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Chair

Mr. James Rajotte

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•(1005)

[English]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I'd like to call this meeting to order. This is a special meeting. We regularly meet from eleven to one. We are meeting from eleven to one on the manufacturing sector, but we are here from ten until eleven to consider the motion of Mr. Holland.

At this point I'll have Mr. Holland read the motion. Then he can have up to five minutes to present the rationale for it. Then I think it would be a good idea to have at least one member from every party speak to it. Of course, all members are free to speak to it, but let's try to complete the motion within an hour.

Mr. Fontana is next, on a point of order.

Hon. Joe Fontana (London North Centre, Lib.): I promise I won't challenge the chair this morning.

In terms of process, when you say that Mr. Holland will be reading the motion, just so it's clear to everybody, are we talking about the original motion or the amended motion we'll be discussing? As you know, we got into this discussion as to whether or not the original motion was an amendment, and then there was a substitution. So do you want to proceed on the basis of the original motion that was given, the 48-hour notice, or the amendment to that motion that seemed to have received some favour?

The Chair: Thanks, Mr. Fontana. My understanding and the clerk's understanding is that the new motion submitted by Mr. Holland is not the first motion. If Mr. Holland wants to clarify that, he certainly can.

Mr. Holland, it might be better for you to read the motion and present the rationale for it.

Mr. Masse.

Mr. Brian Masse (Windsor West, NDP): If that is the case, does it have the time amendments? The body of the motion was taken from my subamendment. I also have an amendment to this motion that I've yet to see distributed. It was sent to the clerk on Tuesday.

The Chair: The clerk advises me that you can present the amendment after Mr. Holland moves the motion.

Mr. Holland, you have the floor.

Mr. Mark Holland (Ajax—Pickering, Lib.): The motion reads:

That the Minister of Industry delay closing the Investment Canada Review of the Xstrata/Falconbridge merger proposal until after all international regulatory bodies have ruled regarding the Inco/Falconbridge merger proposal.

I have spoken to this already and we've spent a considerable amount of time on it. I'm interested in hearing what other members have to say. The intent is simply to ensure that there is a level regulatory playing field and allow the market to be the one that, at the end of the day, decides which is the better deal, ensuring that no one has an unfair advantage in the process.

The Chair: Thank you, Mr. Holland. That's very concise.

Mr. Masse.

Mr. Brian Masse: Thank you, Mr. Chair.

I'm obviously in favour of the motion. This was originally submitted in the previous motion we had. It had a lot of detail on Xstrata and a whole series of other issues. This was the subamendment to that motion, letter for letter. It gets at the heart of the problem, which is very important, that foreign regulatory processes are interfering on a Canadian process here. That isn't good for shareholders and/or the people of this country, hence this motion provides some sense of fairness for the market.

I would also like to have a statement from this committee. I have a subamendment to this main motion, which I believe would help, to add at the end of the proposal "and that the committee report back to the House of Commons".

This officially finishes the process so that this committee can advise the minister on a very important subject matter. It provides the minister with a flexible, reasoned position. The committee will go on record in the House of Commons with our expression, which I think the minister would agree to, that we just report back there, as opposed to just in these confines here.

I believe it's a friendly amendment that is procedurally done on a regular basis, as we do report back to the House of Commons when committees have statements and motions.

The Chair: Mr. Carrie.

•(1010)

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

First of all, I think there's agreement around the table as to what the intent is. As you say, it is to have a level playing field, to make sure it's fair.

With the wording you originally proposed, the minister has to work under the Investment Canada Act, and with that wording, it asks him to do something he can't do under that act.

What I am proposing is that we change the wording slightly. I've given Mr. Holland a copy of my proposed wording, and I'll read it out.

The Chair: Are you proposing an amendment as well?

Mr. Colin Carrie: Yes.

The Chair: Mr. Holland, on a point of order.

Mr. Mark Holland: We had one amendment on the floor. Are we dealing with that amendment first, or are we going to...? Now we're going to have two amendments on the table. Should we deal with the first amendment first?

The Chair: Good point, Mr. Holland.

Mr. Carrie, do you have comments with respect to Mr. Masse's amendment? I'd like to deal with that first.

Mr. Colin Carrie: Okay, let's deal with that first.

The Chair: Mr. Fontana.

Hon. Joe Fontana: A point of order, Mr. Chairman. I thought you indicated that Mr. Holland was going to put forward the motion and that everybody was going to have an opportunity to speak to the motion in terms of where they're coming from.

I didn't hear Mr. Masse put his amendment forward just yet. Some of us might have some technical questions about it, so why don't we get a sense of where everybody is coming from before we start to get into amendments? I heard from Mark and Colin; I'm sure the Bloc would want to respond, and André perhaps. I think we'll all be confused.

In fact, there may very well be a meeting of the minds, but let's see where everybody is coming from before everybody starts putting in all kinds of amendments; we could be here until tomorrow morning discussing this.

An hon. member: That sounds great to me.

Hon. Joe Fontana: Perhaps everybody could just stand back for a moment and see where everybody is at.

The Chair: That was my suggestion as the chair.

Mr. Masse was fully within his rights in giving his point of view and his party's point of view on the main motion—to submit an amendment. He has a right to do that.

I'll ask Mr. Masse if we can follow the procedure that Mr. Fontana and I suggested.

Mr. Brian Masse: I was only following the advice of the clerk. We had submitted this amendment on Tuesday, and today it hasn't been distributed.

Yes, of course—I originally proposed this motion; I support it. Things haven't changed for me.

I'm just suggesting a minor amendment to the motion, which we can talk about later. It's not a problem.

The Chair: My preference is that we get a general sense of where people are coming from. Then we'll deal with Mr. Masse's amendment. Then I believe Mr. Carrie has an amendment. We'll deal with the two amendments, and then we'll deal with the amended or unamended main motion.

Mr. Bonin.

Mr. Raymond Bonin (Nickel Belt, Lib.): Mr. Chair, I'm not a member of this committee, but I'm the MP representing the communities affected by this, and I seek your permission to speak, if you would allow me.

The Chair: Absolutely. At this point, any member who wants to speak on the topic of the main motion shall be allowed to speak, and I think you have every right to speak.

Mr. Raymond Bonin: Both Inco and Falconbridge operations are in my riding. As you can imagine, the community is very concerned about this. The position I'm taking on their behalf is that the Inco offer for Falconbridge was made October 11 and it took a long time to get approvals. They don't have approvals yet. To the community, it seemed like an unfair, unlevel playing field if we would rush the study of the Xstrata offer for Inco, whereas it took six months to get a response from the United States and Europe and it took some time to get the Canadian decision.

If the same amount of time was dedicated to the new offer, we couldn't argue the uneven playing field. But if it would go faster, we would see it as an unfair process, because there's another element to this. There's another company that is trying to buy Inco on the condition that they drop the Falconbridge offer. So this is becoming cumbersome, and the corporate games that are played are beyond my comprehension. I suppose it's beyond their own comprehension. But it seems to me there's an attempt here to circumvent normal process, and the way to assure a fair and level playing field is to assure that the first offer, which has been there since October 11, is dealt with.

So on behalf of my communities and all the people affected...there is an effect when there is a change of ownership. We saw it when Falconbridge was purchased by Noranda. It became an impersonal employer, and that's problematic when you're more or less a one-industry town and the employer becomes an impersonal employer, as opposed to a company like Inco, where most of the senior management have raised their families there, and in addition to making money for their shareholders, they have a vested interest in our community.

So we are very concerned, and we ask that the same time be allowed for this offer as was allowed for the original Inco-Falconbridge friendly takeover.

Thank you very much for allowing me to say that.

• (1015)

The Chair: Thank you for being with us here today. I appreciate that.

Monsieur Vincent.

[*Translation*]

Mr. Robert Vincent (Shefford, BQ): We will be much less virulent today than on Tuesday. After having read and studied the text, I think that we will be able to agree on the main motion. We will see what kinds of amendments will be proposed and then we will make a decision. However, as far as the main motion is concerned, we support it.

