House of Commons
CANADA

Standing Committee on Industry, Science and Technology

INDU	•	NUMBER 029	•	1st SESSION	•	39th PARLIAMENT

EVIDENCE

Monday, November 20, 2006

Chair

Mr. James Rajotte

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

http://www.parl.gc.ca

Standing Committee on Industry, Science and Technology

Monday, November 20, 2006

• (0900)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): Order.

Good morning, ladies and gentlemen. We are very pleased to be here in Halifax to start our cross-country tour on the challenges facing the manufacturing sector.

This is the 29th meeting this session for members of the Standing Committee on Industry, Science and Technology. We have been studying since spring the challenges facing the manufacturing sector. We hope to complete this study at the end of this week in terms of hearing from witnesses. Then we will move right into the report that we will present to the government, hopefully in mid-December, in preparation for the budget in February or March.

We will go right to witnesses. We're very pleased to have with us, for the first hour and a half, from Offshore/Onshore Technologies Association of Nova Scotia, Paul McEachern, managing director; and Don MacLeod, legal counsel. Following them will be the president of J.D. Irving, Mr. Jim Irving.

We'll go now to the ten-minute opening statement from Mr. McEachern.

Mr. Paul McEachern (Managing Director, Offshore/Onshore Technologies Association of Nova Scotia): Thank you, Mr. Chairman.

Just to clarify things, Mr. MacLeod is vice-president of Secunda Marine Services and their legal counsel. I didn't think it was necessary for me to provide my own lawyer to appear before this committee.

Thank you very much for coming to Nova Scotia and providing us with this opportunity to address you today.

Very quickly, OTANS is a trade association that represents about 400 member companies in the Maritimes and Newfoundland and Labrador. These companies are involved in the supply of goods and services related to energy—primarily offshore oil and gas—although some do work in the renewable area as well. Approximately 30% of our companies do exporting, and they've successfully competed and won business in such areas as the United States, Europe, and to a lesser degree South America and the Middle East.

As I mentioned, with me today is Mr. MacLeod of Secunda Marine. Secunda is a member of our association and is based in Dartmouth. It has a fleet of offshore supply vessels and associated marine assets, which employ between 300 and 400 Canadians here in Halifax and Dartmouth and operate around the world.

I propose to make a quick introductory statement and then open the floor to your questions and comments for both of us.

Your task is to examine Canadian competitiveness. Our role today is to discuss measures that may seriously impact on our ability to do so, not on a global basis but here in our own front yard. Canada is a trading nation, and we welcome opportunities to open new markets for our member companies and our employees. However, we wish to advise the committee of the dangers to a fledgling industry, namely the offshore oil and gas industry, and the resulting economic benefits to our region and country posed by current attempts to reach a free trade agreement with EFTA, which is the European Free Trade Association.

We'll wrap up our comments with a few words on the Canadian shipbuilding policy.

The European Free Trade Association is made up of four European countries: Norway, Iceland, Switzerland, and Liechtenstein. Canada, if successful, would have a so-called free trade agreement with these four small European countries. From a philosophical standpoint, we're not opposed to free trade. EFTA, however, doesn't constitute an initiative that would liberalize trade or benefit the Canadian economy as far as we can see. This very narrow initiative would in fact cause great harm to certain sectors of the economy, not just the offshore oil and gas industry here in Atlantic Canada but also, in particular, the offshore vessel operators and the shipbuilding industry.

It has been suggested that Canada is falling behind the United States in the signing of bilateral trade agreements with other partners around the world, and that we will lose ground if we don't keep up with our neighbour. We can assure you that any agreement that the United States would ever sign would have a carve-out of the Jones Act that preserves U.S. coasting trade for U.S.-built ships.

Four years ago we, as well as many other parties including several provincial governments, came to the conclusion that an EFTA free trade deal just didn't provide enough benefit to Canada. We were advised that carve-outs for shipbuilding and the 25% tariff on vessel importations would not be palatable to the Norwegians. Without such a carve-out as that provided for U.S operators under NAFTA, an agreement with EFTA would not be acceptable to Canadian vessel operators and shipbuilders.

We'd like to make a couple of points on EFTA, but they are also applicable to some degree to the Singapore and Korea discussions. First of all, what is the benefit of this for the country? FTAs must be mutually beneficial, and they must lead to economic benefits for both parties. When officials in the Government of Canada have been asked for the statistical analysis and data that show some type of a cost-benefit analysis for such an agreement, they've been unable to produce any such information for us. We believe it's because they haven't carried out such studies. Officials also suggest that an agreement with EFTA countries would somehow allow us to gain access to the European Union, but no explanation is forthcoming as to how that would be arrived at. We see no benefit to Canada out of these negotiations as they're constituted. We fail to see how any agreement with this European rump would allow Canadian entry into the European Union.

On the rules of origin, under the proposed rules of origin—I know this is complicated for those of you not in the shipping industry—there would only have to be between 35% and 50% Norwegian content in any vessel exported from Norway to Canada. That would allow the Norwegians to build the hulls of the vessels offshore in low-labour countries such as Romania and then bring them to Norway to be outfitted. Therefore about 50% to 65% of a so-called Norwegian ship could be built outside of that country but would be treated as a Norwegian vessel and allowed to enter Canada without paying duty.

A Canadian owner, on the other hand, would not be able to import a similar hull from a low-cost country and outfit the ship in this country without the attraction of a 25% duty on that hull when it entered service.

● (0905)

Clearly the Norwegians knew what they wanted when they came to the negotiating table, and the Canadian negotiators did not have an appreciation of what they had agreed to with the Norwegians.

For national policy objectives, all free trade arrangements provide for or allow specific exclusions for sensitive industries. Under NAFTA the United States specifically carved out the shipping industry and shipbuilding under the Jones Act, which precludes Canadian vessels or Canadian-built ships from participating in the coastal trade of the United States. The U.S. felt it appropriate to protect these sectors. Under the circumstances through which Norway has developed its offshore oil and gas sector with very strong protectionist policies, we believe Canada would be wise to do the same with EFTA.

When it comes to the offshore on the eastern coast of Canada, and eventually the north and British Columbia, it is an important element that EFTA be considered and that it be stopped. The development of this industry in Atlantic Canada is perhaps the single most important economic impetus to hit this region in the postwar period. Given that the offshore oil and gas industry in Newfoundland and Nova Scotia is at its beginnings, and it is a stated policy of the federal government, both this one and previous governments, to ensure that Newfoundland and Nova Scotia are the primary beneficiaries of offshore oil and gas development under the accords, it is entirely appropriate that this sector should be maintained for Canadian companies.

If Norwegian vessel operators are allowed into this market at this stage, they will bring their various support companies, their service industries, and other elements of the offshore oil and gas industry with them. Atlantic Canadians and all Canadians will be out of luck, and we fear they'll be out of business.

Norway has a very successful offshore, one that we're very envious of. For the last 30 years they've grown into one of the world's largest oil exporters. Foreign competitors have not been able to penetrate the Norwegian market due to non-tariff barriers, including government-regulated tendering processes that essentially preserve the Norwegian offshore for Norwegian companies. In addition, Norwegian vessels have been built under subsidy. As well, Norwegian vessel operators have had very favourable tax regimes and corporate structures that enable them to grow and develop, having had the advantage of a strong protectionist policy and strong government support.

Today they now seek free trade with this country. Obviously the playing field is not level under those circumstances. That country has approximately 400 offshore supply boats. In its fleet they've built more than 200 since 1997. Should the Canadian marketplace become accessible without the requirement to pay a 25% duty on vessels, Norwegian companies could dump their vessels at very low prices. Canadian operators, who have been forced to operate under the existing regime, where they have to pay either expensive Canadian and U.S. vessels or pay the 25% duty on foreign-built vessels, just wouldn't be able to compete. Essentially we'd be sitting on the shore while the Norwegians helped exploit Canadian resources.

On tariff policies, EFTA, should it proceed, would be in direct contradiction of the established federal shipbuilding policy. The Government of Canada views the development of Canada's east coast offshore oil and gas sector as a key development in the growth of that shipbuilding industry. On the one hand, the shipbuilding policy is premised on the fact that there will be an expanding and growing Canadian offshore industry from which Canadians will benefit. On the other hand, through EFTA a very strong foreign competitor would be able to unfairly enter the Canadian market before our industry had a real opportunity to establish itself and set down roots.

We have yet to get an answer from government, particularly from its officials, to several pertinent questions. We are asking you to go back to Ottawa, ask these questions, and please share the answers with us.

