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Chair

Mr. James Rajotte

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•(1005)

[English]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): Good morning, everyone. I think it's 10:02 a.m., so we're starting close to time.

I want to thank witnesses and members for coming in an hour early. We are discussing recommendations or observations after this two-hour meeting, so we ask members to stay after 12 noon.

We have with us this morning three witnesses. From the Forest Products Association of Canada we have two individuals, Marta Morgan, vice-president, trade and competitiveness; and Tom Rosser, the chief economist. From the Canadian Wood Council we have Shawn Dolan, director of corporate affairs. They're obviously representing the forestry and wood industry.

We are meeting for two hours this morning, so each organization will have up to 10 minutes to present. Obviously, this is a continuation of our study on the manufacturing sector and the challenges facing that sector. We've looked at the appreciating dollar, the issue of energy costs, the issue of labour, and issues of regulation have come forward as well. So feel free to address any of those in your opening remarks, up to 10 minutes, and then we'll have questions from members until 12 noon.

Thank you very much for coming. Ms. Morgan, would you like to start this morning?

Ms. Marta Morgan (Vice-President, Trade and Competitiveness, Forest Products Association of Canada): Yes, that would be great.

Good morning, Mr. Chairman and members of the committee. I would like to introduce my colleague, Mr. Tom Rosser, who is appearing with me today; he is FPAC's chief economist.

On behalf of the member companies of the Forest Products Association of Canada, let me first say that we greatly welcome this important opportunity to provide the committee with perspectives regarding the economic climate within which Canada's forest products industry is currently operating.

Your investigation into the issues confronting the Canadian manufacturing sector is very timely, since, in my view, this is an urgent economic challenge that Canada has not yet fully recognized.

By way of background, FPAC is the national and international voice of Canada's wood, pulp and paper producers in government, trade, and environmental affairs. FPAC's 20 member companies include the largest integrated producers of pulp and paper, lumber,

and other wood products, with operations across the country. FPAC's members are responsible for 70% of the working forests in Canada.

[Translation]

With annual earnings of over \$80 billion, the Canadian forest product industry accounts for over 3 per cent of Canada's GDP. It directly employs some 320,000 people in well-paid highly productive positions. It is the economic engine for over 300 communities across Canada.

Annual exports amount to over \$45 billion, making the industry the world's largest exporter of forest products. Clearly, our industry is not only the main pillar of Canada's rural economy, but also a key player in Canada's economy as a whole.

[English]

This industry is a vital part of Canada's manufacturing sector and faces many similar challenges to those of other Canadian manufacturers. It is unique in its broad reach across rural Canada, where the industry provides high-tech, high-wage employment in regions where this would not otherwise be readily available.

Mr. Chairman, with that as a backdrop, I would now like to turn to address the subject at hand and provide the committee with a sense of the challenges currently facing Canada's manufacturing sector, particularly as they pertain to the forest products sector. I'd like to talk about three things: the outlook for the industry, what the industry is doing, and how the government can support industry's efforts.

Canada's forest products industry is in a time of dramatic and rapid transformation. We're facing significant challenges. Indeed, over the last few years, Canada's forest products companies have faced a confluence of challenges that some observers have referred to as the perfect storm: high and rising energy prices, increasing competition from low-cost overseas producers, declining demand in some market segments, and a softwood lumber dispute that has drained over \$5 billion out of the industry. It is very likely that if these were the only components of the perfect storm, the industry could ride through the rough water with little difficulty. However, while all of these are certainly significant challenges, their magnitude and impact have been amplified by the rapid rise in the value of the Canadian dollar, and this alone is arguably the single most critical challenge affecting this sector at this time.

Consider that the Canadian dollar has risen by over 40% in four years, and there have been significant consequences of this increase for this industry, which is almost entirely export oriented. And while the dollar's rise certainly impacts all Canadian manufacturing, its impact on the forest products sector is even more acute because this industry's input costs are almost entirely in Canadian dollars while the majority of its sales are in U.S. dollars.

I'd like to take a moment on this point. This sector has the largest exposure to both the dollar and energy costs of any manufacturing sector in Canada, particularly on the pulp and paper side. So what happens is that as costs go up—energy, labour, and fibre costs—revenues go down. This has created tremendous pressure for consolidation in the pulp and paper sector over the past few years.

The solid wood segment of the industry has been faring better due to a prolonged housing boom in the United States. But we see that construction boom starting to soften, and prices have started to soften over the last year.

Yet despite all the challenges that this sector is facing, there is light at the end of the tunnel. Global demand for forest products has been increasing steadily over recent years. For example, in paper and paper board, global consumption has increased annually by 3% a year over the last decade. In addition, in the solid wood sector, there are considerable opportunities to create new markets, new geographic markets, such as China, or new applications for traditional products, such as expanding the use of wood in non-residential construction within North America—for example, for schools, light commercial buildings, community centres, that sort of thing.

With this in mind, Canada's forest products industry has substantial strengths that can be used as building blocks for a renewed and revitalized industry. Taking immediate action will allow the industry to capture its share of growing world markets, revitalize its capital stock, sustain rapid productivity growth, and provide high-quality jobs across the country.

So what has the industry done?

• (1010)

[Translation]

The industry has not sat idly by waiting for the crisis to pass. Rather, it has done the opposite. Canadian forest products companies have continued to diversify and invest. Each year, the industry spends over \$500 million on research and development, and thus constitutes one of the largest private sources of innovation in Canada's economy.

Moreover, each year it invests \$4 million in improving its facilities. This is how it has achieved a productivity level that compares favourably with that of the Canadian economy as a whole, and with that of its US counterparts.

[English]

Over the last 60 years, for example, in the solid wood sector of the industry, productivity growth has surpassed productivity growth for the manufacturing sector as a whole, and that sector has increased its productivity by 30% over a six-year period. As we look ahead, the key factor is where future investment is going. It is this that will

determine the future and it is this that will determine Canada's prospects in this industry and in the manufacturing sector as a whole.

Finally, I would like to discuss what governments can do. The public policy framework within which the industry operates is a critical competitiveness factor. A government, whether it be federal, provincial, or municipal, is a central player in establishing the industry's business climate or hosting conditions. Government determines taxation levels, environment and forestry regulations, and competition policy, and it regulates transportation. As the industry keeps pace with global competition, government must also keep pace to ensure that hosting conditions are equally, if not more, competitive than the hosting conditions facing our competitors.

Before the dollar began its free ascent, addressing these hosting conditions was important but perhaps not urgent. However, with the dollar's unchecked rise showing few signs of abating, ensuring that Canada has the most competitive domestic policy framework becomes an absolute imperative.

With this in mind, the industry is urging the government to take action in several areas.

The first is to ensure that Canada's investment climate is as attractive as possible. A recent C.D. Howe study concluded that while Canada's overall tax rates are at the middle of the pack among OECD countries, our tax on capital investment is among the highest. Canada is not competitive when it comes to capital investment, and it is capital that will allow our manufacturing industries to continue to thrive.

Perhaps the single most important thing the federal government can do to promote the renewal of this sector is to make the taxation of investment in the forest sector more globally competitive. Analyses have consistently shown that the marginal effective tax rate on investment in Canada's forest industry is the highest of any major producing country in the world, and far higher than that faced by Canada's other resource industries.

Government policy should create incentives for investment by providing accelerated depreciation of capital equipment and tax incentives to encourage new investment.

Secondly, federal competition policy needs to be reviewed, and impediments to market-based adjustment must be removed to allow the industry to achieve further economies of scale. Canadian producers need to be able to achieve the same world-class scale as foreign-based competition and major North American customers. To give you an example, Canada's largest forest products company, Abitibi, is the 21st-largest forest products company in the world. Our top three competitors in North America are the first, second, and third largest in the world. All of them are five times as large as our largest forest products company.

Another example is—

• (1015)

The Chair: Can we finish up in about one minute?

Ms. Marta Morgan: Okay. I had better speed up a little bit.

Another example is our buyers, who are consolidating rapidly, and in order to service such buyers, our industry needs economies of scale in production, services, and supply in order to be their preferred suppliers.

There are a few other priorities for us in terms of the business climate. One of these is further competition in Canada's rail sector in order to bring down rates and improve services. Renewable energy in this sector provides the opportunity for a win-win-win on the economic, the environmental, and the social fronts. Our industry has the capacity to generate a tremendous amount of renewable energy. We already generate enough green energy to power the city of Vancouver, and we could do more. A national renewable energy strategy would provide benefits, both in terms of reducing dependence on fossil fuels—clean air—and also by incenting long-term new capital investments in communities across the country.

Finally, the government can partner with industry on transformative R and D to create new leading-edge products and processes and to diversify Canada's export markets into more non-traditional geographic end uses. My colleague Shawn Dolan, from the CWC, will certainly discuss this further.

By taking action in these five priority areas, governments will help provide hosting conditions for the industry that will ensure its long-term competitiveness and that will support the industry's efforts for transformation to ensure that this industry will continue to remain a strong contributor to Canada's rural economy across the country.

Mr. Chairman, that concludes my formal remarks. I look forward to exploring in further detail any issues of interest to the committee.

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

We'll now move to Mr. Dolan.

