House of Commons
CANADA

Standing Committee on International Trade

CIIT • NUMBER 047 • 1st SESSION • 39th PARLIAMENT

EVIDENCE

Thursday, February 15, 2007

Chair

Mr. Leon Benoit

Also available on the Parliament of Canada Web Site at the following address:

http://www.parl.gc.ca

Standing Committee on International Trade

Thursday, February 15, 2007

● (1110)

[*English*]

The Chair (Mr. Leon Benoit (Vegreville—Wainwright, CPC)): Order. Good morning, everyone. Welcome to our meeting today.

Before I start with the actual meeting, I want to point out the notices of motion. Just so you all know, the notices have been given and the motions could be brought up at any opportunity.

That's strictly an information thing—fewer surprises—and that's all it is.

Of course, we're dealing with looking at Canada and its trade with other countries, and at some of the difficulties and opportunities for Canadian businesses in improving trade with other countries. In particular, we're looking at how the Canadian government can help businesses be more effective, and remove, I guess, or try to identify and then remove, the obstacles that businesses have in their trade with countries around the world.

Our witnesses today are from the Conference Board of Canada—once again, for the second time—and we welcome Glen Hodgson, senior vice-president and chief economist for the Conference Board—

Yes, Monsieur Cardin.

[*Translation*]

Mr. Serge Cardin (Sherbrooke, BQ): Mr. Chairman, given the committee is master of its own destiny, I would like to know if in the near future, we could possibly receive an update on our work plan.

I noticed that the witnesses have been appearing as scheduled, but I believe that it would be a good idea to organize a meeting as soon as possible in order to review our work plan, readjust our ultimate goal, if necessary, and double check the deadline that we have given ourselves.

[*English*]

The Chair: Actually, over the next couple of weeks I think the steering committee should meet. We have the schedule set until the end of March. Of course, that was agreed to, but what we were going to do after that was going to be based to some extent on what we found over February and March, really the initial part of this study.

So we will have a steering committee to have a look at that. I wanted to go along as far as we could in these initial two months so that we had the chance to determine where we wanted to go, based on more meetings.

But certainly I will arrange a meeting of the subcommittee on agenda, probably for the week after next. We can have a look at that then.

Mr. Julian.

Mr. Peter Julian (Burnaby—New Westminster, NDP): Mr. Chair, I would support what Mr. Cardin just said. I wouldn't suggest having it in two weeks; I would suggest having it next week.

We did raise this with you last week. If you could schedule it next week, I think that would be appropriate, and that would give us the opportunity to really put into place what the work of the committee will be through the two weeks in March and also through April.

● (1115)

The Chair: I've chatted with people from all parties—you brought this up last week—and it seems the week after next is the week that probably would work best. I'll arrange that for as early in the week as I can.

It won't work for next week, just so you know. But that'll give us time—

Yes, Mr. Menzies.

Mr. Ted Menzies (Macleod, CPC): Mr. Chair, I have a quick comment.

I would like to get on the record again my concern about a steering committee. As I've stated before, I'd rather see this done as a full committee, looking at what the plans are, taking some time out of a meeting to discuss where we should be going. That way we get input from all the members.

I just think that would be a more effective way and a more inclusive way to establish future direction for the committee.

The Chair: Yes, and you have stated that before, Mr. Menzies.

The committee has decided that we'll have a subcommittee on the agenda. If the committee wants to revisit that, I'm certainly willing to do that. I would recommend we don't do it today, as we have a lot of important information today, but we certainly can look at this at any time.

The subcommittee on the agenda normally focuses things, or that's the idea anyway. Then of course we always have to have it approved by the full committee. We do go through that discussion anyway.

So we can discuss that, but if we could leave it for another meeting, I think it would be appropriate.

Mr. Ted Menzies: It's your decision, Mr. Chair.

The Chair: Thank you, Mr. Menzies.

For the meeting today, we have, as I said, Glen Hodgson.

I don't believe I mentioned you earlier. It's Mr. Gilles Rhéaume, correct?

Mr. Gilles Rhéaume (Vice-President, Policy, Business and Society, Conference Board of Canada): Yes.

The Chair: I thought there might have been an interpretation problem, and that's why I interrupted partway through.

Of course, Gilles Rhéaume is vice-president of policy, business, and society.

Gentlemen, you've been here before and you know the format. You have a presentation, I understand, of roughly 20 minutes, PowerPoint included. I am very much looking forward to your presentation and then the questioning.

Thank you for being here again, gentlemen.

Mr. Glen Hodgson (Vice-President and Chief Economist, Conference Board of Canada): Thank you for having us.

Mr. Chairman, this is a great privilege. I think this is the third time I've been back to this committee in the last three months or so.

What we're going to do today is walk through the fairly standard presentation we've been doing on our report. I'll warn you right now, what's on the screen is not identical to what you have in hard copy in English only.

[*Translation*]

The slides are being translated into French, but you can consult the presentation, because it contains all of the slides that appeared in the report. This presentation is broader.

[*English*]

This is actually the presentation I gave to the Public Policy Forum about three weeks ago now, responding to Advantage Canada, which the government, of course, put out in November. There are a lot of crosswalks between Advantage Canada and our report, but they're not identical. There's an alignment on thinking, but they're not identical.

So very quickly, we've published our report now. It's in four volumes. This is what volume one looks like. It's called *Mission Possible: Stellar Canadian Performance in the Global Economy*. It's available on our website. We'd be very happy to give you hard copies of all four volumes.

Gilles, you have the executive summary as well, if people would like to see that.

Mr. Gilles Rhéaume: Yes, I've passed it on.

Mr. Glen Hodgson: The core hypothesis—and we have the evidence to show this—is that Canada has been slipping in terms of wealth creation within our economy for at least 15 years now.

We believe we're slipping for two reasons: one is the structural change on how the world economy is organized—what I call the shifting tectonic plates of the global economy—and two is the fact that the model for international business has changed. I came up with a phrase to describe this about five years ago. I call it integrative trade, which is really businesses repositioning parts of their supply chain around the world because of lower barriers to trade over the last 20 to 25 years.

Here's some of the evidence. This shows you Canada's productivity growth rate compared to the other countries in the OECD, the major industrial countries, since 1999. You can see where we are: we're the red bar pretty close to two-thirds of the way across the chart. The United States has stronger productivity growth. You can see that countries like Slovakia, Korea, and Ireland have double or even triple our annual growth rate for productivity. That, accumulated over time, of course, turns into things like real wages not going up very rapidly.

Mr. Julian last time talked about income disparity and the fact that family incomes don't go up. That flows directly back to very weak productivity performance relative to most other countries. It becomes even more striking when you compare Canada to the United States. This gives you a 25-year comparison of Canada-U.S. productivity performance. There's where we are and there's where the Americans are. That translates to a gap of probably about $8,000 to $9,000 per capita across the country. That's equivalent to Ontario's spending on education per student.

So it shows you that basically if we could close the productivity gap somehow, you could have a health care system and an education system functioning at a very high level. It really translates into the wealth of the society. The 2006 data, which are very preliminary, show that Canada has again fallen well below the United States. It's very striking—the only period on that whole chart for 25 years when Canada actually matched the United States was in 2005, and that was as America was going through a serious adjustment in the value of their currency.

I personally believe that the idea of closing the gap with the United States is folly. I think we should be trying to stop the gap from growing any further. If we set that as a first step, that would be a significant step ahead. We are now at 83% of U.S. levels of productivity. We have years of analysis showing that. In fact, there's very strong consensus. Almost all economists in the country agree on the data and on the prognosis.

On the integrative trade side, this just gives you some evidence for why I believe so strongly and why in fact the Conference Board believes so strongly that foreign investment is such a key driver of international business today. The two bars show you annual growth rates in FDI—foreign direct investment—exports, and GDP. It's fairly simple to see what the driver is today, what the fastest growing component is: it's international investment at pretty close to double exports and more than double GDP.

So rather than thinking about trade and investment, arguably, we should be talking about investment and trade, creating an investment climate in Canada that attracts our fair share of global investment and at the same time does things to encourage Canadian businesses to use outward investment to position themselves around the world.

This is just another piece of evidence of integrative trade. This shows you—and it's a very busy slide, but I'll walk you through it very quickly—the domestic content of our exports by various sectors.

● (1120)

On the far left we have mineral fuels—oil and gas—and you can see that domestic content, of course, is very high. We import a little bit of technology machinery to support the oil and gas sector, but it's very high.

On the far right you have the auto industry; it's below 50%. In fact, Canadian content in many of the vehicles manufactured in Canada is only about 32% or 33%. The majority of the vehicle actually consists of parts and services that come from abroad. That's evidence of very deep integration within North America and the global economy.

It's almost like a saddle. You have high Canadian content for resources and for services, and then for manufacturing you have much lower levels of Canadian content—much higher levels of integration—largely within North America.

Again, this is part of the evidence as to why I thought the concept of integrative trade was so important. Of course, I spent 10 years of my career at Export Development Canada. It's now quite fundamental to their business model to try to figure out how to support Canadian business internationally, mindful of the fact that we're deeply integrated on investment and on imports as a key element of exports.

In volume one of our report, we then point to some immediate challenges, and as you'll note, we've put sustainability at the top of the list.

Our project went on for three and a half years. This didn't emerge yesterday; it is something the board has thought about for a long time. In fact, Gilles has led that business over the last 15 years. We really think we have to find a way to get the balance right between economic growth and environmental protection. Recommendations in the report address that issue directly.

Second, the huge global economic imbalances that exist are an immediate risk. The last time I checked the numbers, the United States had a current account deficit of almost $900 billion. That is 6.5% of the U.S. GDP. They are massively dis-saving—they're consuming more than they earn—but the rest of the world, because the rest of the world is in a cash surplus, has the liquidity available to actually keep feeding American consumption and investment habits. That money has come from Japan; then China was added to the list; and now it's the gulf states and the oil exporters who are the sources of funds.