First, where is the analysis of the benefits of such an agreement in the type of detail that one would deem necessary when committing a country to such an arrangement? It is not that we merely don't like the answer. The fact is that officials are unwilling or unable to provide us with such an answer and a requisite analysis.

When asked directly what sectors of the Canadian economy could possibly benefit from an EFTA agreement, there is no substantive answer forthcoming. We've asked for five years on this and we still don't have an answer. It is presented merely as a leap of faith. Surely a country does not enter into such a set of negotiations without articulated, accepted objectives and an ability to inform Canadians on the specific benefits and potential downfalls.

As I mentioned before, we believe any trade negotiations with EFTA would be at variance with the federal policy of ensuring that Newfoundland and Nova Scotia are the key beneficiaries from offshore oil and gas development, as stipulated in the federal and provincial legislation known as the accords. Not only would shipyards and vessel owners be severely hurt by this initiative, but all of the emerging offshore service and support companies that supply shipyards and vessel owners in Canada would be hurt as well.

● (0910)

Not only will shipyards and vessel owners be severely hurt by this initiative, but all of the emerging offshore service and support companies that supply shipyards and vessel owners in Canada would also be hurt. It is mainly those people whom I represent today. We represent shipbuilding and shipowners in Atlantic Canada, but we also represent a large supply chain that we think is at risk.

To be blunt, we believed that we had turned the page on this chapter several years ago when this was put on the back burner, but apparently this is not the case. We urge the committee to ask the questions that we have and insist that the government put forward an open articulate case before embarking on their chosen path.

Thank you very much.

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

We'll now go directly, I believe, to Mr. MacLeod.

Mr. MacLeod, did you have a statement as well?

Mr. Don Mac Leod (Vice-President, Secunda Marine Services Limited (Nova Scotia)): Yes, I did.

The Chair: I see.

The Clerk of the Committee (Mr. James M. Latimer): My understanding was that there was ten minutes for the organization.

The Chair: Okay.

Could we ask you to make it very brief? Our understanding was that there were only two presentations this morning.

Mr. Don Mc Leod: I see. Is there enough time for three?

The Chair: Is that okay with everyone?

I'm sorry about that. We had a misunderstanding.

[*Translation*]

Mr. Paul Crête (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, BQ): We are here to listen.

[*English*]

The Chair: Mr. MacLeod, we'll go to you.

Mr. Don Mc Leod: Thank you very much.

The topic under discussion is manufacturing and competitiveness in Canada. It's maybe a bit odd for a service company such as Secunda Marine, which owns and operates vessels, to be here talking about manufacturing, but we use ships that are built, and they're manufactured, and therefore the policies that are implemented with respect to vessels have an impact on our business. Actually the regime that has been in place has dictated and created a set of circumstances such that our company has actually had to become a manufacturer of ships in order to be competitive.

To give you a little bit of background on our company, we own and operate a fleet of 16 vessels that work worldwide. We're based in Dartmouth, Nova Scotia. We're a one hundred percent Nova Scotia Canadian-owned company based here in Halifax and Dartmouth. We work in the domestic market as well as in the international market. In terms of competitiveness with the Norwegians, we work in the Gulf of Mexico, we work in the North Sea, we work in west Africa, and we work here. We know about competition, and we know how well suited and well positioned the Norwegians are as far as our sector is concerned.

In Canada we have one policy with respect to shipping and shipbuilding, and that's a high-tariff policy. I will try to explain how in Norway they have a whole range of policies and initiatives in place that support their very vibrant and strong shipping and offshore sector. In what's being proposed in the EFTA situation—this negotiation with the powerhouses of Switzerland, Liechtenstein, Iceland, and Norway—our main concern is with Norway. The fact of the matter is that if you were to choose the strongest competitor in our sector, and open the door to them, and let them come in and walk over us, that competitor would be Norway. So it just isn't logical.

I have a whole list of questions here, which I've been posing to everybody in the government for about three months. Madam Denise Verreault, who runs Verreault Navigation in Quebec, summed it up in one sentence: What's in it for Canada? What's in it for us? Nobody can answer that question. They say we're falling behind the United States in the number of free trade agreements we've negotiated, or that we need to get access to the European market. In response to that I ask, how do you get access to the European market with a rump that is not part of the EEC? The reason they're not part of the EEC, particularly in the case of Norway, is that they want to perpetuate their protectionist policies and do not want to comply with the open trade policies that are in place with the EEC.

I get a sense that somebody in the bowels of the Lester B. Pearson Building has decided free trade agreements is what they do. This is what is exciting for a new minister, so let's float this trial balloon and see where it goes. So something that we thought had a stake in the heart four years ago is rising from the dead like Lazarus. We're faced once again with having to mobilize people to explain things to a new group of trade negotiators who really don't know anything about our industry. The new lead trade negotiator just got his job about three weeks ago, and he's off to Norway to negotiate our industry away.

In any event, let me just address a few of the issues that Paul has touched upon.

In terms of the size of our company and the offshore, the offshore is extremely important for Nova Scotia. Our company has been a success in terms of exporting homegrown technology and expertise worldwide. We have an asset value of over $300 million. We had revenues last year of $95 million. We employ upwards of 450 employees based here in Halifax, and also in all of the small communities in rural Atlantic Canada. It's not just Halifax that's benefiting; it's all of the places like Sheet Harbour and Mabou, and Shelburne, and little towns in Prince Edward Island and New Brunswick and so on. The economic benefit from this industry is not localized in one area, but spreads throughout the region, so the impact is tremendous.

● (0915)

In the past fifteen years we have spent over $160 million in terms of major retrofits and conversions on ships. We retrofit and convert vessels because of the high tariff policy. We bring in a vessel at a low value, pay low duty on a low value, and then do upgrades—sweat equity—to improve the value of a ship here in Canada so that we don't have to pay the high duty.

A picture is worth a thousand words, and since it's in neither French nor English, I think it would be acceptable to everybody for me to pass around a couple of pictures to demonstrate what we do. This has a direct bearing on the question of rules of origin.

The top picture is of a Russian hull that we purchased and brought back to Canada. We had two of these vessels. At the dock on the Dartmouth side of the harbour, in a span of nine months, we converted the two vessels into the vessel that's shown below. The ship has been working at Petro-Canada on the Terra Nova project for six or seven years now.

That's an example of how our company has worked within the existing framework of the high duty to bring value to Canada and do the work here, because we have to live with the fact that we pay 25% on the importation of a vessel that's built outside of Canada. If we were to build a vessel in Norway or in Singapore or wherever, we'd bring it in, pay 25% duty on it, and off we'd go. Of course it's difficult to finance that; it adds costs to the project and so on.

So we've built our company around the existing policy. What's odd is that under the rules of origin that will be implemented in the EFTA agreement, which Paul alluded to, a Norwegian shipyard could import a hull from, say, Romania, outfit it in Norway with Norwegian kit, using Norwegian employees, and it could have maybe.... They haven't decided what the threshold is going to be, but we've heard a couple of numbers. They could have between 35% and 65% non-Norwegian content in that vessel, yet to bring it into Canada, under EFTA, it would be treated as a Norwegian ship, and therefore brought in duty-free.

Again, that's 35% to 60% non-Norwegian content in a Norwegian ship, imported to Canada on the same status as a Canadian-built ship. If we were to build a ship like this, where we bring in a hull and put, say, 95% Canadian content value added to it, we would still have to pay the duty on the hull we bring in. It's ridiculous.

I guess that's an example of the fact that our negotiators and our people who are looking at industry policy don't really understand the policy, and are out negotiating and making decisions with respect to our industry without really appreciating the consequences.

I go back to Madam Verreault's question: What's in it for us? Nobody can tell us. If you had winners and losers, you could understand. You could understand that one sector benefits, another sector loses. But no sector seems to win as a result of this EFTA agreement. Why are we doing it? I get a sense that there's a momentum to do free trade agreements regardless of the consequences. But if you're in business or if you're a country, whatever you are and whatever you do, just to do something for the sake of doing it is not a good reason. And I get the sense that's what's happening right now.

Mr. Irving's organization and our company met with the Minister of Industry a couple of weeks ago to discuss what's going to transpire in terms of the future policy of shipyards and the marine industrial sector. At that time we put forward a number of proposals. Before I address those very briefly, let me give you a sense of Norway.

Norway has built vessels for the past fifteen, twenty, thirty years on subsidies. They have a protective procurement policy. They have a regulatory process that protects the sector for Norwegian operators. They have fiscal policies akin to limited partnerships that allow investment in vessel-owning companies, which attracts investors. Here in Canada, for capital-intensive business we don't have a similar regime. A whole host of policy initiatives need to be reviewed, considered, and studied before they eliminate the one policy for shipyards and ship operators, the high tariff.