Mr. Shawn Dolan (Director, Corporate Affairs, Canadian Wood Council): Thank you, Mr. Chair.

Good morning to you and your fellow committee members, and thank you for the opportunity to speak with you and present the concerns of Canada's manufacturers of wood products.

The Canadian Wood Council is a national association representing Canadian manufacturers of wood products used in construction. Through our 11 member associations, we represent thousands of companies of all sizes and from all provinces.

Our members want to be on record that this is an extremely difficult time to succeed in manufacturing in the current climate. Forecasted profits, where they exist, are in steady decline, reducing return on investment rates to the 3% to 5% range, which is far too low for an industry as capital-intensive as ours. Costs are escalating due to factors beyond our control; jobs are being lost, and thousands more are in jeopardy.

I will pass on discussing the impact of the Canada-U.S. softwood lumber dispute on Canada's wood manufacturing sector as it seems to be outside the scope of this committee. Suffice it to say that resolution of this dispute, whether through negotiation or litigation, is not going to make the wood products sector suddenly healthy again. It will simply reduce cost uncertainties, i.e. lawyers and tariffs, as we get closer to the managed trade environment that existed in the past.

It must be said here that our industry has shouldered an inordinate share of the burden in defending the principles of free trade on behalf of all Canadian industries and the Government of Canada.

With respect to the four issues this committee is concerning itself with, namely, the high value of the Canadian dollar, high energy costs, globalization, and the availability of skilled labour, the impact of the Canadian dollar's rise cannot be overstated. Recent analysis by the Conference Board of Canada shows that our industry loses \$2.3 billion for each 10% rise in the Canadian dollar. Given that the dollar has appreciated by almost 50% in the last five years, we're talking about annual lost revenues of over \$11 billion.

I must point out, Mr. Chairman, that these figures already take into account the potential savings realized by buying productivity-improving equipment from the United States. I've heard the argument several times that the dollar's rise is not that big a deal because manufacturers can purchase equipment more cheaply from the United States. This is a tenuous argument in the best of situations, but it comes close to fallacy for our members, as a large percentage of our members' equipment is sourced in Europe, which has seen its currency rise in a fashion similar to ours, thus negating any buy-cheap advantage for equipment, while sales remain largely denominated in American currency.

Moving on to the high cost of energy, our members have done a tremendous job in squeezing efficiencies out of their operations, far outpacing the improvements across the broader manufacturing sector.

Industry Canada has reported that the productivity gains of the wood industry exceed those of most other Canadian industries. Wood producers have improved their energy efficiency by 17% since the year 2000, compared with a mere 3% for the entire manufacturing sector. Yet the profits do not follow. Clearly, this is not sustainable, and if required input costs continue to rise, as they have in the recent past, hundreds, even thousands, of firms and the communities they support will have to face some gut-wrenching decisions.

To make matters worse, by the middle of the next decade, there may be almost no forests left in British Columbia due to the pine beetle infestation. This infestation could spread to Alberta, and possibly the rest of Canada, if left unchecked.

Globalization, however you choose to define it, represents a vast array of opportunities and challenges. We can talk about the potentially vast opportunity presented by new markets in China, and it certainly may be tempting for governments to seek the next big market as a solution to our current problems, but the fact is there is much to be done to change the building construction culture in new markets, to accept wood where it has not historically been, while here at home a vast untapped market awaits, the non-residential market that Marta referred to earlier.

Public buildings and low-rise commercial projects in North America could consume \$12 billion worth of wood annually without any changes whatsoever to existing building codes, yet there still exist procurement policies that actually favour imported steel—a product that injects tonnes of CO₂ into the atmosphere—over home-grown Canadian wood that reduces atmospheric CO₂ and reduces heating and cooling costs for the lifetime of a building.

• (1020)

The availability, or lack thereof, of skilled labour is an issue of growing concern for our members, as it is for employers across the country. In some of our plants, there will be a 50% to 60% turnover in the next five to seven years due to retirements, and in many areas, the replacements for those workers, Canada's youth, are dropping out of high school in near-record numbers.

There is a serious disconnect here that needs to be addressed. It must be said, however, that the government's plan to improve and hasten the acceptance of foreign credentials is a step in the right direction, and we understand that there are issues to be worked out as immigration is a federal concern, while the licensing of doctors and engineers, for example, is largely under provincial jurisdiction.

Having spent 10 years working as an engineer before joining the Canadian Wood Council, I've seen first-hand how frustrating it can be for all involved—employers, workers, and families—when new Canadians cannot practise the craft for which they were trained, mainly due to unnecessary regulation or overregulation in areas such as this.

What can the Canadian government do to help this industry, which accounts for 3% of Canada's GDP—10% in British Columbia—and employs over 300,000 Canadians? There are several things.

One, understand that ours is an industry fighting for its life, with challenges coming from all sides, and commit to helping a cornerstone of Canadian culture and the Canadian economy by following through on the previous government's pledge of support and also by working with industry to promote the use of Canadian wood in construction.

Two, understand that wood is the only building product that removes carbon from the atmosphere, and that concrete, steel, and plastic have all been proven to have much worse life-cycle impacts on our environment in energy consumption, and commit to supporting wood construction through programs such as DFAIT's

program for export market development investment and NRCan's Canada wood export program.

Three, understand that ours is an industry that carries an excessive regulatory burden at all levels of government and commit to reducing these unnecessary and unhealthy barriers to success. In the United States, for example, the wood industry can write and implement a new wood construction standard at a minimal cost in a matter of days, whereas in Canada, the process consumes substantial amounts of both money and time, often achieving exactly the same result. We know that the government's smart regulations initiative is a step in the right direction, and we look forward to seeing it succeed. But more work is needed, especially where federal, provincial, and municipal regulations collide.

And four, understand that quite literally, tens of billions of dollars and hundreds of thousands of jobs are at risk. It is true that Canada is a nation of exporters, but it is equally true that we export more than oil.

In closing, let me say this. It is a testament to the men and women of our industry that they have been able to survive current market conditions and still outpace most other industries in terms of productivity gains. Wood construction can and should play a greater role in tackling the issue of climate change. Remember that every cubic metre of wood that replaces concrete in construction removes one tonne of carbon from the atmosphere.

CWC would welcome an opportunity to explain further how government procurement policies could be improved to favour the best environmental building product there is: Canadian wood.

Finally, we have not even covered how critically important residential construction, the backbone of the North American economy, is to our industry. With housing starts beginning a downward trend, it is fair to say that the pressures on our industry will only worsen.

Mr. Chairman, thank you for the opportunity to speak with you today. I would like to offer my assistance anywhere I can as we work together to tackle these tremendous challenges. Thank you.

• (1025)

The Chair: Thank you very much, Mr. Dolan, for the presentation.

We will now go to questions from members. Just for the witnesses' information, the first round will be seven minutes. That's combined members' questions plus your responses, so we'll ask members and the witnesses to be as brief as possible in their questions and answers.

We're starting with Mr. McTeague, for seven minutes.

Hon. Dan McTeague (Pickering—Scarborough East, Lib.): Mr. Chairman, thank you very much.

Witnesses, thank you for being here today and for giving us a very wide perspective on the challenges facing your industries. I share your concern, as does this committee, over the high rise of the Canadian dollar insofar as it affects your industries and many others.

Specifically regarding the question of the valuation, could either one of you, or both of you in fact, give us an idea, in terms of employment, of just what the transition from a 65-cent to a 90-cent dollar has meant for your industries in terms of layoffs? That would be the first question.

The second one would be how your industry has responded to enhance productivity, to make the kinds of purchases that were suggested by the Bank of Canada some weeks ago as a way of offsetting or compensating.

I would like to ask you a final question, Ms. Morgan, if I could. You talked about the need for more competition in the rail industry, but you seem to be suggesting that as a result of the placement of your associate members, in terms of the international picture—they're relatively small in terms of scale—you weren't yet afforded an opportunity to delve into where the Competition Act falls short. But do you not see a bit of a contradiction? If you're asking for permission for your industry to bulk up and create much larger organizations to meet with international competition—which I think the Competition Act currently gives you—why would that not be a problem when there is in fact, as you suggested, concern with respect to the rail industry as far as its bulking up and its near monopoly?

Ms. Marta Morgan: Thank you, Mr. Chairman.

To address your first question, it's very difficult to attribute job losses directly to the dollar's increase. I think what we can see in our sector are the 11,000 job losses over the last three years. In the manufacturing sector as a whole within Canada, we saw a drop of 100,000 jobs over the past year. Clearly the manufacturing sector in Canada is facing a variety of challenges leading to job losses in the sector, of which the dollar is a significant one in our sector, particularly on the pulp and paper side, which also confronts high energy costs and other market challenges, making it somewhat more difficult for it to respond.

In terms of the productivity argument of the Bank of Canada, that we should be going out and buying more capital equipment, Shawn has made the point that the usual logic doesn't apply in our sector; we don't get cost savings on capital equipment when the dollar goes up because most of our capital equipment is purchased from Europe. I think the broader issue is that capital investments will be made, and capital equipment will be purchased, where the economy is seen to be a long-term good host to this kind of economic activity.