[*English*]

The Chair: Mr. Carrie.

Mr. Colin Carrie: Would it be appropriate if I read out the wording that I would be proposing?

The Chair: I think we'd prefer that you get general reaction to the main motion, and then I propose that we deal with Mr. Masse's amendment and then with your amendment.

Mr. Colin Carrie: Okay, because in general, we support the principles that everybody is outlining here. As I said, the wording is a bit problematic, that's all.

The Chair: Maybe you could just identify, then, the wording that you have concerns about.

Mr. Colin Carrie: We're talking about the one by Mr. Holland:

That the Minister of Industry delay closing the Investment Canada review of the Xstrata-Falconbridge merger proposal....

So this is the one that's on the table. "Delay" infers that the minister take action that's not within the Investment Canada Act to do. So I'd like to see if there is better wording that we could put forward so he can act within the Canada Investment Act.

The Chair: Okay.

Mr. Carrie, perhaps you or one of the researchers can outline the Investment Canada Act in terms of that. You're talking about the 45-day period and the 30-day period.

Mr. Colin Carrie: By insinuating that the Minister of Industry delay...that's something that isn't appropriate for him to do, basically.

The Chair: Okay.

Mr. Fontana.

Hon. Joe Fontana: Mr. Chairman, let me read the overview of the Investment Canada Act, because I think it clearly points out what the minister can and can't do. It says here, and I'm sure the researcher would have this, that the minister has 45 days from the date of receipt by Investment Canada of the completed application to decide whether the investment is likely to be of net benefit to Canada. This 45-day period may be unilaterally, by the minister, extended for a further 30 days, or with the agreement of the applicant for such longer period as is agreed upon between the applicant and the minister. It says, though, that if no notice is sent to the applicant within 45 days, or a longer period, the investment is deemed to be approved.

I think the nature of the motion, where Colin is coming from, is whether or not one uses the word "delay", which I think is probably the most operative word, because we want him, the minister, to essentially avail himself of the options available under Investment Canada to go at least to the 75 days as opposed to the 45 days, which he now has. I think the committee would be giving some sort of guidance to the minister that we believe that 45 days is not appropriate, that he take at least the 75 days, all for the reasons that would be expressed, including the reasons that Mr. Bonin had suggested.

I think the motion put forward is not contrary to what the Investment Act says. I think it should be seen in the light that the committee has given some sort of guidance to the minister to avail himself of the full 75 days with regard to dealing with this particular application so that a true net benefit to Canada, in all the sense of the word, can be evaluated.

•(1020)

The Chair: Thank you. That's very helpful in reading from the exact act so we all know exactly what we're talking about.

Are there any other members who want to intervene on this general topic?

Mr. Masse, do you want to further speak to your amendment? Let me be sure I have it correct. After "proposal", it would read "That the Committee report the motion to the House".

Mr. Brian Masse: Thank you, Mr. Chair. All that is, is that we take the motion that we've had here today and we present it back in the House of Commons. That's all we do. We basically express the will of the committee.

The Chair: We present the motion back.

Are there any comments with respect to the amendment?

(Motion agreed to)

The Chair: Do you want to move your amendment, Mr. Carrie?

Mr. Colin Carrie: What I'd like to move is the amendment:

That the Minister of Industry consider all options available under the Investment Canada Act to ensure a thorough review of the proposed acquisition by Xstrata of Falconbridge, and that the Minister consider the timing of decisions on the proposed merger of Inco and Falconbridge by regulatory bodies in other jurisdictions.

In other words, that would allow him to consider, as you mention, the European situation.

The Chair: Do you have copies to distribute, Mr. Carrie? It's okay if you don't.

Mr. Masse, did you want to qualify something?

Mr. Brian Masse: No. It's just that it sounds like a substantial change to the main motion, and there's no copy in front of me.

The Chair: Okay, I have—

[Translation]

Mr. Luc Malo (Verchères—Les Patriotes, BQ): Of course, we would also like to see it in French.

[English]

The Chair: Mr. Holland and then Mr. Fontana.

Mr. Mark Holland: I just had an opportunity to see this a short while ago, when Mr. Carrie was kind enough to present it to me.

I guess there are two issues for me. I think, as Mr. Fontana stated, it certainly is within the responsibilities or the powers of the minister to be able to delay the application for any reasons the minister deemed fit to take it to the 75-day timeframe. The word "delay", then, doesn't cause me any angst or consternation.

The problem I have with the amendment is that it says the minister should consider it, but he doesn't say why and it doesn't really have the committee taking a position with respect to the committee feeling that this is a desirable outcome. It just says think about it, and if you have time to think about it, consider it.

I think what we're looking for, or what I was looking for in moving the motion, was to have a position from the committee that we had an expressed desire for an outcome for this to be extended. I think the main motion expresses that, and I think Mr. Fontana has been able to clarify the fact that it does in fact adhere to the powers of the minister. Therefore, I think it makes sense to proceed with the motion as it stands now.

The Chair: I have Mr. Fontana, and then I have Mr. Masse.

Hon. Joe Fontana: Thank you. Perhaps Colin would at least clarify what the words "all options" would mean, because I think the motion as amended now seems to advise the minister that he in fact should do something very specific. I'm not sure when he says, "That the Minister consider all options", what essentially that means.

Let me just refer again to the Investment Canada sort of scenario, which says, after the part I read previously, it is important to recognize that in order to make the net benefit determination, the IRD consults the provincial governments of those provinces that will or may be affected by the implementation of the investments as well as the Competition Bureau.

In the case of larger or more sensitive cases, it goes on to say that the investor will be required to provide the federal government with written contractual undertakings in order to satisfy the minister that the acquisition will be of net benefit to Canada in an undertaking typically related to such matters as new capital investments, employment, research and development, expenditures, re-investment of earnings, the employment of Canadians, and their involvement in the management and equity ownership of business and exports.

I would hope this is a process that's already under way by Investment Canada. The minister who's responsible for Investment Canada and Investment Canada have to go through all of the various reports, and there are not an awful lot of options for the minister other than one or two things. He can, as the committee is advising, take the maximum time possible under our legislation to make the right decision for Canadians, in terms of net benefits to Canada. That would mean a fairly lengthy process, which is presently being undertaken by Investment Canada through the minister. That's really the only option, because at the end of the day the minister has to make that determination.

I think what our motion also said is that there are other things going on too. As you know, the Inco-Falconbridge merger—even though the marketplace is the proper and appropriate place to determine these things in the private sector—is going through some regulatory assessments elsewhere, i.e. in the United States and Europe.

Europe has taken eight months to figure out whether or not an Inco-Falconbridge merger is going to have a positive or a negative impact on Europe. The United States is also doing the same thing. Here we are saying let's take at least 75 days essentially to determine whether or not this is the best scenario for Canada.

So the motion does two things. One is to say to the minister, delay doing anything until you do all of the things that are required under Investment Canada, and take the full 75 days, but more importantly, let's wait to see what the international community is saying about Inco-Falconbridge vis-à-vis Europe and the United States. If we're

going to want a level playing field in this country, in terms of foreign investment, then maybe that's a subject of discussion for another day. In fact, as we try to build our manufacturing sector and look to all of those competitive issues, including what's happening internationally, then at least we and the minister should not make a decision until such time as other regulatory bodies around the country, around the world, essentially determine something that two Canadian companies want to do.

So I think when Colin says "all options", I'm not sure there are a whole bunch of options, other than gathering the information, doing the net benefit test, and at the same time, as the motion says, waiting for the international community to assess what's happening with regard to Inco and Falconbridge. That is the level playing field that I think Canadians would expect, that this committee should expect, and that the minister should want. And I think we're all on the same page.

But I'm not sure what "all options" means. So if you had some views as to what "all options" would be, I'd like to hear them.

• (1025)

The Chair: I have quite a list. I have Mr. Masse.

Mr. Fontana, you've posed a question to Mr. Carrie, so I think what I'll do is to go to Mr. Masse—who is on the list—and then I'll go to Mr. Carrie, then Mr. Lapierre, and then Mr. Bonin.