For the moment it looks like it's in balance, but the scale of the disequilibrium is so large that one day investors could wake up and decide to no longer keep such a massive stock of savings flowing to the United States. At that point, adjustment would have to happen; it wouldn't be pretty, and it wouldn't be an easy, direct thing, so we've flagged that.

Third on the list is the suspension of the Doha Round. There is a little glimmer of opportunity between now and July, when the U.S. President's negotiating mandate expires, but we think the likelihood of that round being completed is probably one in three, even one in five.

Because of the imbalances and because of the surplus we have with the United States, if the Doha Round fails, we go back to a very protectionist U.S. Congress, and we have to think immediately about Canada's economic interests. We've seen the whole round of softwood lumber. You know that far better than I do, and what it translates into in terms of economic cost and job losses. We have to be very mindful of the fact that if we can't proceed multilaterally, we go back to bilateral trade deals.

Last, we have the emerging markets themselves, which are competition every day. China has now surpassed Canada as an exporter to the United States in one month. Three years from now that'll be the trend: China will be more important to the United States than Canada. The flip side is that there is a huge market of consumers there, and Canadian business has to find a way to tap into it.

I'll just give you a little graphic as to how big the U.S. current account deficit is. It's gone on for a long time. It actually started with Bush, the father, and it's gone on to Bush, the son. My fear is that it'll be the next president who will have to actually solve the problem. The scale of the imbalance is unprecedented, really, in economic history.

Again, I think there's a very strong consensus among economists. We know what the problem is. How do we solve it, then? Over the three volumes of our report, we point to seven strategies. I'll go through them very quickly because I've talked about them already.

Strategy number one is to embrace productivity and competitiveness as a national priority within Canada. I spent six months coming up with this picture to try to give you a graphic image of what a national productivity strategy would look like.

At the core are human capital, physical investment, and innovation. Every business, every organization, and government policies all have to be wrapped around that, but around it you have to put a national operating environment. The Canadian economy is highly balkanized; we've created barriers at the provincial boundary lines, we have misalignment between federal and provincial regulations, we have all sorts of tiny barriers to competition that have really made it hard for our business to achieve optimal scale and to compete in the world.

Around that, we're now integrated within North America, and of course we're part of the global economy, so a national strategy has to have a plan for all of those; you have to find a way to incorporate all those elements into a national strategy.

● (1125)

Strategy two, therefore, of the five in volume one, is that we believe it's critically important, as we say, to create a single Canadian market. And that means reform and adjustment on many fronts, improved alignment of regulations, and reduced barriers between provinces—barriers to human beings, to goods, and to capital.

We need to develop innovation strategies within businesses and governments to foster knowledge creation and innovation within Canada.

We need to reform the tax system for productivity. There we point to things like working income tax credits, as the municipal task force in Toronto recommended, and the removal of capital taxes, but also to improved alignment of our tax system at all three levels. And cities, arguably, are the victims right now in terms of fiscal imbalance in the country. Cities don't have the same fiscal capacity as the other two levels of government, so our third volume focuses on that to a huge degree. There's been tremendous media pickup in the last week on our cities work.

Last are investment in infrastructure and of course keeping the border open. We're doing a very interesting study right now at the Conference Board, looking at how trade has been affected since 9/11 and whether the border is working as efficiently as it should. As you can see, this shows you Canada's relative R and D performance within the OECD. We're, sadly, the little black line at the bottom. We are so far behind the field it's very striking—little countries like Finland are now blowing us away in terms of investment in research and development—and too much of that is public sector investment. The private sector makes up only about a third of overall R and D investment within Canada.

Strategy three is to rethink the workforce. We've done a lot of work on immigration policy and on the need to retain older workers, change our attitudes towards older workers, raise the level of investment in education, and ultimately, embrace the concept of lifelong learning. So we have a very complete agenda there. I won't address that in more detail now.

Strategy four, and this is what you care most about, is that we need to rebuild international trade and investment into the national productivity strategy.

I see that some of you are flipping pages right now. This presentation is not identical to the one you have, but it's all in the report, if you take a look at the report.

The elements of a national trade investment strategy for us include re-becoming a major player in foreign investment. Gilles, maybe you want to speak to this, because you actually did the research on this.

Mr. Gilles Rhéaume: There's some additional information in the PowerPoint presentation about how we've slipped, in relative terms, in being able to attract foreign direct investment. Basically, since 1997, we've actually been investing more abroad than foreigners have been investing in Canada. Even on that basis, our share of Canadian direct investment abroad, as a share of total global foreign direct investment, has been declining.

So we're a small player, and a declining player, in terms of this whole global investment climate. And that is something that will affect our trade performance moving forward, because, as Glen mentioned, of the interrelationship between investment and trade. So as we're focusing on international trade, and as you're looking at international trade policy, you really have to integrate that with an investment policy by making sure we have a strong investment climate here in Canada that can attract those types of investments and by promoting investment abroad.

We've done some analysis of what the factors are that are impeding foreign direct investment in Canada, and we can go into that detail during the question period.

● (1130)

Mr. Glen Hodgson: Now I am going to link that to trade in services, because our share of trade that is services is actually in decline while the rest of the world is seeing services grow. There's a huge irony there. Services are 70% of our domestic economy. They're only about twelve and a half percent of our exports. Part of that is because resources are so important, but we believe part of it is because we haven't really focused on services in a strategic way. It flows back to the balkanized domestic economy. We have insufficient scale. We have too much protection, and if you protect too much at home, your firms are not positioned to go out into the world and be able to compete internationally. It's no surprise there that the services aren't doing better, and really there's very little national debate or discussion around trade in services, and yet that's what most of us do. Seventy percent of our workforce is in services.

That flows to the third point, embracing integrative trade. We have to now understand that you can't treat exports and imports as separate pieces. You can't separate inward investment from outward investment. You can't separate sales from foreign affiliates from exports. They're all really part of the package, and when our business community thinks about international business, they're trying to make themselves as competitive and as efficient as possible, and government policy has to align around that. We have to ensure that all the instruments of government policy are supporting integrative trade rather than the traditional model where exports were good but we really didn't want to import too much because that was then competing against domestic industry.

The fact of the matter is imports are critical to exports and critical to the operation of our domestic economy. So if we put up artificial barriers to imports, all it does is raise costs and make us less competitive.

Fourth, and perhaps more importantly, we've got to reposition Canada as a leader in multilateral negotiations. Our strong view is that we've been pushed out of the inner circle of the trade negotiations. We're not part of what was called the “quad”, the quadrilateral. We've been pushed aside by Australia, and the frank reality is that our inability to address some of the sacred cows in our economy, things like supply management—and Gilles can talk more about that than I canvand even sectors like shipbuilding—If you can't offer something up in a trade negotiation, you can't expect to win something back in terms of improved market access, and that's where Canada is now. We're really not seen today as a serious player in trade negotiations because we have not been as forthcoming in our willingness to open up our national economy to others. If you can't open up, you're not going to be part of the story.

We also think that if Doha does not succeed, we have to have an alternative strategy. Think about deepening the NAFTA relationship, expanding it to more sectors, looking at things like non-tariff barriers and our alignment on regulations with the United States, and again, regulation is a very insidious and clever way of keeping goods out of markets. And we should also be thinking about other priority markets, liberalizing with other markets in the world, because the United States under George W. Bush has actually signed 13 bilateral free trade agreements and we haven't signed any. We've signed three since NAFTA.

So we're not really part of the game right now. Countries like Australia, and the EU, and China are busy pursuing bilateral regional free trade. Canada has to get back in the game.

Fifth, foreign policy has to support that. Our thinking on this is that clearly the U.S. is job one. That's the most critical relationship. We have to think about our relationship with the United States every day, but we also have to develop a parallel track around China and emerging markets, because they are the new centre of economic growth, without forgetting Japan and the EU, which are traditional relationships. We think it's critically important that Canada now think through all the aspects of its foreign policy with China, with India, with Brazil, and other major emerging markets.

Then in terms of our advice on where to start, we think option two is the best way, which is harder. We understand entirely that for you elected officials it's much harder to go to the public and suggest dealing with the sacred cows and areas of resistance, but that's where the greatest payback is, creating a single market within Canada, making our national economy more efficient, defining a trade and investment policy for the long term, and also the issue of the aging labour force.

Now at this point, Gilles, I think I should turn it over to you briefly to talk about volume two.

● (1135)

Mr. Gilles Rhéaume: First of all, when we're looking at it in terms of economic performance and the export opportunities we've seen in the last few years, for at least the next 10 to 15 years it will have to do with our rich natural resources. There are global market opportunities being offered; however, we have major challenges in tapping into these opportunities.

On the forest products side, the mill towns are suffering and will continue to suffer as long we cannot renew our forest products industry. Renewal is going to be key. To make that happen further, mills will have to be shut down, which means we'll need to have a strategy for those communities that will be affected. We'll need to focus on investing in more modern, larger mills moving forward.

One thing we found when looking at the pulp and newsprint mills in Canada was that they're old and small compared to the competition abroad. We have to do something about that. We have to encourage the industry to do something about it. We also have to try to diversify the products being produced in the forest products sector and open up new opportunities. We're looking at opportunities for using that fibre to produce biochemicals and bioenergy products. Bioenergy could also offer an opportunity when we're dealing with issues like climate change.

In the agrifood sector, the biggest hurdle has to do with the suspension of the Doha Round. As long as we cannot fix and liberalize our trade in that area we'll have limited opportunities for our agrifood sector. Internally there's a major issue in innovation and the capacity for the industry to produce value-added products.