Investment intentions in the manufacturing sector, and in our sector, I would say, are headed south. What happens with the rise in the dollar is that plants and equipment that otherwise might be purchased and put in place in Canada will be put in place south of the border. So you get decisions that are being made on the basis of the currency, as opposed to being made on the basis of fundamental competitiveness, when that currency is expected to continue to be where it is.

I think that's why, from a government perspective, the issue is really, what can you do about that? It's a matter of trying to create the best countervailing or most positive business climate for capital investment you possibly can in order to encourage that kind of investment.

Shawn, did you want to comment on either of those two, before I go to the third question about rail?

• (1030)

Mr. Shawn Dolan: I would just reiterate the fact that compared with the manufacturing sector as a whole, our industry is a leader in productivity gains over the last five years in spite of all these conditions. So I think it's fair to say that in terms of answering the bell and increasing productivity, our industry has certainly stepped up to the plate. As I said, our industry has increased energy efficiency by 17% in five years compared with 3% across the rest of the manufacturing sector. So the indicators are there that our members are making the effort and, where possible, the investments to make those gains, and still, at the end of the day, they're not getting the return on investment or the payback that a typical investor would be looking for.

Hon. Dan McTeague: Mr. Dolan, on job losses, do you have any figure for the committee?

Mr. Shawn Dolan: I would just reiterate what Marta has said.

Hon. Dan McTeague: Okay, thank you.

The Chair: On the competition question.

Ms. Marta Morgan: On the issue of competition policy, the challenge we have been facing in our industry with federal competition policy is twofold. One is that in its application the bureau has reviewed recent transactions, and while it has not stopped any recent transactions, in a number of cases it has imposed conditions on the transactions that have resulted in the sale of assets. It has significantly slowed down the conclusion of the transactions, and it has also created a chill on further consolidation within the industry.

The industry is relatively small compared with its competitors. In some segments, in particular, such as the solid wood products sector, where there have been a number of recent mergers, it is quite an unconsolidated industry, comparatively speaking, when looking at manufacturing as a whole. So I think we start from a position of small size, and we are in a world where the competition is getting bigger and getting stronger. One way to address that is through economies of scale, so you can reduce your costs of capital, you can improve your service, and you can put more money into R and D.

In terms of the question about rail, Mr. Chair, I don't see any contradiction in our views. Our members are serviced by rail, but the majority of our mills only have access to one rail line. This gives the railways monopoly power over pricing to our mills, which is a much different starting point for an industry starting with relatively small companies and no global pricing power.

The Chair: Thank you, Ms. Morgan.

Thank you, Mr. McTeague.

We'll go now to Monsieur Crête, *pour sept minutes*.

[Translation]

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

I would like to congratulate you on the calibre of your presentation and for the very specific recommendations you made to the government on each issue. I think that your presentation was extremely well structured.

Let me talk to you about softwood lumber. Now, we have learned there's an excellent chance that the agreement will not come through before the summer. It will probably be postponed until the autumn. At the same time, the US is announcing that countervailing duties will be increased from 10 to 14 per cent. They are applying pressure in their own way. I know that many companies, including a number in my region, the Gaspé, are at the end of the line. So are many other companies in Quebec and Ontario. They are in a very difficult position.

Whether the issue is the agreement or the legislation, it seems that we will have to wait until next fall. In the circumstances, what measures do you feel the government should take? Should it be looking at loan guarantees, or other measures?

●(1035)

[English]

Ms. Marta Morgan: FPAC, as you may know, is a national association with members from across the country. Our members often have different views and different commercial perspectives on the softwood issue, and certainly on the negotiations that are under way. So we don't have an official position or a role.

[Translation]

Mr. Paul Crête: I don't want to question the relevance of the agreement. I'm just pointing out that it has not been signed, and probably will not be signed for several months. As a result, we will continue to have the same problems.

Do you have any measures to recommend to the government?

Ms. Marta Morgan: I think that the most important thing for most of our members is to have a solid agreement, an agreement that is suitable for the Canadian industry...

Mr. Paul Crête: That is what everyone wants, Ms. Morgan!

Ms. Marta Morgan: That is the most important thing.

Mr. Paul Crête: Given that the agreement may not be signed for several months and that during that time we'll have to live with the same conditions, are there any measures you would like the government to take?

Ms. Marta Morgan: We expect the government to do everything possible to reach an agreement that will be beneficial for the Canadian industry.

Mr. Paul Crête: If I understand correctly, your businesses do not require any loan guarantees or other types of assistance? You are satisfied with the situation?

Ms. Marta Morgan: We are not familiar enough with the state of the current negotiations to be able to comment on that.

Mr. Paul Crête: I would suggest that you provide us with your recommendations, in case my prediction comes true, which would be unfortunate.

Furthermore, one of your recommendations is to have a strategy based on competitiveness. That includes many concrete elements.

Does that mean you would like the government to take a sectoral approach, at least in the case of lumber and the forest industries?

Would you, for example, like it to include certain elements in this strategy and that it distinguish between not intervening and not supporting any of the conditions for success. Am I correct? Could you give us your opinion on this issue?

[English]

Ms. Marta Morgan: We are a big supporter of sectoral approaches to competitiveness.

[Translation]

In terms of competitiveness, we feel that it is very important to take into account certain sectoral characteristics. If the government and the industry were to meet in order to look at the situation from every angle, whether it involved regulations, transportation, or other angles, we would have a better idea of the challenges facing us but also of potential changes.

We are therefore of the opinion that it would be beneficial to the industry to share its perspective with the government and together, craft a strategy. The government actually plays a very important role in all aspects of our activities.

Mr. Paul Crête: Mr. Dolan, if no softwood lumber agreement is signed before the summer and if there is no implementation before the fall, I would like you to tell me if you expect the government to put in place any specific measures.

[English]

Mr. Shawn Dolan: Our members, especially in Quebec, will be hurting if there is no signed agreement before the fall—and as you said, in dire ways. I think the government's problem would be whether or not putting in place some short-term loan guarantees, or whatever the government deems appropriate, would provide the Americans with ammunition to pull back and the agreement would then not come along until winter or next spring. Are your short-term measures creating a longer short-term problem?

[Translation]

Mr. Paul Crête: In the current tennis match, the Americans hit a smash by announcing an increase in the rates. On our side, we have the choice of simply responding to this smash by trying to get the ball back on the court or by clearly indicating that we are playing the game. Do you understand the comparison I'm making?

[English]

Mr. Shawn Dolan: It's a difficult situation. I think the perfect storm analogy is more appropriate in Quebec than probably anywhere else in Canada. The reduction in the allowable cut is cutting profit forecasts because certain companies can't produce as much product as they would have been able to otherwise.

On energy costs, my opinion is that there are things the government could do in the short term, for example, through loan guarantees. But from a national perspective, is the other shoe going to drop on the American side? The teams of lawyers working on this issue would be better positioned to answer on those kinds of fine details.

•(1040)

I certainly think the sooner the agreement is signed, then at least one uncertainty is removed from the equation. Whatever imperfect climate we're proceeding within, at least everyone knows the ground rules. We can go forward from there and tackle the next colossal problem we have.

[*Translation*]

Mr. Paul Crête: With respect to the forestry sector, I would like to know if you think it's important that the federal government craft a sectoral strategy.

[*English*]

Mr. Shawn Dolan: I think it's appropriate in this case because the collective weight of the issues we're facing is a burden that very few other industries are facing, certainly very few others that are of importance to the Canadian economy. If you're talking about trying to have a policy that is equivalent across all sectors, if there was ever a case for a sector-specific exception, I think this is it.

The Chair: Thank you.

We'll go to Mr. Carrie.

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

I want to thank all of you for your very timely presentations to the committee. We only have a few minutes to ask some questions. I'm going to try to make them as short as possible in order to give you enough time on the record to answer them.

The first one I'd like to ask is this. You mentioned a national renewable energy strategy and that your sector would benefit from something like that. Mr. Dolan brought up the point that simply using wood instead of steel is much better for our environment. Could you expand a little on that?

The second one is on the free trade agreement. You mentioned that we should pursue more free trade agreements. We had the auto sector here. Frankly, I'm from Oshawa, and there are a lot of unions against the free trade agreement with Korea. In your sector, you mentioned that free trade agreements could help. Could you elaborate on that?

The third thing you mentioned was on what the government can do tax-wise. Could you comment on the budget, the corporate tax cuts, and the GST coming down? Do they go far enough for you? You mentioned capital tax depreciation and things like that.

Could you give a general comment on those three questions? That would be great.

Thank you very much.

Mr. Shawn Dolan: Well, I'll tackle the environmental carbon question, and then I'll pass it over to Marta.

Wood, by its nature, being a natural product, consumes carbon to be creative, whereas when producing concrete, steel, plastic, or any other manufactured material, those processes pump carbon into the atmosphere. As I said, the simple equation is that for every cubic metre of concrete used in construction where you could have used wood, you're putting an additional tonne of carbon into the atmosphere.

If you look at the quantities of steel and concrete that go into non-residential, low-rise construction in North America, it is potentially a very significant contributor to the entire climate change debate. Carbon sequestration is going to be included, as I understand it, in the second phase of the Kyoto Protocol, whereas you can gain credit for building with wood and using that process to remove carbon from the atmosphere, versus other building products.

