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**EVIDENCE**

## Tuesday, June 6, 2006

## Chair

**Mr. James Rajotte**

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● (1005)

[*English*]

**The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)):** Thank you very much, ladies and gentlemen. I'm sorry some of us were held up by transportation means here. Thank you for coming in this morning and changing your schedules to come in an hour early to accommodate the minister, who will be here at 12 noon today.

This is part of our study on the manufacturing sector. It's obviously our first study in this Parliament and this committee. Hopefully we will be able to do as much as we can by June. We'll have the meeting this morning for an hour and 45 minutes. I would ask each organization to limit themselves to a maximum of a 10-minute opening presentation—shorter if at all possible—to allow time for the members to pose questions and for you to present your answers.

I'll present all of the witnesses here today, and then I'll ask the first witnesses to start.

We have Mr. Sharma, who is the chief economist and executive director in Ontario of the Canadian Plastics Industry Association.

From the Canadian Apparel Federation we have Eve Grenier, president, and Bob Kirke, executive director. Eve is also representing the Apparel Manufacturers Institute of Quebec. I guess she's wearing both hats today.

From the Canadian Textiles Institute we have Harvey Penner, the chairman, and Elizabeth Siwicki, the president.

We'll start with the Canadian Plastics Industry Association for up to ten minutes. Then we can have the two apparel federations. If they could present jointly, that would help. Then we'll have the Canadian Textiles Institute.

Mr. Sharma, welcome.

**Mr. Atul Sharma (Chief Economist and Executive Director, Ontario, Canadian Plastics Industry Association):** Thank you for the opportunity to make a presentation today. I do have a few limited copies of my presentation, which unfortunately, due to some last-minute changes, are in English only. I have provided them to the clerk, so I understand they will be distributed later on. But if anyone would like a copy, I certainly have some that I can distribute.

Historically, plastics has always been a vibrant industry, and over the past 10 years plastics GDP has grown at twice the rate of general manufacturing. However, today we find ourselves at a crossroads. One path leads to a substantially decreased presence for the plastics industry in Canada; the other one leads to a path to prosperity. The reality is that in order to achieve prosperity, we need a partnership between industry and the federal government. Here today we want to talk about that partnership.

Before we get into the issues and all the detail, I want to provide a quick overview of the industry. In 2005 it was a $51.5 billion industry, employing over 100,000 people across Canada. We have over 2,400 plants, and our manufacturing growth rate has been twice that of general manufacturing. Over the past year we have had substantial positive growth in the areas of polystyrene foam, plastic pipes, and plastic bags. Overall, year over year, the industry has grown by about 4.3%.

In terms of the end use for plastics, 34% of all plastic products go into packaging, followed by construction at 26% and transportation at 18%. Transportation includes automobiles, auto parts, and everything that goes into that, so I think it surprises people that the number comes in third and is not in a higher place. Construction is an area where we have seen a lot of growth, and we're expecting to see a lot more growth within that sector. Compared to other countries, 26% is a historically larger number for the use of plastics in construction than in other countries. Packaging continues to be number one.

CPIA represents the total value chain in plastics. It includes plastic processors, the resin producers, mould makers, and machinery makers. The industry is a $50-billion-plus one in Canada, and plastic processing occurs in virtually every riding across the country. The industry is widespread and very diversified. The primary components of the $50 billion value chain is processors, which comprise $39 billion, mould makers at $2.5 billion, resin producers at $8.7 billion, and machinery makers at $1.3 billion.

According to Statistics Canada, plastic products manufacturing ranks fourth overall among manufacturing industries. In front of it are automotive industries, auto parts manufacturing, and petroleum refining. Also according to Statistics Canada, the plastics industry is the number one manufacturing sector employer in Canada, just ahead of vehicle parts. I'll get into some of the numbers a little bit later.

According to Statistics Canada, motor vehicles is about a $70 billion industry, petroleum refining is at about $55 billion, with $32 billion for motor vehicles parts, followed by plastics at $22.5 billion. Right behind plastics is pulp and paper at $22.3 billion. In 2004, pulp and paper and plastics exchanged positions, so we were number five and we've moved up to number four.

As to the top five industries by employment, number one is plastics, employing 93,138 people; vehicle parts is at just under 93,000; printing is at 67,000; meat products is at 65,000; and household furniture is at 58,000. So that gives you a sense of where we are compared to the rest of the industries.

About 15 years ago, society began talking about the end of the smokestack industry—which generally referred to manufacturing—and the beginning of a new knowledge-based economy. The reality is that manufacturing is the original knowledge-based economy and continues to be an important part of the Canadian economy. Plastics is a key component of the knowledge-based manufacturing sector. One of the key roles for government is to show that it recognizes the important contribution made by manufacturing to the Canadian economy.

● (1010)

To continue to facilitate the growth and the knowledge-based component of manufacturing, we would recommend that the government re-look at SR and ED tax credits and make them more accessible so that more companies could take advantage of them. This will in turn bring new and innovative products to market.

In terms of the value of manufacturing, most plastic products are based on the refining of natural gas. If you took a dollar of natural gas at the wellhead, you could turn it into a $15 plastic product. We've got a 15-times multiplier in the industry, which is very healthy and very strong. We want to continue to maintain that.

Contrary to popular belief, we don't use a lot of natural resources. Out of the oil and gas sector, plastics consumes about 4%: 88% goes to fuel; about 6% goes to other uses; and about 2% goes to synthetic rubber, paints, and synthetic fibres, which is, I guess, our tie-in to the apparel industry.

One of the key issues of concern to us is the protection of our feedstock. As I've just talked about, we rely very strongly on oil and natural gas. We need an energy strategy to ensure an adequate supply of feedstock for the industry to continue to prosper. You can see that while we only need 4% to produce all plastic products, we still need access to the feedstock to ensure that the manufacturing sector continues within Canada.

CPIA would like to see an end to the non-strategic use of natural gas. The plastics industry is in a unique position in which natural gas and oil are both our feedstock and our source of energy. This is important because as energy prices increase, you hit the cost of production for companies within the plastics industries at two points: one, on the cost of energy and the price of electricity through the use of burning of natural gas, which raises the price of electricity; and also on the cost of resin as well, since natural gas is used as the primary source for the resin.

The industry is at a crossroads. In the next couple of minutes, I'm going to highlight how we've reached this crossroads and what course of action we could take to help determine its future.

The GDP for plastic products has escalated from $4.5 billion in 1996 to $8.1 billion in 2005. However, we've seen a stagnation in the growth rate in the last few years. The year-over-year growth rate for the industry in 2003 and 2004 was equivalent to that of all manufacturing. If you will recall, at the beginning, I said that historically we've been at two times the rate of manufacturing. We've gone from two times the rate to being equivalent in 2003 and 2004. The real cause of concern for us is the fact that the rate of growth for plastics in 2005 has gone below that of all manufacturing. This is a great cause for concern for us. We believe that action needs to be taken; however, it will require the involvement of the federal government.

I will highlight some of our recommendations in detail.

When talking about international trade, as for almost every other product, the United States has been and continues to be the largest trading partner for the plastics industry. For the past several years, there has been a positive balance of trade with the United States. This trading relationship has helped to prop up a positive balance of trade between Canada and the rest of the world. We've seen that if you take out the balance of trade with the United States, our trade balance with the rest of the world, excluding the U.S., is back in negative territory. For the past 10 years we've had a negative balance of trade with all of our non-U.S. trading partners.

We have in fact seen a levelling off of our trade balance with the U.S. in the last three years, since 2003, and we've seen our trade balance with our non-U.S. partners worsen. If this trend continues, we will continue to see declines in our overall trade balance year after year. We feel that the government must put a priority on programs and departments that are responsible for promoting international trade, primarily DFAIT, PEMD, and EDC.

● (1015)

In terms of our relationship with other trading partners, if we look at it from the U.S. perspective, we are the top import source for the United States market. The U.S. imports from Canada about $10.3 billion worth of plastic products, followed by China at $5.9 billion. We are also the top export market for the United States plastics industry. They export to us about $8.6 billion. These are 2004 dollars. We are followed very closely behind by Mexico, to which they export about $8 billion.