Mr. Brian Masse: Thank you, Mr. Chair.

I think we need to take a step back to where this all started. It started from an original motion from Mr. Holland that called for full investigation, for the committee to be engaged on the whole process of Xstrata—a whole series of different machinations related to the takeover processes. That was something the committee could have chosen to do. We could have gone down that path to have those hearings.

The reason I proposed the subamendment, which is now the main motion, was that it gets to the due process issue. If there wasn't support at least to go down the road of having those full-out hearings, we would get to really the crux of the matter.

I thank Mr. Fontana for bringing a copy of the act to today's meeting, because I think it highlights that this is in the minister's purview. Too, we're talking about the express will of this committee, and the express will of me as a member of this committee. The minister can either listen to us or not listen to us, or he can pick words out here or there that he may not like or disagree with, but I'm more concerned about what's going to happen in Sudbury right now versus some European bureaucracy in Brussels holding up a process, or exposing a weakness, that we have in Canada.

So I think the motion we have on the floor is sufficient. I appreciate the concerns of the parliamentary secretary about the minister, but with all due respect, this is the expression of this committee, and it will be the minister, at the end of the day, to take that guidance from us.

• (1030)

The Chair: Thank you.

Mr. Carrie.

Mr. Colin Carrie: Thank you very much, Mr. Chair.

I want to thank Mr. Fontana for posing those questions to me. I think everyone on the committee has the same overall intent. We want to make sure that we do have a level playing field, and we also want to make sure that Canada is perceived as being open for foreign investment and not being restrictive at all.

Basically, I would say the difference with the language is that by wording it the way in which I've suggested, it does give the minister more options. I guess that's the basic difference.

The Chair: We have Monsieur Lapierre and then Monsieur Bonin.

[*Translation*]

Hon. Jean Lapierre (Outremont, Lib.): In fact, Mr. Chairman, we do not want the minister to have every available option. We want him to follow one option, which is the one to extend the deadline as far as possible. If we say that the minister has every option available to him under the act, we don't need to adopt a resolution here. You might as well send him a copy of the act and tell him to respect it, and the committee's role would just be superfluous.

We want to express the wish of the committee, we want the committee to provide advice. Therefore, it must be directional. We are not here to tell the minister to enforce the law. He does not need us to do that, that's his responsibility. However, I believe the message we want to send — and that is why I find the motion very restrictive — is that we want as little political intervention as possible in the process. In that sense, we would tell the minister to adhere to what is prescribed in the law. We are not asking him to do anything illegal, or anything else, we are just telling him that he should extend the deadline as far as is authorized by law.

Simultaneously, we want the market and shareholders to have an array of options, because if shareholders don't have any real choice between both options because of bureaucratic interference, can it be said that they truly have a choice?

So, in that way, we simply want to express a wish. But we cannot do this by telling the minister that all options are available to him. We are just letting him know which option the committee prefers that he take. I think that you'll agree with me that if we aim any lower, it would not even be worth it to pass a motion.

The Chair: Thank you.

Mr. Bonin.

[*English*]

Mr. Raymond Bonin: Thank you very much, Mr. Chair, once more.

I am very concerned about the words “all options”. We are dealing here with an offer, a friendly takeover, that is dated October 11, 2005. “All options” could be interpreted to mean to wait until the Xstrata offer of a hostile takeover on the condition that the first friendly takeover not take place. It could mean that the Teck Cominco offer of purchasing Inco on the condition that they drop the Falconbridge offer...and there are more offers coming, probably, so it could become very cumbersome. We don't want European or American companies deciding, “You have five options; we will decide which one is best for you.”

We have a friendly takeover offer that is dated October 11, 2005. Here we are in June, and we're getting other offers now. When the offer was made on October 11, 2005, the name Xstrata was in the news. It was known that they had an interest, but they waited until the end of the first process to try to stop it.

So if we are to be fair, for the possibility of a friendly takeover dated October 11, 2005, I think we have to complete that first.

The Chair: The amendment is only in English. Is this amendment in order or is it not in order?

I'm advised by the clerk that the amendment is in order, even though it's in only one of the official languages.

• (1035)

[*Translation*]

Mr. Robert Vincent: I believe we have two official languages and that they should be respected. I do not want to hear from the clerk that the motion is receivable in English. Let's be clear that we have two official languages, French and English. If he wanted to table an amendment this morning, he should have done so in both official languages.

[*English*]

The Chair: I'm told it is an amendment that is in order. I certainly agree with you that it should be in both official languages. I suspect that may influence the vote on the amendment.

Are there any more comments on the amendment?

An hon. member: Question.

A voice: Mr. Masse's?

Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC): The time is for the question. Call the question.

Some hon. members: Call the question.

The Chair: All those in favour of the amendment?

(Amendment negatived)

The Chair: We're back to the main motion.

Mr. McTeague calls the question on the main motion.

(Motion agreed to)

The Chair: Thank you very much, everyone.

Members, there is one more procedural motion we have to deal with. There is a routine motion being distributed. It's in both official languages. It's with respect to witnesses' expenses. This should have been done at our first meeting. It will be handed out.

This relates to witnesses' expenses, and it states:

That, if requested, reasonable travel, accommodation and living expenses be reimbursed to witnesses, not exceeding two representatives per organization; and that, in exceptional circumstances, payment for more representatives be made at the discretion of the Chair.

This is a routine motion proposed by Mr. Lapierre.

(Motion agreed to)

The Chair: Does everyone have a copy of the operational budget before them?

This is the operational budget request. The period is May 29 to June 30. The amount requested is \$15,200. My understanding is that because of the amount being below a certain amount, we do not require liaison committee approval, but we do need the approval of this committee.

It's proposed by Mr. Lapierre.

(Motion agreed to)

The Chair: I believe I only have one other issue and then we can take a break until 11 o'clock.

This is mainly dealing with the questioning of witnesses. Concerning the allocation of time and who speaks in what order, I think there is some confusion on the committee as to who speaks in what order. The clerk has drawn up a very good sheet as to who speaks when and what is the allocation of time. I'll be passing that out so we know exactly when a Liberal has the floor, when a Bloc Québécois has the floor, when the NDP has the floor, when a Conservative has the floor, and when the independent has the floor. It's all allocated here.

This was agreed to at the first meeting by the committee. This was just the clerk putting into effect what the committee had directed him to do. This is the procedure I am following. I think there was some question as to why I was going to certain parties ahead of others in certain rounds. This clarifies that.

If there are any questions on this, please contact me or the clerk, but this was the schedule we all agreed to at the first meeting.

The other issue I do want to raise is in terms of the questioning of witnesses. I think we've had maybe two MPs stay within the allotted time, so this is a challenge, and especially when the minister is here it will be a challenge because we obviously want to have as many people question the minister or other witnesses.

The first round is six minutes. That was at the will of the committee. We rarely go under nine minutes for the first round.

•(1040)

I'd like members to discipline themselves. It is hard for me to do so, and it's hard for me to cut off a witness. If members take five minutes and give one minute to the witness, I don't feel it's fair to cut the witness off after a minute. What I'm recommending is that the members spend no longer than half the allotted time for the question, allow the witness the other half the time, and then at that point I'll cut it off to try to be fair to all members and all parties.

I'm asking you to discipline yourselves. We'll see how that goes. But if need be, I will step in and try to enforce time limits when appropriate.

That's all I had before the committee. If there's nothing else, let's have 15 minutes for coffee, some doughnuts, and a group hug, and we'll get started at 11.

•(1042)

(Pause)

•(1057)

The Chair: I call the meeting to order. We are continuing with our study of the manufacturing sector. We have two groups before us. The first will be from eleven until noon and the second from noon until one. We have two excellent witnesses before us. I'm very familiar with those who have been on the industry committee before.

We have Michael Murphy, senior vice-president of policy with the Canadian Chamber of Commerce.

Welcome to you, Mr. Murphy.

We have Paul Darby, the deputy chief economist with the Conference Board of Canada.