We're seeing the greatest opportunities in processed foods, higher-quality foods, and foods with specific types of attributes, like low-carb, high-protein, and pre-packaged. That's where the business will be in the future, not only in the industrialized world but also in the emerging economies, as you have growing middle classes seeking higher-quality foods. We have to tap into that, but there are some regulatory barriers that need to be overcome. The regulatory approval processes are slow and cumbersome and are preventing the industry from being as innovative as possible.

On mining, metal prices have been increasing quite substantially. There are great opportunities for Canada in the global marketplace. The biggest problem is that our reserves have been depleting for the last couple of decades. We need to be able to discover new mines. That means we have to permit and help bring about additional exploration so we can make these discoveries. There will be some environmental challenges, which we address in the report. Strong environmental stewardship programs will be required, because they will most likely be in environmentally sensitive areas.

On energy, because we have rich energy resources, we could become an energy superpower, but in the long term that will have major environmental consequences. We have an opportunity to become a clean energy superpower, meaning that as we develop our energy resources, we also have an aggressive strategy in developing new environmental technologies. There are already some pilot projects in existence, and we have to tap into those and build on the skills resulting from research and development in this area. If we can make this happen, it will offer great opportunities for Canada, not only in the coming decade but at least until 2030 or 2040.

Mr. Glen Hodgson: Very quickly, on cities, it was the third volume released last week. We have become an urban nation. Often our perception of ourselves lags behind reality, but the reality is that half of Canadians live in the ten major cities. Two-thirds of the jobs created in Canada over the last decade were created in those ten major cities, and 80% of our GDP is produced in cities.

It's interesting when someone from a think tank like the Conference Board comes up to Parliament Hill. You have parliamentary committees on all sorts of things, but is there a committee on cities? In the history of our political institutions, the challenge we have is keeping pace with the changing nature of our economy. We think all levels of government own the city agenda. This is not something on which we stick to the Constitution, with provinces being the sole custodians of cities, because the federal government has huge engagement already with our cities. It has it through immigration settlement; it has it through investments in secondary education—it goes on and on.

We need to invest more in things like infrastructure and industrial ecology. In our report, the two big areas that we identify in which we think a fundamental shift of attitude is required are infrastructure in our cities and particularly transportation.

It is really striking. I have a chance to travel across the country almost every week. Vancouver is the only airport right now that is getting plugged into the rapid transit system within our national economy. It's very striking to land at Pearson International Airport, to have to take a $60 cab ride to get downtown, and to not have any rail. It's the same thing in Montreal. The VIA Rail line is one kilometre away, but in over fifty years we haven't found a way to take the train into Dorval, into Trudeau International Airport. It's really striking. That's an area of critical investment, we believe, as is the whole concept of industrial ecology.

The fact is that we have to think about our cities more as closed systems. Rather than dumping waste outside our cities, find ways to use things that are byproducts as inputs in other production processes. A very different mindset is required for our cities.

We try to finish every presentation with a positive tone. This is warranted because we don't have to wait for someone else to fix our problems. We actually have a good sense of what the challenges are, and we have the tools in our own hands. It's really a question about leadership from governments, from parliamentarians, and also from the private sector and from little think tanks like the Conference Board, to identify the challenges and then offer up opportunities.

Our role is not to carry out the action. We're here to really stimulate debate. I hope we have been able to contribute something to your debate today. We have lots of material and more slides, but I think we're now here to answer your questions.

[*Translation*]

Thank you very much.

● (1140)

[*English*]

The Chair: Thank you very much, gentlemen.

We'll now go directly to questioning, beginning with the Liberal Party and Mr. Bains for seven minutes.

Hon. Navdeep Bains (Mississauga—Brampton South, Lib.): Thank you very much, Chair. I'll be sharing my time with my colleague Yasmin Ratansi, but I have a few questions.

First of all, I want to thank you for your presentation. There was a lot of good information to digest. I agree with your concluding remarks. It is about leadership, and we can take control of our own destiny. We can really take ownership of some of the recommendations that you proposed.

I do want to talk specifically about a couple of areas that I didn't have an opportunity to speak to you about the last time you were here at the committee. One has to do with China.

You alluded extensively to China, and you mentioned China as a key component in the emerging markets. This is a criticism I have of the government, and it's something I do want to share. I had an opportunity to look at the Conservative Party platform with respect to international trade, and China was not mentioned in it. This is something I find deeply disturbing and concerning, simply because, as you indicate in your report, it's a very important market for us.

There are two components, and I would like your thoughts on them. One is the fact that we are losing out on an excellent opportunity in a key emerging market in China, both in terms of the growth opportunities that exist there and also in terms of integrated trade, specifically in regard to the fact that China now will become the number one importer into the United States and will take over the role that Canada currently has.

In June's trade position, China was the number one importer into the United States and we were number two. There is some growing concern that we are losing position to China. So my question to you would be how we can develop policies at the integrated trade level to cope with that changing dynamic with China. You indicate that we need to create a comprehensive and high-level China strategy, but I think it also needs to tie in with the United States vis-à-vis the integrated trade model you propose. Could you elaborate a bit on that?

Mr. Glen Hodgson: It's an excellent question, and something I've actually thought a lot about over the years.

Let's start with the facts. Canada's market share of the Chinese import market is only about 1.6%. Our exports may have actually fallen in 2006. China's imports are growing at 20% to 25% annually, so our market share is shrinking rather than going up. We had a little run-up as commodity prices went up, but we've suddenly hit a plateau and we're going down again.

We have to look at China as an investment-led market. You have to understand that for Canadian business to succeed in China, it's very unlikely that we're going to fabricate the majority of things here and ship them over in containers and have the Chinese consume them. That will flow, but increasingly we're going to have to think about China as a market into which we have to go as an investor first.

Doing that is not for everybody. It's highly risky. It means you have to form joint ventures. You have to find a local partner you can trust. You have to protect your technology and your intellectual property. The Chinese are getting better all the time in terms of managing intellectual property, but they're not there yet.

It really starts with the integrated trade concept, with understanding that it's a question of how you can fit China into your supply chain and how you fit into the Chinese supply chain. You almost have to think about it as a triangle.You mentioned the United States, and you're absolutely right that we have the risk of being displaced in the U.S. market by lower-cost Chinese goods. I think of a sector like auto parts, for example, which over the next five to ten years will definitely be at risk from standardized auto parts being manufactured in China.

At the same time, American business has found a way to go to China. Something like 55% of China's exports are actually coming from factories owned by foreigners, largely Americans.

So we're already plugging in, but it's not very transparent. We have to find a way to actually go further there and ensure that Canadian companies can go directly to the market. That goes directly to a place like my former employer, Export Development Canada.

EDC has had the power to help companies go abroad as investors for a long time now. I was actually an official at the Department of Finance in the early 1990s, when Parliament decided to give to EDC the power to support outward investment. However, there has been an unwillingness on the part of the government as a shareholder, and even the board, to see that particular role carried out.

● (1145)

Hon. Navdeep Bains: Sorry, just very quickly, because I'm sharing my time, that's my secondary question. We had Eric Siegel come in, and we confirmed that appointment.

We discussed the role of EDC. Because of your experience at EDC, and in light of the fact that we'll be having a legislative review of EDC's mandate next year, what opportunities do you think exist that we can incorporate into that with respect to the China strategy and the integrated trade strategy? What opportunities exist in terms of how we can empower EDC, maybe not to further its mandate but to explore some of the opportunities that exist to provide us with the tools to catch up or take an aggressive role in China, especially with this notion of integrated trade?

Mr. Glen Hodgson: There are really two fronts. You're speaking about my former employer here, so it's very close to my career experience. One is that EDC already has the legislative authority to support outward investment. They can do it through equity. They have a significant critical risk program. They can do things throughout the whole supply chain to do more.

There has been a reluctance, though, on the part of the government —and this goes back over twelve years now—to see them carry out that role, so I think this is a chance to really have a mindset change. As I've talked to my friends at International Trade Canada, within Foreign Affairs, they're there. They understand this entirely. Some of their senior officials have been in China, serving Canadian trade interests for eight or ten years. Now it's a matter of aligning the legal authority with the activities of the organization.

I also think there's a power. If I were going to give advice to this committee as you do the EDC act review, I'd think very hard about giving EDC the ability to also support imports, particularly imports that are critical to exports. It's not lost on me that the U.S. Export-Import Bank, fifty years ago, was given the power to actually ensure that imports could be financed on competitive terms, because somebody understood that imports are integral to exporting. You have to really develop the whole suite of powers to ensure that all the government programs and institutions can support the whole gamut of international trade.

Hon. Navdeep Bains: I'd just like to share my time with Yasmin Ratansi.

The Chair: Actually, your time is up, Mr. Bains.

We'll go to Monsieur André for seven minutes.

[*Translation*]

Mr. Guy André (Berthier—Maskinongé, BQ): Good morning. It is a pleasure to see you for the third time.

This week, the *Journal de Montréal* published a series of news articles that say that 25,000 manufacturing jobs are currently under threat:

> Following the layoffs or shut down of Shermag, Goodyear, Flextronics, Domtar, Tembec and Olymel, the manufacturing sector continues to bleed. Up to 25,000 jobs may be cut during 2007 [...]
>
> In 2006, some 30,000 jobs in the manufacturing sector were lost.

The sector is being bled dry. There have been huge layoffs in the furniture, textile and other sectors. At the same time, in my riding of Louiseville, a textile company called Chemise Empire Ltée, received support and was able to innovate. The company provided training to its employees. Today, it has been able to not only keep jobs, but also increase its labour potential.

I would not want to sacrifice our entire manufacturing sector and convert to a knowledge economy exclusively. At the same time, I have the impression that in 10, 15 or 20 years, the Chinese will be dominating the knowledge economy. We, for one, are going to be completely "deprived" of an entire industrial sector.