**The Chair:** Mr. Sharma, we have about 30 seconds. Could I ask you to wrap up?

**Mr. Atul Sharma:** I'm sorry.

We're talking about the partnership between the federal government and CPIA. We have taken some positive steps to give our members tools to make them directly more competitive. In the question and answer segment, I can talk about some of the stuff we're doing in Quebec. But we have a number of recommendations, if I may illustrate them quickly, on what the government can do.

One is to adopt the future around the future of manufacturing. We believe that vision is around adding value to our natural resources through manufacturing. Instead of exporting our product in its raw state, we should make sure we provide value-added within Canada before it leaves the country.

We believe there should be an acceleration of the capital cost allowances to no greater than two years to enable companies to exploit the current exchange rate and to foster further innovation.

We would like the federal government to show leadership on an energy framework, which ensures adequate feedstock for manufacturing and the stabilization of energy prices.

We believe the federal government can create a sustainable regulatory environment within which plastics companies can operate efficiently and with some certainty.

We would like to see a simplification of the R and D tax credit regime, which would enable more companies to participate and benefit from the program.

Last but not least, we'd certainly like to partner with the federal government on trade promotion.

Thank you.

**The Chair:** Thank you very much, Mr. Sharma.

Ms. Grenier, will you be presenting on behalf of both the Canadian and the Quebec—

**Mrs. Eve Grenier (President, Apparel Manufacturers Institute of Quebec):** Yes, sir. It will be integrated.

**The Chair:** I'll ask you to lead off, then. You have up to 10 minutes. And, Mr. Kirke, will you be adding any comments?

**Mr. Bob Kirke (Executive Director, Canadian Apparel Federation):** Yes.

**Mrs. Eve Grenier:** Thank you, Mr. Chairman, for the opportunity to address the committee. I am pleased to be here providing our comments concerning issues under consideration by your committee.

My name is Eve Grenier. I am president of the Apparel Manufacturers Institute of Quebec and I'm also vice-president of the Canadian Apparel Federation.

This morning I am representing Mr. Lifson, president of the Canadian Apparel Federation, as he has been held back in Montreal for medical reasons. I can assure you that he would have loved to be here this morning.

[*Translation*]

On the personal side, I am responsible for the management of our family business. We have been making ladies undergarments in the Montreal area for four generations, since before Confederation. We have about 200 employees and two plants. Right now, we are not importing any finished products. Our activities are totally integrated from design to manufacturing to delivery.

With me is Bob Kirke, Executive Director of our Federation. If you have very specific questions to ask, he will help me answer them.

[*English*]

The Canadian Apparel Federation represents over 600 Canadian companies involved in the manufacture of apparel in Canada. The Canadian Apparel Federation is made up of provincial associations. We have one association per province. Of course, the largest of these is the Apparel Manufacturers Institute of Quebec, of which I'm president.

I will integrate my remarks regarding.... In fact, what is happening in our sector in Quebec is the same as what is happening in the other provinces. There is not much difference in the challenges our industry faces, regardless of which province they are located in. However, the province of Quebec is the largest employer and the largest producer of garments in Canada. We represent more than half of the production.

The Canadian apparel industry as a whole directly employs approximately 70,000 people, with, as I said, the largest concentration of companies and workers in the Montreal area. In fact, you might be surprised to know that Montreal is probably the second largest manufacturing centre for garments in North America, the first one being Los Angeles, and New York having lost some ground in recent years. In the province of Quebec we used to employ approximately 40,000 people directly in our industry. Sadly, this number is melting as we speak, as companies are either closing or changing the way they do business by not manufacturing any more but moving into import and distribution. Of course, there are a lot of challenges that face our industry as we try to protect the jobs in our province and in our country.

The apparel industry requires various kinds of workers, from those who are relatively low-skilled and work with low technology to those who work in highly advanced engineering and software development.

We have made available to the clerk of the committee copies of *Export Wise* magazine, which is produced by Export Development Canada. In this issue, our industry is featured in the cover story. So for your bedtime reading you might find some very interesting information.

As this article illustrates, many Canadian companies have become market leaders and successful exporters over the past decade, making major inroads into the U.S. market in particular. In fact, when you look at the figures, you see that, sadly, we have lost our domestic customers. Many years ago when this trend started, when the major retailers started to import, started to have their own importing design departments—and thanks to ALENA—we woke up and took this wonderful opportunity to go into the U.S. market.

Right now, the value of production of garments in Canada is approximately $6 billion. Exports are worth approximately $2 billion. Those figures have been decreasing in the last years; however, they have to take into account the change in the value of our currency compared to that of our U.S. partner. On average, 40% of a manufacturer's production goes to the U.S. This is the picture of our industry.

We find that we have been successful. We find that we have been able to open up new markets, which is not an easy task when you go into the biggest market of the world, which is viewed by everyone as a street paved with gold. We have a lot of competitors in that market. Notwithstanding the fact that our major domestic retailers went to imports, we survived, thanks to our exporting business.

● (1020)

In recent years—in the two last years, I would say—Canada first abolished all duties and import quotas on apparel coming from least developed countries—the LDCs, we call them. Then it abolished import quotas from all countries.

In doing so, Canada ended a 40-year program of import controls that provided a measure of protection for domestic apparel manufacturers. It should be noted that the quota system in place until the end of 2004 not only protected Canada's industry; it actually fostered the development of the apparel manufacturing industry in countries throughout the developing world. Because exports from key suppliers such as China and India were capped by import quotas, other countries were able to develop export-led apparel industries to supply the markets of Europe and North America. With the end of quotas, we are now seeing substantial adjustments throughout the world, as production that was established in certain countries in Asia, Africa, and Latin America migrates to larger, more efficient producers, especially China. The effects are, of course, being felt in Canada. It is in this context that we view the issue before this committee.

First, as to globalization, the clothing industry is one of the truly global manufacturing industries. Clothing is made in virtually all countries, and in developing countries it is seen as a key strategic industry, so moneys are being invested by their governments into this key strategic industry.

Unfortunately, the reality is that it is now also an industry with massive overcapacity on a global basis, which means that we have more and more competition as outside manufacturers are getting into our domestic market and to our primary customer, the U.S.A. It is not only that; the price issue is also of the utmost importance.

So you have numbers and you have price. Mind you, I can assure you that our members understand globalization, because they know they are competing with manufacturers based all over the world who are keenly interested in our domestic market and our major export market.

First was globalization. Second is the Canadian dollar. All the members here know that our currency has increased its value, but I don't think you realize the percentage it has increased and the way it affects what I should call the bottom line of Canadian manufacturers. The issue of the appreciation of the Canadian dollar is extremely important for this industry. I told you that our major customer is the U.S. We are not as present as we used to be with our domestic manufacturing. The rise in the Canadian dollar has dramatically reduced the value of our exports and made it more difficult to compete.

In 2002, Canadian apparel exports, primarily to the U.S., were approximately at $3 billion. Export of clothing declined steadily from 2003. This decline, as I said, largely corresponds to the appreciation of the Canadian dollar. If you take a look at the Bank of Canada average rate from 2002 to 2005, we were at 1.57 in 2002; we are now at 1.14 in 2006. It was 1.3015 in 2004 and 1.2117 in 2005.

● (1025)

This increase in the value of the Canadian dollar is taken right out of the bottom line. There is no way you can tell a U.S. customer who doesn't even know the Canadian dollar exists that you have to increase your price this year by 13%, next year by 7%, and that the year before you should have done it by 17%. This money is coming out of the manufacturing process. It is coming out of the bottom line.

These are the margins of profitability, and the small margins we have are gone. This is the most important challenge for the manufacturing of garments as of now. The speed of the increase is such that you cannot, in a few months, come out with new collections, new products, new ways of doing business. It is too fast.

I know the Canadian government will tell me there is nothing they can do, but I think it is important that you see the bigger picture.

● (1030)

**The Chair:** Ms. Grenier, we're going on to about 13 minutes.

**Mrs. Eve Grenier:** Do I not get 10 minutes for Quebec and 10 minutes for CAF?

I'm sorry, I was under that impression, sir. I apologize.

**The Chair:** How about 15, then?

**Mrs. Eve Grenier:** That is fine.

On energy costs, sir, you might not think they are important for us, but energy costs are very important as, in order to get those customers in the U.S., we included freight in our pricing.