•(1045)

Mr. Colin Carrie: Can you review how much concrete would compare to one tonne of CO₂?

Mr. Shawn Dolan: It's one cubic metre. If you replace a cubic metre of concrete with a cubic metre of wood, the reduction would be between 0.75 and 1.2 tonnes of carbon.

Mr. Colin Carrie: That's quite a bit. Thank you.

Ms. Marta Morgan: I'm glad you asked this question, because I think this is one of the really exciting things about this industry. The forest products industry really has the potential to become and to be a truly sustainable, regenerating industry, and we are well on that path. Obviously, there's more to be done, but we're well on that path.

Renewable energy is one element of that, both on the wood side, in terms of the inherent properties of the product, and on the production side. We've been moving closer and closer to being able to use every bit of fibre we get in our production processes and to maximize its use, either by turning it into products or by turning it into energy. We know that we can go further on this front. Bioenergy in the pulp and paper sector, for example, has been a major assist to the sector in confronting higher energy costs, because it's replaced renewable fuels.

So the question for us, since we've gone partway there in pulp and paper, and we generate 60% of our energy requirements through our production process, is, how can we go further? How can we go faster?

It would involve incentives to capital investment, because for the most part, it's a capital change that allows you to move to renewable energy sources. So on incentives to capital investment, we've been working hard with this government and the previous government to make sure that the CCA accelerated depreciation for equipment that allows us to generate electricity applies to our sector. It had been left out in the past, and we've been working with the current government to put these regulations through. We think more could be done, and it would have great pickup by the industry if incentives were provided on a market-neutral basis for the implementation of renewable energy and production.

Also, I think we need to make access to the grid easier. We see ourselves moving to becoming a net producer and contributor to energy. We need to be able to get market rates for that energy and connect into the system at a rate that provides us with adequate remuneration.

On your second issue, free trade with Korea, we have been supportive of a free trade agreement with Korea. It has some potential benefits for our industry in terms of tariff reductions and the potential to accelerate some of the work that's been happening with Korea on building codes and standards that will make it easier for us to sell our products into the Korean market. That being said, I think we have to recognize that Asia is a very challenging market for us, that there are significant subsidies to capital investment in Korea—and I would add, in China—which can create quite important distortions in global markets if they are left unchecked in terms of creating excessive investment and capital investment that pushes down prices globally.

I think our free trade agreements need to find a way to start to get at some of these more difficult issues, and I don't know what the answer is there. I wish I had an answer for you. But I do think this is the next wave of issues we're facing, certainly in our industry.

On your third point about budget tax cuts, we were very pleased with the elimination of the capital tax. I think everybody knew it was a really dumb tax and that it was time for it to go. We were very pleased to see that happen. We were very pleased to see the implementation of corporate tax cuts. I think we are headed in the right direction. But have we done enough? I don't think we've done enough on the issue of taxation on capital investment. We still rank quite high in terms of our competitors, and given the challenges we're facing, I think that's an area that we really need to focus on.

The Chair: Thank you, Mr. Carrie.

We'll go to Mr. Fontana.

Hon. Joe Fontana (London North Centre, Lib.): Thank you, Mr. Chairman, and thank you very much for a comprehensive presentation that addresses some of the issues.

I would agree with you that there's no doubt the industry has been very resilient faced with a whole bunch of challenges you've taken on in productivity and in some of the things you're doing. Let's look at the challenges in certain areas. I would agree we should do anything we can with respect to incentives on the energy side of things, in promoting wood not only here but around the world.

From when I was in China and the Middle East and elsewhere, I know people are yearning for Canadian wood products. Whether or not you use a free trade instrument, there are some challenges, obviously. Korea is one, where they may want our wood, but we don't necessarily want their cars unless they're prepared to give us access. I think these sectoral issues have to be managed. There's no doubt that we need to look beyond the United States as our single most important market, and I think there is a world yearning for Canadian wood, for all the reasons you've indicated.

But let me address two areas.

Even if we can't do anything about the dollar, I would ask what it is we need to mitigate it. Even the Bank of Canada has said, and everybody thinks, the dollar is going to continue to appreciate, so what instrument can we use? Is it taxes? Is it capital cost allowance? And should we look at how quickly and by how much we allow certain changes in that so that you can continue to be as productive as you possibly can?

I'd like to know about human resources in the sector, because every sector this committee has heard from, be it the auto sector, the building sector, or the manufacturing sector, says in seven to ten years we face an incredible challenge. I don't care what kind of economy you want to build; you can have all the capital in the world, and all the technology, but if you don't have people, you don't have anything. Therefore, I'd like to know, what is it we need to do on the human resources side to attract and retrain a whole bunch of people all over the place? In order to sustain a great industry, we have to find you the people who might want to work in that area.

Could you talk a little about what kind of capital cost allowance we have to put in place, and how quickly and how much, to mitigate the situation? How do we deal with energy costs? And what do we do about the human resource challenges you face in your industry? What are some of the incentives, or what are the things we need to do, to make sure you have the people to work in this very productive sector?

• (1050)

Ms. Marta Morgan: On the first question, I think the dollar is rising because of forces that are largely, though not entirely, outside our control. Oil and gas prices and U.S. deficits are clearly driving our dollar more than our fundamental cost competitiveness within Canada, though we think the Bank of Canada has some margin within which to manage the dollar and has shown no evidence of managing it to the lower end of that margin.

That being said, I think taxes are a good place to start. Our focus really is on the structural policy elements of business climate change: tax, competition policy, rail policy. We're not focused so much on the spending side, although in some areas government spending is very helpful.

On the tax side, we have been proposing a specific investment tax credit for capital investment in this sector that would be time limited and refundable and that would have the advantage of allowing companies that are in a non-taxable position to take fiscal advantage of it. We know the Canadian Manufacturers and Exporters association also has a proposal for accelerated capital depreciation, similar to what the United States put in place in the early part of this decade when their dollar was very high and they wanted to support investment in their manufacturing sector. That kind of approach would also be very helpful to our sector, though unless it is refundable it presents a challenge for companies who perhaps need the investment the most and might not be able to take advantage of it if it isn't refundable. This also is a very good proposal, which I would recommend to the committee.

Hon. Joe Fontana: Would you propose the same thing on the human resources side of things as a way of dealing with attracting and/or training new people?

Secondly, at the end of the day, how much of an effect are taxes and the issues you talked about going to have, based on your input costs? If we fixed the taxes, accelerated the capital cost allowances, and gave all kinds of incentives for you to use on the energy side, how far would that go towards ensuring that this sector, which is very important to our GDP and presently involves hundreds of thousands of jobs across our country, continues to be a sustainable sector for us?

• (1055)

The Chair: A quick response.

Ms. Marta Morgan: I'll let Shawn speak on the human resources issue, since I didn't touch on that.

The Chair: Mr. Dolan.

Mr. Shawn Dolan: The labour shortage—the looming labour shortage, the present labour shortage, however you look at it—is a problem not just for manufacturing; it's a problem everywhere. It's a problem just about everywhere you go.

One of the things I've noticed in recent years is how universities have really started to make significant gains based on the high level of federal investment that was made in roughly the past decade or so, which in certain areas really brought the cream of the crop to the top in areas where universities are developing specialty labs and that kind of thing. There isn't a nearer program for what you would call blue collar work. Kids coming out of college in trades and so forth don't have that level of high-level support, and I think it's something that could be looked into. It's almost an opportune moment to really look at this, because the payback on something like this, as we've seen with the universities, is that it takes almost a generation for things like this to get up and running and to see the results, like the level of PhD candidates who are being produced in Canada now versus 10 years ago when the investment in these programs was less.

The second thing I would say, and this is a society-wide problem, is that there is a level of disconnect between Canadian youth and Canadian society in a lot of areas. With the needs that our society and economy have, to see the level of kids dropping out of high school today is incredible really. There is something, and I don't know what it is, that is driving kids away from participating and contributing to society. I know this is a problem that's been around for years and years, but it doesn't make it less of a problem.

The Chair: Thank you, Mr. Fontana.

We'll go to Mr. Van Kesteren.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you, Mr. Chair.

I have some really quick questions. I understand, just looking at statistics here, that we have 10% of the world's forest area, or at least that seems to be the forest that would be accessible for the forest industry. In terms of Americans, I understand that if it's crown land you pay stumpage fee, and in America most of it is private land. And that's also the basis of the dispute. Is it an advantage or a disadvantage for us to have crown land as opposed to private land?

Mr. Shawn Dolan: I think Marta might be better off... But whether or not it would be better or not, in terms of mollifying the complaints coming from south of the border, look at our members of

the Maritimes; they've been exempt from the softwood lumber dispute specifically because they get their trees from private land.

Mr. Dave Van Kesteren: But as far as the forest industry is concerned, is it easy to work with the government?

Ms. Marta Morgan: I think it's a fact of life for the forest industry that the lands are crown lands, that they're held as a matter of the public trust, and that they're managed to meet a variety of objectives, including commercial objectives. I think it's just the way we do business.