● (0920)

The Norwegians will have all of those other policy initiatives in place to prop up and support their sector, whereas the one policy that is in place for Canada will be eliminated, and we will be at the mercy of a very strong, very vibrant international competitor.

The Chair: Thank you, Mr. MacLeod.

Now we'll go directly to Mr. Irving.

Mr. Jim Irving (President, J. D. Irving Limited): Good morning, gentlemen.

It's a pleasure to be here with you this morning to participate in trying to put our point of view across to you on this most important subject.

My name is Jim Irving, and I'm president of J.D. Irving Limited. If you don't know too much about J.D. Irving Limited, we're a New Brunswick-based company. We've been in business since 1882, and we're a fully integrated company in forest products, consumer packaged goods, shipbuilding, retail distribution, transportation, and food processing. We have over 15,000 employees in Canada and the United States. Our major markets are in the United States and Canada, and our head offices are in Saint John and Moncton.

I had a presentation to hand out to you, but I understand we're non-compliant, so we'll do the best we can with it. Hopefully, we'll get it handed out to you during the course of the morning after it gets translated for proper presentation. You'll have to bear with me a little bit.

There are three key things that we'd like to talk to you about this morning: encouraging capital investment and new technology; trade agreements regarding shipbuilding and the marine sector; and encouraging productivity improvement and employee skill-building.

I'm going to hold up a chart, if you don't mind. The first one is going to be in the context of the forest products business. We're in the forest products business. The forest products business is a major industry in Canada. New Brunswick is a province in which forestry is of major importance. My first three or four slides are background that could be used in any business—the automotive sector in Ontario, the mining business, or any other manufacturing and exporting part of this country.

The first chart shows the importance of the forest products sector to New Brunswick. It shows all the provinces in Canada, and it shows the importance of forestry to the provincial economy in New Brunswick, of which it makes up about 9%. We're the part of Canada's forest products sector that is the most dependent on manufacturing.

I'm going to go right to slide three, which shows how dependent New Brunswick as a province is on manufacturing. Of all the Canadian provinces, New Brunswick is the third most dependent on manufacturing. I'm going to illustrate with a fourth slide, which talks about the global capital. Maybe just before I show you that, I'll give you a little more background.

Because of our capital intensity in the forest products business, this fourth slide shows capital additions and capital expenditures on a global basis and how Canada ranks in that field. These numbers are in billions of dollars. They show Asia at $13 billion between 2000 and 2007. This is in capital investments, in this particular case in the forest products, pulp and paper sector: in Asia, $13 billion in this timeframe; South America, $7 billion; Europe, over $12 billion; the U.S., $3.3 billion; and Canada, slightly over $1 billion. Again, that speaks to the capital expenditures on a global basis in the forest products business, a business in which Canada historically has had a major global position.

As well, this particular slide is a little more detailed. It shows the rate of capital expenditures in North America in the pulp and paper sector. This one will show this as a percentage of depreciation. Historically in a business, as most of you know, you should spend about 100% of your depreciation to be in the game, to keep up to date. This chart shows us, starting in 1975, up here at over 200%, and where we are today, at 2001, with less than 50%. In 1975 the industry was spending at the rate of about 225%. Today, in 2001, the industry is down here, at slightly over 50%.

● (0925)

So the North American industry—Canada and the U.S.—is not spending its depreciation. Actually it's spending less than half, so we are in a serious state of decline from the point of view of capital investment in this capital-intensive industry.

So what do we do about it? That's the fundamental question, and that is the backdrop for a key part of our presentation this morning. Our recommendation—and this is not a new recommendation, we've made this repeatedly, but we have not been successful in its implementation—is to increase the capital cost allowance, or the CCA. This is an amount for manufacturing and processing equipment. We recommend an increase in the CCA—or capital cost allowance—from what is presently a 30% declining balance to one of perhaps 50% on a straight-line basis.

This really all goes to the tax rate that we're going to pay. If you have a business today, you're writing off your equipment in your plant. You're taking that depreciation against your current year's tax bill. What we're advocating—and we've had it in this country in the past—is that you could go, and you could make a capital expenditure, and you could accelerate the depreciation, take more depreciation in that year. Yes, your payments to Ottawa are less in that year. Your tax bill is less, but you've made an investment in new technology. The federal government then, or the provincial government, depending on how the thing is structured, will receive its tax revenue at a later date—perhaps it's deferred for two or three or four years, but it will definitely come. The result is that rather than have businesses not being invested in and subsequently going out of business and bringing all the social and economic problems that go with that, we'll have businesses that will have up-to-date technology and a strong base, particularly for people in the manufacturing business in this country.

If you're manufacturing and if you're exporting, you're subject to the strong Canadian dollar or the fluctuations of the dollar and high energy costs. It takes a lot of energy to manufacture your product or to get it to market, and you're subject to a lot of fierce global competition, which everybody is. These are fundamental problems that are affecting the manufacturing business, and I'm sure you've heard it across the country in your tour. You'll hear it from a lot of people. They'll be in different industries, perhaps, but they'll have the same problem.

We think this is a fundamental elementary basis that we have to put into the manufacturing segment in Canada. We have to be more aggressive. We can't just design the tax laws to capture all the tax and have businesses that don't reinvest. We have great surpluses in Ottawa. Clearly that's been well run, but if we're going to be progressive and bold—which we surely need to be in the manufacturing business in this country—we need to have a tax structure that represents that.

If, for example, you take the CCA on buildings that are used to house manufacturing plants, today at a 4% depreciation rate it takes 57 years to depreciate 90% of the asset. If we had a 30% declining balance, nine years would depreciate about 95% of the asset. We're living in the past to think we can write off buildings at such a slow rate. Nothing today is staying at that speed. I think as a country there are enormous opportunities for us, if we can get our mind around it.

At the present time, under the available-for-use rules, if you have a fish plant or you have an automobile factory in Ontario or you have a pulp mill in B.C. or a ship, and you go out and make a major capital investment, you're only allowed to start to depreciate that investment once the investment is up and running, say in 12, 18, or 24 months. You've spent your money, and you've incurred all the costs, but you have no depreciation to set off against your tax bill. What we had at one time was ready-for-use.

If you committed New Year's Eve to spend.... Pick a number. Mr. MacLeod over here wants to buy a new ship New Year's Eve. We'll give him a good deal on one—say $50 million. He could take his depreciation that year on that ship against his taxable income. He's made the commitment.

● (0930)

Provided you've made the commitment, signed the purchase order, and entered into a contract, you can start to depreciate the asset. Even though you haven't got the asset, you can start to depreciate it—today, 18 months or 24 months.

This is a form of financing. It's a smart form of financing. It's well done around other parts of the world. It's a method that is not countervailable, not seen as a subsidy. It's well in practice in other parts of the world.

I think we're missing a big opportunity here: (a) we should change our rate of depreciation, be very aggressive; and (b), we should make sure, if the laws are changed, if you are successful, that you can take advantage of that depreciation when you make the commitment, not when you can use the asset. That would be a subtle but enormous change to the success of the investment.

Again, relating to depreciation, we have the half-year rule. With regard to the asset you buy, you can depreciate it for six months only in the year you make the acquisition. Forget about it; let's make it that whenever you buy it during that year, you can accelerate it and maximize the depreciation very aggressively. You might not do this in all sectors, but clearly the manufacturing sector, clearly the sector that's exporting, and clearly the sector that's capital-intensive should receive very favourable rulings in this regard.

That's our presentation so far. I hope I'm not taking up too much time. I have a couple of other points I'd like to raise on the acceleration side.

● (0935)

The Chair: You have two more points?

Mr. Jim Irving: I have about three more points.

The Chair: We have less than an hour for questions. If you can summarize the final two points, we'll go right into questions.

Mr. Jim Irving: All right.

With regard to power regeneration in this country, again, we think we should get very aggressive about people who want to reinvest in biomass, people in the pulp and paper sectors or other sectors where they have wood waste. When they can make modifications to the plant to use biomass or wind energy, they should get very favourable treatment.

Everybody wants it to be environmental, to be green, but wind energy is very expensive. Let's get bold and aggressive and have a tax regime where we can write off our investment in the first year, perhaps even 150%, so that we can attract investment in these highly capital-intensive investments and do something. Otherwise nothing happens; the power is too expensive, and it's not practical for industry.

I have a brief point on carbon sequestration. Canada is blessed with 120 million hectares of forest land. We can sequester 100 million tonnes a year of carbon dioxide. We need the government to do three things. First, let's regulate carbon dioxide emissions. Let's find out what the numbers are going to be and be clear about it so that we can make our plans. Let's also permit trading of carbon credits. We need to have a market there. Or let's create an offset system where they can be traded; we think that's essential there.