Our situation is challenging, and our recommendations are as follows.

First, we need a strategy that is cohesive and coordinated, and our government has to be proactive with us if it wants to maintain a manufacturing base in Canada. Action is needed on tariff policy, procurement, and in terms of supports available, in a general manner that is favourable to the industry. We have in the past been very vocal as to our proposal that all customs duties on fabric should be removed as long as these fabrics are not produced on a commercial basis in Canada. I insist upon "on a commercial basis", as I truly believe we should have had a very integrated textile and garment industry in the past. When something is commercially available in Canada, it makes the most business sense to buy from your supplier next door. We don't go through the world having fun buying fabrics.

The recommendations we made have started to be implemented, but it has now been a full year, and implementation is not finished. We have not seen the end of the work that is now being done by the Minister of Finance. If this could be accelerated, of course, it would be helpful.

Procurement policy for me is not only procurement as to Canadian content, but also a way to set an example. I'm wearing my "Wear? Canada!" pin this morning. There is a play on words. I hope you saw it and understood "Wear? Canada!" It is used in all our trade shows. It has been developed thanks to a program from Industry Canada, funded through CAF. We have marketing initiatives and are promoting Canadian-made garments throughout the U.S. when we participate in trade shows.

But in Canada, couldn't we be more specific as to procurement that supported Canadian content? This, I'm sure, could be set as an example and could be marketed towards the consumer.

Finally, it is reasonable at this stage for the government to review existing adjustment measures that have been put in place and review whether they can be extended. The majority of programs initiated under the CATIP program have lapsed or will do so over the coming year. The success of the Apparel Development Centre, which was put in place last year and is administered through CAF and AMIQ, suggests we can work closely with government to deliver targeted programs that complement the policy recommendations included above.

I thank you, Mr. Chairman, for your patience, and I await questions and answers so that I can make more points.

Thank you so much.

● (1035)

**The Chair:** Thank you very much.

We will now turn to the Canadian Textiles Institute.

Mr. Penner, you'll be presenting.

**Mr. Harvey Penner (Chairman, Canadian Textiles Institute):** Thank you, Mr. Chairman and members of the committee.

My name is Harvey Penner. I am the chairman of the Canadian Textiles Institute and president and CEO of Tricot Richelieu Inc. I'm here with Liz Siwicki, president of the Canadian Textiles Institute.

We're pleased to have the opportunity to appear before you to provide the textile industry's perspective on the challenges facing the Canadian manufacturing sector.

First, let me give you a brief overview of the Canadian textile industry. The Canadian textile industry is modern, dynamic, creative, entrepreneurial, and innovative. It provides interesting and rewarding direct employment for almost 45,000 Canadians and indirect jobs for many thousands more in communities where the industry is a major or the sole employer. It's a substantial contributor to the nation's economy and one of Canada's major exporting sectors, with exports accounting for about half of total textile industry shipments of $6.1 billion. The industry has invested over $4 billion in plants and equipment over the past decade, has a highly skilled and motivated workforce, and includes some of the finest examples of technology and processes in the world. It's one of only six Canadian manufacturing sectors in which R and D outpaces R and D done by U.S. firms, as reported in a recent Statistics Canada study.

Like their counterparts in other Canadian manufacturing industries, textile producers are facing numerous challenges, including those that are the focus of your study, plus some others that are unique to our sector.

l'm glad, Mr. Chairman, that your committee is hearing directly from manufacturers on this very important topic. Every day I pick up the newspaper, listen to the radio, turn on my TV, and access the Internet, and I see or hear that manufacturing in Canada is doomed; that Canadians need to focus on knowledge-based activities and high tech; that it doesn't make sense to manufacture in Canada when it costs so much less to make things somewhere else—such as in Bangladesh, for example, where desperate workers who make the clothing Canadians are buying have been rioting in the streets and burning down factories to demand that the minimum wage be raised and working conditions improved.

According to Bangladeshi sources, some garment workers make as little as 1,000 takas per month—that's $16.20—for long hours that often exceed the maximums mandated by the government. I read in the Bangladeshi *Daily Star* last week that they are planning a 24-hour industry strike for June 12 to have their minimum wage raised to 3,000 takas per month, or $48.57. They're also demanding that the main gates of the factories where they work be kept open, not locked as they often are, to avoid additional deaths due to the crush of workers trying to escape factory fires or collapses like the ones that have killed more than 350 workers and injured 2,000 others since 1990.

Canadian textile manufacturers have been negatively impacted by products made in Bangladesh and China and other low-wage countries where working conditions in the industrial framework within which manufacturing industries, and in particular the textile and clothing industries, operate. And it's not because what they make is necessarily better than what we make or that we're less efficient than they are. The international trading environment in which goods are traded is not a level playing field. It's not just company versus company out there, vying for the market share. Government policies also play a role in competitiveness. Our government needs to decide whether or not a strong manufacturing sector is important to Canada's long-term future, and if so, what needs to be done to stop the erosion of this country's manufacturing base.

Mr. Chairman, members, the Canadian textile industry is a modern, technology- and capital-intensive manufacturing industry. We have skilled, talented, and creative employees who play a vital role in the products we bring to market domestically, in North America, and abroad. We rose to the tremendous challenge of free trade with our biggest trading partner and one of the largest textile industries in the world and made it work for us. We're constantly developing new products for new and exciting and existing end uses for new and existing customers. But so is everyone else in the world. Our competitors all around the globe have access to the same equipment and technology we do, and to the capital to buy it.

● (1040)

Knowledge travels quickly, as do samples that can be copied and sold in competition with the goods that we have developed. Canadians are moving up the value chain, out of commodity goods and into more specialized products, as we should be. So are our international competitors. Every week I read articles from Asia about government strategies targeted at enhancing the value-added of textile and apparel exports. l'm sure other Canadian manufacturers face the same situation.

So what can the Canadian government do to secure a long-term future for our industry, its employees, and the communities in which these textile firms operate? Our industry has made a number of specific recommendations to the Minister of Industry and his colleagues, and we hope to have the opportunity to discuss these with him in greater detail as soon as he can find the time to make himself available.

Our recommendations to the minister are constructive and positive. Textile manufacturers are doing what it takes to make themselves stronger, less vulnerable to the ever-accelerating pace of change that everyone knows is out there. What we're looking for from government are policies that will enable these strategies to be successfully implemented.

The most critical problems we're facing right now include the erosion of our Canadian customer base and the barriers we encounter in exporting yarns and fabrics to the U.S. We have recommended the implementation of an outward processing program for the textile industry to allow textile manufacturers to pursue and develop new business opportunities. Outward processing is already in place in the U.S. and Europe, and even in Australia. Our proposal seeks to repatriate a portion of this 100% foreign textile content, which represents $6 billion of apparel currently being imported into this country—$6 billion of apparel is imported into this country.

In other words, imported apparel made with Canadian textiles would enter Canada duty-free. This would give Canadian textile manufacturers an important tool with which to develop business with the increasing number of Canadian apparel manufacturers who are producing goods offshore, as well as to sell textiles to foreign manufacturers exporting apparel to Canada that now is made from foreign textiles. It will also keep textile manufacturing jobs in Canada.

Another one of our key recommendations is for the Canadian government to actively address the serious problem of U.S. bilateralism that is increasingly eroding the benefits of NAFTA for Canadian textile producers. The Canadian textile industry is a free trade success story, or it was until the U.S. government abandoned one of the key principles of our NAFTA partnership and began pursuing bilateral deals that exclude its NAFTA partners.

The U.S.-Caribbean Basin Trade Partnership Act, which provides duty-free and quota-free entry for apparel made in the Caribbean from U.S. yarns and fabric has had a devastating effect on Canadian textile exporters. Canadian textile export growth between 1989, when the FTA was first implemented, and 2000 was 308%. Between 2001, the first full year after the legislation was implemented in the United States, and 2005, exports declined by 11.6%, and they are down again in the first quarter of 2006. So we went up from 1989, from the implementation of the FTA, by 308%, and in the last five years we've dropped by 11.6%.

The U.S. is continuing on the same legislative track with similar arrangements with sub-Saharan Africa and the Andean nations and a free trade deal with Central America that is also largely excluding Canadian inputs.