Welcome to you, Mr. Darby.

Perhaps we'll have Mr. Murphy start. We've agreed that witnesses should have up to ten minutes to present. You can take the full ten minutes or less. Then we'll go to Mr. Darby for up to ten minutes. Then we'll go immediately to questions from the committee members.

Thank you very much for being here.

Mr. Murphy, we'll start with you.

Mr. Michael Murphy (Senior Vice-President, Policy, Canadian Chamber of Commerce): Thank you very much, Mr. Chairman. Let me say that it is a pleasure to be here on behalf of the members of the Canadian Chamber of Commerce, which is an organization that I think many of you are familiar with in terms of representing a very broad cross-section of business.

Let me commend you and all the members of the committee, Mr. Chair, for undertaking this work. I think it is not only an excellent choice in terms of subject, but it's also very timely.

I will start with a few brief remarks and then I will be happy to engage in a discussion. My remarks today, essentially, will summarize a recent report that the chamber prepared and we entitled it *Towards Canada's Prosperity: Tackling the Barriers to Productivity Growth*. That is the fundamental question that we think should be on all of our minds, and I know it is on yours. Copies of this report were sent to all members of Parliament in April, and we have brought additional copies today; it is available in both languages.

From the perspective of our membership, it is important that the government send positive signals to investors who want to do business here that Canada is open for business. This includes those investors who wish to invest in manufacturing facilities in Canada.

The sector is currently facing a number of challenges that I think are well known to all of you. I would propose today to not spend a whole lot of time talking about the nature of the challenges, but maybe a little more on some of the prescriptions for things we might be able to do.

I wish to briefly review the manufacturing sector having to cope with the high value of the Canadian dollar, competition from low-cost producers like China, rising input costs certainly, and skilled labour shortages, something that really cuts across our economy and has been particularly acute in some geographical areas, and western Canada would certainly be part of that. Manufacturers are, however, restructuring their businesses in response to these challenges they face in the global marketplace. In the future, competitiveness and growth in this sector will depend on a number of factors, a key one being productivity improvements built on innovation and skills development.

While we understand that the government continues to focus on its five key priority areas in the short term, the chamber and its members also need to look at the economy from a long-term perspective and begin addressing the productivity challenges we face in Canada. We believe that a comprehensive strategy is now required to boost overall productivity in Canada. Growth in productivity serves many goals, so there are many good reasons why we should do this—supporting high levels of income is certainly something that I think is critical, letting businesses pay higher wages and still keep costs down and allowing manufacturers to remain profitable and competitive in a global marketplace.

The government can boost productivity by putting measures in place that promote the incentive to work, save, and invest. The focus should be placed on reducing high marginal tax rates, reducing burdensome regulations, reducing barriers to trade, and investing in productivity-enhancing areas, such as education, skills training, research and innovation, and infrastructure. All of these areas are critical for the manufacturing sector.

To that end, the Canadian Chamber of Commerce and its members would like to recommend that the government create a more favourable condition for productivity-led growth and raise the standard of living for all Canadians for years to come by focusing on a number of areas. I will touch on each one of these very briefly this morning and will be happy to discuss them further.

The first area is fiscal policy. While I know I am in front of the industry committee and not the finance committee, it is hugely important to keep our eye on this particular ball. Improvements to productivity can be achieved in a number of ways in terms of reducing taxes, upgrading personal skills, savings, investment, risk-taking, innovation, and new investment in critical areas such as education and infrastructure. Our fiscal policy can influence all of these areas.

Government needs to create the room, however, to ensure that this productivity level can be reached by controlling program spending, making spending more efficient, and making further reductions to our level of debt.

On the tax side, the chamber and its members believe that a competitive corporate and personal income tax system needs to be the foundation of Canada's competitive edge. If our uncompetitive tax system continues to dampen Canadians' incentives to work, save, and invest, and they stay in Canada, other policy initiatives will become ineffective in achieving their goals.

Let me say a word about corporate income taxes. We have today, in terms of the broader context, the second highest effective tax rate on corporate investments—basically the effective marginal rate on capital investment—in the industrialized world. In terms of the importance of that issue, we are impeding capital investment and foreign direct investment in the country, and I think there are some specific things we can address there.

● (1100)

While corporate tax measures in the recent budget are positive, the implementation period for providing a number of these is extremely lengthy. I think you're well aware that the general corporate tax rate relief from 21% to 19% will not take full effect until 2010 and the corporate surtax won't be eliminated until 2008. Many industrialized nations continue to pursue tax reforms to ensure that they remain an attractive location for both individuals and businesses. There's more to do.

On the personal side, I'll make a very brief plea here. I think we've got to turn our attention to the question of low- and modest-income earners, especially families earning between \$25,000 and \$45,000 annually. High marginal tax rates are discouraging work efforts. We also believe the threshold at which the top federal marginal rate kicks in should be raised to at least \$150,000 from the current \$118,000 to attract and retain highly skilled and productive human capital.

I would also note, however, that the chamber was very pleased the recent budget also committed to raise the threshold for small business, from \$300,000 to \$400,000 next year, as well as reducing the business income tax rate to 11% by 2009.

A second area of critical importance is our relationship with our southern neighbour. With about 80% of our exports going to the U. S., it's vital that our economic competitiveness and the relationship between the two nations continue to be strengthened. The chamber supports the government's efforts towards a more conciliatory tone with our largest trading partner and that longstanding disagreements are coming to a resolution, such as the softwood lumber dispute.

I would like to say a word about the security and prosperity partnership, two very important words packaged together in a trilateral agreement among the United States, Canada, and Mexico. Originally signed in 2005, it provides a vehicle for finding agreement on potentially hundreds of issues that impede North American competitiveness and security. Resolving border issues will be paramount in the SPP exercise. The chamber will want to ensure that the SPP initiative remains a top priority for our government.

I'll say a quick word on trade, both internally and externally. With one in four of our jobs linked to trade, it's important that trade and investment agreements provide rules that are fair, predictable, and transparent. Trade is also an important determinant for productivity growth, it exposes manufacturing firms to global competition, and it ensures higher-valued products for all consumers. We must continue to press for a liberalized trade environment.

On regulation, another key issue, we are still over-regulated in many ways. The longer it takes for a new product to be approved by government agencies, the less likely it is that the new product will be created. The chamber was pleased when Industry Minister Bernier announced in March of this year that Canada is open to business and open to foreign investment, because the current regulatory and legal barriers generate barriers to foreign investment in Canada and the free movement of goods. The regulatory regime needs to be streamlined to benefit all sectors, including manufacturers. The bottom-line message is to create reforms to implement a smart regulation agenda.

On skills, a crucial issue, the country's citizens obviously play a huge role in our productivity performance. Manufacturers across Canada continue to report difficulty in finding skilled labour. Government can do more to ensure that Canada continues to be competitive and has a skilled and qualified workforce by looking at EI reform, increasing investments for higher education, ensuring the work permit system responds to labour needs, and focusing attention on better integrating immigrants into the workplace.

On infrastructure, despite the importance of public infrastructure to productivity, quality of life, and our economy, there remains a serious key issue to be addressed. First, we need to think more strategically about infrastructure in Canada and the spending associated with it. Secondly, delays at the U.S. border have not only the potential today but increasingly to drag our economy down. Third, we'll talk about ICT investment in rolling out broadband in the country also being critically important. We need a solid national transportation infrastructure strategy, which would include, in our view, the opportunity to discuss P3 initiatives in terms of public-private partnerships.

Let me close, Mr. Chair, with a word on energy as another critical issue. We need to develop an energy strategy in support of a competitive business environment in Canada, one that will strengthen Canada's market-based approach to energy and reflect the needs of both energy producers and consumers. As the energy needs in both Canada and the United States continue to grow, it will be increasingly important to consider energy from a continental perspective as well.

•(1105)

With the implementation of some of the recommendations I've outlined here, the chamber believes there will be more opportunities for workers, families, businesses, and overall productivity to get a boost and to increase our standard of living and support the global competitiveness of our manufacturing sector and the Canadian economy as a whole.