I'm not going to talk about the trade agreements regarding EFTA. Don and Paul have covered that off quite well, so I'm not going to get into it.

My next point is on skill building and productivity improvement for our employees, for Canadians, for the workforce. I recommend that the Government of Canada introduce a non-taxable category based on employee incentive. An employee could receive up to perhaps $2,500 a year—providing he didn't make any more than, say, $50,000 a year—on a tax-free basis. We have to get everybody in this country thinking more about productivity, and money motivates people. It's not everything, but clearly we have to find a way to create more enthusiasm. So I'd like to put that thought out there.

For example, at the present time, let's say we give an employee a $50 jacket for achieving a production record or a safety record. We have two $700-a-year categories. If we give somebody a $50 credit, that impinges on that $700 tax-free category. Forget about that; let's have a category where you have a pool of perhaps $700 or $1,000 that can be used also for recognition, employee recognition, for health, safety, productivity.

We have to be more visual. We have to be proud of our accomplishments. We have to celebrate those wins. Everybody has to know about them. If somebody wins a safety award or a production award, it shouldn't be a tax burden. They shouldn't get a T4 for it. It shouldn't be a taxable benefit, as far as I'm concerned. We have to be more aggressive.

With regard to health and wellness, we think there should be a proactive approach. It needs to be realized that the employer and the employee get recognized in a different fashion. The government should encourage greater employer participation in certified fitness programs, smoking cessation, or approved weight loss programs by making the employer, where they reimburse these programs, tax-exempt. As an employer, if we're going to say that we run these programs....

In our organization, our employees can come through once a year, on a voluntary basis, with their spouse to see a doctor. They can get their blood, their cholesterol, and all their vital signs checked once a year. Up to 70% of our employees are blue-collar workers, and oftentimes they don't get to see a doctor until it's too late. We say, no, let's....

You want me off, Mr. Chair.

● (0940)

The Chair: Yes, I'm sorry, Mr. Irving.

Mr. Jim Irving: No, that's okay.

So we think that's important. We have to be of a different mindset for productivity.

Thank you.

The Chair: Thank you very much.

Thank you to all the witnesses. We appreciate the presentations. They were very thought-provoking.

We will go now to members' questions.

Mr. Lapierre, six minutes.

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

Messieurs, welcome. I've been back in politics for three years now, and frankly, this is the first time I've heard about this Norway business. Even when I was a member of the federal cabinet for two years I never heard of it. I don't know where this is coming from. I guess someone in the Lester B. Pearson Building must be very excited about it.

I don't know if you guys have heard about it.

A voice: No.

Hon. Jean Lapierre: It's very good we came down here to hear about this.

Surprisingly, you didn't talk about Korea at all. Everywhere else, people are very nervous about Korea. In the shipbuilding industry, aren't they players? Aren't they a force to be reckoned with?

Mr. Don MacLeod: As a vessel-owning company, we're not as concerned about Korea. They don't build, or don't have the expertise in, the types of ships we build. They generally build larger vessels.

Plus there's the geographic distance. Norway, being in the North Sea, is relatively close. It's easy for them to have vessels go back and forth in an economic fashion. As well, the Norwegians are in the sector. They own and operate ships as well as build ships. Korea is not really a powerhouse in terms of the service sector as far as the offshore is concerned.

Mr. Jim Irving: What you say is right, Don; they do build very large ships. But over time, as the world market changes, they will develop the expertise and capability to build smaller ships.

So they are a threat. They are a problem. They have cheap labour, and they're skilled. They are and they will be a serious competitor. I feel just as strongly about Korea as I do about Norway—for different reasons, but just as passionately.

Hon. Jean Lapierre: Thank you.

From listening to your presentation, especially on the offshore, I understand that you're nervous about Norway. But are you asking us to be more protectionist? Or does the regime we have now, with the 25% tariff, seem to be sufficient?

Mr. Paul McEachern: We would advocate that for now you maintain the status quo until you get an answer on either the benefits or detriments to the country. It was stated that this has never been brought forward to the cabinet table. There are, as you know, literally hundreds of proposals always making their way through the federal bureaucracy. This has been raised with cabinet ministers of previous governments, and with the current government. Right now what we'd like to do is....

You know, I'm sure you meet all kinds of groups who say “Change everything—except for our little neck of the woods.” And we're not being facetious or even flippant when we say this, but our real problem is that we have never been able to get, through official or unofficial channels, any kind of analysis on the benefits of this agreement to the country at large. We could understand it if somebody told us, look, there are some very large opportunities for the aviation industry, or the pharmaceutical industry, or the pulp and paper industry, or whatever. But we have not been able to get that analysis.

There are three Canadian products that senior officials have told us could have an advantage under this agreement: horsemeat, radishes, and french fries. I'm not making this up. This is on the record, in the notes from meetings with department officials at international trade and foreign affairs.

Our difficulty is that we've never been able to get any kind of articulation on this. It's not just the industry that's having this problem. I know it's the same for the governments of Newfoundland and Nova Scotia, and I believe the Government of Quebec has been interested in this as well.

Our real concern, where I work, is the supply boat business. You have to understand that the offshore oil and gas industry is transnational. We need multinational organizations and companies with resources to put that kind of dollar up front to explore and develop. We understand that. There are international companies working here. We've been able to compete with many of them. But what you're looking at now is that we have an economic benefit from this industry that is just starting to grow. The supply boats really are part of that chain. They need electronics, they need hydraulics, they need fuel, they need food for their people, and they need skilled workers. A lot of those requirements come from my companies in both Newfoundland and Nova Scotia, but primarily Nova Scotia. We're genuinely concerned about the “creature of habit” factor—namely, you go to those who you know. We have a very strong suspicion that Norway will do that.

The second thing is that their ships are paid for. They have been built under a very protectionist policy. You cannot penetrate the Norwegian market. I don't see anything from the foreign affairs, international trade, or industry departments that articulates any kind of plan to break that wall.

Although I can't speak on behalf of Atlantic Towing or Secunda Marine, I do know that Secunda has competed pretty well everywhere in the world, except they can't get into Norway. The foreign affairs department doesn't tell us how we're going to get into Norway, but they're very clear about how the Norwegians are going to get into Canada. That's our problem.

● (0945)

The Chair: We're actually out of time.

Can we ask you to comment on a further question? I think this question will be coming up again and again.

We'll go to Mr. Crête.

[*Translation*]

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

[*English*]

The Chair: Please go ahead.

[*Translation*]

Mr. Paul Crête: What is interesting in the case of a possible free trade agreement with Norway, it is that the committee received the same answer with regard to the agreement with Korea. Canada's chief negotiator told us that there was no other estimate other than the one for the automotive industry. Perhaps at the end of our trip will we recommend not signing any international trade agreement as long as a public assessment of the impact of such an agreement on the overall Canadian economy is not done.

Thank you for being here this morning. Your testimonies are teaching us things we would not have learned in Ottawa; they justify our crisscrossing Canada.

My question is for Mr. Irving or anyone else who wishes to answer. If we do not heed your recommendations with regard to accelerated depreciation, carbon dioxide issues, the anti-pollution market, what will be the impact on the manufacturing sector, and in particular the manufacturing sector located here in the Maritimes?

[*English*]

Mr. Jim Irving: Is that with regard to the maritime sector as well?

[*Translation*]

Mr. Paul Crête: Yes.

[*English*]

Mr. Jim Irving: In the maritime sector, to support what Don MacLeod is saying here, in this business with EFTA, what bothers me is that we have been at this thing for four or five years, with every government and the bureaucrats, over and over again. We almost went out of the shipbuilding business. For all practical purposes, we went out of the shipbuilding business. Davies is bankrupt, several times. Madam Verreault is struggling down in your part of the world. I understand the receiver took over the fellows on the lakes this morning, the shipyard on the Great Lakes. We shut down a big shipyard in Saint John. We had the most modern shipyard in Canada, a big yard. The federal government had no procurement policy. It was a disaster.

When we're a nation that has so much coastal marine area, why can we be so disorganized about an approach regarding our manufacturing of ships and the operating of ships in this region? To me, it's a disgrace. I'll tell you frankly, I'm disappointed. Someone has to have a vision that says okay, let's build so many ships a year. Let's protect our home fleet. They do it around the world because it's just good sense. That's how most countries have protected themselves over the centuries. We should look after ourselves here in Canada.

● (0950)

[*Translation*]

Mr. Paul Crête: What will be the overall impact on the entire manufacturing sector if we do not implement what you recommend?