Our industry had hoped for the early implementation of the FTAA to provide for the seamless movement of goods within the hemisphere. It's the best prospect for resolving the inequities we now face vis-à-vis our U.S. competitors because of creeping bilateralism.

We're disappointed that the January 1, 2005, deadline passed for the completion of the negotiation, and we're discouraged that the FTAA now seems to be going nowhere fast. We recognize that Canada is only one of over 30 countries with a say in these negotiations, and we acknowledge the good efforts of our Canadian negotiators to make progress, but we need strong political will from the top all the way down to pursue and achieve a beneficial agreement in the fastest time possible. Every day that passes without an FTAA means more lost business for Canadian textile firms.

● (1045)

I know my 10 minutes are running out, so before my time is up, let me touch on a couple of other items you are exploring.

Yes, the rapid rise in the Canadian dollar against the U.S. dollar is an issue for our industry, as it is for others. It's a lot harder to sell what we make to foreign customers as well as to our own Canadian customers whose import dollar goes a lot further. The appreciation of the Canadian dollar has aggravated the problems that were already happening and having an impact on us, and we expect it will continue to do for some time to come.

It's naive to think Canadian manufacturers can adjust to the rise of the loonie at this pace, this appreciation that's happening now. The adjustment means plants will close and jobs will be lost. Who will be making the things Canadians want and need? This is really important: when Canadian manufacturers disappear and the Canadian dollar depreciates, making imports more expensive, there will be nobody left to make the product if it continues as it has up to now.

High energy costs are also a problem. Because of the nature of the manufacturing process involved in making fibres, yarns, and fabrics, Canadian textile producers are large users of some key forms of energy, such as gas and electricity. They are already implementing energy conservation measures, and were doing so even before the recent large increases in gas, electricity, and oil prices, because it makes good business sense. Again, it's the rapid escalation in costs that's the problem, especially when it coincides with the market conditions we have been enduring over the corresponding period.

Finally, Canadian textile manufacturers recognize that a well-educated, highly skilled workforce is essential to the industry's performance and competitive advantage. Award-winning skill development programs, created through collaborative industry efforts, are used extensively in plants and other facilities to ensure the Canadian textile industry workforce remains up to date and at the leading edge of workforce learning.

Liz and I are available to provide any further information you require or to elaborate on anything we've said here today. In closing, I would like to thank you again for having us and to impress upon you that textile manufacturers want to contribute to the wealth and prosperity of Canada and all Canadians, and we look forward to working in partnership with you toward a bright future. Asking us for our input is an important step toward realizing this future. Implementing a sound industrial and trade policy framework in consultation with manufacturers is the key to making it happen.

Thank you.

**The Chair:** Thank you very much for that presentation.

We will go right into questions by members. Just to inform the witnesses, in the first round of questions we have four members scheduled; we have three members for the second round, a total of six minutes per member, so I would encourage you to be brief in your response and members to be brief in questions, because the six minutes includes both the members' questions and your responses.

We'll start with Monsieur Lapierre for six minutes.

[*Translation*]

**Hon. Jean Lapierre (Outremont, Lib.):** Thank you, Mr. Chair.

I want to thank Mrs. Grenier and the other witnesses for their presentations. They reminded me of the time I was first elected to the House. It was in 1979. Today, I feel like we're living the same dilemma as we did then. At that time, I was the MP for Shefford. We had the Hessman Mills and other clothing manufacturers. The debate was almost the same. Only the players were different. Have we not been able after all these years to find our niche?

During the last electoral campaign, I heard about a few success stories. For instance, I went to the Mégantic—Compton area where a textile company specializes in the manufacturing of fabrics for office chairs. The owners told me that since they specialized in small orders, they had been able to hire more employees than ever because they stopped trying to compete with the Chinese. They only dealt with small orders, with specific colours and materials. This specialization saved them and gave them wings. I hear about specialization since 1979. The only specialization we could witness over the years was job specialization. Now the business model seems to be changing.

Mrs. Grenier, you worried me when you said that your business is not importing anything right now. It's the term “right now” that's worrying me. Are we still looking for a niche or a specialty? Did programs like CANtex help? I'm trying to figure out the situation we're in because the debate is exactly the same as 30 years ago.

● (1050)

**Mrs. Eve Grenier:** I am sorry but I will not answer the part of your question relating to textiles. Mr. Penner will.

As for apparel manufacturers, those who are left are the ones who found a niche. To me, this is very clear. You're talking about covering fabrics. Mr. Penner will deal with that. In the apparel sector, those who make clothing with a Canadian content produce in small lots and have a very diversified stock. They use streamlined and just-in-time production techniques. If we're still in business, it's because we did that. However, the challenges are still the same. We managed to survive since 1979 and this is quite an achievement. We were able to change and to open up the largest world market to 40% of our production. I'm very proud of what has been achieved.

However, for a number of years, we've had the *Perfect Storm*. From 1979 to 2001, things weren't that bad, but we now have the *Perfect Storm*: there's the value of the Canadian dollar, energy costs, a flood of foreign imports and competition in our largest market, the United States. There was tremendous modernization in our industry but whatever we do doesn't seem to be enough.

I don't know if you will find my answer satisfactory. Yes, it's now a niche market. Yes, we are specializing in small orders. Yes, we have a very large assortment of products. This is why we can do business with medium-sized customers in the US who cannot buy from China because their minimum salary is higher.

If I may, Mr. Chairman, I would say I always look on the bright side of things. Presently in China – and I really hope my crystal ball is working – 600 million Chinese are rising to the middle class. They want consumer goods, they want to get dressed the American or the European way. These 600 million Chinese represent a market twice as large as the US market that we worked so hard to penetrate. If they start spending, it will take the whole Chinese manufacturing capacity – at least I hope so – to meet domestic needs. Canada has a population of 35 million but not a single Chinese manufacturer will be selling anything here. This is true but it will take another four or five years to happen.

I'm trying to look at the bright side of the emergence of a rich China. Here, with our small niche, we will perhaps be left alone because we will be insignificant. This has already started for some major Canadian buyers who are having trouble finding suppliers because their orders are not as large as our Chinese competitor would like them to be. This is only an aside. Maybe it's hopeful thinking.

[*English*]

**Mr. Harvey Penner:** Can I add something to that, Mr. Chair?

Just to answer directly to what you were asking, specifically about the niche part of the business and why we don't evolve more in that, we are in a moving target situation. Every country in the world, whether it's China, Pakistan, or India, is also developing niches. They are looking at that niche business because it has margins. Also, you have to understand that the manufacturing base has to be commercial. It has to have economies of scale. So you have to be able to produce and also to cover your overhead.

One issue of CANtex was helpful, but it doesn't really answer the problem, because what we are talking about here is market access, availability for us to sell our product, in the United States particularly. Then, on the other hand, we have the erosion of our market that was created by, with all due respect to your party, Mr. Chrétien when he deemed it necessary to provide Bangladesh with duty-free access to this country.

If you factor that in, just that one particular item—because I'm in the apparel business as well as the textile business—you have a dollar that has appreciated by 40% and you have a duty that was removed from Bangladesh of between 15% and 20%. You have a 60% differentiation between what an apparel product cost from Bangladesh. It's half the price of China.

What you have going on in the domestic market is a race to the bottom, and when you have this erosion, particularly by Bangladesh, it drives all the Canadian manufacturers to have to lower their prices to compete.

So it's market access and government policy. We have in the textile business the ability to compete, but we have been cut out of the American market and we've been eroded on a second front from Bangladesh, and that's the issue.

● (1055)

**The Chair:** Thank you.

Monsieur Crête.

[*Translation*]

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

Thank you for coming today. The message you've delivered is that the world has changed and that governments need to act soon. I hope our report we contain many of your proposals.

I know our minister of Industry was invited to a meeting on February 17 by the textile industry. This meeting didn't take place yet. You may be meeting with his executive assistant. You were invited today. Perhaps they are a little scared and will try to deal with the situation, but I hope the minister will understand that the world is moving faster now. People in my riding have been hardly hit. Companies are closing down. One of them used to make jeans. Consoltex closed down a plant. Things are not looking good.