I would like to hear your comments on the subject. Indeed, the manufacturing sector is facing difficulty in light of Asian competition, the rising Canadian dollar, and the cost of energy. I agree with you on that. The Chinese are competing on the U.S. market, and that also affects our domestic market.

In your opinion, what can we do to maintain a healthy manufacturing sector in Quebec and throughout Canada?

● (1150)

Mr. Gilles Rhéaume: I'm proud that you have asked this very important question. There has been a lot of talk about this issue and a lot of studies carried out.

I published a report in 2004 entitled *Open for business?* which deals with these issues. The manufacturing sector is indeed suffering. This is mainly because the sector is not innovative enough.

We would be much better equipped to be competitive in a global marketplace if we were more innovative and had more skills training. You used the example of the textile company that adopted this approach and which, today, is highly successful.

The report *Open for business?* points out that we cannot be competitive cost-wise; that's impossible. China, India, and other emerging countries and developing countries will always have it over us when it comes to cost effectiveness. We will never be competitive from a scale standpoint: We'll never be able to compete with the Americans or Chinese on that level.

So what can we do? We need to be able to develop highly innovative specialized products on a small scale, and we need to do this in such a way that the Chinese and Americans will have a tough time emulating us. That's the approach we need to take.

We also need to think about what we can do policy-wise to establish a climate which will encourage companies to be innovative, train their employees and become competitive in a global marketplace. We never recommend tariff barriers or protectionist measures for these sectors because it would be damaging to the industry in the long term. We will never allow that type of approach. On the other hand, we need to equip our manufacturing sector with the tools it needs to be innovative.

Ben made a point about the auto industry. I want to stress the importance of being innovative if we want to have a booming auto sector—a manufacturing sector which is crucial to Ontario. Research and development is being carried out in the "biomaterial" field with the aim of developing vastly different auto parts to what we have today. We're talking about parts which will meet not only Canada's but the world's environmental needs. That right there is the future of the manufacturing sector, but it needs to adapt.

Mr. Guy André: As you are aware member countries of the World Trade Organization, the WTO, are entitled to take steps to protect some industries, such as the furniture sector, which is another industry starting to lose jobs. Just recently there was talk of 5,000 jobs being lost.

A number of measures need to be instituted, but in addition to this, the current government needs to, as you said, develop programs to help our companies adapt to the new competitive environment in the area of manufacturing, design, and innovation. That's crucial.

You also raised the issue of supply and management. That bothers me, and I'll tell you why. I was in Washington last week with one of the members of a delegation. It became clear that the *Farm Bill* was in the process of being renegotiated. The Americans are investing heavily in corn, grain, etc. And they're not about to stop doing this. This makes the competition even fiercer from our point of view. I spoke with farmers. Despite being heavily subsidized they told us they need even more support. We have a small, fragile sector and our supply management does not equate to a subsidy system, as you know full well. It's a quota system. You are familiar with it and you said we need to forget about it, that we need to get rid of it.

We're losing between 25,000 and 30,000 jobs in the manufacturing sector. Supply management in my opinion applies to small traditional farms. You referred to this last time. I'm telling you that traditional farms may disappear. I don't agree with that and I think that they need to be kept alive, and that we need to keep our supply management system because even the Americans are protected. They are protected, we know this. You have to protect some sectors.

● (1155)

Mr. Gilles Rhéaume: We wouldn't recommend dispensing with supply management as long as other countries continue to implement these sorts of programs.

A voice: That's absolutely right.

Mr. Gilles Rhéaume: They're not the kind of remarks we usually make. However, if we want the farming sector to develop we have to be tough negotiators and urge the Americans and Europeans to remove the existing subsidies which really hurt our farming industry.

Mr. Guy André: That would be ideal, but we are a far cry from that at the moment.

Mr. Gilles Rhéaume: I'm not referring to what would be ideal, sir. I'm saying that if the federal government takes a tough stance at the bargaining table and if it adopts an unwavering reasoned approach, we'll make some headway.

We've made progress in the past. Look at the auto agreement years ago. We can be tough and adopt an approach which may pay off.

The Americans want to keep their subsidies because the Europeans have theirs. Conversely, the Europeans have their subsidies because the Americans have theirs. At the end of the day, no one wins, and other countries suffer, including our own.

The Chair: Thank you, Mr. André.

[*English*]

Go ahead, Mr. Hodgson.

Mr. Glen Hodgson: This goes right to the heart of our advice, which is that to get back inside the inner circle, Canada will have to be prepared to sacrifice something. If we decide to support small farmers, let's say, the traditional farm, as you said, it doesn't necessarily have to be through supply management. There are other policy mechanisms that are available.

If you think about all the cases of long-term subsidies in this country where, inevitably, the asset had to be shut down—Sydney Steel, and you could go on and on—it's far better to offer direct support to the individuals concerned and not use market mechanisms that end up as distorting and in fact make it even harder for us to be treated as serious players in global trade negotiations.

But your point on both sides is absolutely right. The Americans subsidize; the Europeans subsidize. That's why the Doha Round is a failure, because no one has really been prepared to make the sacrifices for particular domestic constituencies that are needed to have a more open, effective global economy where there is a collective benefit.

The Chair: Thank you, Mr. Hodgson.

We'll now go to the government side, to Mr. Menzies for seven minutes.

Mr. Ted Menzies: Thank you, Mr. Chair.

Thank you, once again, for your presentation. It's most interesting.

I'm going to go back.

I caution you not to believe the Americans, that they “need” subsidies. The Europeans will say they need subsidies, and every farmer will say they need subsidies. If we could get back to the marketplace's actually providing the income to farmers, they wouldn't need any subsidies. But that's a discussion for another day, and I agree exactly. Don't believe every word you hear from our American friends.

Going back to some of the comments made—I'm not sure whether by Glen or Gilles—on the concern about how we reposition Canada as a leader in multilateral negotiations, let me just elaborate a little bit. I'm going to put this into one question.

You also talked about the hindrance to being able to add value to agricultural products: the regulatory barriers involved in it, the regulations that inhibit us. I'll throw out one. Of course, the Canadian Wheat Board inhibits western Canadian farmers from being able to access the real-world price.

What do we have to gauge that? How do we analyze it?

Continuing with the regulatory process, we have all of these sectors in Canadian government: Stats Canada; Trade Canada keeps its own numbers; Ag Canada has tremendous resources of statistics; DFAIT has numbers; Industry Canada; Export Development Canada has a statistical branch, and they collect numbers. Do these people talk to each other? Do they share these numbers? You have talked about regulatory process and how it impedes our ability to trade. How do we get all of those people to talk to each other so that we're not duplicating? What are the indicators? Where do we get them from?

● (1200)

Mr. Gilles Rhéaume: The regulatory complexity we talk about has nothing to do with the statistical agencies. It has to do with the regulatory approval processes that exist for new products, new inputs such as pesticides and herbicides, new technologies that would be beneficial to farmers but approval for which is taking too long. We have products that are outdated. They are still on the shelf trying to be reviewed, while there are new products that aren't even on their radar screen.

Mr. Ted Menzies: And safer products, I will add.

Mr. Gilles Rhéaume: And safer products, definitely.

We're preventing it from happening because of these regulatory complexities.

One thing that is happening in the agrifood sector has to do with the advances of science. The advance of science is at a very fast pace, and these regulatory agencies are having problems catching up with it. They are missing also in capacity, with the enormous number of products, inputs, and technologies that need to be approved.

Our scholar-in-residence, Bruce Doern, will be publishing a volume this year talking about government labs. We've seen major cutbacks in government labs. We're there to look at the approvals, at testing these products and these inputs to make sure they are safe to the public and safe to the environment, but that they also could be commercialized, be sold in the marketplace, and be used by farmers and food processors. We miss that capacity. We need to invest a lot more and to address it. That's one item.

There are also multiple agencies that review the same products. That is another problem that needs to be resolved. You might have different jurisdictions with different standards, and sometimes I question the value of those different standards. Are they really true to the public safety, or are they just there to protect an industry? That's another factor that needs to be examined carefully.

Those would be the two main points: one, building capacity of our regulatory agencies so that they can actually review the products in a timely fashion; and secondly, getting rid of all the duplication that exists, to the extent we can, and stop the in-fighting and the silos that have been created over the years.

Mr. Ted Menzies: That, then, leads me back to the statistical part of it. And I agree, absolutely, with what you talked about. I sat on the chemical harmonization NAFTA group for years, and I don't think we're three inches further down the road than we were 10 years ago.

But in regard to the statistics we need and the numbers you presented here today, do we have departments in government that are duplicating those numbers? Who are those numbers available to? Are the Stats Canada numbers the numbers that corporations will use to decide whether they want to directly invest in a foreign market? Are we duplicating? Are we wasting? What can we do better in our statistical analysis?

Mr. Glen Hodgson: There's actually remarkably little duplication in terms of the data sources themselves. We have one of the best, maybe the best, stats agencies in the world here, Statistics Canada. It is the source of all the data.

Now, gathering numbers is a tough job. You have different methodologies. You have to do revisions. But everything you see is coming from that one data source. Then at the international level, that's rolled up by the OECD or occasionally the IMF or the World Bank.

The issue you're pointing to is whether we have the right analytical capacity in the right places. I was one of those analysts at EDC, and I know we had bare-bones capacity to provide the risk management input for the organization. We had enough, but there was no surplus capacity. I think the same challenge actually exists in many government departments right now.

One of the things I've seen happen in 25 years in Ottawa is that a lot of the thinking capacity, the capacity beyond operations, has been pared away with government downsizing. I think Gilles was alluding to that as well when he spoke about the size of the labs.

Ironically, as we reinvent government, one of the things that's being reinvented right out the door is the ability to have big analysis, big creative thinking. You don't need a lot of people, but you do need a little core in many organizations. It's probably inappropriate to think that you can have only one hub doing all of the analysis. There are actually good things that happen from a little bit of competitive analysis, people comparing notes and studying slightly different things.