We have a big problem here in Canada. We must convince people that even if the economy is running well, overall, thanks in large part to the energy sector, there are other sectors such as the manufacturing sector which are facing huge challenges.

Based on the tables that you presented, will maintaining the status quo bear the same effect it had on the pulp and paper industry?

[*English*]

Mr. Jim Irving: I don't think it is complicated. When you look at the charts on investment, which I will hand out to you, if you take the pulp and paper sector, for example.... I believe you come from the Gaspé, down from Rivière-du-Loup; you have a paper mill in that town, F.F. Soucy. One of the paper machines has been there since the 1950s or 1940s—for a long time. There are a number of paper machines that are operating in eastern Canada that were built in the 1920s. What else is there today that was built in 1920 that is manufacturing a product and still running?

It's not complicated, gentlemen. They're going out of business. The big global companies have a lot of choice. They look at the map and ask where wood fibre is inexpensive or where labour is accessible, or what the power rates are or where their markets are, and they move. The capital moves. People are not spending the capital in Canada because it has not been a competitive place to invest, for a whole lot of reasons. It's not just rates and depreciation.

The government, though, can set the tone. It can create the environment that says this is a good place to invest. Canada today is not a great place to invest, in this particular sector. This is true. You see it in the automotive sector with the folks from Ontario moving the jobs to other parts of the U.S. or other parts of the world. We have to wake up, as a country. The leadership of the country has to really wake up and say, by God, we're not going to let the jobs keep disappearing. They are going. Regardless of how good the numbers are—today, gas and oil and the mineral sector and those things are bumping up the average—the people from Ontario, the people from Quebec, and the people from Atlantic Canada are feeling the pressure enormously. I don't think we have seen the damage yet, but I think it is serious.

[*Translation*]

Mr. Paul Crête: I have one last question.

Am I to understand that instead of lowering the GST by 1 per cent, a measure that reduces the federal government's fiscal capacity, it would be better to adopt the measures you're proposing in order to make the manufacturing sector more competitive?

[*English*]

Mr. Jim Irving: I can't tell you the impact of cutting the GST by 1%. I don't know. Personally, I don't think it has the impact that's required. I firmly believe that if you're going to do one thing to get productivity up in this country, it should be to change your rate of depreciation. Make it very aggressive. Make it so it can be accessed today.

People need to invest. It's the right place for young people. We have new technology. We need young people with the skills coming out of universities and our community colleges to take these new investments and to help run them, help us make them go. But there's no secret. The pulp and paper business as a global industry is doing quite well in a lot of places. It's just not doing that hot in Canada and North America, because we haven't invested.

The Chair: Thank you.

We'll go now to Mr. Carrie.

Mr. Colin Carrie (Oshawa, CPC): Thank you very much, Mr. Chair, and thank you very much to all the witnesses for coming.

I've got to tell you, as a horsemeat, radish, and french fry-loving guy, I think we should look into this free trade agreement a little bit more.

As my colleague said, this is really the first time I've heard about this particular free trade agreement. I thank you very much for coming here and bringing it to our attention.

Do you have any ideas? Coming from Oshawa, I'm very much aware of the Korean free trade agreement, and what the auto sector is saying about that. I also want you to know that I've spoken to the ministers involved, and if it's not a fair trade agreement, they certainly don't want to make a bad agreement for Canada.

I have one question about that. Do you have any ideas that you can submit about a free trade agreement that would make it a fairer trade agreement, for example, in the dispute mechanisms and these non-tariff barriers you mentioned? That's one question I had for you.

The second question was that the new government has announced a defence procurement of $13 billion. I was wondering what that does for you, and if you have any ideas for the strategy as that unfolds.

The third thing I wanted to talk about is that I hear what you're saying about getting very aggressive about the CCA, and I agree with you very much. When we have these surpluses, we see it as an overtaxation, and we'd like to see the money stay with the companies and the people who create jobs.

You mentioned the skill-building idea that you had for non-taxable categories for employee incentives, and the health and wellness thing. I was wondering if you could expand on that, because I think those are very good ideas.

Those are my three questions for whoever would like to start.

● (0955)

Mr. Don MacLeod: I'll try to tackle the first one, dealing with EFTA.

Let me just give you a little bit of history so you have the context. About four years ago, the previous government came forward with a proposal to have a trade agreement with EFTA. Supported by the Conservative Party, the Bloc, the NDP, plus every provincial government in Atlantic Canada, we were able to convince the then industry minister that it did not make any sense. It went on a hiatus. We thought it was dead. Then with the new government, the officials brought this forward for consideration and discussion, and negotiations were re-entered with EFTA about three weeks ago.

We stopped it dead once. Now it has come back to life, so we're doing a replay, shall we say, of the same sort of thing. Everybody we talk to says this doesn't make any sense, and we need to stop it, so it's just taking a bunch of energy and time and investment to try to bring forward the information.

In terms of going forward, though, and trying to address the issues, I guess you can't have a trade negotiation with one department in isolation, especially when your competitor has a number of policy frameworks in place that support the industry. So, first off, the Department of Industry has to know what the consequences are. We've been asking who wins, who loses, if there has been an analysis done. The answer is that they don't know, and no. That is the first thing that has to be done.

The international trade department needs to gather that information together and decide if it makes sense, under the parameters of the information we have, to go forward. Are there winners? Are there losers? What are the benefits? That has not been done.

Some of the other policy supports that Norway has, for example, include a corporate fiscal arrangement, which is called a KS company. Essentially, that is roughly equivalent to a limited partnership arrangement whereby private investors can invest in a ship. They then can deduct depreciation and losses against other income at a high rate of 150%, so they're able to attract investment into a capital-intensive business.

There are issues like those I touched upon dealing with rules of origin. The trade negotiator didn't even understand what that meant or the consequences of that until about two weeks ago, when I started writing him and explaining what the process was. You need to have a government-wide analysis of what the impact will be on the elimination of the high tariff policy, in light of which policy frameworks are in place in the country where we're negotiating the free trade agreement. If they have four or five different policies in place, and we eliminate the one that is here for us, then we have to have at least the equivalent tools to be able to compete with the foreign competitors that are being brought into our own marketplace.

That would be my suggestion.

● (1000)

Mr. Colin Carrie: Would you be able to give us something in writing as well?

Mr. Don MacLeod: Absolutely.

Mr. Colin Carrie: That would be wonderful.

With regard to the second question, on the defence procurement announcements, what is that going to do for your industry? Do you have any ideas for how it should be rolled out, or any strategies in that regard?

Mr. Jim Irving: In particular, on the defence strategy, number one, we're relieved to see that all this money has been announced. Number two, though, we're waiting to make sure it gets spent, because we've been the willing bride more often than not, and we've been left at the altar, so we'd like to make sure this is going to happen. We hope that it happens, because it is absolutely important.

As we said earlier, the defence sector in the U.S. has a policy whereby they designate certain yards to do certain work, and it's laid out for the long term. You build skills in the management. You build skills in the people, and the government gets good value. We're trying to encourage that. We're working with the federal government now, and we're trying to take a different approach—a value approach—that is very transparent, with scorecards and different types of measurement so we can improve the value that we give the federal government. Is this good for Canada? Absolutely.

You have to decide if you're going to put things like EFTA through, and if it's going through, don't expect to have an industry in Canada that is reliant on the commercial shipbuilding business, because you won't have a business. You just won't have that. It's going to be riding on the Government of Canada.

In our mind, it is absolutely essential if you're going to have a business in Canada. Otherwise, if you're not, somebody should just tell us, and we'll go and do something else. It will be good, providing it happens and provided there is a longer-term plan, not just a plan that's going to be good for five years or seven or eight years. We have to think longer-term than that.

Mr. Colin Carrie: Do I have time for my third question, Mr. Chair?

The Chair: I'm sorry, we're about a minute and a half over.

We'll go to Mr. Masse.

Mr. Brian Masse (Windsor West, NDP): Thank you, Mr. Chair.

To the witnesses, thank you for being here. I apologize for my coughing and my voice. I've been struggling with a cold, but I wanted to hear your testimony.

I had a chance to tour the Irving yards just last summer. They are very similar to the automotive industry in many respects, in terms of trade training and the challenges being faced with competition elsewhere.

I'd like to start off with a question about the FTA. This sounds a lot like the situation with Korea. Back in June our international trade committee passed a motion by our critic, Peter Julian, to actually get an analysis of the effect of the auto industry in terms of Korea. It finally came forward when the CAW tabled their own analysis of Korea, and the department that night, at around 5 p.m., posted their own studies on the Internet.

How long have you been asking for this study? You mentioned a few years. And has this been put in writing? Who have you actually said that to in terms of getting an analysis?