What kind of program does the textile industry wish to have for clothing made of Canadian textiles that can be imported duty-free? I checked with people in the Caribbean and they're looking forward to this. Can you give us a brief account of this project and tell us how much the wasted time will cost you? For the past three years that I've been on this committee, you have come to talk to us about this problem. I would like you to repeat your arguments in favour of this program because I want it to be included in the committee's report.

[*English*]

**Mr. Harvey Penner:** Liz is good on the history of these things, so I'll pass the microphone over to her.

**Ms. Elizabeth Siwicki (President, Canadian Textiles Institute):** The idea of outward processing was first raised as a recommendation by our industry during the course of the joint government-industry working group on textiles and apparel, which was several years ago. It was one of our recommendations. We finally got a meeting last March with the chief of staff to the then Minister of Finance, and at that time we received a commitment that they would proceed with looking at outward processing.

We've been working on it ever since. There has been meeting after meeting, and delays. I'm not going to say we're not making progress, but the problem is that the progress isn't being made fast enough for our industry, which, as Mr. Crête has pointed out, is closing plants and slowing down production because we don't have orders; we don't have customers to sell to.

Outward processing would provide business opportunities for Canadian textile manufacturers to continue to employ people in Canada and to continue to invest in Canada. It's not happening fast enough. Consoltex is an example. I think in the press release that was issued, Mr. Thibault mentioned specifically that the time had run out for that particular plant. There are other plants in Canada that can still benefit, if outward processing is implemented soon.

[*Translation*]

**Mr. Paul Crête:** I'm asking you to send your documents and your recommendations to Mr. David Dodge, governor of the Bank of Canada, so he will understand that the interest rate hikes have to stop as soon as possible. Do you have any comments on this subject?

● (1100)

**Mrs. Eve Grenier:** I am not an economist, sir, I work in the field. I hope the US Federal Reserve will soon increase its rate and that we will not follow suit. But I am not an economist. I know this hurts us but I cannot say what's affecting the Canadian dollar most. Is it due to the people who are promoting our natural resources? Are interest rates causing our dollar to rise? I really don't know.

As an aside, I would like to talk about the issues related to outward processing. I want to repeat that as much as I would like the textile and apparel industries to work in close cooperation on the Canadian market, I cannot accept the outward processing recommendation.

I hope you have a good appreciation of the situation. Fabrics made in Canada would be sent to Bangladesh to be processed at a cost 10 times lower than in Canada and would be sent back to the few Canadian customers the apparel industry has left. Please don't ask me to support such a measure, as president of the Apparel Manufacturers Institute of Quebec. We would be creating a new competitor in our domestic market.

**Mr. Paul Crête:** We have heard this argument four or five times before. The government has to decide who it's going to help and how, because Americans are already doing it. They have an agreement with the Caribbean where clothing is made and sent to Canada and the United States.

**Mrs. Eve Grenier:** When it comes to Canada— *[Inaudible]*

**Mr. Paul Crête:** It's getting to the United States and taking up a substantial part of the American market. And the worst in this is inaction.

Yes, sir.

[*English*]

**Mr. Harvey Penner:** Your first comment is on interest. You have to understand that we've had a deflationary movement of 50% to 60%, or 40% at least, in the value of imports. Where is that appearing? Mr. Dodge is very proud to say that inflation, other than in energy and cars, is running at 2% to 3%. You have a deflation of 40% in the value of the dollar. The profit of that is not coming to the Canadian manufacturer. It's the retailers and the importers, and by the way, neither one is passing on that savings to the consumer, because if they were passing on the savings to the consumer, you would see a drop in prices by 10%, 15%, 20%. They are utilizing that to increase their profitability on the backs of Canadian manufacturers.

On the second issue of outward processing, it is critical for Canadian apparel manufacturers to have a textile industry to supply the Canadian inputs. It's the principle of NAFTA. If you are going to use third-country inputs that are non-Canadian, you are not going to be able to ship your product to the United States. If we do not get outward processing, the textile industry will die. The knitters will die, the weavers will die, the dyers will die, and then there will be no sources for Canadian apparel manufacturers to source from. In particular, if they have to source from a U.S. source, which is a monster in size, they will, to put it bluntly, get no respect, no delivery, and no orders.

In order for the Canadian apparel industry to survive, the Canadian textile industry has to survive. In order for the Canadian textile industry...it has to have market access. It has no market access currently in the United States, to what it was; therefore it has to expand its horizons.

Apparel manufacturers here will be able to sew and cut in these other countries, bring it back, and average it with what they're making here. We are not competing with the Canadian apparel industry; we are competing with the $6 billion of imports that are coming into this country. This is all positive for the Canadian apparel industry. I'm an apparel manufacturer. I need that as well in order to survive.

**The Chair:** Thank you, Mr. Penner.

Merci, Monsieur Crête.

We will now go to Mr. Van Kesteren for six minutes.

**Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC):** Thank you, Mr. Chairman, and thank you all for coming. You paint somewhat of a bleak picture. When Mr. Lapierre was mentioning that we've had these problems for a long time, we were reflecting on some of the people who have appeared in the past. We had the auto industry here last week as well, and they too have some real challenges. I think we all agree that protectionism isn't going to work. That's certainly not the direction we have to go in.

I think, Ma'am, you also mentioned the possibilities of markets like China and India—-and I think you said $600 million, but I think it was maybe $60 million, or something like that—but at least we know there's a huge middle class that's starting to develop.

At any rate, you seem to indicate that you need just a period of time to hang in there. In the interim, what can government do? I'm talking about taxes. I want to ask about corporate taxes and regulations. Are you hindered by regulations, and in your industry, has that caused you to be ineffective and unproductive as well? So it's taxes and regulation.

● (1105)

**Mrs. Eve Grenier:** I'm sorry, I think Bob would like to address part of the answer, and I have something to tell you about taxes.

**Mr. Bob Kirke:** As you can see, the textile apparel industries don't always agree. That's maybe the understatement of the year. We view the two industries as having separate dynamics, and we tend to look at input tariffs, as Madam Grenier has mentioned, on the fabric. We import fabrics and pay duty on them, and in many cases, those fabrics aren't available here. So we view that as a tax issue, and we don't agree really with the textile people on that. That's the dilemma we have sometimes.

Clearly, on the rate of change in currency and so forth, whether it's through enhanced capital cost allowance—geez, wouldn't that be great? We have no objection to any of those remedies that would look at the velocity of change and the impact it's having on business. That would be phenomenal.

On SR and ED, are the ways that we develop product through risk currently captured sufficiently in SR and ED programs? No. So you can look at a number of those measures, and we would have strong support for that approach.

In terms of other regulations, Harvey mentioned that if we import fabrics and make a garment, we can't export it. Well, of course, we can export it, under certain arrangements under the NAFTA, if it's going to the U.S. or Mexico, but we pay a quota charge to the Canadian government to issue that permit.

The Americans change the rules overnight. You need 12 times as many permits as you needed last year. There are a lot of those things. You will see, coming out of the Waco summit about a year and a half ago and more recent meetings between the leaders of the countries, that there's a recognition that we have to sweep away these nuisance regulations. And any measures this committee can recommend on that front are welcome as well.

**Ms. Elizabeth Siwicki:** I would just make the comment that the textile and apparel industries agree on the SR and ED point that this is an important program for the textile industry. We're heavy users of it. There are some interpretive issues as to what constitutes R and D that I think warrant looking at, as well as looking at some of the types of things that our industry and, as Bob mentioned, their industry do that aren't currently considered R and D and that might be.

In terms of the bigger picture, if we have nobody to sell to, if we don't have our markets, if we don't have an industrial and trade policy framework that encourages investment, the paperwork issues, the regulatory issues, really go to the back burner. The focus really needs to be on the bigger picture right now because I believe that is what's causing the trouble for our industries.

**Mr. Dave Van Kesteren:** Very quickly, the other thing I think somebody mentioned is that we've begun to import many of our textiles from places like Bangladesh. I think the reasoning behind that was pure. We thought we could aid nations that didn't have the same advantages we had and we could give them entry.

Is that something we should look at? It hasn't worked. What we've had as a result is, what you said, sir, that we're producing stuff for pennies. We can't compete. Should we as governments look at our sources and possibly demand some type of living standard for those who produce? Is that an area we want to start to delve into? Is that an area we want to move into?