Mr. Dave Van Kesteren: Then, very quickly, you're talking about energy. Is that hog fuel and turning it into pellets? Is that what you're talking about? Are you using the byproducts of the lumber, the branches, the bark, and converting it to hog fuel, or is it the hog fuel that you're converting to fuel pellets? Is that what you're talking about when you're talking about using your own energy?

Mr. Tom Rosser (Chief Economist, Forest Products Association of Canada): Yes, we're talking about deriving energy from wood biomass, and that takes many forms. Certainly part of it would be burning hog fuel for energy purposes. Another really significant source of bioenergy is the kraft pulping process, what's called black liquor, the recovery of a byproduct of the chemical pulping process. So, yes, hog fuel is one of several forms of bioenergy in our sector.

• (1100)

Mr. Dave Van Kesteren: Is there a possibility to expand that beyond the forest industry? Would you be able to sell it, perhaps to greenhouse growers south of you? Would they be able to use that?

Mr. Tom Rosser: There certainly are examples of people using wood biomass pellets and other forms of biomass energy in other uses. In other jurisdictions, in many parts of Europe, for example, where incentives for renewable energy are more generous than is the case in Canada, that's more common than it is here.

Mr. Dave Van Kesteren: Very quickly, that leads me actually to my next question.

I'm surprised that so much of the equipment is coming from Europe. Why is that? Why aren't we leaders in producing equipment?

To follow that question, will the high dollar help us in buying equipment, possibly, from the U.S.?

Ms. Marta Morgan: The best manufacturing equipment in this sector comes from Europe. One of the reasons for that is that the Scandinavian countries, about 20 to 26 years ago, adopted concerted national strategies around their forest product sectors. They realized that their forest product sectors were critical to their economic future and they put in place national strategies that included both primary producers, equipment manufacturing, strong R and D, both commercial R and D and university-based R and D infrastructure, so they have managed to leap ahead on all of those fronts.

I think the encouraging thing about that is that it can be done.

Mr. Dave Van Kesteren: We can do the same thing. It's not too late for us to do the same thing.

I have a few more seconds so I want to talk quickly about the softwood lumber dispute. What have been the legal costs? Do you have any numbers for that? What have been the legal costs for the forest industry? Do you have a figure?

Ms. Marta Morgan: I'm sorry, I don't. I could get back to you with that, but we don't deal with the legal costs.

Mr. Dave Van Kesteren: Mr. Dolan, have you any data?

Mr. Shawn Dolan: Not in total, but by way of example, our members pay to us 19¢ for every thousand board feet they sell. On top of that, for the past number of years, they've been paying 2¢ to the black hole, that is to say, lawyers, on this issue. It's fully 10% of what they pay to us.

Mr. Dave Van Kesteren: This is my last question.

I will return to the commercial building products. I'm looking at building a new building myself and I think I have to go to steel. Is it regulations in this country that make us go to steel? Is that what we're trying to change?

Mr. Shawn Dolan: No. As I said, the non-residential opportunity in North America is \$12 billion every year without any changes to building codes. It's largely because in the design community—architects and engineers—they do not come upon the opportunity to design with wood very often, so that knowledge isn't retained. It isn't improved over time.

We have a program to target upcoming projects. We send people in and convince them of the benefits of switching to wood construction. In almost every case, the cost is the same or less than a typical concrete and steel construction. It's a cultural thing in the design community.

Getting back to what Marta was saying about the concerted effort that Scandinavian countries have made over the last 25 years, Finland, by way of example, in the space of five years, doubled its per capita use of wood. It's a smaller country, but it is a country that has a large forest product sector, and their wood use per citizen far outstrips what is currently used in Canada. That potential market is there, but it is simply a lot easier to design a building like the one you did yesterday, rather than learning a new way and going forward.

We're working as much as we can to try to get over that tipping point with the design community, both in Canada and the U.S., as well as worldwide.

• (1105)

The Chair: Thank you.

Thank you, Mr. Van Kesteren.

We'll go to Monsieur Vincent.

[*Translation*]

Mr. Robert Vincent (Shefford, BQ): Thank you. I have three questions but I'll ask them one at a time.

What improvements in productivity have the paper manufacturers made over the past decade in order to prepare for a potential increase in the Canadian dollar? Over the past three years, the dollar has gone up by 36 cents. What have you done given this increase? In 2004, total revenues for the forestry industry were \$81 billion. However,

the money spent on research and development only amounted to \$345 million, which is 0.4 per cent of revenue. I would like to know what you have done and what you expect to do in order to mitigate the impact of the increase in value of the Canadian dollar, which, as you know, can increase in value at any time.

Ms. Marta Morgan: I'm sorry, I thought you had two other questions.

Mr. Robert Vincent: I will ask the other two after.

Ms. Marta Morgan: Over the last ten years, we invested between three and five billion dollars a year in production and capital assets. We also invested about 500 million dollars a year in research and development. Our industry has been one of the most proactive in terms of converting to renewable energy sources, which reduces our dependency on fossil fuels.

Further, during the same period, we also invested significantly in environmental measures. Some of these measures were imposed by way of regulation, but many of them were adopted on our own initiative.

In the course of the 1990s, a good part of our investment was focused on forest management.

[*English*]

and the economic performance of our mills.

[*Translation*]

Mr. Robert Vincent: Did your investments and research and development lead you to other niches, or other areas, to compensate for the eventual increase of the Canadian dollar? It was clear that sooner or later the value of the Canadian dollar would rise. It was obvious that would happen one day.

Mr. Tom Rosser: As my colleague mentioned, we invest 500 million dollars per year.

Mr. Robert Vincent: That does not even represent 1 per cent of the forest industry's global revenues. So I feel it is not a priority for you.

Mr. Tom Rosser: If you compare what we do with what other Canadian sectors do, it's fairly significant. However, there's no doubt we need to do more in the future. We have just made fairly significant changes to our innovation system within the structure of our research institutes. We want to increase our investments each year, despite the fact that the industry is operating in relatively difficult conditions. However, we must do more in the future.

Mr. Robert Vincent: I will now change the subject. There are not enough skilled workers. What kind of workers do you need?

[*English*]

Ms. Marta Morgan: More and more, as many industries across Canada, we will need skilled workers. One of the things that has happened—

[*Translation*]

Mr. Robert Vincent: What type of skilled tradespeople do you need? The word "skilled" is general. Do you need workers in plants or in the forest? For which areas do you need these skilled workers?

•(1110)

[English]

Ms. Marta Morgan: I think if you look at the age profile within the industry, in all aspects of the industry, particularly in the production facilities, the industry is aging, as is the Canadian population, but probably faster in the case of our industry. So certainly we are going to need a lot of specialized labour in our production facilities and also in the forest operations. Although Shawn may know better, I would assume that those would have a somewhat younger age profile. But I think across the board in the industry we're going to be looking for—

[Translation]

Mr. Robert Vincent: I'm interested in knowing what companies are doing to train workers. Have you invested in high school-level training, for instance, and what about training inside your plants?

[English]

Mr. Shawn Dolan: We have several programs in our education portfolio where we do try to increase, for example, the amount of education around wood that is in engineering and architectural programs and try to get people into those industries.

Going back to what you were saying before about what type of specialized work area you're looking for, if you look at the example of just someone working in one of our plants somewhere across Canada, it's pretty high-level work. There is some pretty involved machinery, and we're fighting for... Everyone who might possibly be qualified to work in our industry is also feeling the magnetic draw from Fort McMurray; the oil patch is competing for our workers.

So we're trying to do it on two fronts: providing the education to young people to get them involved in wood, which we think is deficient in university programs; and also using the communities that are supported by wood across Canada and building a wood culture to keep people involved in the industry and keep their communities alive.

[Translation]

Mr. Robert Vincent: Have forestry companies thoughts of creating a school for the study of forestry? I used to be a union representative in that sector and I understand that as far as the forestry industry is concerned...

[English]

The Chair: Your time is up.

Do you want to respond briefly to that?

Mr. Shawn Dolan: There are several universities—UBC is an example—that have dedicated, more heavily involved wood programs than others across the country.

The Chair: We'll go to Mr. Shipley.

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

Again, I appreciate having you come out as witnesses today and to help with the understanding of the lumber industry. We've been talking a lot about manufacturing across the whole spectrum.

Last night and yesterday, Ms. Morgan, you talked about the softening of the market, the boom. Yesterday we heard on more than

one occasion about the boom that is going on in building, the expansion and the housing prices that are going up because we can't keep up with the number of houses; they can't build these houses fast enough. And of course, when houses come, communities develop—commercial industries, schools, and all those sorts of things.

It seemed to be a bit counteractive to what you were just saying. Is this a local issue that we're hearing, or is it something that I'm misunderstanding in terms of your comment?

Ms. Marta Morgan: Well, I think what we've seen over the last few years in the United States is quite an unprecedented and sustained boom in housing construction. We have started to see over the last six to eight months that prices start to fall off for lumber and housing starts start to drop a bit. They are still at quite high levels compared to historical averages, but we live in a cyclical industry and things that go up usually come down at some point. We're seeing the early signs that this housing boom may start to be moderating. So things are still okay for the moment, but we're seeing early signs that we may be slowing down.