I very much look forward to the opportunity to discuss this important issue. Thank you for your time.

The Chair: Thank you, Mr. Murphy. That was a very comprehensive presentation in 10 minutes.

Mr. Darby, you have up to 10 minutes. Thank you.

Mr. Paul Darby (Deputy Chief Economist, Conference Board of Canada): Thank you, Mr. Chair, and good morning, everyone.

This morning I'm actually going to focus on only one aspect of an important issue for Canadian manufacturing, and that's really the issue that's already been touched on by Mr. Murphy: the regulatory regime and the regulatory burden faced not only by Canadian manufacturers, but also by other firms in Canada.

The Conference Board of Canada just released a report in May of this year, *Death by a Thousand Paper Cuts: The Effect of Barriers to Competition on Canadian Productivity*. I've tabled four copies with the clerk. Unfortunately, I only have them in English. They're also available on the Conference Board website, and I can direct you to that website if you so wish later.

The issue of regulations and I guess in general the barriers to competition in Canada have obviously been talked about for decades, if not centuries. There's always the sense among members of the business community that they're over-regulated, and they often complain about the extent to which they need to comply with existing regulations or the extent to which existing regulations in fact impede their ability to compete or to be appropriately productive. What we often lack is some hard research on whether these complaints are justified.

So the Conference Board, rather bravely, undertook a research project to try to get some sense of whether or not non-tariff barriers and other barriers to competition in Canada were having an effect on Canadian productivity. I guess the real issue is how one measures, indeed, the extent to which any one industry may be facing regulatory barriers. The answer we have adopted, based on other work done in Europe and in the United States, is really to suggest that if there are important barriers to competition in any one industry, you will see that reflected in the industry selling prices, particularly if those industry selling prices are adjusted for transportation costs and for wholesale and retail margins.

We have compared, for 31 industries, the industry selling prices thus adjusted between Canada and the United States. The hypothesis is that if in general the prices are higher in Canada than in the United States—adjusted again for the dollar, for transportation costs, for wholesale-retail margins, and taking all those factors out—most likely those higher prices exist because of some kind of barrier to competition that protects those industries. Prices can be higher in the United States, prices can be higher in Canada, depending on which country has the highest regulatory barriers.

We then correlated those price relationships with productivity measures for those 31 industries in both Canada and the United States. The results are actually quite interesting in the sense that for 16 core industries, almost all focused in the manufacturing sector, the correlation between these barriers to competition and productivity is very high. The higher the regulatory framework as reflected in higher prices, the lower the productivity. The statistical significance of that result in fact is startlingly high from our perspective. It's a much stronger conclusion than we originally expected to achieve.

So I think it's become quite clear, at least for the manufacturing sector, that there is a trade-off. If you're going to impose regulations, you are going to lower productivity, and that now seems to be pretty much an indisputable conclusion.

What's also interesting in the work is that we were unable to find much of a relationship between regulatory barriers to competition and relative productivity in the service sectors. This could reflect either one of two things, or both: the data is poor in the service sector in terms of productivity performance and also in terms of relative prices, and in addition, the service sector outputs tend to be non-tradeable. In fact, you're not facing the same kind of potential competitive pressure. It's not clear that the barriers to competition are going to generate a measurable difference in productivity—Canada versus the United States—because you don't have that U.S. competitor beating down your door to take your haircut business away.

• (1110)

It's probably a combination of both. There's no doubt that in the manufacturing sector, the regulatory framework in Canada is currently lowering our productivity. Obviously there are often a host of justifications for regulations. They protect our health and safety, and they often generate the appropriate competitive environments. But it's important to recognize that every time you impose a regulation, in general you are imposing an economic cost on the firm and lowering productivity.

We made some recommendations in the report. The tariff barriers, such as they now exist, are minimal in their impact, especially when we're talking Canada-U.S. trade. They've been lowered to the point where they're almost non-existent. There are a few sectors—particularly dairy, milk, and poultry—where we still have some significant barriers. But other than those specific sectors, we really aren't focusing much on any action with respect to tariff rates. We have NAFTA in place.

There's no doubt we have a host of regulatory non-tariff barriers for trade, both between provinces and between Canada and other countries in the world. It may be apocryphal, Mr. Chair—and I'm not sure I could prove it—but it is my understanding that Industry Canada made an attempt to inventory the regulatory legislation facing Canadian firms and gave up because it became too onerous a task. The list goes on and on; the pile gets higher and higher. How much money do you really want to spend on that project?

We definitely have to do something to try to simplify and rationalize. We really need to take a long, hard look at whether our current regulatory framework is necessary.

There are a few points I want to raise. One is that we need to harmonize our regulatory framework with the United States. Businesses complain, I think justifiably, particularly in the manufacturing sector, that it's an enormous cost to deal with satisfying the needs of the Canadian and all the various provincial regulators and at the same time meet the needs of the U.S. regulator—often for the same product with only minor differences in the regulations, but you're still filling out paper. We need to harmonize our regulations with the United States as much as possible, and there are great benefits to be gained.

In addition, we have to make a much stronger effort to do something similar with our interprovincial trade barriers. We know that AIT, the Agreement on Internal Trade, has certainly made some progress. The Council of the Federation has picked up the ball in many areas as well, but there's still so much work that needs to be done.

To give that effort a little bit more oomph, Mr. Chair, we were recommending, first, that unless there's a good reason to put a regulation in place, *de facto* and *a priori* all interprovincial trade is free—just do away with it all. Unless you can come up with a good reason why you think there should be a regulation, let's start with the principle of free trade.

In every sector, the language of the agreements should reflect that fact. The current language tends to be the other way. All trade is restricted except for the following areas where we've managed to free it up, which from our perspective is 180 degrees in the wrong direction.

Second, regarding interprovincial trade agreements, we need to have some binding dispute settlement mechanism. Currently, provinces can ignore any adverse rulings brought against them under AIT. To be honest, there's nothing with much teeth, Mr. Chair. So our sense is that to try to make this process work, we need to have some kind of binding dispute resolution mechanism.

• (1115)

Other provinces have already recommended that. They may include punitive monetary impositions. I think we have to put some teeth into the resolutions that come from various dispute settlement mechanisms.

In general, we also really have to think about how to reduce and/or rationalize the number of regulations we have in general in Canada. It's a huge effort. It's not particularly sexy, if you like; it's just a lot of grunt work.

In conclusion, I think I need to reiterate that the empirical evidence is now very strong that we are not doing ourselves any favours, particularly from a productivity and a competitiveness perspective, with the current regulatory regime as it exists in Canada.

Thank you very much, Mr. Chair.

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

We'll go to Mr. Fontana first, for six minutes.

Hon. Joe Fontana: Thank you.

Welcome, and thank you for your very comprehensive presentation.

Of course, we've heard already from some of your associate members who have raised the question of the dollar, competition, the regs, and the labour shortages. All of those, I think, are very much a part of a new productivity agenda that as a previous government we started to undertake. Hopefully the new government will continue to undertake it.

I could ask an awful lot of questions, but I'm limited by time and your answers. Let me just pick a couple of the subject matters you raised that I'd like further explanation on. Perhaps my colleagues will ask about some of the others.

There are two issues I want to talk about. One is taxes and their impact on productivity. The second one is with regard to infrastructure, especially at the border.

With regard to taxes, you raised a couple of things. You have indicated that we have high corporate taxes. Where do we need to go? I think you said from 21% to 19% was okay, but it was taking far too long, and you spoke of the corporate surtax. Maybe you can tell me where, in order to be competitive, based on your analysis, we have to go.

Secondly, you started talking about quality of life and the average working person. You indicated that the low tax rate was perhaps still too high, and yet it's moving now from 15% to 15.5%, which is the reverse of what you're suggesting, and also that you want the threshold at the highest level to go up in aggregate, and I would agree. But as to whether that high marginal rate is too high, what should that rate be?