● (1110)

**Ms. Elizabeth Siwicki:** We have never moved away from the concept of Canada as a nation helping the poorest countries in the world. In fact, we think that's a good thing. But on the initiative that was put into place, where we think it can be changed is with respect to the rules of origin, because in fact in that initiative, up to 75% of the value of a garment that benefits under that program can be from a non-LDC country. So the benefits of that program are going to countries like China, Korea, Pakistan, Brazil—other countries that were not the intended targets. So we think there's scope in the rules of origin to go back and look at that program and to ask how we can truly help the people in Bangladesh, in Cambodia, in Africa, and not really have these benefits flow to non-LDC countries. So yes.

**The Chair:** Thank you.

We'll be going to Mr. Julian.

Before that, I want to briefly comment. Mr. Crête has asked me to recognize a very special guest with us today, His Excellency Robert Hans Tippenhauer. He's the new ambassador to Canada from Haiti. Perhaps the ambassador could just stand up to be recognized by the committee.

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

**The Chair:** I'm also told he was with the Haitian Canadian Chamber of Commerce, so he obviously has some interest in the issues before the committee right now.

We will go to Mr. Julian, the final questioner in the first round, for six minutes.

[*Translation*]

**Mr. Peter Julian (Burnaby—New Westminster, NDP):** Thank you very much, Mr. Chair.

Thank you for coming today.

We know that the situation in the last few years has had devastating effects on the textile and apparel industries. There were tariff changes that resulted in job losses. Overall, since 1989, we have seen an erosion of the income of a great majority of Canadian families. We know that 60% of Canadian families have less resources and less income than in 1989 and that 20% of families have the same income. Only the highest-paid people got a salary increase.

The issue of quality jobs is very important not only to this committee but to all of the Canadian Parliament.

I want to go back to the issue of tariff changes for the textile and apparel industries. What action should have been taken to prevent the job losses of the past several years? What action should the federal and provincial governments take in order to maintain and even increase the number of quality jobs in your industries?

[*English*]

**Mr. Harvey Penner:** With regard to textiles, we have four points that we have continued to hammer away at for the last four years. Obviously, there's outward processing, which is critical to our survival, which allows us to have an expansion of our revenues. It provides more customers for us to sell to and would allow the apparel industry to grow in Canada by being able to outsource what is the most difficult part of the total package, which is the cut and sew, which requires a labour differentiation that's too dramatic to be able to sell to the main market in Canada in the long term. We have seen this because there have been many firms in the apparel business that no longer manufacture anything here, and we can list the names. Probably of the 600 companies, half of them are importing probably 100% or at least 75% of their business, so outward processing is the issue.

On market access, we explained again that under NAFTA, when we had the U.S. as our market, we grew by 300%. Because the Americans, in their judgment, look for low-cost countries to produce, what they did in essence were the Caribbean and African trade laws, which eliminated Mexico and Canada from shipping in textile, yarns, or fabric to be able to manufacture in these countries. So they eliminated us from that market and we're excluded. It's only American inputs that can go into these Caribbean countries to come back duty-free.

The other issue, of course, tied to that was the idea of the free trade of the Americas, which had seamless goods moving within all the countries that represented that. I think there are 34 countries.

The last issue is the LDC, which I have hammered particularly. The LDC rules of origin absolutely need to be addressed, because you not only have these countries like China, Korea, etc., taking advantage of it and pushing to the lowest country for labour, and then they ship here and don't have to pay any duties, but you have the exploitation of the worker, instead of helping the worker in the countries we've signed the agreement with. They push them to the lowest labour cost or they won't give them the work. So if you can change the rules of origin so that they are more in line with what the Americans and the Europeans have done, you will then help to build those countries in Africa and Bangladesh by making them adjust and set up an infrastructure, rather than just using the labour to cut and sew. They'll have to put dye and they'll have to put knitting in order to take advantage of that duty-free entry.

This is what we need. Those are the four points. It's market access. It's customers. It's revenue. Some 90% of my apparel business goes into the United States. I have a strategic plan that works. We've grown our sales, but in the textile industry the same thing is required to have some of these four points put into work.

We've hammered it enough.

● (1115)

**The Chair:** I have Mr. Kirke. Will you be speaking?

**Mr. Bob Kirke:** Yes, I'll just mention a few things.

The fact is, the world is changing totally in terms of the trade picture for textiles and apparel. Harvey has made a case for the rules of origin to be changed under the LDC. I'm not taking issue with the statement. I support them, and we supported that change in 2002 when it was being proposed. But in point of fact, what that would do is allow those same people to make 48¢ a day sewing his fabric. That's what he's saying: “Let me ship the fabric so that it can come back”, but he would still pay them 48¢.

When we look at the changes in the world, what we run into is that there's no way to look at them with a clear picture in one little shot. The fact of the matter is, everything is changing, and Harvey and Eva have been successful because they've found strategies that work. They're usually in niche markets and usually focused on exporting into the United States.

There are lots of other companies in both sectors where there are success stories. We're here because you're dealing with problems, and we're going to bring some problems to you, but there are successful companies, and, my God, most of them don't issue press releases when they are successful. They stay to themselves and remain quiet.

The other side of it is, speaking to your point, that we are moving to a stage where there will be less direct employment in manufacturing here in Canada in the apparel industry. What's the upside to that? The upside is that those same companies, the ones that are surviving, are hiring more management, marketing, product development, and design people. You're seeing, in some respects, a transition to a white collar industry. Are there positives and negatives associated with this? Surely there are. We're here to tell you what the problems are, but I also would say there are success stories out there.

**The Chair:** Thank you very much. Thank you, Mr. Julian.

We'll go to Mr. Fontana for the second round.

**Hon. Joe Fontana (London North Centre, Lib.):** Thank you, Mr. Chair, and thank you all for the great insight.

Regardless of whether it's in plastics, apparels, or textiles, I think there is a theme. It may very well be, Mr. Chairman, that we'll have to call Mr. David Dodge back in, once we've heard the witnesses, for the purpose of asking some very fundamental questions that we might want to pursue further with him.

You raised a fundamental question, so I want to ask it again. I think it asks who will make the goods Canadians need and want. I think that's important.

David talked a little bit about protectionism. Well, I think Canada is the only country in fact that is playing by the rules; there is no protectionism. Everybody else, including the United States, tries to pretend it is playing by the rules while in fact putting in all kinds of.... The textile industry talked a little bit about how, by entering into a NAFTA agreement, we're getting screwed by virtue of something the United States is doing or not doing. I think there's a fundamental question: either we want very innovative manufacturing sectors, such as textiles and apparel and plastics—because I think you've done it all, you've researched it, you've developed a product, and you've been this competitive—or we don't.

You've also talked about this perfect storm. If there is a perfect storm, let's figure out how in the hell we're going to survive it until such time as it passes, or whether we are going to pass it. Let me ask a question specifically.

I'll start with you, Atul, because I think you've been left out of the questions up to now, and plastics are very important to southwestern Ontario in the auto parts industry and some others. You also talked about how we mitigate against this storm that's coming and its high-dollar and high-energy costs. You talked a little bit about how it is we might want to talk about dealing with this perfect storm.

You've all talked about trade policy, promotions, and looking at strategic bilateral trade agreements we should enter into. The SR and ED credit program is one of the most generous in the world, but obviously it's fraught with some problems. And there are others. If I were to say the next two or three years are crucial—you have these high interest rates, high energy costs, and all these other things happening in the world—so tell me what the number one or two thing is that would allow the government.... In some cases we or the government or parliamentarians can do something. In the absence of doing something else, that perfect storm is going to come, and it's going to ravage all the plastics, the textiles, and the apparel industries.

I need to get very specific. What is it that we urgently need to do? Do we change our tax policies, accelerate capital cost allowances to mitigate against the high interest rates or the high cost of the dollar...? I need some very specific things that this committee might want to do and might want to talk to Mr. Dodge about, or the finance minister—or the industry minister, by the way, who is coming in the next half hour, if you want to wait around and talk to him.

● (1120)

**The Chair:** Mr. Sharma, do you want to start off?

**Mr. Atul Sharma:** Thank you, Mr. Chairman.

You raised a number of issues we've talked about. If we were to ask what the number one thing to come out of this committee in the recommendations should be, we would have to say the capital cost allowance needs to be accelerated. We're in an exchange rate regime now in which, while our exports are more expensive, in fact it is cheaper for us to import. If we were looking for the plastics industry at a time when we can begin innovation and do some capital replacement with some imported machinery, this is certainly the time, because they will be cheaper as imports.