Mr. Paul McEachern: For five years we've kept Mr. Irving's pulp mills busy producing paper on this. And the requests are coming not only from industry; they are coming from provincial governments as well. I know that the intergovernmental affairs department of the Government of Nova Scotia, the Government of Newfoundland, and I believe the Government of Quebec have all asked for this, as have the industry associations and the CAW. I believe it's CAW that represents the shipbuilders in the Irving yards.

So yes, we've been asking for this since 2001.

Mr. Brian Masse: Any official response?

Mr. Don MacLeod: I had one sort of...I'll call it a response, not an answer. You know how you can send a paper back that is a response but that doesn't shed any light whatsoever? I had one of those to an e-mail I waited for from an official for about six weeks or so.

The Chair: Can we get a copy of that?

Mr. Don MacLeod: Sure, yes, I can send you copies of all the correspondence.

To be fair, what we're asking for really is for the government to have...and it's difficult. When you go to meetings, one person speaks but about twenty people are in the room. I don't know what they do; they go back to wherever they go back to, make notes, and say no, basically. Or that's my impression.

It's hard to make anything happen in a coordinated fashion in the federal government. It's all overlapping. You have fiscal policy issues. You have customs and revenue on questions of vessel origins, and duty and tariff. You have questions of industrial analysis, and questions on where the international trade department can overlap on other people's toes and so on. It's difficult to get a coordinated effort.

Essentially we need a mentor to ask why we are doing it. Nobody has shown me a good reason for doing it. They didn't five years ago and they aren't now.

● (1005)

Mr. Brian Masse: It is difficult, but Canadian jobs are at stake here. There's a responsibility for due diligence.

Please, Mr. Irving, go ahead.

Mr. Jim Irving: I would add that as recently as a month ago we put quite a formal presentation on for Minister Emerson. We'd be glad to send several copies to whoever you designate.

The Chair: I can distribute that.

Mr. Jim Irving: Okay.

That will give you quite a concise update. It qualifies the jobs that are at stake, the issues, and some of the problems we're having.

But this is not new. It's so old it has whiskers on it. This thing has been around a long time, and should be dealt with.

Mr. Brian Masse: You briefly mentioned non-tariff barriers. I think it's important that we hear a little bit more about those.

Mr. Don MacLeod: You have to appreciate that if you look at the North Sea there are two distinct sectors: there's the British sector and there's the Norwegian sector. We work happily in the British sector. It's open. It's under EEC rules in terms of procurement and so on, and that eliminates protectionism. In the case of the Norwegian sector, nobody works there unless there is absolutely no Norwegian ship left to do the job.

It's very difficult to regulate a mentality. You have to understand where shipping in the offshore stands in the Norwegian mentality. There are four million people in a unitary state in a small geographic area. It's the equivalent of oil to Alberta, of the auto sector to Oshawa, of pulp and paper to certain regions of Quebec, and so on. It is extremely important, and for 30 years they have built a well-honed, highly efficient, extremely protected marketplace through the regulatory process. There is no tariff, and there's probably nothing in writing that prevents foreign operators from working there, but they never do.

They have Statoil, a government-regulated oil company, which is 80% Norwegian government-owned. They participate in the development and have the right to back in and have involvement in the procurement process and in the approval of development projects. In addition, they have a petroleum directorate, which is a government agency similar to our offshore petroleum boards, which regulates development of the offshore. So when a proponent comes forward, they put a development plan together, which includes all kinds of things like environmental considerations, the method of development drilling, job scope, content, and so on and so forth.

The Norwegians are very careful in giving approvals to projects that are in the interest of Norway. If a developer comes forward with Norwegian ships, Norwegian offshore-constructed platforms, etc., it gets the nod. Very often there will be delays in development if there is not capacity in the Norwegian sector. Let's say the shipyards are completely full. Then that project won't get approved until the next cycle, in six months or a year, when there's space in the yards. I call it Norway Inc., and it's a product of homogenous culture, mentality, and the importance of the shipbuilding sector and offshore oil and gas to that country. They don't think that anybody can do as good a job as they can, and therefore they push it.

You just have to look at the British sector and the Norwegian sector. The Norwegian sector is built, run, manned, and operated by Norway. That's it. When you go to the British North Sea sector, it's open to the world.

Mr. Brian Masse: Do I still have time?

The Chair: We're at about seven minutes and 15 seconds now.

Mr. Brian Masse: I'm okay. I can wait.

The Chair: We'll go now to Monsieur Lapierre.

Hon. Jean Lapierre: Thank you.

I'd like to come back to jobs in the manufacturing sector. Mr. Irving, I have to tell you that I know about jobs staying here. My father was a mechanic for Irving Oil all his life in the Magdalen Islands. The importance of a job I can understand. When we hear people from the rest of the country speaking of manufacturing in Canada, they talk about 250,000 jobs being lost. In this part of the world, what are the prospects in manufacturing? Do we have the same job losses, or has it been steady as in your own company? Regarding the manufacturing aspect of your company, what are the prospects for the future?

● (1010)

Mr. Jim Irving: I can tell you, I mentioned briefly the shipyard we had in Saint John. We had 3,500 people there for 15 years. We closed it five or six years ago. It's gone. The world changes, and things happen. In some sectors, if there's the right mindset in both government and industry, you can reinvest, and you can make more value added. There might be fewer jobs in that particular plant, but the plant will go on making higher-value product and so on.

Are there going to be job losses in Atlantic Canada? There is no question about it. We're close to a 90¢ Canadian dollar, and today oil is almost $60 a barrel. Those pressures are too great for the average exporter and just an average operator. We have to do things differently.

For a lot of things in life, you can take a certain amount of pain for a certain period of time, but you can't take it for too long. People have had enough. The threshold of pain, I think, has been well passed in a lot of sectors, especially if you're competing on the global market. If you're competing with other Canadians in the marketplace, they have cost pressures that are similar to what you have. This may even be the case for all of North America, but they're not the same on a global basis. We will have more job losses, I think, under this current scenario.

Hon. Jean Lapierre: Should we as the Government of Canada have some type of industrial policy by sector? Right now we're saying let's have a free market and everything, but we see jobs going. With the competition from India, Brazil, and China, obviously it's going to get worse. We don't seem to have an industrial policy at all, frankly. Do you think we should look at that sector by sector, instead of having an overall policy?

Mr. Jim Irving: I'm hoping that's what we're helping to do today. You're hearing today from this part of the country, and I'm sure you'll be hearing from other parts of the country. On this type of trip, you must be.

We need to have a policy. I understand it's difficult; when you have the oil sector doing so well in Alberta, it perhaps colours everybody's thinking. But there are other segments. Everything's on the average. We all understand about averages, with high numbers and low numbers, but there are some very low numbers in some sectors of this country. The unfortunate part is that when those jobs are gone in those capital-intensive businesses, it's a long time before they come back. Either that or they just don't come back.

This is not a call centre I'm talking about. When people are spending billions on automobile plants, or on pulp and paper mills and so on, these are big capital investments that are made for the long haul. When they're gone, they're gone.

So I agree; industrial policy, yes, let's get very focused on it.

Hon. Jean Lapierre: Thank you.

The Chair: Thank you.

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

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

I have to tell you, this is really interesting. I'm glad we're doing this type of tour.

On EFTA, you raised some discourse about going back and starting to talk. Is there any indication of...?

I'll step back a bit. You were never offered any analysis. Have you been told, in the discussions you've had, that there would actually have been some analysis to determine the value—or not—of the EFTA?

Mr. Paul McEachern: Are you asking me if an analysis has been done?

Mr. Bev Shipley: No, I'm asking you if you got an indication when you met with ministers that some analysis would be forthcoming based on—

Mr. Paul McEachern: One would hope that you have something before you go into negotiations. There must be internal analysis, there must be, or I would pray there would be. We just have never been able to get any indication that it was done in that type of detail. I really have not been given any reason to believe that this type of articulate analysis was done and presented before ministers of current or past governments.

Mr. Bev Shipley: I understand that. But with regard to the future, you were saying that you were concerned because they were going to bring it back to life again. Was there any indication to you that if they do, there will be some analysis coming to you?

Mr. Paul McEachern: None to me.

Mr. Don MacLeod: I can answer that simply. I have requested that in several letters and have received no analysis, and negotiations have commenced.

● (1015)

Mr. Bev Shipley: I think you're missing my point. If negotiations have commenced, was there any indication that there would be an update or an analysis based on the ongoing negotiations, maybe?

Mr. Don MacLeod: No, there was no commitment.

Mr. Bev Shipley: Or did you ask the question?