•(1115)

Mr. Bev Shipley: It is interesting, and you just mentioned that we are in a cyclical industry. So right now some of the manufacturing industries that are hurting obviously are the oils...the oilfields. It was mentioned by Mr. Dolan about people transferring. You are in competition with that. Being cyclical, is there any research that's been done in terms of how those cycles will actually match with some of the other ones so that there is a more level playing field?

Mr. Shawn Dolan: I think it's fair to say that the cyclical nature of our industry is a given. In recent years the pace of change of that cycle has been almost unprecedented with regard to energy costs and the dollar.

Going back to your point about housing prices versus housing starts, I think you are talking about how the average price of a house is now over \$300,000 in Canada. That includes resales. It's not solely based on new construction, which is obviously what we would be more interested in as that is where our product is going.

Housing starts in the U.S. are forecast to go from a current high of almost \$2.1 million, down to roughly \$1.8 million over the next two to three years, which is a big drop, although it does come down more to historical averages.

Mr. Bev Shipley: You talk about transformation, about branding, a made-in-Canada approach, which is something we're very supportive of and which is related to quality. I've talked to people in other industries who are saying we don't market Canada very well. This is a particular case of an individual who was in the business of making mobile trailers. He did some very small things, but he started to promote Canada in a different way and it took off.

Can you tell us a little about how you can do something to promote, one, that the quality is important, and, two, how we produce a higher-quality product than anyone else?

Ms. Marta Morgan: This is one of the areas that has been a big priority for FPAC since its formation. We really think, as Canadians, that we undersell ourselves and our products. The Fins and the Swedes, both industry and government, don't hesitate to trumpet all the good characteristics of their production and their products. This gives them a sense of national identity.

We've certainly been trying to do that for our FPAC members. We believe that Canada's environmental record and progress in this sector has improved dramatically, is continuing to improve, and is second to none. We know we have to go further, but we think we can brand our products, not only as high quality but as truly sustainable.

We have done that within our association, for example, by working with some of our major customers in the United States. You have probably seen in the news the reports of Wal-Mart's increasing efforts to green itself, its products, and its processes. We work with large U.S. customers who are driving and pushing for some of this change.

We also work to try to get out, as best as we can, the strong environmental record of the industry and the inherent strong characteristics of its wood and paper products, which are recyclable, can be regenerated, and will contribute to our global climate change objectives.

Mr. Bev Shipley: How am I doing?

The Chair: You can have one very small one.

Mr. Bev Shipley: You talked about the environment, which is obviously a significant issue with this government and this country. We're working on made-in-Canada environmental issues. You've talked a lot about how important the environment is and what you've been doing.

Can you relate a little bit about how you're working with our government to make these made-in-Canada environmental issues better, rather than sending billions of dollars to other countries?

The Chair: One minute.

Mr. Bev Shipley: I don't know...that's hard to do in one minute.

Ms. Marta Morgan: That's a big question.

On the environmental side, there are a couple of issues that have been important for us. One is renewable energy, which I've talked about a fair bit. I think we want to have a role, and our sector should have a role, in the government's made-in-Canada renewable energy, climate change, or air quality policies. We think we've got something to contribute.

We're already engaged in constructive dialogue with the government, with some of our key stakeholders, and with NGOs on issues around air quality, which we believe is a model for other industries and will allow us to improve our air quality and our economic performance at the same time. That's one area where we've been working very intensely with the government.

The other area is on the regulatory side, where we're actively working with both the Department of Fisheries and Oceans and Environment Canada to try to ensure that regulations are implemented in the most effective way possible—to get the same results but get them through a more effective means of implementa-

tion. There's a wide variety of areas where we've been working on that front.

• (1120)

The Chair: We'll go to Monsieur Lapierre.

[*Translation*]

Hon. Jean Lapierre (Outremont, Lib.): Thank you, Mr. Chairman. Thank you, ladies and gentlemen.

We are talking about the future of this industry and its past achievements. However, as far as the number of employees is concerned, it turns out that you often need fewer workers because of technological advances. Restructuring, mergers and acquisitions have changed the nature of the business. Do you believe that ultimately this industry will need fewer employees? Most economists have predicted that the manufacturing sector in general would shed another 100,000 jobs. At the end of this process, although the industry might be more competitive and more productive, it may employ fewer people because its manpower requirements will decrease. Further, in many cases, you will pull out of single industry towns.

I remember having read a report which predicted that, given the elimination of stumpage fees in Quebec and other problems the industry was facing, potentially 70 single industry towns through out Canada might close down. I would like to know what you think the future looks like. When this happens, this often does not affect the health of the industry, but it certainly deeply affects the lives of people. So what do you think the future looks like?

Ms. Marta Morgan: We are keenly aware of the fact that restructuring can often lead to great hardship for communities. Our industries are set up in these communities, and that is where the people who work in our industry have grown up. These are not easy decisions to make, especially when a plant constitutes a region's driving economic force. We are living in an era of transformation and it is highly likely that we will see other closures, because it is a long-term necessity. Nevertheless, we are optimistic, because we believe that in the future we will be more competitive in regions where we remain for the long term. Unfortunately, some short-term adjustments are difficult.

Hon. Jean Lapierre: Yes, let's talk about those adjustments. Take the Saguenay-Lac-Saint-Jean region for example, or other similar places. There are not only your plants' employees, but also subcontractors. For example, I know a 58-year-old logger who was told that there were no more quotas, there was no more wood and that he was to go home. He is 58 years old. He doesn't know what to do anymore. He goes back to his village and has nothing else in life. He has worked his entire life on his machine, often at night. I get the impression that there's a problem for older workers. They will have difficulty finding other work. They are not necessarily the most mobile people. Their houses are paid off, their family is raised, and so on; they're at home and their roots are set down.

One day when I was in Bonsecours, a fellow pointed that out to me. He told me that people are like maple trees. When they are young, they can be transplanted, but if you try to transplant an old maple tree, you'll kill it. Are there any programs that would be helpful? I get the impression once again that simple people and simple workers are bearing the brunt of this restructuring. For the moment we are letting them fend for themselves, in a way. Do you have any programs or pension plans? In any case, what I have seen is not very impressive.

• (1125)

Ms. Marta Morgan: Governments and industry must work together to try to facilitate this transition. In the past, communities, employees and governments have worked together and with a great deal a success. The situation requires us to join forces and work together to deal with the problem.

Hon. Jean Lapierre: Everything is happening so quickly now. We see closure announcements and there are adjustment committees, but what are we helping these workers adjust to? I get the impression that it is not enough, because while we are speaking, industries are closing, people are losing their jobs and the only thing left to them is employment insurance. Is this not an urgent situation? The restructuring is not over and I get the impression that your announcements are going to continue.

Mr. Tom Rosser: You are completely right.

[English]

There is a restructuring going on, and there's no question it causes difficulty for individuals and communities.

I would make the point, though, that over the long term—if you look over a 30-year period—employment levels in the industry have been very, very stable, despite steady increases in productivity. The reason is we produce products today that we didn't produce 30 years ago. We've increased production in certain areas.

Nobody knows what the future holds, but we envision the same thing will happen again. Over time we will be producing new products, new services. While there may be capacity reductions in some areas of the industry, we think there are very bright prospects for growth in new and emerging products.

The Chair: Okay, thank you.

We'll go to Mr. Van Kesteren.

Mr. Dave Van Kesteren: I'm going to split my time with Mr. Shipley.

The Chair: If there is time.

Mr. Dave Van Kesteren: Okay, a quick question.

Just looking at some of the statistics, I'm curious. I see we've grown our industry, but we've lost major markets in the rest of the world, except for China, the Netherlands, and Taiwan. The simple question is, how did we lose that, what's going on, and why are we losing that segment of the market?

Mr. Shawn Dolan: The decline in exports is due to many factors, largely competition from lower-cost producers. For example, Brazil is coming online with a lot of wood these days, and some species in Brazil grow four times faster than they do here, due to the climate.

So their cost structure is much lower, and in some of these markets they're "eating our lunch", to use a phrase.

Mr. Dave Van Kesteren: Why, for instance, are the Dutch or the Taiwanese...? Why haven't we lost market share? These are the statistics I'm getting from the Library of Parliament; these aren't statistics you've given me. I'm just reading their report.

I was just curious. Why? Is there any other reason, or is it just good old competition, that we can't compete with them?

Mr. Shawn Dolan: To go back to what we were saying earlier, Scandinavian countries are aggressively promoting their own products to their own people. Both industry and government are doing this. Governments are fully and overtly backing using wood as a building material versus using concrete or steel.

Ms. Marta Morgan: In this industry over the last 15 years or so, global trade has increased dramatically and has put much greater competitive pressure on us in many markets than we had in the past. Even within what we would consider to be our domestic market, which is North America, you would see significant increases in imports to the United States from countries such as Brazil, and also, as Shawn mentions, Europe, which has taken quite an aggressive approach in promoting its industry. That probably would account for what you're seeing.

I can't comment on the specific countries you've mentioned, but despite these challenges, forest products remain Canada's number one export to emerging economies such as China, Korea, and Japan. We continue to be quite a successful exporter, though perhaps in more targeted markets where we've been able to stand our ground and fight for that market share.