How can you assist in that? Accelerate the capital cost allowance and make sure we have depreciation for no greater than two years. One year would be great—the year of purchase—but if that can't be done, then within two years. That would be the number one thing I would recommend.

The other thing is a theme that everyone has touched upon: we see a shift within Canadian society away from manufacturing and toward the knowledge-based industries. While that's good, and we need to have the knowledge-based industries, we can't lose sight of manufacturing. It is still a substantial employer within the Canadian economy. We'd like to see the government adopt a vision that promotes and shows leadership on the importance of manufacturing.

We've talked about what our vision would be in terms of adding value to natural resources. For our industry in particular, we also need security of the feedstock; we have a unique industry, one in which we not only need the energy to run the businesses, but we also need it as an input into the products we produce.

That would be my top three. I'd be happy to discuss more. We do have a list of them.

Thank you.

**The Chair:** Mr. Penner is next.

**Mr. Harvey Penner:** I've already given you the four points, although maybe it was not concise enough, but I can tell you we need a policy framework that signals to textile manufacturers that they should continue investing in Canada because the government recognizes the value of our industry to the country and the economy. This is a critical issue for us. Tax credits, etc., are irrelevant if we don't have a customer base and profits. Give us a trade framework that allows us to grow and have market access, and we will invest and go forward.

**Hon. Joe Fontana:** Eve talked about it a little, but do you think the Canadian public is ready for—

**The Chair:** Mr. Fontana, I'm sorry, we're already over five minutes, and we have two more witnesses who want to address their first set of questions.

**Hon. Joe Fontana:** Oh, I thought I had time.

**The Chair:** Mr. Kirke, or whoever would like to go first. Ms. Grenier.

**Mrs. Eve Grenier:** Thank you, sir.

I think you have a very good grasp of what is happening in our industry, and I don't think we should be so afraid of the word "protectionist". It's become a very bad word.

One of the strengths of our industry, of all the manufacturing in Canada, has been to be able to think outside of the box. We think outside of the box. We are a small country; we have made inroads everywhere in the world. I am very proud of being a Canadian. I am asking this committee, if you want to think outside of the box, please do.

One measure would have been so simple a few weeks ago. When Mr. Harper announced a GST decrease of 1%, I was hoping that the next words would have been "on Canadian-made products". What a wonderful marketing incentive measure it would have been to promote manufacturing in Canada. This is thinking outside of the box, and if anybody can roll with that ball, it would be wonderful.

● (1125)

**The Chair:** Mr. Kirke, we're way over time, so would you be brief?

**Mr. Bob Kirke:** I did want to say that if there is one thing we need, everyone would agree it is decisions. The textile and apparel industries met at the beginning of 2003. We didn't agree on everything, but between the two of us we presented a pretty clear picture to government. In point of fact, if you look at textile tariff reduction, which was announced on December 12 or 14, 2004, the first changes were actually made one year later, and some people who had previously imported goods under the duty are getting the duty relief now, this month. You make an announcement, but it takes 16 or 18 months to actually be money in the bank for manufacturers.

The world works a little more quickly than that.

Thank you.

**The Chair:** Okay, thank you.

We'll go to Mr. Carrie for five minutes.

**Mr. Colin Carrie (Oshawa, CPC):** Thank you very much, Mr. Chair, and thank you to all the witnesses here today. I do actually have a lot of questions, but I'm going to try to keep them short and sweet.

The first one I'd like to address to Mr. Sharma, because I understand from the petrochemical industry that we do export our natural gas quite often, and it's not fractioned. My understanding is that if we divide it up, there are things we can take off the natural gas that you'd be able to utilize quite well.

Are there, as Mr. Fontana was saying, specific things the government could do that would allow this fractioning to occur a little bit more often?

**Mr. Atul Sharma:** You're right. That's exactly what happens. Natural gas goes out in its purest form, and we don't fraction it off and take the solids out. It's those solids that we use within the industry to produce the resin, and that resin then turns into a plastic product.

As to whether there is a specific thing that you can do, I would say it's to work with the provinces to provide an energy strategy or framework to say that a portion of our natural gas will continue to remain in Canada and will be available for the manufacturing of value-added products within Canada.

It's going to be a cooperative effort. Energy strategy and policy tends to happen at the federal-provincial level. So I don't know if there's one direction that you can take as the federal government, but certainly initiating the dialogue with the provinces to say that this is an important component of our prosperity and we need to talk about this would go a long way.

**Mr. Colin Carrie:** Okay, thank you very much.

I'm very interested in the whole idea of value-added products. One of the things Ms. Grenier mentioned was the "buy Canadian" marketing that you're doing. Do you have any statistics?

I come from Oshawa, and we manufacture cars. I would love it if Canadians actually had an idea that these cars are made in Canada and what effect it has on our economy. Do you have anything in your marketing that you're putting forward to the average consumer?

I'm sitting here happily in my Canadian-made suit. I'm very happy with my suit. I always go out of my way, but many Canadians don't. They're looking for the cheapest price.

Do you have any statistics or marketing strategies that you seem to be successful with in doing this "buy Canadian" thing?

**Mrs. Eve Grenier:** Just to let you know, this "Wear? Canada!" thing started thanks to funding from Industry Canada in March. The first level was to use that campaign on the U.S. market during trade shows, and we now have initiatives in which many manufacturers are teamed together under a Canadian umbrella.

The next step, next year, would be to have this “Wear? Canada!” campaign going to the Canadian retailer and then to the consumer. Of course, we need funding for that. That is why one of the recommendations is to keep on with the different programs that we had under CATIP. Some have lapsed, and some will be lapsing this coming year. Bob, of course, can be more specific, but we do need funding.

Yes, there have been some initiatives in the past. One was a “made in Quebec” initiative with some retailers five or six years ago—actually, it was earlier than that. Eaton's, our retailer, had a “buy Canadian” marketing program at one point. Was it successful? I don't have figures personally. Do you, Bob?

No, we don't have figures, but I know it works. From the heart, we all know it works.

As a company, Grenier is now doing a new campaign with targeted retailers in the province of Quebec. The posters are coming in this week, so you'll have the logo. It says,

● (1130)

[*Translation*]

“Proudly designed and made in Quebec since 1863.”

[*English*]

I'm sure it's going to work *dans le bas* of the Quebec region.

I'm sorry, in English it means “proudly designed and manufactured in Quebec”. So we are launching that campaign. We are doing our own little bit of work. I'll tell you if it is successful. I'm sure it will be.

**The Chair:** Thank you very much, Mrs. Grenier.

You may speak very briefly, Mr. Kirke.

**Mr. Bob Kirke:** The clerk has literature for the U.S. It is only in English because it's primarily targeted at the U.S. market.

If they weren't sent already, we have little “Wear? Canada!” pins as well. I hope people will be able to take advantage of that.

**The Chair:** We can certainly distribute that to all members through their offices, and if you have a French version, that would be very helpful.

I think Mr. Fontana also suggested that you make the pins blue. It was his suggestion, not mine. That's why he wears blue shirts.

We'll be going now to Monsieur Vincent for*cinq minutes*.

[*Translation*]

**Mr. Robert Vincent (Shefford, BQ):** I heard this loud and clear. Thank you for coming today.

There's a number of things I have learned. Governments say that industry must use new technology and modernize in order to be more competitive. However, you have to realize that technology is available all over the world and that other countries can also use it. Thus technology catches up with us, and we are less competitive because others use new technologies as well.

We were competitive for a few years when the value of our dollar was low. Now that we have a high dollar, we can't make it any more. We are stuck again in a ditch and we are not competitive.

You have raised the issue of the 1% on products made in Canada. This could be added to the first 1%. You have also raised the matter of the campaign promoting domestic made products. Some stores may find it difficult to affix these labels. Perhaps we will find one or two of them in each store.

However, there is something you did not talk about or that you barely mentioned. There are counterfeit goods coming into the country. Does this affect your sales? If others see your designs, copy them and then the counterfeit products are allowed into the country, you will no doubt suffer monetary losses.