● (1205)

Mr. Ted Menzies: What analysis are we missing? You talked about R and D, and I agree, we could certainly improve on that. What are we missing in evaluating markets?

The reason for the international trade department is not to employ a bunch of people, it's to be able to provide assistance to our Canadian companies to be able to participate in the world as traders.

What are we missing in order to give our Canadian companies the information they need?

Mr. Glen Hodgson: I think you start by getting the paradigm right. That's why I did the work I did over the last five years on integrative trade, showing that all the components of international business matter and how they fit together. I think people are now getting that.

The next step, then, is not so much analysis as it is getting the delivery in the field right, looking at how the trade commissioner service is positioned geographically, what their objectives are; looking at all of the instruments of government, things like the Canadian Commercial Corporation, EDC, and Investment Canada, which has been drawn inside International Trade Canada; and giving the right mandates to some organizations.

Investment Canada, since it was created in 1985, has had a mandate only to attract investment to Canada. I think they're only doing half the job. I think we have to understand that for Canadians to compete in Europe, for example, you can't ship from Mississauga or from a plant in Calgary. You have to go to Europe, because there are barriers around fortress Europe. And unfortunately, we've never really empowered government institutions to actively pursue that outward investment flow.

So getting the paradigm right really does matter, and then examining, institution by institution, whether you have the right tools in place.

One of the comments we made in our report is on thinking about trade remedy—the Canadian International Trade Tribunal, the use of things like anti-dumping. Well, all that was built for the traditional view that imports are unfairly competing against domestic goods. We still need to examine whether competition is fair or not, but we have to do it with a different mindset—not assume that imported steel from China is a bad thing. Maybe for some manufacturers, it's critical; it's the only way they're going to be in the game.

The Chair: Thank you very much, Mr. Menzies.

It's interesting that you should mention Canadian government institutions—Investment Canada, EDC—and that it seems as if the export-import sides aren't together on things. That's something I'm actually going to invite the committee to look at in the future. Whether they'll take me up on that or not, we'll see.

We'll go now to Mr. Julian for seven minutes.

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

It's good to see you again. You're both very articulate.

Some hon. members: Oh, oh!

Mr. Peter Julian: I disagree with much of what you have to say and agree with some of what you have to say, but I do want to state for the record that this will be your fifth and sixth hour before this committee. Many folks from British Columbia who wanted to testify before this committee during the hearings on the softwood lumber sellout were pushed away or refused by the government. So the government has actually provided more time to the Conference Board—three times as much—as to the entire province of British Columbia before this trade committee. I think that's a fundamental problem, because with Ottawa there's a tendency to drink its own bathwater, and we continue to have the same kinds of ideas recirculated, and recirculated again.

We've had 20 years, next year, of the so-called free trade agenda. Let's downsize government. Let's focus just on establishing a relationship with the United States to the exclusion of all other countries. What we're seeing now, of course, is record corporate profits, but most Canadian families are earning less. So on the bottom line, this ideology that's being put forward has failed. The bottom line is that it has failed.

What I see from your report is that you're trying to identify other factors, rather than looking at some of the core causes. You talk about productivity, and of course that's an element in terms of investment, no doubt. But when you compare us with the United States, saying that the United States is much more productive, the United States has seen the same kind of tendencies: the loss, as Monsieur André mentioned, of manufacturing jobs, the erosion of the middle class. Even though they're much more productive, you did mention the whole question of paying for health care. Well, in the United States, there are 60 million Americans who have no health care at all.

So we have an agenda where there is more and more wealth going to fewer and fewer people, and continuing that as a strategy doesn't make any sense for most Canadians. In the United States it was a major issue—he major issue—n the mid-term elections, and Republicans were thrown right out. Democrats campaigned very heavily on re-establishing manufacturing jobs, re-establishing a middle class.

Given all that, I come back to your report. There are some aspects that I certainly support, that are NDP ideas, investment in education, investment in infrastructure. No doubt about that. Some of the other ideas—just throwing away our agricultural sector and continuing deep integration, when NAFTA demonstrably hasn't worked for most Canadians—I have much more difficulty with. In the two weeks since the last time you came forward, we've heard from Chile, which is a progressive government, and we had Norwegian and Swiss representatives in front of us as well. Those countries define trade in a completely different context. They may use the word, and the Conservatives will say, “Oh, they've used the word 'trade', so they think like us”, but what they have is very strong protection for certain sectors, like agriculture, as you know. They have a much more public-policy-oriented investment in research and development. In other words, the public sector plays a crucial and important role.

So I guess my question is very simple: in terms of thinking outside the box, when the last 20 years demonstrably haven't worked, what are the lessons we can learn from countries that have a strong public sector and that protect their sectors, like their agricultural sector, when it's in the national interest, and why aren't those components more reflected in your report?

● (1210)

The Chair: Go ahead. Would one of you like to respond?

Mr. Gilles Rhéaume: First of all, you mentioned so many points, it's hard to say where we should begin.

With the aspect of downsizing government, we aren't saying that we should continue to downsize. We have some problems with that as well, because we're missing some major capacity within government, and we alluded to that with the previous question. So yes, I would say there are some issues that need to be resolved with respect to that.

In terms of the U.S. shutdown of the manufacturing sector, it is something that is basically a transformation of the global economy. We're going to see that continue. If you think that the Americans, by erecting protectionist measures, are going to resolve that problem, it's very short-term thinking. It's the same thing with us, thinking that if we erect—

Mr. Peter Julian: That's not my question. My question is about these other countries that have a much more balanced approach to using trade as part of a series of levers and policies that actually bring most of the population up, rather than down—

Mr. Gilles Rhéaume: Yes, but the example you gave is that these countries have become strategic in focus. We haven't, so far. We haven't developed a strategy for trade. We haven't developed a strategy for investment. We haven't even developed a strategy for innovation, for that matter. All these components are important.

You mentioned these Nordic countries. These Nordic countries are highly productive. They have developed clear strategies on where they want to be globally competitively. They're going to be strong. They have a strong innovation agenda. They also have a strong adult learning agenda. We don't have it in Canada.

Mr. Glen Hodgson: But they also have a strongly competitive agenda.

Sweden's R and D and productivity, for example, have taken off since Sweden entered the European Union in 1995. Sweden has been able to maintain its very elaborate welfare state. It has high marginal tax rates. This is all factual. But they also have double the Canadian performance on productivity.

As you start to examine why, I think a lot of the answer is that Swedish industry is compelled to compete at a much higher pace within an integrated Europe. They're now facing competition from 450 million other consumers and producers within Europe. So they have the combination of targeted state investment of particular industries—and they do that—but they've also opened themselves up to international competition, which we have not.

That's the core message around creating the single Canadian market. We actually believe we can do both. We think we can have much more targeted innovation strategies. We're doing work. We've just created a new council that invites private-public sector academia to work together around innovation.

But we also believe very, very strongly that the balkanization of our national economy is holding back our ability to create sustainable wealth.

The Chair: Thank you.

Oh, you still have another minute, Mr. Julian. It seems like you've gone longer. Go ahead.

Mr. Peter Julian: I'm not going to filibuster. I'll just take the minute.

Getting back to my key point, then, because you have raised Sweden as an example. The context of the report seems to be in the tradition of right-wing or laissez-faire economics. But there are many aggressive examples, which are established, where productivity increases through government investment, through public policy.

Why aren't those examples cited more in your report? You're aware of them obviously. You have studied them. To my mind, that is a crucial component of moving forward. We can't continue to go down the same track that we have for 20 years. It hasn't worked. So why aren't there more of those reference points in your report?

● (1215)

Mr. Gilles Rhéaume: Actually, I wouldn't say we are taking a right-wing, laissez-faire type of thing. If you look at the report carefully, we do talk about a regulatory environment that has to be strong. We talk about government having the policies that will create the right type of environment for investments in adult learning and new machinery and equipment so that we can become more competitive.

We are far from saying it's a laissez-faire economy— far from it.

The Chair: Thank you, Mr. Julian. You're out of time.

Now to the Liberal Party, Mr. Temelkovski, for five minutes.

Mr. Lui Temelkovski (Oak Ridges—Markham, Lib.): Thanks, Mr. Chair.

Thanks very much, Glen and Gilles.

You mentioned in your presentation, Glen, that global economic imbalance is evident, especially in the American market where the deficit is close to a trillion dollars or so...you mentioned $980 billion.

Mr. Glen Hodgson: They'll probably get to $900 billion this year.

Mr. Lui Temelkovski: Yes, and you also mentioned that there could be an adjustment in the near future. We know that if the Americans sneeze, we will catch a cold, especially economically.

So how do you see this happening, their balancing their books? It appears that the emerging markets are going to be surpassing American productivity and investment and capacity to pay their bills.

Mr. Glen Hodgson: I can make two points in response.

First, economists are very good at identifying the imbalances. We're not very good at telling you when the adjustment is going to happen. But we do know that absent a coordinated plan amongst the G-7 or OECD countries to try to work out the imbalances— which was why the G-7 was created in 1985-86—market forces will take over. One day investors in Saudi Arabia and China will wake up and say they have too much American paper in their portfolios. They're not going to buy the next round of U.S. T-bills. They're not going to keep buying U.S. dollar assets. Then markets will adapt.

That's the story of 250 years of capitalism. Markets tend to go to excess, they overshoot, and then there's adjustment. It's not pretty when it happens. The most likely thing you will see is a further sharp decline in the value of the U.S. dollar. The U.S. dollar has lost 40% of its value against the euro and other major currencies over the last four years. If one day investors woke up and decided that the U.S. dollar wasn't worth as much as they thought it was, that's how the adjustment would happen. That would probably mean a recession or a sharp slowdown in the United States.

