Fees Act was passed unanimously, supported by this committee. It was a very good piece of legislation.

We are still faced with user fees, without any accountability in terms of the standard of regulation that is enforced by government departments. In some cases this is a monopoly position. I would love to go to the competition commissioner and ask her whether government departments should be charging a fee in a monopoly position, except that if I did that, they would charge me \$60,000 for the opinion. This is not an efficient way to run public finance.

The Auditor General, as you may know, is reviewing the User Fees Act and compliance with it. I would urge this committee to work on the Auditor General's report when it becomes public to ensure that all user fees in all departments are in compliance with the User Fees Act and that they are publishing internationally competitive regulatory standards and not charging a fee unless they cannot meet those standards.

• (1715)

The Chair: Thank you very much. Your testimony is obviously very valuable to this committee or we wouldn't have you keep coming back. We appreciate the way you handle yourself in as non-partisan a way as you possibly can.

With that, we will adjourn this meeting.

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