Mr. Don MacLeod: I didn't ask it in that particular way. In a general sense, I said that before they negotiate, analysis should be done. If they get the analysis during the course of the negotiation, then I assume they would send that to us. But I can ask that question.

Mr. Bev Shipley: Okay.

To Mr. Irving, you talked about the CCA. We hear a lot about the capital cost allowance and the impact of it in terms of the industry and manufacturing, and what it actually means to be able to move ahead. You talked a lot about what it used to be. When was that changed?

Mr. Jim Irving: This has come and gone over the years. In the sixties we had a very aggressive policy for building ships, for example. In the eighties this policy was in place. It comes in and out of style, depending on what the economy is doing at the time. Maybe this is not forever, but somebody should say let's do this for five years and create some sparks.

Mr. Bev Shipley: Then I'll go back to a comment that I think you made: that industry, perhaps more the pulp and paper industry, still has equipment of 1920s vintage. If good capital cost allowance procedures and regimes have been in place, and if the capital cost allowance has a large portion to play in it, why are they still running with 1920s equipment?

Mr. Jim Irving: I think you could take the economic....

You're into a very specific question. Some people take advantage of it. Why do some people do certain things and other people don't? There is no—

Mr. Bev Shipley: I only raised it because you raised it. I don't disagree with you in terms of the capital cost allowance. I'm not disagreeing; I'm just sort of wondering.

Mr. Jim Irving: It's like everything else: you create the environment, and then some people will move and other people won't. And things evolve.

Mr. Bev Shipley: I don't know who this question actually goes to, but I'm wondering about the skilled labour. We've talked to the academics, and we've talked to the colleges in terms of developing a link between academics and skilled labour trades and matching that with what is actually needed in the field. I'm wondering if you can comment on that. First of all, are we meeting that, and is there that link? Secondly, is the skilled labour a part of the concern that you have about being able to move ahead and provide the product that is needed to be competitive in the world market?

Mr. Jim Irving: I can comment from our own perspective. We've had a cadet program at our company, through which we coordinate with the community college, which has a marine program. There is a similar program in Newfoundland, and at colleges in British Columbia and in Ontario as well. I think the company has to take the initiative to work with the existing institutions and programs and implement an apprentice or a cadet program. We call it cadets because it's sort of the marine language. That way you coordinate the initial technical introduction with practical experience, and then throughout the course of a person's career in the marine sector, you start off as a deckhand or an oiler, and you work up, and you get tickets. It's based on number of hours worked. There are specialized tickets for dynamic positioning, which is a computerized system for propulsion and navigation, and so on. You have to have the technology, and you have to have the commitment long-term to see people start at the beginning and work their way through to the end.

From our own perspective, we have found that if you do that, the investment pays huge dividends. You get a person who's young, who's moulded, and who's given experience. They work in the fashion that you want and develop the culture of the company. You develop loyalty. We have a 97% retention rate at our company.

So I think it can work. That's a very narrow industry sector. We have the institutions that have the basic introductory courses, and then the companies have to make the contributions over the life of a person's career.

Mr. Bev Shipley: Are you able to—

● (1020)

The Chair: Mr. Shipley, we're two minutes over.

We will go to Monsieur Vincent.

[*Translation*]

Mr. Robert Vincent (Shefford, BQ): Thank you, Mr. Chairman.

Thank you for being here today.

I'm just as surprised as the two other political parties here to learn that we have a free trade agreement with Norway. It is unfathomable that we were not aware of such an agreement. In light of the problem that you have just described, we must be made aware of what is going on with this free trade agreement.

Earlier, you talked about the hazards of the European industrial free trade agreement on the gas industry and the marine industry.

Can you elaborate on what those hazards are?

[*English*]

Mr. Don MacLeod: From an Atlantic Canadian perspective, the danger from a vessel ownership standpoint in a company such as ours, but also in the broader industry.... For example, we have a whole host of suppliers that have been developed here in Atlantic Canada that support our company. There is everything from fabricators to suppliers of electronic equipment, technicians, etc. If we are hurt in the process of having unfair competition allowed into our marketplace, all of the people who support us will also be hurt.

I talked about Norway Inc. before and the mentality. The mentality will be that if the Norwegians come in, they will bring all of their suppliers and the work will be generated back in Norway. There may be some branch plants or whatever, or local storefronts, but in terms of local home-grown expertise and development, which can then in turn be exported around the world.... If you look at our company, that's what we've done. We started here in eastern Canada and we developed expertise. We grew, we prospered, and then we started to export to other markets and employ Canadians on Canadian vessels in other marketplaces.

So I guess through this unfair approach, if they come here, and we are not able to get into the Norwegian market, we could be hurt. And there will be broader ramifications for the rest of the sector in the offshore, which is just in its beginning stages. You have a very strong, mature industry in Norway that sees an opportunity here, whereas we're just at the very beginning, in a nascent sort of fashion, ready to grow and bloom. If we're unfairly hurt by a very large, strong competitor, then the consequences could be very serious.

[*Translation*]

Mr. Robert Vincent: If I understand correctly, there was a free trade agreement, but it goes only one way, and Canada is not part of it. I don't quite understanding. I don't know how the negotiators work. Recently, we have surprises every week regarding Korea. We do not know what stage of the negotiations we are at and we don't know which agreement we are going to sign. We are selling Canada to the other countries. The bottom line is that we are trying to outwit them, but we have a bit of difficulty competing with them.

Mr. Irving and Mr. Mc Leod, earlier you talked about training. What should the government do? Should it enter into partnerships with industries to help finance in part the much needed training for skilled workers?

[*English*]

Mr. Jim Irving: I think in terms of the training, it's all-encompassing. Number one, you have to have a reason to train people. If you have a competitive business and sound business model, you will invest in training people. Our company invests a lot in the community colleges, and we have a lot of programs to develop workers. It's absolutely essential. With the new technology, we need to have better skilled people. That's basic, fundamental.

Today if you want to qualify for training dollars from the government, it's very complicated. You have to be on unemployment insurance to upgrade your skills in a lot of these cases. It's very bureaucratic. It's terrible. It's not efficient. It's not smart.

So we'd encourage a much more modern version of what we need to do to keep up today. It's too tiresome. We give up trying to apply to deal with the government on it because it's so bureaucratic. I come back to what was said a little bit earlier about talking about employees, and I think it's about more than just training people. We have to have a mindset that says we need to be more productive. We have to be able to say unionized or non-unionized doesn't matter, if you give some incentive pay. I personally think it should be encouraged.

The health system is killing the province of New Brunswick. It's killing us. It's taking all the free dollars. That's not unique to New Brunswick. We have to be more proactive. We have to get the employees to take better care of themselves. We need employers to encourage the employees to do that, and invest some of their own money. Maybe the federal government will help in that by allowing a tax rebate for the employer who says yes, I've committed *x* dollars per employee per year to encourage my employees to better health participation in certified programs.

I think those things are all part of training employees today for a modern country.

● (1025)

The Chair: Thank you.

I have two members left for questions. We have about five minutes. I have Mr. Carrie and Mr. Masse. We will try to fit you both in the five minutes.

Mr. Carrie.

Mr. Colin Carrie: I'll ask a couple of questions fairly quickly, and you can choose which ones you'd like to respond to.

I am encouraged to see that there are still shipping companies that are registered in Canada. Is it economically feasible for shipping companies to still be registered here? There have been some famous ones that have gone offshore. Do you have any demographics of jobs that have been lost in the shipping industry over the last few years?

I really like what you're saying about the tax cuts and depreciation, but could you expand a little bit more on the how and the details? You mentioned this health and wellness thing. I'm a chiropractor by background, and I think it's very important for employees to maintain their health. If you could expand on the skills building, on how we could help with that, and on the health and wellness, I would really appreciate some more details.

Mr. Don MacLeod: I'll deal with the first one very briefly.

You're looking at almost an extinct species, in the sense that Mr. Irving's company and our company are probably among the few vessel-owning companies that work both internationally and domestically with Canadian flag vessels.

Mr. Colin Carrie: Congratulations, by the way. Thank you very much.

Mr. Don MacLeod: You could write a book on this, so I won't bore you. There's a whole series of policies in place, but if you work in Canada, you have to have Canadian flag vessels, and you have to have Canadian crews. But I'll tell you this: the thing that separates us from our competitors are our people and our crews. They're maritimers, and they've got a tradition. They're men of steel who used to go to sea in boats of wood. That mentality has been maintained and carried forward, and it makes the difference in the international marketplace. If you work off the Atlantic coast here in February, when you go to west Africa or the Gulf of Mexico, it's easy, and it makes a big difference.