We're deeply concerned about the adjustment in the U.S. housing market that's going on right now. We're starting to see bank failures in the United States and concern about the secondary mortgage market, where there has been way too much lending against property values that have stopped rising.

So all the little warning signs are there, but no economist is going to walk in and tell you exactly when the adjustment will happen and how severe it's going to be. But you can already see the warning signs now.

Mr. Lui Temelkovski: I've been in the financial industry for 20 years, so I know that predicting future forecasts from what happened in the past is like driving while you're looking in the rear-view mirror. But what can Canada do to put some sort of barrier between the two economies?

● (1220)

Mr. Glen Hodgson: That's the whole point of our report. We believe the 76 recommendations we've offered are all about building greater flexibility and resiliency into our national economy, so we have a greater capacity to withstand a shock through collapse in consumer demand in the United States, for example.

But we're on the front line when 82% of our exports are going to one market. If consumers close down the United States, we'll be affected. We're affected already. We're forecasting exports this year to grow by only 2.5%. There has been very little export demand growth for six years now, which is why domestic consumption is so important for our economy right now. But absent changes to how we align our domestic economy and make it more flexible and adaptable, we are on the front lines of any adjustment in U.S. behaviour.

Mr. Lui Temelkovski: What I'm reading between the lines there is diversification in many ways—not relying on our trade with the U. S. as much and increasing our trade inwards and outwards to other markets that are emerging. Am I right in the reading of that?

Mr. Glen Hodgson: Absolutely. That's why our advice is to become serious players in Doha. We have to find ways to keep making North American integration work better. But we also have to pursue more bilateral regional trade opportunities with other markets where there is growth potential.

The Chair: Thank you, Mr. Temelkovski.

Monsieur Cardin.

[*Translation*]

Mr. Serge Cardin: Thank you, Mr. Chairman.

Good afternoon, gentlemen.

You just referred to the Doha Round. Clearly things went a little sour in the agriculture file. I'd like to come back to farming and Quebec's hog and pork industry. As Mr. Julian said, the Free Trade Agreement with the United States has adversely affected our employees' working conditions. Prices are more or less controlled in the pork industry which means that companies like Olymel, instead of increasing productivity, have had to cut wages and ask for sacrifices of as much as 30%, in order to survive. It took a lot of votes for the proposal to carry.

What's more, companies like Monsanto, that claim they have pig patents, are going to make sure they control things and seek to impose a charge on all every hog produced. Some companies and multinationals are looking at going a lot further and a lot faster than some other businesses. As part of our negotiations, could we create a separate category for agriculture, particularly with respect to planning and competition, in order to protect each country's food sovereignty? You could specify that once this particular condition was met, the rest would follow.

Mr. Gilles Rhéaume: I think that would be a challenge for us. For the entire farming sector to perform adequately there is a certain reliance on exports. Only a very small part of the agricultural sector relies only on the domestic market.

If pork were to be protected, for example, what would we say the countries with which we are trying to negotiate freer trade? They may decide to open up their market to us, but if they have any stake in the pork industry, that might prove more difficult.

We mentioned in our report that future business opportunities in the farming sector will centre around value-added products and not core commodities. So we need to provide a climate in which farmers can become more innovative and we need to help them along this path.

The current word is that the production chain does not allow for this type of innovation to occur. Market vend0rs have information on consumer needs, but this information doesn't reach farmers. Were these farmers more familiar with what consumers—who are at the end of the chain—want, they could at least see if they can produce something different.

● (1225)

Mr. Serge Cardin: I understand about economic cycles, competition, creativity and innovation, but when it comes to agrifood and agriculture in general, you also need to consider environmental factors. This is one area where environmental factors must come into play. Coming back to the hog sector, instead of making it a strong and competitive industry, and therefore a highly concentrated one, mega hog houses are being developed and meat is being transported for consumption and the liquid manure is being kept and is becoming increasingly hard to spread. So there is a major environmental imbalance in the farm sector.

Mr. Gilles Rhéaume: In our report, we look at this issue from an environmental needs and measures standpoint. Agriculture and Agri-food Canada is bringing forward environmental stewardship programs. This information needs to be disseminated to farmers, and that is always a challenge. The fact remains that sound practices can be adopted in this field.

One thing that we didn't refer to in our presentation but which was included in the report is the opportunity that farmers now have to provide ecological services and protect natural sites located on their farms. That could be beneficial for the environment. We have to look at what type of compensation can be offered to farmers in exchange for this environmental protection. Some countries and even some levels of government in Canada are exploring this possibility, but a lot more needs to be done in this regard.

Mr. Serge Cardin: Generally speaking, in the short term—

[*English*]

The Chair: *Merci, monsieur Cardin*. Your time is up and then some.

Mr. Lemieux, you have five minutes.

Mr. Pierre Lemieux (Glengarry—Prescott—Russell, CPC): Thank you very much. I want to pursue one of your strategies for success, number four, which talks about focusing on international trade and investment strategies. You mention multinational agreements, and you're probably aware of some of the challenges we have faced. When you bring many countries together, in a sense it's a bit of a silver bullet. If you actually manage to wrestle a multinational trade agreement to the ground, it's beneficial to all parties, but there are many competing interests; every country has its own interest. Trying to negotiate it and make headway on it is very challenging.

I think there are also too many other factors. There are trade issues, but there are other factors, many of which are political, that play into it as well.

We've been studying bilateral trade possibilities here as a committee. One of the advantages is that we're of course able to target our efforts to particular countries, if there are particular countries with which we think having an agreement would be beneficial to Canada. It falls into one of your other suggestions, which is basically targeting certain markets. You mentioned China and India.

I have two questions related to looking at bilateral agreements. One of them is about import-focused bilateral agreements and from where you would see it as advantageous to Canadian industry to be able to import sub-assemblies, etc.

We were speaking to you today, and we spoke to the EDC earlier this week about integrated supply chain management. It's probably very difficult to select one country and know that it would be very good for imports and very good for exports. Each country probably has its leanings. We spoke about China today, and you said we might import a lot but not export a lot of finished product to China.

One of my questions is whether you have recommendations concerning import-focused countries we should be looking at in terms of bilateral agreements and then, on the other hand, export-focused countries with which we would put in place bilateral agreements.

● (1230)

Mr. Glen Hodgson: We didn't get into specific markets from either an import or an export side. We established the principle. Part of the challenge with freer trade, going down the road, is that it's no longer about tariffs. We pretty much have a world now where tariffs are down to rock bottom, with certain exceptions. Tariffs are low; they're no longer the barrier they were 25 years ago.

Then you start looking at non-tariff barriers, which are all about standards and regulatory process. They bring us back to the question of whether we are ready domestically for this and whether we actually understand the very subtle forms of protection that exist in other markets.

If you're thinking about imports, you're obviously looking to people who can provide things cheaper. The Chinese have no trouble at all right now exporting a lot of stuff to Canada. We have a $20 billion trade deficit with China now.

Clearly there aren't barriers from markets where you can actually procure fairly basic stuff, whether it's raw materials or basic steel products—things like that. The barriers aren't really there; they're getting into much more sophisticated forms of trade.

I would look to things such as the underlying growth potential of the export market and the degree of cultural alignment. These are the things that will determine where we want to trade.

I'll give you an example. We in Canada have tried to pursue free trade with the European Union for perhaps 25 years and have made absolutely no headway, even though we would be huge beneficiaries in terms of more imports and huge beneficiaries in terms of access to their markets.

Why have we not made progress? It's for two reasons: because we're small potatoes compared with the United States, let's say, where the Europeans would really like to trade, and because it's all about non-tariff barriers.

There isn't really an easy answer to your question. You'd have to think about what the real drivers are of freer trade bilaterally and regionally to go ahead. I'll give you Europe as an example, though. My hypothesis is that it's highly unlikely Canada will ever have a true free trade agreement with the EU unless we do it as a partner with the United States, because only then would there be the alignment of regulatory interests on both sides of the Atlantic, and only then could we make real progress on non-tariff barriers.

It's easy to identify particular markets. There was something in the newspaper this week about EFTA, the European free trade area, and how Canada is pursuing something there. EFTA is, what, two countries, four countries? It's a tiny fraction of our overall trade. Frankly, given the scarcity of human resources out there to negotiate, why bother?

Mr. Pierre Lemieux: That's where I was going with my question. Resources are limited, and although no bilateral agreement is strictly imports or strictly exports, you do evaluate the flow of product one way versus the other way. If you put in place something with China, it will probably have very limited export value to us. What sectors do you foresee being more advantageous to Canada from an export perspective?

Mr. Gilles Rhéaume: It is a challenging question, because you have the data to look at history; you don't have the data of what could be if you were to get rid of the trade barriers. That's where you have to look at comparative advantages in terms of competitiveness and asking whether we could be more competitive in Canada in selling that product abroad, or maybe importing it because they are more competitive. That has to do with the aspect of comparative advantages. Their trade deficit doesn't help you; it's really getting into the micro-detail of comparing industry to industry in terms of the degree of competitiveness.

We did some work on the life sciences side; we're looking at biotech, for example. We spend a lot on life sciences in Canada, but we're such small players globally. There are other areas of biotech in which we spend very little, but we do have a comparative advantage. If we were to invest more in those other areas, such as bioenvironment or bioagriculture, we'd be much further ahead.

That's only a small example.

The Chair: Thank you, Mr. Lemieux.

Mr. Julian is next for five minutes.

Mr. Peter Julian: Thank you, Mr. Chair.

To follow up on our last series of questions, is it correct to say that what you are looking at in your report is substantial public sector investments with an innovation agenda, but investments that would include education, infrastructure, and research and development? Is it accurate to say that?

Mr. Glen Hodgson: Do you mean investment in dollars or investment in energy?

● (1235)

Mr. Peter Julian: I mean both.