• (1130)

Mr. Dave Van Kesteren: As a government, do we have to do a little bit better job with trade negotiations to open new markets?

Ms. Marta Morgan: I think the trade policy frameworks are a critical aspect of this. We still face tariff barriers in many countries, particularly on the solid wood side, while they've mostly been eliminated for pulp and paper. Emerging economies like India, where there's tremendous potential for paper exports, still have high tariff barriers. Some of the other more difficult issues to get at are the Chinese industry, where the industry is expanding partly due to the availability of low-cost capital in an industry where it otherwise would have very, very limited natural advantages.

Mr. Dave Van Kesteren: Thank you.

Mr. Bev Shipley: It wasn't that short, but if you want to go—

The Chair: You have one minute.

Mr. Bev Shipley: Just a quick one. At the start you talked about the huge concern about the pine beetle infestation. We've gone around a whole lot of issues about the dollar and exports and our inability to compete, but you're saying we'd be out of business. Can you help us a little bit? You said it might wipe out the industry. Can you talk to us just quickly? How much of that is in our industry in B. C., and how do we deal with the pine beetle infestation?

Mr. Shawn Dolan: Forestry is 10% of B.C.'s GDP. So \$1 in \$10 in B.C. is due to the industry.

Mr. Bev Shipley: In terms of our Canadian industry, how much comes from B.C.?

Ms. Marta Morgan: About half.

Mr. Bev Shipley: So you're saying if we lose our industry in B.C. because of the pine beetle infestation, we've lost half our industry, regardless of what we're all talking about here.

Are there any resolutions for that?

Ms. Marta Morgan: Most predictions on the pine beetle wouldn't predict that we would actually lose our industry, but that we're going to have quite a significant surplus of wood over the next 8 to 10 years. After that, our annual allowable cuts will shrink considerably. So it will still be a vibrant industry, but smaller once the mountain pine beetle wood has been felled and processed.

The Chair: Mr. McTeague.

Hon. Dan McTeague: Ms. Morgan, I would like to come back to your concerns about the Competition Act, and in particular to your comments with respect to the single rail line, which constitutes a monopoly for many of your members. I take it then there are no alternative means of transportation that would help. Is that correct?

Ms. Marta Morgan: In many cases, our mills are located in rural areas where there is no other method of transportation, and/or where trucking, which would be the natural alternative, is prohibitively expensive, because of the nature of our products and the markets they're destined for. So it's not a viable competitor.

Hon. Dan McTeague: Okay.

I'm interested in finding out where you felt reviewable matters, which I think are consistent with the European and U.S. restrictions on any merger proposal.... I take it your concern is to bulk up the act that was rewritten in 1986 primarily to allow that. Section 96 of the Competition Act has been used before by other industries, particularly the propane industry, to create a veritable monopoly, because if you could demonstrate inefficiency, regardless of its impact, you could virtually have a monopoly, as long as it was efficient.

I'm wondering if you could give this committee illustrations, or tangible examples, of where you felt the Competition Act, or the bureau in terms of its investigation, may have sent that so-called—I think you referred to it as a chill in the marketplace, such that it would have prevented the kind of bulking up you believe your industry so desperately needs.

• (1135)

Ms. Marta Morgan: There have been a number of examples of mergers in the early part of the decade on the pulp and paper side of the industry, and most recently on the solid wood side of the industry, that the bureau scrutinized very closely. In many cases, the bureau imposed conditions on the merger. I would be happy to provide you with more detail on that.

Our issue is twofold with competition policy, and one part is its application. It's our view that the markets we're operating in now are not being properly understood by Canadian competition authorities to be what we perceive them to be, which are global markets in

which Canadian firms are essentially global price takers. The impact of mergers on domestic competition is being overstated, because of the lack of appreciation of the way that markets have changed over the last 10 to 15 years.

So it's partly an implementation issue and partly an issue of competing policy priorities, where—

Hon. Dan McTeague: What are the circumstances in which you have an international takeover, say Weyerhaeuser taking over MacMillan Bloedel? How would that improve your association, which is made up of Canadian companies, if you make the restriction any more amenable to takeovers to, as it were, bulk up? How would this improve the Canadian lumber industry or the Canadian forest products industry, if indeed they're taken over by international conglomerates?

Ms. Marta Morgan: In my view, it would be easier right now for a Canadian forest products industry to be taken over by an international company than to merge with another Canadian company. That is really the dilemma, because as you know, when the head office migrates somewhere else, there are a lot of jobs and economic activity going with it.

Hon. Dan McTeague: That's extremely helpful.

I've noticed from some of the papers today that there's a U.S. slowdown, probably not just because of energy, but also demand for housing and autos. They're referring to it as a "soft landing", and I think these are some of the concerns we have in terms of how to best address that.

If interest rates rise at any point in the not-too-distant future, what impact do you see this having on your industry overall, not just in terms of housing, but overall with respect to the picture in the U.S., where I presume most of your exports go?

Ms. Marta Morgan: A steady increase in the interest rates in the U.S. would likely lead to a further deceleration of the housing market. It will make debt-financed housing, which is what most of us rely on, more expensive.

Hon. Dan McTeague: Thank you.

The Chair: Thank you, Mr. McTeague.

We'll go to Monsieur Arthur.

Mr. André Arthur (Portneuf—Jacques-Cartier, Ind.): Both of you have emphasized how proud Sweden is of its forest industry and how envious you are of the Swedish government promoting its own forest industry.

Following up on Mr. Lapierre's question, I'm from Portneuf—Jacques-Cartier. When you see Saputo-Tembec close an industry that was modern and operating very well, and leave everything there, with big fences, in a total disrespect of a mono-industrial locality, when you have Bowater in Donnacona, which keeps taking its own employees hostage to get more subventions, and then you come to the Hill and say that the Government of Canada should promote your industry, how do you think it should be taken by the victims of the behaviour of the companies that pay your fare here?

Ms. Marta Morgan: The decision to close any facility is a very difficult one for a company. Our companies are well aware of the difficulties it creates for their employees and for the communities they live in.

When we look at the Scandinavian example, one of the things the Scandinavian countries did in the early 1990s and through the 1990s was to consolidate and rationalize their production into larger, more efficient, more productive mills, which they're benefiting from today. That is a step they took that has proved for them to be a contributor to their competitiveness and to their overall employment in the sector.

But certainly we see this every day. Our companies live this. They don't take these decisions lightly. They would certainly be happier to be in a better financial position and be able to keep more facilities running.

• (1140)

Mr. André Arthur: My point was, how would the Government of Canada look if it had decided to promote your industry the day before Saputo-Tembec did what it did? The government would look like a fool. Why do you want the Government of Canada to step behind your companies while even you must admit that their image, when they do such things, is very bad? Why would the government invest its own credibility with your industry when your industry behaves like that?

Ms. Marta Morgan: We see ourselves as an industry that produces useful, sustainable, high-quality products that are produced in the most sustainable way possible. We treat our workforce with great respect. We take these decisions with difficulty, but we see this as a great Canadian industry that has been through periods of change and transformation before and will continue to be a great Canadian industry that we can all be proud of.

Mr. Shawn Dolan: I would just add that the notion of the Canadian government getting behind our industry the day before a plant closes in Quebec is obviously a terrible one, but I think what we're trying to go towards is the Canadian government and the industry working together to promote this industry on its merits to Canadians so that, not the next day, not the next month, but further down the line, fewer and fewer of those stories occur.

Mr. André Arthur: That would be the day when government would feel safe in going behind you.

Mr. Shawn Dolan: It's the chicken and the egg.

Mr. André Arthur: You cannot ask the government to put its own credibility behind organizations that behave like Saputo did.

Mr. Shawn Dolan: Well, I'm not going to get into an argument about one particular case. We're very comfortable standing behind our industry as a whole. We're not asking the government to put its credibility on the line.

I would only pose this question. Why do the procurement policies of the Canadian government favour importing steel to build an arena in the small town that you're talking about when wood is cheaper, Canadian, and more environmentally friendly?

Mr. André Arthur: Thank you.

The Chair: Thank you.

We'll go to Monsieur Vincent, and then we have Mr. Fontana.

[*Translation*]

Mr. Robert Vincent: First of all, I would like to tell Mr. Lapierre that we should revive the Program for Older Worker Adjustment. We asked for that for 18 months, but you did not respond. We are now asking the Conservatives and I hope that they will respond favourably.

In your view, how many people have been laid off in the pulp and paper industry since 2002?

[*English*]

Ms. Marta Morgan: It's approximately 11,000.

[*Translation*]

Mr. Robert Vincent: Can you explain to me how, despite the loss of 11,000 jobs, production capacity has remained the same since 2002? In 2002, the production capacity was 92.1 per cent and in 2005, it was 92.9 per cent. How could we have lost 11,000 jobs and yet keep the same production capacity?

Mr. Tom Rosser: As we have mentioned on a number of occasions, the most important factor is the rise in the industry's productivity, which is ongoing. In fact thanks to that increasing productivity, fewer workers are needed to produce the same quantity of goods.

Mr. Robert Vincent: As a result, the job losses were not caused by the rise in the value of the dollar but the use of new technology.