You didn't talk about capital depreciation or moving towards a system where we would give some sort of incentives for people and businesses to invest in new machinery and new technology for the purposes of increasing productivity. I wonder if you could do so.

You might also want to comment on whether or not moving the GST from 7% to 6% has anything to do with productivity, and how in fact it's going to help us in our productivity. If you want to comment on this, I'd like it.

With regard to infrastructure, believe me, I think everybody around this table knows we need to move on the security and prosperity agenda as it relates to the United States. So many people, including premiers, are involved in this particular issue, and I know you also have associations across the border. At the end of the day, it seems to me the Americans have as much to lose if we don't get this border issue right, either in terms of physical infrastructure or this perceived security threat and the impact it has on agriculture, manufacturing, services, people, and so on. If we don't get it right, obviously it's going to hurt our productivity and competitiveness.

Outside of investing in infrastructure and making sure, what innovative ideas can you suggest? The Americans have 21 states for whom Canada is their number one customer; therefore, they have as much to lose in terms of employment and exports as we have. What are you doing with your counterparts to either convince Congress that any impediments to that border, such as special passports or special things and all of this...? Have we gone too far on the security side of things while we're missing the boat on the prosperity that could continue if we took a different view of the border and its impediments? Could you address that subject? Thank you.

• (1120)

Mr. Michael Murphy: There is a lot to comment on. I'll take them one at a time and briefly, Mr. Chair.

On corporate income tax, yes, the previous government's recommendation has basically been adopted in the recent federal budget. Our proposal had been to do something a little more aggressive—start in the current year with a one-point reduction and do three more over the next three years, so that we'd go from 21 down to 17 over a four-year period. In the interests of time, I won't take the time to talk about each one of these in detail.

On personal income taxes, there's a real issue at the bottom end of the rate, particularly as it relates to people, as I mentioned, who are somewhere in the \$25,000 to \$40,000 income range. The problem is clawbacks. It's a well-known problem and it's a tremendous disincentive, because if you are in that income group and want to go out and earn another dollar of marginal income, you're going to have it clawed back, essentially, because you're going to lose whatever other GST credits, other child tax benefit credits, or any of the other issues out there, which seems to us to be totally counterproductive.

On CCA rates—capital cost allowance rates—in terms of incenting investment, we saw and were very supportive of initiatives that had come out of the last couple of budgets, which looked at energy, telecommunications, pipelines, and a number of other areas in terms of incenting, through the depreciation regime, more investment. This is absolutely, fundamentally critical. I didn't mention a bunch of things in my remarks today because I was trying to keep a lid on the time, but that's certainly an area that we strongly believe is important. What we have to do is look at the useful life of assets and match that up to economic realities; that's something the Department of Finance needs to really focus on, and we need more out of that. I think we've taken the right baby steps there, but much more can be done for many sectors.

In terms of the GST, from the standpoint of a recognition that Canadians are overtaxed, it's another tangible example of an acknowledgement from government that Canadians are overtaxed, so there is one upside view on it. Was it our first priority? No, I'll have to admit that it wasn't, because we've got our focus on taxing income and trying to alleviate the pressures on Canadians and on the business community in that regard.

On the security and prosperity partnership, a hugely important initiative, I don't think we can ever get to a point at which we can say that security has received too much attention. In the dialogue with the United States, that is never going to change. That is the preoccupation there. We have to live with it. We have our own trump cards. In terms of being able to have the right kind of dialogue, the issue is the one you raised—what are we doing about the border?

The border is potentially an extremely negative component of our relationship because we have to behave, from a commerce standpoint, as if the border isn't there. We have such an integrated supply management system and supply chain system between our countries that any hint that the border is going to be an impediment immediately affects investment decisions. We already have examples of that, so it's absolutely crucial to get that right.

If we want, we can get into WHTI later. I'd be happy to talk about that.

• (1125)

The Chair: Thank you.

Mr. Darby, do you have some comments?

Mr. Paul Darby: I have just a brief comment, Mr. Chair. With respect to infrastructure, we did undertake a survey of U.S. firms to ask what they saw as the impediments or advantages to investing in Canada. Much to our surprise, our terrible infrastructure surfaced as an issue for them. Our roads are no good; our electricity supply is a problem; the border is obviously an issue.

This came as a bit of a surprise to us, because as Canadians we like to think that we have good roads. Guess what? We don't—not in the eyes of Americans. It's an issue we need to start tackling. It's been a long time since we've invested in infrastructure in Canada, and we've got to start thinking about how to make it a priority.

The Chair: Okay. We have Monsieur Vincent, *pour six minutes*.
[Translation]

Mr. Robert Vincent: Thank you for being here this morning. Your presentation was very good and very complete. Several points stayed in my mind. You said that the employment insurance system should be reviewed.

In your opinion, what kinds of changes should be made to the employment insurance system that would enable you to become more competitive and which would help you?

[English]

Mr. Michael Murphy: Mr. Chair, this is a hugely important issue. I would say there's a principle to be put into effect first, and then I can talk about some of the specifics. The principle is that EI, employment insurance, should be just that. It should be an insurance system and not what it has become, which is an insurance system plus. The plus is a whole series of social policy objectives that are being met through increases in the premiums paid by both employers and workers in the country. We now have a situation where about half the premiums that are paid don't go for insurance purposes. We've taken a program that was an insurance system and turned it into something far different.

So the first reform is to acknowledge that we've got to get the system back to what it was intended to do, which is to provide insurance for people who are paying premiums and who find themselves out of work. That's my starting point.

The disincentives we have built into the system today, as a result of... We saw another example of it this week with the so-called seasonal gappers program, the pilot trial that's coming to conclusion later this year. There are all kinds of examples of where we have to tighten up the program. That was done in 1996 by the government at the time, and our organization certainly supported the changes that were made. That changed again in 2002.

I think from the standpoint of looking at EI as an opportunity to do the job it's supposed to do in terms of providing insurance for people—workers and employers are paying those premiums—we're now at a stage where, with half of the benefits now going for non-insurance purposes, it's time to question the fact that employers—my

members and other members, other businesses in Canada—are paying 1.4 times the premium that workers pay today. The rationale for that used to be a case of “Well, you decide when people are going to be unemployed and you make that decision as a company”. Today you have half the benefits going for other purposes that corporations have no control over, so why do we still have a 1.4 premium? That's a serious question.

The other one is that there is a system built into EI for individuals. If you overcontribute because you changed jobs and your second employer starts deducting EI premiums, you get that back through the tax system every year. That's not true for corporations. We think there's a very big bill left on the table where corporations are overpaying on EI. That should be addressed as well.

Those are a few specific comments.

• (1130)

Mr. Paul Darby: I have a quick, general comment. I think it's important to recognize that EI premiums are a tax on labour. In general, you're lowering employment by doing that. You want to keep that as low as possible. The kinds of surpluses we saw generated on the EI account, which went into general revenues, as you know, from our perspective, were in many ways not excusable.

This is a program, and even if you add some non-insurance aspects to it—and I think Mr. Murphy makes a good point—those non-insurance aspects may be better served through other income support legislation. However, even if you do that, you should recognize that you desperately want to keep that rate as low as you can. You're not serving Canada by having high taxes on employment.

[Translation]

Mr. Robert Vincent: If I understood your answer, employment insurance is an insurance which should benefit all workers, because they pay for half the system, and employers pay for the other half.

As it now stands, in the case of layoffs, fewer than half of workers are eligible for employment insurance. What you are saying is that when a worker is laid off, that worker should be eligible for employment insurance and has a right to this money which was set aside for the worker.

[English]

Mr. Michael Murphy: Yes, I think in essence it is difficult sometimes to understand who gets access to the program, in terms of paying premiums for perhaps a very long time. I'll readily admit I'm not an expert in the machinations of how the system works in terms of who's eligible and when they're eligible and those kinds of important questions. But the principle is that we started out with a program, and we've now changed the nature of the program so fundamentally that it's time to step back and take a hard look at it.