Mr. Glen Hodgson: A lot of the investment that's required is in using our human capital and coming up with better policy frameworks; it's not all about spending more money. The public sector spends—two-thirds or three-quarters of the overall R and D spending in Canada is by the public sector.

Mr. Gilles Rhéaume: There has been tremendous growth in the last few years in public spending on R and D.

Mr. Glen Hodgson: We don't keep throwing more government resources at R and D as a solution. We have to find ways to properly incent the private sector to actually step up and do more R and D spending.

Mr. Gilles Rhéaume: On the R and D front, it's funny, because we have seen a pickup in terms of public spending on R and D in the last few years. The biggest challenge, though, is what you do with that R and D. That's the big question. A lot of the things we are seeing in terms of research and development in universities is either staying in universities or being sold abroad. We are not having the uptake here in Canada for these new technologies and new products that we could sell. The university strategy is that if they cannot get the local industries interested, then they will start their own little firm. You have a lot of startups and a lot of failures, or they end up selling their technology to a foreign company.

There are big issues around that.

Mr. Peter Julian: Thank you. I wanted to clarify that and move on to the issue of our trade strategy.

You say very specifically to put supply management—I imagine you mean the Canadian Wheat Board as well—on the table so we can be in the inner circle within the WTO. Increasingly, the problem within the WTO is that there is a progressive agenda from countries that actively believe in things like social, environmental, and labour standards, and there is this leadership that has been pushing for the traditional approach to free trade, which, as I mentioned earlier, hasn't worked in Canada. As well, in other industrialized countries like the United States, most people have demonstrably seen their wages pushed down.

Would it not be a better strategy for Canada to defend ardently what our interests are—like supply management for rural communities, like the Canadian Wheat Board—and play leadership within the WTO within the increasing number of countries that are putting into question this whole idea that somehow we all have to just follow the American model of trade to actually develop our societies?

Mr. Glen Hodgson: Mr. Julian, your questions are so huge, and you start with the premise—

Mr. Peter Julian: But you are big thinkers, so you can respond.

Mr. Glen Hodgson: You often start with a premise about falling real wages, for example. The fact of the matter is that economists would take that apart; we'd like to see whose real wages are falling.

I'm worried, for example, about immigrants, who have not made progress in Canada in 25 years; if you start to segment the decline in real wages, I'm obviously concerned about that. I'm concerned about aboriginal communities. I am concerned about organized labour in sectors where we have chosen to go to global free trade, like the auto industry. We have seen the massive layoffs this week, but that is almost, unfortunately, a natural consequence of exposing a once protected industry to international trade when technology is the driver. The Japanese companies that have invested in Canada are outperforming the big three fundamentally because they have a product that people want to buy.

I think we have to understand why the real wages are falling and really drill into some of the subcomponents.

Mr. Peter Julian: Statistics Canada has actually drilled into it. The top 20% of Canadian families have seen their income skyrocket since 1989, but each of the other quintiles, from the middle class down to the poorest Canadians, have seen their real incomes fall. The sharpest fall has been among the poorest Canadians. We're not talking about something where there are some segments that have fallen behind and most of the population has progressed. It's the opposite; most of the population has actually fallen behind. That's a serious issue that we have to address as public policy and it's a serious issue that I would say needs to be considered as well.

Mr. Gilles Rhéaume: I think there are two things there. One you mentioned, but the other aspect is to look at it by level of education. Those who have post-secondary education have done quite well. Those who only have high school or have dropped out of high school are the ones who have definitely lost income. That's because we haven't been encouraging these people to continue investing in learning, either by themselves or through employers investing in learning. We've noticed that in Canada we do have people who don't have the right types of skills for this new economic reality, and because of that they're going to lose ground, no doubt about it.

Mr. Peter Julian: I'll come back to my question. Within the WTO, if we're to show leadership, there are two ways of doing that. One is to simply give away supply management, give away the Wheat Board, and be among the frat boys basically saying, there's only one way to develop our societies. The other is to show a very distinct Canadian approach to trade that keeps reinforcing the strengths we have but that also looks to diversify our trade and build internationally.

Mr. Gilles Rhéaume: In our volumes we mention the seven strategies. You can't just adopt one because it's going to fail. You have to look at all seven. This is what you're raising in saying just look at your trade policy; if you liberalize trade, everything is going to be fine. And you don't agree with that. We wouldn't agree with that.

We have to get our house in order. We're saying we have a problem with our house, big problems with our house: there's federal-provincial, and even within the federal government in terms of policies around education, investment in infrastructure, innovation, regulatory barriers. I could go on and on with lists about how our house isn't in order. We can't talk about trade policy if we don't have our house in order. That's why we need the seven strategies.

● (1240)

The Chair: Thank you, Mr. Julian.

Gentlemen, never hesitate to tell Mr. Julian how he's wrong—that's okay.

Some hon. members: Oh, oh!

The Chair: Ms. Ratansi, please go ahead for five minutes.

Ms. Yasmin Ratansi (Don Valley East, Lib.): Thank you for your presentation. It's interesting; it raises a lot of questions, and it perhaps challenges your thought processes.

Canada is vast. It is the second largest land mass. Japan is 1/26 the size of Canada and has four times the population. When I look at these things, and your presentation, I'd like to ask you questions. And I'd ask you to write them down because I'll need a response to them.

You did a study of R and D investment and you said Finland is bypassing us. What part of their GDP is invested in R and D? What sort of partnerships do they have in the three Ps, academia, public, and private? What is the gap between the rich and poor? Is there a safety net that these countries have? China, India, and the United States seem not to have a safety net. That's on R and D.

Two, you talked about protectionism being bad. You say protectionism is bad. The U.S.A. and Japan are the two largest economies and they are very protectionist. I've just come back from Japan, and they do not allow our agriculture products to be in there. And RIM does not go there without having another protocol. How can you allow Canada to open up its borders to everyone and not be protected itself? That's something we have to play with. How do you do that?

Three, does Canada have an industrial strategy?

Four, what is Canada's competitive advantage? I know you talked about value-added, etc. I want to know what you think is Canada's value-added advantage. You talked about value-added agriculture products that we could sell to the third world, not to the markets like Europe, etc., because the Doha Round, again, was there to protect the poor countries, and yet we've gone into terrible rounds there.

Would you answer those? Then I have a few more.

Mr. Gilles Rhéaume: That's all?

Ms. Yasmin Ratansi: I have a few more, like the timeframe within which you want your strategies to go forward.

You have too many questions.

Mr. Gilles Rhéaume: And I have thirty seconds for each.

Ms. Yasmin Ratansi: Yes.

Mr. Gilles Rhéaume: In terms of R and D intensity, which is our R and D to our GDP, we are below the OECD average.

Ms. Yasmin Ratansi: How much is that?

Mr. Gilles Rhéaume: The OECD average is slightly over two. Ours is around 1.7 or 1.8.

A voice: Finland's is about 4.4.

Mr. Gilles Rhéaume: Yes.

Ms. Yasmin Ratansi: Let me give you another example. Japan invests heavily in R and D, but it has a debt of 783 trillion yen. I want to know what the debt ratio is as well, because we as a country —

Mr. Gilles Rhéaume: I wouldn't be able to tell you.

Ms. Yasmin Ratansi: Okay, fine. That's okay.

Go ahead.

Mr. Gilles Rhéaume: He'll tell you.

Mr. Glen Hodgson: I know it, but you're mixing apples and oranges here. You're mixing fiscal policy with R and D policies.

Ms. Yasmin Ratansi: I do not mix apples and oranges. I'm an accountant.

Go ahead. You can answer me.

Mr. Glen Hodgson: First of all, on the Nordic model, the Nordic countries as a whole—and I'll take Norway out, because it's a special case because of oil and gas. They are high tax, high spending, high R and D spending, high productivity economies in Denmark, Sweden, and Finland. I believe the key driver on the R and D side is the fact that they joined the EU and have been exposed to massive new competition within Europe. In those countries, there's almost no protection. As a firm, you either compete or you die, so firms have had to innovate. They've had to invest massively in R and D.

That's why our advice is to create the single Canadian market: to actually allow our firms to compete harder to get to an efficient scale. That's a critical piece, because you can be a high tax, high spending, high productivity economy. It's being done in Ireland, Iceland, and Scandinavia right now.

● (1245)

Mr. Gilles Rhéaume: One thing goes back to your question number three, which has to do with industrial strategy. These countries also have an industrial strategy. We don't.

Ms. Yasmin Ratansi: We don't? Okay, then, what is our competitive advantage?

Mr. Glen Hodgson: Countries don't have a single competitive advantage. Firms have competitive advantages against other firms.

The concept of comparative advantage is a big economic concept and is designed to show the benefits of trade. No one country has a total advantage in anything, except maybe Saudi Arabia in oil.

Ms. Yasmin Ratansi: No, but we have an advantage over something. Do we have skilled labour? Do we have the financial services as our competitive advantage? Manufacturing is not our competitive advantage.

Mr. Glen Hodgson: Part of our challenge as a country is that we could have an absolute advantage in everything if we chose to make the right investments in people, if we had the infrastructure. We have natural resources, we have smart people, and we do have specialized manufacturing, so we could actually have advantages in all areas.

But if you're comparing us to a country like Japan, Japan has no resources. Japan only has people, so Japan's industrial policy since the end of the Second World War has been all around innovation, R and D, and copying technology from other places, frankly. Back in the fifties, they were very good—

Mr. Gilles Rhéaume: —at doing it better.

Mr. Glen Hodgson: They've become global leaders on the corporate side.

Japan is also a disaster, though, in terms of public policy. They have massive debt, they have massive fiscal deficits, and they had deflation until last year, which actually discouraged people from consuming.

Mr. Gilles Rhéaume: And they're highly protectionist.