• (1145)

Ms. Marta Morgan: We are in a period where industry must deal with challenges of a scope that it has not seen for 30 or 40 years. There is currently a convergence of factors that is forcing the industry to do what it can.

[*English*]

to regain its competitiveness. This means increasing productivity in whatever ways it can. Some of that is investment and some of that may be a consolidation of production.

It's difficult to attribute it to any one thing, but I think the key point is that we are really in a period of change. We're in a period when the global competitive factors that are upon us have intensified and have all come upon us at one time. I think that's why we are looking to work with governments to create a positive vision for this industry for the future as we come through this transformation period.

[*Translation*]

Mr. Robert Vincent: I would like to come back to the question that I asked earlier about skilled workers, in other words, about jobs within the industry.

Are companies investing money to set up a joint training school with other industries to train needed workers and to create a bank of skilled workers, or are we relying rather on the government to train those workers? I do not believe that there are any university courses in the area of debarking or sawmilling. In my view, there should be a school, like the one in La Tuque, Quebec, where training is provided for logging industry workers.

Is there any intention of offering that type of training in cooperation with industry?

[English]

Mr. Shawn Dolan: In certain cases, we fund programs at both colleges and universities to train workers for our industry. Our organization is not equipped to provide that level of training. We're not in the business of building a school for woodworkers, for example. But our members spend more and more time trying to attract the people they need, and, where appropriate, we have members who partner with local colleges to meet those needs.

As far as an industry-wide school for wood plant workers, I don't think anything like that is in the works.

[Translation]

Ms. Marta Morgan: As Shawn said, the industry has generally adopted a regional approach based on the education infrastructure and regional needs as they arise. Our companies are doing a great deal in that regard, by providing bursaries and programs to draw local students. The industry is also offering internships, and a whole host of local activities to encourage and support young people who want training.

I have not mentioned that we are the largest industrial employer of aboriginals. Mr. Chair, this is an area that our companies are very involved in. Our goal is to encourage aboriginals to acquire skills and to work in our industry.

[English]

The Chair: Thank you.

We'll go to Mr. Fontana.

Hon. Joe Fontana: I will follow up both Mr. Arthur and Mr. Lapierre. You have touched on this whole issue of consolidation. It's fragmented and...obviously, it's been successful, but in order to bulk up, I don't know if you're saying there's an over-capacity and therefore one needs to consolidate, or whether or not you need to consolidate by virtue of the fact that there are synergies when you start to bulk up.

I'll ask a couple of things. Are you talking about government being involved in a planned consolidation, because you can either plan consolidations or wait for outsiders to buy out and consolidate for you? If that's the case, are you then asking for adjustment programs for workers who are displaced or communities that are directly affected?

I'm trying to understand how government can help either in the consolidation or what you are doing in order to consolidate, rationalize, and everything else. There are significant social implications for communities and people. Therefore, is that the piece where you want government to be involved?

Secondly, with regard to research and development—and I think our greatest hope for the future is to continue to do some research and development and value-added—what role do you think government should have with the forestry sector in helping to develop a forestry strategic plan that encompasses a pool of money, with yours, that will help us add value and do some research and development and some of the new innovation for wood products that must come about?

• (1150)

Ms. Marta Morgan: On the issue of consolidation, the rationales for consolidation vary. In some cases, where there is over-capacity, it's a way to get greater economies of scale and to take some capacity out where the market demand is shifting. In many cases, it's an opportunity to develop new products and new services.

This has been particularly the case with the solid wood sector. Our industry has found over the last few years that it needs to be bigger in order to provide the kind of service that buyers like Home Depot are asking for. Our industry went from shipping the lumber to them to now having to deliver the lumber, stock their shelves, and manage their inventory. That kind of sophistication of service provision also often requires that you be bigger.

What do we want the government to do? Well, for the most part we want the government to stay out of it and not interfere in consolidations: let the market decide when consolidation should happen and allow the market to figure out whether it makes sense to have bigger or smaller companies.

Hon. Joe Fontana: With all due respect, I would agree that the marketplace and business makes business decisions. But usually it's the government that has to come to the rescue of communities and workers who are displaced by virtue of either planned.... That's what I'm asking, whether or not you want to plan consolidation, because it's the government, it isn't the business, that has to worry about communities that are left out there on their own, or workers who may be 55 and older. What do you think you're going to do with those people? Who pays for those social costs? It isn't going to be you. It's going to be the government at the end of the day, all three levels of government, that will be left picking up the pieces of people's lives.

Ms. Marta Morgan: We think that's very important. We are willing to work with governments at the community level to facilitate adjustment and transition for workers. There are many good models from the past that we should look to, where that's happened, with all levels of government working with the industry.

On the issue of R and D, we've been working quite a bit with the federal government, Mr. Chairman, on the creation of a single research institute for the forest products industry, bringing together three existing institutes into one institute that will be able to provide a strategic plan and vision for research activities for Canada in this area. We think this is a very important step in terms of creating a more strategic approach to R and D in this sector, and we would encourage part of the funding announced by the recent budget for competitiveness for this industry being focused on R and D, particularly on transformative R and D, where there is currently a gap. It's quite easy for the industry to find R and D that will reduce its costs and improve its existing products, but moving toward that more transformative R and D, toward conversion to bioenergy, smart papers, and nanotechnology.... There are a range of exciting new technologies on the horizon that we think provide a solid future for the industry.

The Chair: Thank you.

Thanks, Mr. Fontana.

I just have a few wrap-up points. First of all, on the consolidation issue, could we get a list of Competition Bureau cases that Mr. McTeague asked for?

Just for members' information, there was a case two or three years ago in northern B.C., where West Fraser Timber merged with another company and actually had to divest a mill that was owned by three native bands, basically putting three native communities out on their own. That's the kind of situation you're probably talking about, but if we could get a list and an explanation of those, that would be very helpful to the committee.

• (1155)

Hon. Dan McTeague: Mr. Chair, to help the committee, I just wanted to find out if that also included the merger of Slocan and Canfor in 2003. I believe it did go through, and there were provincial concentration issues as opposed to Competition Act questions that were brought forward, so we need some clarification on that, through you, Chair.

Thank you.

The Chair: Okay.

Second, on the tax on capital investment, my understanding, based on what the researchers are telling me, is that this is a tax on capital goods for production processes supplied on a corporation's capitalization. But this has been mentioned by a few witnesses. So could you provide some background as to exactly what you mean and what level you would like it at to be competitive with other forest industries across the globe?

Also, with respect to the investment tax credit, I don't know if you have something specific in your package on that, but you could submit something specific on it to us if you want.

Third, on black liquor and the capital cost allowance, the capital cost allowance issue has been raised by a number of witnesses. The CME has advanced a two-year write-off period. Is that acceptable to your industry or would you like something different from that?

On black liquor, and renewable energies as well, if you have anything further.... Actually, I was in a plant in Prince George and I saw black liquor. It was explained to me exactly how—

Hon. Joe Fontana: You didn't drink it, did you?

Some hon. members: Oh, oh!

The Chair: I didn't drink it. That's moonshine out west, Joe.

Some hon. members: Oh, oh!

The Chair: On the last issue, perhaps I'll put this as a challenging question. If you want to comment on any of the others, you can, but you mentioned the perfect storm. I think Mr. Dolan said this industry has become a leader in productivity in spite of all these conditions. Yet some people in your sector have hinted to me that perhaps it's because of all these challenging conditions that productivity has

increased so much. Did all of these conditions actually cause the rise in productivity in your sector, or was it actually in spite of all these conditions?

If you want to comment on any of those, or if you want to provide further information, I'd allow you to do so, or you can make some final wrap-up comments here.

Ms. Marta Morgan: On your specific points, we'd be happy to provide you with more specific information and follow-up. We certainly support the proposal, for example, that the CME has put forward in terms of an accelerated writeoff of capital investment. And we'll provide you with additional information on the other issues.

I think the perfect storm is a great challenge for the industry, but it is also a great opportunity. Certainly in the solid wood sector in British Columbia, I think some of the capital investments that have been made in recent years have been driven by the need to respond to the softwood lumber challenge and the extraordinary disadvantage at which it put Canadian producers. Would we have chosen that? Probably not. But are we in a stronger position now because of it? Yes we are.

I think the critical thing for our industry and for the government going forward is to navigate this perfect storm in such a way that it leaves us at the other end stronger, more competitive, and more rooted in Canada for the long term.

The Chair: Okay.

Mr. Shawn Dolan: Just to follow up on that, our members have done a tremendous job in surviving up to where they are now, but the pain is quite real in a lot of these communities. For an industry as large and as capital intensive as ours is, the rates of return on investment are below what you can get on GICs, in some cases. It's just not a healthy investment climate for an industry that's as crucial as ours is in Canada.

Thank you.

The Chair: Thank you.

On behalf of all the committee members, thank you very much for being with us today. We appreciate your very specific recommendations, and we look forward to them. If you have any further recommendations, besides the ones that have been asked for, please submit them to me, and we'll consider them in our report.

Thank you very much.

• (1200)

Ms. Marta Morgan: Thank you.

The Chair: We will adjourn the meeting, members. We will have a short break, and then we will come back for an in camera session to discuss draft recommendations and observations.

The meeting is adjourned.

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