**Mrs. Eve Grenier:** I think Bob can answer this question.

[*English*]

**Mr. Bob Kirke:** Actually, next week in Montreal we're holding a seminar with Ogilvy Renault and a U.S. law firm on intellectual property. In the past, people used to write it off as, “oh, we get knocked off”. But it's the speed at which goods can be knocked off and produced and in a store before you even get your goods in the store.

In other sectors there are important safety concerns and so on, but for us, it's just incredible how the gap has shrunk in terms of finding an original idea, copying it, and having it in the store. So it is an increasing concern, and it's a worldwide phenomenon.

● (1135)

[*Translation*]

**Mr. Robert Vincent:** During a meeting of the committee two weeks ago, witnesses told us that U.S. Customs seized 6,500 counterfeit products while Canadian customs only seized 6.

We're talking about research and development. I gather that when we attend fairs and trade shows to introduce our products, some of the people there only come to copy them. Shouldn't something be done at the Canadian level in order to stop importation of counterfeit products?

[*English*]

**Mr. Bob Kirke:** U.S. Customs have a very clearly stated goal of policing intellectual property. CBSA does not. It's as simple as that. The reason they catch them is because they look, and they have a policy to look. They do not have the same policy in Canada to anywhere near the same extent. So I don't think anyone around the table would object to reviewing that.

[*Translation*]

**Mr. Robert Vincent:** I noticed a little while ago that you seemed to be annoyed by some of Mr. Penner's answers. I would like to know what your own answers would be.

**Mrs. Eve Grenier:** I repeat that it is most important for the textile and apparel industries to work together in Canada. I fully agree on the concept of buying Canadian products. One of our greatest challenges as a manufacturer of ladies undergarments is to find suppliers on the Canadian market. We lost many of them. Indeed, the loss of a supplier hurts more than the loss of a customer.

In our field, the manufacturing of the fabrics, which are often made to our specifications, is very technical. So it is complex, difficult and costly to start over with a new supplier.

Therefore, I believe in an integrated industry although we sometimes follow different paths. As I said earlier, as a representative of the industry, I cannot support the outward processing proposal of the textile industry since this would create a new competitor for our members. It's unfortunate, but this is how we see things right now. Unless a mechanistic can be found that would— There may be other mechanisms that could be devised in cooperation with the textile industry to avoid losing manufacturing opportunities in Canada. For instance, we could deal directly with our established customers. This is indeed what would happen with outward processing: we would be creating a new competitor and we would reduce manufacturing in Canada. Instead of selling its fabrics to a Canadian customer, it would send it over to Haiti, Bangladesh or elsewhere where the fabrics would be turned into clothing that would be purchased by Wal-Mart, Zellers or The Bay at a much lower price.

On the other hand, I fully agree with Mr. Penner when he says that the profit margins on imports are not reflected in consumer prices. You can believe me: when The Bay gets a bra for $4 through its direct import division, they still sell it for $39.99.

[*English*]

**The Chair:** Ms. Grenier, I'm sorry, we're over time. Also, in fairness, I think we should give Ms. Siwicki a brief time to respond.

**Ms. Elizabeth Siwicki:** Dealing with the outward processing issue, I couldn't agree more, and our industry couldn't agree more, that we need to work together with the Canadian apparel industry, because you are our customer base. But as a customer base, you're shrinking in Canada. In 2000, it was almost $8 billion of apparel shipments, and in 2005, we're down to $5.6 billion. The customer base here is eroding, and some of the customers we're targeting with outward processing are the very same companies that used to manufacture here or have moved some of their manufacturing offshore. We should try to repatriate at least the textile component of what are now imports.

The other important factor is that Canadian textiles are, generally speaking, more expensive than the textiles that apparel manufacturers in other countries are currently using. So we're not looking to have the garments come in cheaper in greater competition with what Canadians make. We don't want to destroy the Canadian apparel industry. The decrease in the duty would simply offset the higher cost of Canadian textiles.

● (1140)

**The Chair:** I'll go to Mr. Shipley now.

**Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC):** Thank you, Mr. Chair.

Thank you for your presentation. I frankly find it very interesting. I think what it proves today is how important it is to have the large picture of an industry and the manufacturing.

It would appear to me that there is some difference of opinion, obviously, between the garment and the textile industries in terms of the free trade and outward processing. I don't know if those are the only issues. Are there other issues? You seem to be in agreement on most, except those two. Are there some other issues or differences it would be relevant for us to know about?

**Mr. Harvey Penner:** I don't know if Eve is speaking on behalf of the apparel industry or on behalf of her own personal views. Maybe Bob could add to that, because in my discussions with apparel manufacturers they have said that they would very much welcome the idea of outward processing.

We have people like Main Knitting operating in downtown Montreal with 2,500 employees. He's moving a lot of his production to India. Whether they have outward processing or not, he would very much welcome the opportunity of knitting, dyeing, and making his fabric here, and rather than having to import the total product, being able to import a Canadian product. There are other people I think who would be quite interested. So I'm not sure that there is that conflict about outward processing for all apparel manufacturers.

The other issue, of course, is that the major apparel manufacturers have already done it. Whether you look at Silver, or any of these other major players who get a lot of press, they are making all their products offshore, and they have a vested interest, in many cases, in bringing in the goods from Bangladesh because they've been able to take advantage of that low labour cost and no duties to be able to grow their market. I think some of these people would welcome the opportunity, if they were able, to have available fabric, to be able to design and develop their fabrics here, and to utilize that fabric by sending it offshore and having it produced, and marry it with the current production they have offshore as well, so that there would be some kind of balance.

So I don't think there is a total disagreement on outward processing, and I think on many of the other issues, like LDCs, we are in agreement. We are in agreement about market access. I think we're more in agreement than we've ever been before. I don't know if Bob would back that up, but maybe Liz would want to answer.

**Ms. Elizabeth Siwicki:** Bob made reference to the fact that we need decisions. The one thing we just can't tolerate any more, not as an industry but collectively, is inaction in the face of a few differences of opinion. What's happened over the years is that the government has failed to act because there were concerns about certain issues, and everything else got left behind as well. So I think we have to look at the bigger picture, and we have to look at what's going to keep the jobs and investment in Canada.

**The Chair:** Mr. Kirke, go ahead, please.

**Mr. Bob Kirke:** I'm not going to say whether some companies want outward processing and some don't. Clearly, there would be differences of opinion in any industry. No single industry has one voice. None of us here would claim that. But I would say that we need to come to a conclusion about the key issues that drive our business, meaning input tariffs on textiles, and probably outward processing as part of the mix, whether as part of a sectoral approach or across the board.

I'll come back to what I said. We've been going at this for three years. I think all the departments concerned would like to get rid of us and just settle the matter. I believe that your committee can hasten that by making a clear statement that this has been going on since 2003. Enough already. Let's work out the major parts of the deal, taking into account the diversity of opinion, so that it minimizes the risk to Canadian companies, while conferring the benefits on as many companies as possible.

● (1145)

**The Chair:** Madame Grenier, did you want to make a comment?

**Mrs. Eve Grenier:** Well, maybe. I just want to make something a bit clearer as to the big picture of the Quebec apparel manufacturing scene. Yes, we do have some major players, like Main Knitting, like Peerless, like Mr. Penner; however, the picture of the industry is of smaller, family owned companies. Most of the companies employ fewer than 30 people, so it is an industry composed of many small manufacturers. And when I say that as president of AMIQ I cannot support it, in fact we are, in a sense, protecting the jobs of the smaller family owned companies.

I do agree that there are differences of opinion, and of course some of the bigger companies do have the means to establish relationships that will support outward processing. But this is not feasible for smaller companies.

**The Chair:** Thank you.

Thank you, Mr. Shipley.

I want to thank all of you for your time here this morning, for the purposes of this very important sectoral study. You've made a lot of recommendations, which is excellent because at the end of the study that is ultimately what we'll be looking at and debating as a committee.

If any of you have anything further you'd like to address to the committee in writing, please feel free to do so, either to me as the chair or to the clerk, and we will certainly get that to all members of the committee.

Again, thank you very much for being with us.

For the members, we will be taking a recess of about 15 minutes and then reconvening at 12 noon.

This meeting is adjourned.

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