We did this in terms of the other component, the tax on labour and looking at the Canada Pension Plan in terms of payroll taxes. We took a long, hard look at that in the 1990s, and we made a very big decision for the country to change the nature of how we were going to fund it.

Whether you agree with the conclusions that were drawn from the reform there or not, at least there was a stand-back, good look at the system to decide what the objectives were and what we were trying to achieve.

I think we need to do that for EI.

[*Translation*]

Mr. Robert Vincent: As far as training is concerned, you also talked about new technologies which enable industries to be more competitive. Do you have any suggestions in that regard?

In Quebec, companies must invest 1 per cent of their payroll if it exceeds \$1 million. Do you think it would be possible to implement such a policy throughout Canada in order to increase our competitiveness?

Some sectors don't invest a penny in new technologies. So they end up operating with outdated technologies and eventually close their doors or stop being competitive compared to emerging economies.

So should we have a new measure to that effect?

• (1135)

[*English*]

Mr. Michael Murphy: In terms of technology investment, I think it's one of the things that is so important, whether it's information and communications technology or other types of technology. We talked a little bit about what kinds of programs are available through capital cost allowance regimes and so on. You start there—and I'll come to training in a minute.

You look at those kinds of incentives. We very much support the idea of ensuring we have the kind of economic structure that says it makes sense to invest. What we've seen more recently is a pretty significant change in terms of the level of investment of companies in Canada in machinery, equipment, and technology. There are a number of reasons for that. The dollar is probably one of them.

In terms of training—if I could just go there for a minute—we've given this a lot of thought in terms of looking at how much companies might benefit from.... And we have tons of incentives in our economy built in today; some of them, I might argue, we should think about getting out of our economy.

This is an area where I think it's worth talking about, in terms of saying, without having the solution, should we be doing some work to think about what kind of incentive might exist to enhance the training opportunity for certain companies? And part of the reason I say that is the nature and the structure of our economy. We haven't talked a lot about small business today, but that is the Canadian economy in terms of firms tending to be very small, and I think everybody around this table in this committee knows that.

So there's a challenge that perhaps doesn't exist in some other economies, including that of our friends south of the border who have many more medium and large firms than we do.

So we do think it's worth talking about.

The Chair: Mr. Darby, just briefly.

Mr. Paul Darby: Again, I have a very brief point.

When we compare the appetite for high-technology investment between Canada and the United States, the real problem is with the uptake among small and medium-sized enterprises in Canada compared to the United States. In the United States, small and medium-sized enterprises have a much higher appetite to innovate, to adopt the latest technology, to invest in the latest machinery and equipment.

So I have to definitely support what Mr. Murphy has said. We need somehow to try to tackle the issue of how to get small business in Canada much more willing to undertake high-tech investment to remain competitive.

The Chair: Thank you.

Mr. Shipley.

Mr. Bev Shipley: Thank you, Mr. Chairman.

Interesting, and I appreciate your presentations, Mr. Murphy and Mr. Darby.

I come from a rural background, and obviously my interest is in agriculture, one of the largest industries we have in this nation and across our province of Ontario. I'm interested in your comments in terms of regulations. And in your last comment—I didn't get it down—how do we become more competitive and collect that investment in the technology?

I can tell you that in the agricultural industry, those people in my area and across this country that I visit—and I farm—who are in the industry likely have become efficient faster than in many industries. They have adapted technology; they have become more proficient, and more efficient, but they have no way of recapturing that. A comment was made: you can go back to that marketplace when you bring in your innovations and your technologies and you can often recapture that because you're in competition. In agriculture that doesn't work, because the only marketplace on the Chicago Board of Trade outside of supply management is the free marketplace. It has very little respect for the business person in agriculture, quite honestly. Some brief comments about that, and then I'll go to the regulatory issue.

We are overregulated. And if we're ever going to remain competitive, one of the first things we need to consider and talk about is, how do we level that playing field?

Our people in agriculture are unable to use products used by our largest competitor. We don't always have to agree with the Americans, but we should always respect them. If you do 80% to 85% of your business with someone, it doesn't mean you have to agree with them—nor should you on certain policies—but you should always respect them because they are your trading partners.

How do we overcome this hurdle if we can't use products to help level the playing field when we spray our crops, for example? One of the problems is that other nations, whether it's the United States, Indonesia, Asia—we're bringing in all these types of foods that obviously have product on them that we don't use in Canada. What can we do to help level that field? We've now created one of the most unlevel playing fields.

We just had a long debate the other day on the Pest Management Regulatory Agency on an issue...it's about global. We talk about environment, yet we talk about how important it is to protect our own health and safety. And we all agree, health and safety is really important and so is the environment. But we can't overregulate ourselves and take us out of competition because of regulation. I'd like some suggestions on how we can move ahead on that, and some thoughts on it, because we have one industry that's actually captured outside of many other industries.

• (1140)

Mr. Paul Darby: This is an extremely challenging and clearly difficult task to undertake. I have just a few comments. Again, I can't claim to be an expert in agricultural regulation, but I could make a couple of comments.

One, whereas health and safety and the environment are obviously critical, and there are, I imagine, potentially going to be some effects to the use of some not such safe products in some of the countries you mention, I think what we need to move toward in the regulatory framework is at least an acknowledgement that there are also economic costs to the regulations and that we can't necessarily assume that the health or environmental costs or benefits are infinite. We need to do some kind of net accounting on the regulations.

In general, it's often the case that the economic costs are never taken under consideration. If the regulation is seen to have any kind of protection of health or the environment, then it's adopted on that basis, without any accounting of what it might mean in terms of lower efficiency, higher costs, or a burden to industry. Those costs are difficult to measure. It's very difficult to do that kind of net accounting, but it is really something we need to start looking at very carefully.

Second—and Mr. Murphy may have something to say on this as well—one of the goals for the agricultural sector in Canada would be to make an effort to move up the value-added chain; in other words, do our best to move away as much as possible from simply producing raw material and then shipping the raw material abroad. That will always be an important part of our trade activity in Canada. But we need to really also consider to what extent we can encourage moving away from the production simply of raw material to processing that raw material in Canada using some of the latest technology and then exporting at a more finished or more processed level in terms of the industrial supply chain.

There are great challenges to doing this. Part of it has to do with our scale. In agricultural production, a tenth of a cent per unit is a fortune in terms of your competitiveness often. On a can of soup, if you're a tenth of a cent more expensive than your competitor, you're not selling. It's a tough business, and scale is important. But again, if we can do something about some of our interprovincial barriers to trade, we may be able to get the scale up to the point where we can become a lot more efficient with respect to some of our processed food industry, which is a very important manufacturing sector in Canada today. I sense it could be far more important if we were to take some of the barriers away.

Another issue for the processed food industry is the shortage of labour. Often there are skilled trades involved in, for example, meat processing, in meat packing. Butchering is actually a skilled trade.

There are many other skilled trades in the processing of foods in Canada where we're facing great shortages and where we really have to try to do some work if we're going to move up that value-added chain in food processing.

• (1145)

The Chair: Mr. Murphy.

Mr. Michael Murphy: Thank you, Mr. Chair.

I'll very briefly add on each of the points. I think Mr. Darby's point on value-added is very important in terms of the agriculture component of the answer.

You mentioned the benefit of free markets, and I think that's hugely important. If you look at those two concepts together, and I'll use wheat and barley as an example in western Canada in terms of the way the Wheat Board operates today, the crunch issue for many in the farming community in western Canada is their ability to do what wheat growers in Ontario can do, which is find our market, have an opportunity for a greater value-added contribution to be made in western Canada, and do something positive for the economy there. That doesn't happen today as a result of the single-desk model we have with the Canadian Wheat Board.

On regulation, one of the things I would encourage the committee to do.... I don't think any of us has to start from scratch on this issue. There's been a lot of good work done. Certainly, the external advisory committee report on smart regulation, which I think members would be familiar with, was released in September of 2004. Gaëtan Lussier chaired a very good piece of work.