Ms. Yasmin Ratansi: There's another thing I'd like to ask. It's not technology that drives articles; it is business acumen that makes, for example, the United States extremely competitive. How does your body, the Conference Board of Canada, encourage businesses or universities to have better business minds? What sorts of suggestions would you have?

Mr. Glen Hodgson: Our purpose as an organization is to build leadership for a better Canada. That's a huge mandate. We engage the private sector, public sector, and academia constantly. We have 42 councils where we share best practices in everything from marketing to innovation. We do conferences. The whole being of the Conference Board is to try to find best practices and share them with everybody in a leadership position.

The Chair: Thank you very much, Ms. Ratansi.

Is there a Bloc member who would like to ask questions?

Monsieur Cardin.

[*Translation*]

Mr. Serge Cardin: Because of globalization and international trade, you really need to focus on innovation to be truly successful. We have no choice in the matter: We're in the value-added and knowledge economy. Given the human resources required to make this sort of thing, one might surmise that it doesn't cost much. That's really very shortsighted. Yet we know full well what things cost when we let our guard down. So we really need to focus on the value-added side.

I'm glad to know that the graduation rate has risen substantially in Canada over recent years. However, this increase is due to the fact that Asian students come to Canada to study. They then go home and take the knowledge they have acquired here with them. China and India will not be the post-Second-World-War Japan, where things played out over almost 40 years. Today, Toyota is leading the pack. China will surge ahead much more quickly as far as training, development and innovation is concerned.

We are diving head first into a fast-paced race to be innovative and creative. This will always be the case. We will never have the luxury of lingering and thinking that we have plenty of time before our competitors outdo us. The race to be innovative will surge ahead and will not stop for anybody. At the end of the day, the major difference will be one of wage and environmental conditions. The climate will be more human and more organic than simply one focused on innovation and creation.

So what will we do? Companies will quite simply invest elsewhere. They'll get richer, and workers here will get poorer. It's not necessarily true when you say that you are helping people here by producing abroad.

● (1250)

Mr. Gilles Rhéaume: Training really does become a critical factor in having well-equipped employees. That's a consideration. There are business people and company heads on the lookout for opportunities not only here but elsewhere and they get government assistance to help them find these opportunities. That's another consideration.

Competition is fierce. There's no disagreement there. This will continue to be the way things are, it won't stop. That's why we need to decide how we want to position ourselves in this market. We still haven't gone through that exercise. Business hasn't; government hasn't either. We haven't decided what our future strengths will be. In the past, we sought to compete from a cost standpoint. We know what that leads to. We haven't really thought about how we're going to compete from a value-added perspective. We certainly haven't done this in Canada like some other countries have done.

Mr. Serge Cardin: Since I don't have much time, perhaps you could include a response to what I'm about to say in your answer. A moment ago, you said that we need to sacrifice something. Could you tell us what we should be sacrificing?

Mr. Gilles Rhéaume: There are always sacrifices to be made. Thomas L. Friedman, in his book entitled *The world is flat*, says that we are more or less on an equal footing when it comes to innovation and human capital, as you've mentioned. At the Conference Board of Canada, they're thinking that the inequalities this may create should be taken into consideration and they're looking at what can be done in this regard. To address these inequalities, you said that there will be sacrifices. Obviously there'll be people who will not be able to adapt and who will have lower incomes, as Mr. Julian pointed out. We have to look at how we can make sure we're prosperous enough to be able to meet the needs of those people who aren't able to adapt.

That's a question we'll have to ask ourselves again, because we really haven't gone through the whole exercise of determining what the next steps are. What we've looked at is how we can ensure we're prosperous enough to generate revenue to fund, for example, social programs.

[*English*]

The Chair: You have about a minute.

[*Translation*]

Mr. Guy André: I'll be brief. I think that by and large the public is skeptical. I'm not referring to businessmen, but to workers, the middle-class and low-income earners. Why is the public skeptical about globalization? It's because of job losses. All throughout Quebec and Canada, you see food banks, breakfasts being served. Poverty is on the rise, and people are being left out in the cold. There's no social policy to deal with these job losses. That's the problem. The general public, our middle class and everyday workers are skeptical. Cutbacks have been made to literacy programs, social programs and social welfare. The people are being left by the wayside. So the public is very skeptical.

I don't think that we have any choice: We have to make sure the public is in a position to put its faith in this move towards globalization. In order to instill this confidence, the public needs to be made to fell safe and social support must be given to people who lose their job. Currently, that's not done. I'd like to hear what you have to say about that.

Furthermore, you said that we are lagging behind and that we haven't done this analysis. Who hasn't? Are you talking about the public service? Who hasn't done what needs to be done?

[*English*]

The Chair: Gentlemen, you have to have fairly short answers. We're over time.

[*Translation*]

Mr. Gilles Rhéaume: You referred to social policy. For some time there has been talk about the social and economic spheres coming together. We don't even have an economic policy today to address workers' issues. Regulations, barriers and duplication between departments are major contributing factors. If we could address this, we'd be able to create an economic environment which would be conducive to doing a lot more than what we are currently doing.

[*English*]

The Chair: Thank you.

Mr. Menzies for five minutes.

Mr. Ted Menzies: Thank you, Mr. Chair.

It's good to have a second opportunity.

I would like to go back to some of the inaccurate statements that have been put on the record, somehow, about this human index. If we're to believe Mr. Julian, we should all just pack our bags and go home. I can't believe that. In fact, the leader of the NDP at a speech at the Economic Club of Ottawa just recently touted the benefits of trade, how important it is to Canada, how we should be expanding, and how it can provide opportunities in the auto industry. For once I can't help but agree with him; I think there are great opportunities there.

How do we balance how Stats Canada's numbers are being misconstrued by some individuals to say that the world is bad, with, yes, Canada is not doing as well as we could in trade, but not everybody is poorer in this country? Are we misinterpreting Stats Canada's numbers? Can you give us a reflection of how those numbers are accurate and how Canadians, in your integrated trade strategy, are going to do better?

● (1255)

Mr. Glen Hodgson: You've really gone back to the fundamental issue at the heart of economics. This is why I studied economics when I was 19 years old at the University of Manitoba, a long time ago. How do you balance the production issue with the distribution issue? Our emphasis, and we'll be very clear in saying it, has really been on the issue of production, but there are thoughts embedded on how to improve distribution of the proceeds as well.

Our focus was really on the incredible array of barriers we've created to minimize the competitiveness of our industry. Gilles' volume and my volume point to repeatedly all the little picky barriers we've done in the design of our economic interventions, which we think are incredibly inefficient, frankly, so our focus has been there. But—and Gilles was pointing to this—the Conference Board for a long time now has worried about distribution and the social impact of our economy as well, which is why we give advice. For example, I think it's about page 60 where we're giving advice on tax reform for productivity.

The first thing we mention, which is actually something I told Greg Sorbara last week when giving him advice for his budget in Ontario, is to act upon the municipal task force on how to deal with the working poor and reduce the incredibly onerous marginal tax rate on the working poor through something like a working income tax credit. But at the same time, we also said get rid of the taxes on capital, because that's actually discouraging firms from investing in capital expansion. We also say we've got to give taxing powers to our cities, too, and that's very much Conference Board advice. We're not trying to be everything for everyone, but we are trying to wrap this into an integrated whole and understand that there are distributional impacts from changes in our economy.

But our principal message was really around trying to improve the productivity and competiveness of our national economy, because Canada is clearly slipping, and the numbers are there. You will not be able to address the distribution issue unless you're creating wealth at the same time.

Mr. Gilles Rhéaume: Our premise with respect to that is to permit our pie to grow. Later we can figure out how we distribute it, how we cut it up. If we just have the same pie and we start arguing about how we're going to cut it up, there's going to be a lot of fighting with little benefit.

A voice: We're down to crumbs.

Mr. Glen Hodgson: There's social tension. If you don't have growth, and if you don't have productivity growth, the social tension only rises, and you're fighting over a fixed pie. So we'd like to see the pie grow, and then we could have a much more interesting debate about how to really divide the positive spoils.

Mr. Ted Menzies: Going back to foreign direct investment, EDC, Investment Canada, and CCC—Glen, having just come from EDC not that long ago, I'm sure you won't be too critical—what do we, as a government, need to do as far as providing latitude and advice to these organizations, very specifically, to increase foreign direct investment?

Mr. Glen Hodgson: Well, I can point explicitly to the recommendation. It's on page 97 of volume 1, recommendation number 13:

> The federal government facilitate outward Canadian FDI where there are material benefits to Canada through actions that reduce the risk of investing outside Canada, like Foreign Investment Protection Agreements—

I would put what are called FIPAs near the top of the list—and this goes back to Mr. Lemieux's question—as you're looking to deepen your economic relationship with other markets, like China and India, because that gives investors comfort going there. It says, “and by strengthening facilitation of outward FDI through agencies like EDC”, and by that I mean EDC has the legal authority. The Export Development Act has allowed EDC to do outward investment itself, as a partner, let's say, since about 1993, I believe, but it was controlled by a regulation that I unfortunately put in place when I was an official at the Department of Finance.

I think it's time for the government to realize that you've got to empower the institutions you have. A lot of this is not about changing law; it's about changing attitude, and about the boards of directors not being shy about supporting outbound investment as part of the suite of products that EDC or CCC or anybody should have.

● (1300)

The Chair: Thank you very much.

Thank you, Mr. Menzies.

Our time for this meeting is up. I thank you both very much for being here three times in the last month or so. I do appreciate that. I'm sure your document will be referred to as a reference source by people on various sides of arguments.

Thank you very much again.

The meeting is adjourned.

Published under the authority of the Speaker of the House of Commons

Publié en conformité de l'autorité du Président de la Chambre des communes

Also available on the Parliament of Canada Web Site at the following address:
Aussi disponible sur le site Web du Parlement du Canada à l’adresse suivante :
http://www.parl.gc.ca