There's a lot of work going on inside government today in terms of implementing that report, work that we think needs to continue because it's going to require a culture change inside the system. But one of the really important things that report did was to give you a sense of...why don't we pick a few targeted examples of things that we can actually try to do something about? You can decide what they are, whether it's in the energy area or in pharmaceuticals or in processed food, as Mr. Darby was saying. There's a bunch of things that you could immediately point to, and we could think about mutual recognition, if we're talking about Canada-U.S., or we could think about how we do the fed-prov component better, where in environmental regulation, for example, we have both levels of government doing the same thing in many cases.

They have already identified a number of things that would be very good starters, as examples of saying let's do some of this. So I would certainly say that's the right way to go—that and coupling it with what you need to do to change the culture, in terms of saying it isn't just regulation because we can do it; it should be because it's the right thing to do.

The Chair: Thank you.

We'll go to Ms. Chow.

Ms. Olivia Chow (Trinity—Spadina, NDP): Thank you, Mr. Chair.

I have three areas of questions. The first one is on employment insurance and training programs. The second one is on immigrants and our immigration policy and our workforce. The third area is on the infrastructure—transportation and public transit.

On the first one, recently TD Economics said in one of its reports that because of the changing labour market realities, it's leaving a large group of the labour force uninsurable under EI and a complementary set of programs is urgently needed to fill the gap. One of the recommendations from the recent report that came out, *Time For A Fair Deal*, is that we need to reform EI so that your workers would actually get coverage.

In big urban centres like Toronto, where I'm from, only 22% of the workers get coverage. The rest of the money goes elsewhere, as you have noticed. I understand your suggestion that it should really be an insurance program. When they contribute to an insurance program, when they need it, the workers should get it. That's my number one question, whether that is an area that needs to be changed.

The second area connected with it is that the money the workers and employers put in could be used for a lot of the training programs that we all know are needed. One of the other recommendations that came out is that we know that a lot of the training programs, such as apprenticeship programs, mentorship, job coaches, and on-the-job training, are all filled to the brim right now. We desperately need more skilled labour, especially in the service sector, because if they don't get skilled, given how small a population we have, we're never going to be productive.

Should we not spend some more of that EI money, both back to the workers—aside from your first three recommendations, reducing the premium and all that—and also do really clear labour market targeted training so that we can get the workforce we need.

We can talk about immigrants in a few minutes. That is the first area of my questions.

• (1150)

Mr. Michael Murphy: I'll try to be brief in terms of the suggestions here.

If you accept the principle that in EI we have gone well beyond the traditional insurance program that was originally designed, I think the fact that we have other objectives to meet in society doesn't mean we should look at EI as a panacea for all of this. Too often we've decided to do that.

When we talk about a shortage of skills, let's be very clear that we're talking about skills at all levels of the economy. It doesn't matter what you're talking about; we have a problem today in Canada.

I'll use apprenticeships as a very good example. I think if our friends from the trucking association were here, they'd tell you that they'd like to find 40,000 drivers today. In terms of apprenticeships, we've got some issues among the provinces in terms of labour mobility issues that we need to resolve as well, which are totally independent from how much funding we do. Are we in favour of increased funding in terms of driving apprenticeships? We are, and we've been on the record as saying that. We think it's critically important to do that.

From our standpoint, the skill sets that so many of our members need cut right across all sectors of the economy and all parts of the geography. As part of the skill shortages that we have in the country, there's a virtual crisis today. Go to Alberta and it is the first

conversation you're going to have in terms of the oil patch and meeting its needs or in terms of someone running a service industry in Alberta, or elsewhere in Canada, where they can't get people to do the jobs.

Yes, I would very much support that.

One of the things this gets into, and it's always a tricky part of living in this country, is that you're again into the federal-provincial situation in terms of labour market development and the role the provinces play. It always tends to complicate the issue. You'd have to do this in a way that works in terms of the feds working with provincial governments.

I'll stop there.

The Chair: Mr. Darby, do you have something to add?

Mr. Paul Darby: To support what Mr. Murphy said, if you are going to take EI money and any surplus that exists in the account and apply that money to apprenticeship programs, one would argue that at least it's directly supporting employment in the future. In some sense, it would still meet Mr. Murphy's principle of trying to use EI money in order to support employment opportunities and a bridge from one job to the next. It sounds like a great plan to me.

As Mr. Murphy said, I think the issue is that you've got to work it out with the provinces as well.

The Chair: Ms. Chow, do you have further questions?

Ms. Olivia Chow: Yes, I have two other areas.

One is on the skills shortage. We bring over a lot of immigrants. For the jobs where we need the skills, in the construction industry, for example, we know there's a housing boom in the urban centres of Calgary, Montreal, Vancouver, and Toronto. It's a desperate situation, but the immigration policy of the point system right now doesn't work.

I see that some of your recommendations talk about the work permit system and the immigration intake system, and I agree with you that there needs to be a complete reform. Have you come up with some kind of program that actually says here are the ways the point system should work so that it's completely connected to the kind of skills we need, not just for professionals?

Secondly, I see recommendations about accreditation, which is a huge problem right now. I see four recommendations there. Are there some specific programs that you think we should focus on that would really help in the skills shortage area?

• (1155)

Mr. Michael Murphy: The first point I'd make is on immigration. Given our demographic realities—and we haven't talked a lot about demographics and the impact this is going to have on our economy so far, but it's huge—we know where the labour force growth is coming from. It's going to come from immigration, and we've been pushing for years for reforms here. I think the government did, in 2002, when the reforms were brought in.... We spent an enormous amount of time at that time talking about the selection grid and the point structure, and it did get amended as a result of a number of discussions at that time. I think it's far better now than it was prior to that—yes, absolutely. So we've made some real progress there.

We're not an organization that says let's create an overall target for the quota system, for example. It's more a case of saying, between Human Resources and Social Development and Citizenship and Immigration—because the two departments need to work together here—and the business community, how do we make sure we define our needs as sharply as possible? The biggest single issue I think we need to address is the speed with which we get people who we need into the country. And where are we getting most of our immigrants today? From Asia. And where are we taking the longest to get our immigrants? From Asia.

We have an absolute, fundamental need to look at resourcing in that area. So that's one of the specific things we've recommended that the government take a look at. We have to make sure we have some efficiencies built into the system so that when you're in the target areas, because that's where immigrants are coming from, we do this most efficiently, because this is a competitiveness issue for our country, no question.

The Chair: Are you satisfied, Ms. Chow?

Sorry, Mr. Darby.

Mr. Paul Darby: On the accreditation issue as well, we think we have to do something, because it's frankly a bit of a mess currently. Part of the issue is, again, federal-provincial jurisdiction issues. One way to break the logjam, I would propose, would be to identify five, six, ten crisis industries, crisis sectors, where the skills shortage is

frightening. If we could start there, with somehow putting in place a national, coordinated, streamlined accreditation system, it could go a long way to perhaps breaking the logjam in general.

I think you would get agreement at the provincial level. You'd get agreement from the trade unions, most likely. You'd get agreements from industry, obviously. We have a real crisis in some areas, and I think Mr. Murphy could probably name five off the top of his head. He already talked about the trucking industry. We have to do something.

We've just finished some work, for example...what we feel will be the shortage of warm bodies, not just skilled labour in Alberta. In the year 2025 we're looking at over 330,000 workers short in terms of the demand for labour we're anticipating. That translates into roughly three million workers short at the national level. The word "crisis" comes to mind. If you think it's bad in Alberta now, it's just the tip of the iceberg.

So we need to get moving—now.

The Chair: Okay, thank you.

We're a little over time, and we do have our witnesses here for the next session.

I just want to thank you, on behalf of the committee, for your presentation. It's very comprehensive, and there has been a good exchange of ideas with the members here as well. I just want to thank you for being here with us today. If you have anything further to submit to the committee, please feel free to do so.

Mr. Darby, we do have the presentation from the chamber, but if you want to submit that.... If you have copies in French as well, you can certainly send them to the clerk and we'll distribute them to the members. Thank you very much.

We will formally adjourn and then we will reconvene for the next meeting in about two or three minutes.

The meeting is adjourned.

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