Mr. Jim Irving: To operate ships in the world market today, if you're going to be a long time out of the country you'll fly a foreign flag, because it's a competitive issue. It's not a nationalistic issue. Domestically, though, you'll fly the Canadian flag, use Canadian crews, and so on, which is the right thing to do. It's not politics. It's just straight business.

On the second question, regarding employee health, we firmly believe that as an employer, we can't rely on the government to look after employees' health costs. Those burdens eventually are going to come back on us, and we have to be proactive. I think the Government of Canada has to get more proactive in encouraging employers through specific programs to encourage their employees. I'd say there should be a tax rebate if you want to spend $500 a year per employee for five years on health care issues, whether it's for cardiovascular health or whatever it might be. I think we need to be more proactive as a nation on this one. I think we're asleep, and we should get going and encourage employers. The employer sees these people every day. Create a workplace that says yes, let's do something about our health care costs. Be proactive and not reactive.

● (1030)

The Chair: Thank you.

We'll go to Mr. Masse.

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

You're not that far off, Mr. Irving. Just last week the U.S. auto makers put billions of dollars aside to support health care costs to compete with the public health care system we have in Canada, which gives us a competitive advantage. So they're actually addressing that in the U.S.

Very quickly, though, to both delegations, I have just one quick question. If you had a choice between a general corporate tax rate reduction and a sectoral strategy in which you would have a series of different incentives you could pull off the shelf to deal with your initiative, which one of those measures would you choose?

Mr. Jim Irving: From my perspective, I think—

The Chair: You can choose both if you want.

Mr. Paul Crête: That's a politician.

The Chair: Mr. Irving.

Mr. Jim Irving: The world's changing at a tremendous speed. I don't think we can grasp how fast it's changing. So if you look to the long term, and given that we have to reinvest in this country with technology, my sense would be rather than just cut taxes let's take the depreciation rate down and spend the money in Canada and rebuild our manufacturing sector in particular. Because the profit might go someplace else; it might just move to another part of the world and benefit another part of the world. Let's benefit Canada. If there's no subsidy, there's nothing free about this. You have to invest your own money, so you'll do it wisely. But you'll do it in Canada if you're going to qualify for the depreciation.

Mr. Brian Masse: Mr. MacLeod.

Mr. Don MacLeod: I'd be happy if they'd just leave us alone—

Voices: Oh, oh!

Mr. Don MacLeod: —and not try to improve things for us.

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

I want to thank you for coming in today, witnesses, and I want to thank you for your excellent presentations. We certainly heard a lot on EFTA. It's true, as members have said, that this is the first time it's been raised with the committee, so we thank you for raising it with us. The other issues you've raised—procurement policy, power regeneration, labour, and capital depreciation—have been raised by pretty near every witness we've had before us to date.

Again, thank you for your presentations. If you have anything further you'd like to get to the committee before we do our report, then I encourage you, please feel free to send it to me or the clerk. We'll ensure that all members get it.

We're going to suspend briefly to allow the other witnesses to come to the table and to allow members to perhaps get a cup of coffee.

●

(Pause)

●

● (1035)

The Chair: Order. We'll get started with the second half of our meeting this morning and continue our study of the manufacturing sector.

We have three witnesses before us for the last hour and a half. I would like to welcome today, from the Nova Scotia division of the Canadian Manufacturers and Exporters, Ann Janega, vice-president; from the Atlantic Institute for Market Studies, Charles Cirtwill, acting president; and from the Maritime Steel and Foundries Limited, Robert Durdan, executive vice-president.

I believe we have presentations of up to ten minutes each. Obviously the briefer you are, the more opportunity for questions from members.

Ms. Janega, we'll start with you. You have ten minutes for your opening statement.

Mrs. Ann Janega (Vice-President, Nova Scotia Division, Canadian Manufacturers and Exporters): Thank you very much, Mr. Chairman.

Bienvenue à Nouvelle- Écosse. I'd like to thank you very much for coming to Halifax. I really welcome this opportunity to share some of the perspectives of manufacturers in Nova Scotia, in this region.

I think the committee would be very familiar with the work generally of the Canadian Manufacturers and Exporters, or CME. You'd be familiar with the 20/20 consultation initiative that started a few years ago. Our senior vice-president, Dr. Jayson Myers, appeared before this committee and provided input into your interim June 2006 report.

I guess what I can share is a little bit about the perspective of manufacturers and exporters here in Nova Scotia. I will start by stating probably the obvious, that this is not Ontario or Quebec when it comes to manufacturing, and for that reason it's a little bit of an untold story. Even with our own stakeholders here in Nova Scotia we find that many people are not aware of the impact and the contribution offered by the manufacturing sector to the province.

We have less than one million people, and yet 55,000 jobs, really high-paying, good jobs with excellent benefits, are provided by manufacturers, including by my colleague here at the table and by other presenters today. This is a big chunk of our economy. It represents about 10% of our economic activity in Nova Scotia. On a percentage basis, that's comparable to the impact of manufacturing in Alberta and in British Columbia, so it's important. Our challenge is trying to keep that on the radar for all of our stakeholders, including government, so thank you for asking us here today.

Getting back to our regional differences, I'd like to highlight the fact that manufacturing in Nova Scotia, and I think this may be true in other areas of the Atlantic as well, is very much rural-based. Although we have excellent representation here in the Halifax urban area, our manufacturing is very solidly placed in the rural areas. It's an important part of the economy for those municipalities and for the province as a whole. Our challenge, again, is to make sure that all decision-makers are aware of that.

With the CME, one of our main goals, of course, is to track the interests and concerns of our members. We do that in different ways. I will be referring to a document here, which, sadly, with only three days' notice to be here, I could not provide in French, but I really do recommend for the later consideration of the members. It's entitled *Balancing Business in Global Markets*. I think you would be familiar with it. It's the annual management issues survey that CME conducts.

The document is very comprehensive. It includes approximately 1,000 survey results from manufacturers across the country. You'd probably be interested in some of the latest results. It may give you a bit of an update on your June report, for example.

You won't be surprised to know that rising business costs are considered to be the number one challenge facing the manufacturing sector. Of course that would include taxes and that would include energy; that's not unusual. The volatile Canadian dollar is an issue for our manufacturers across the country, and here too, of course.

The lack of skilled workers is a major concern that's been identified across the country, but it's a particular issue here in Nova Scotia. Our particular demographic, an aging workforce, is a serious issue. Our members tell us they're having difficulty accessing even unskilled workers. In the east we have a further challenge here in that the booming economy in Alberta has become very attractive to our skilled workers and to our unskilled workers. This is an issue that all of my colleagues in Atlantic Canada are coping with.

If we have a chance later, I'd like to speak to you about how the CME is addressing this through a couple of initiatives. One is called “icosmo”, which is an online opportunity to match up our businesses here with Alberta's. The other initiative is with a very targetted buyer-seller forum that we will be supporting in Alberta. Again, the mission for us here, and for me in particular, is to keep our manufacturers prospering here and to give them more opportunities elsewhere in Canada.

● (1040)

Getting back to that list of challenges, which is your number one concern, the cumulative effect of taxes is a big problem. Of course this drives up the cost of labour. So you can see that's a particular issue for us. Like all other manufacturers in Canada, we are concerned about the possible slowdown of the U.S. economy, because that's a big impact for us.

Another item I'd like to share with you is a collaboration, which is always worth celebrating, among 21 manufacturing-related industry associations and the CME. These groups represent every major sector of manufacturing, including automotive, aerospace, mining, forestry, and consumer products. This group has prepared a submission to the Prime Minister. That was done on November 7 in a letter from the coalition. I did provide an English and French version of that letter. I hope the members will be seeing it.

I'll just quickly run through some of the recommendations in that letter. One will be familiar from our earlier presenters, and that is a two-year writeoff for the capital cost allowance for investments in new manufacturing, processing, and the associated information, energy, and environmental technologies with that.

Another recommendation is that government should maintain its commitment to lower the federal corporate tax rate to 18.5% by the year 2011, and also undertake to reduce it by a further 1.5%, to 17% by the year 2012.

The group is asking for an improvement to the scientific research and experimental development program, which is universally referred to as the SR&ED or SRED tax credit system, so that the credits would be refundable and exclude them from the calculation of the tax base, to provide an allowance for international collaborative R and D and to extend the tax credit to cover the cost for patenting.

Another recommendation of the collaboration is to introduce a training tax credit that would be creditable against employment insurance premiums.

The final recommendation is to effectively enforce the federal user fees act to increase accountablity and to require departments to set internationally competitive regulatory process standards. This would be an initial step towards a more effective, timely, and cost-effective regulatory regime.

I hope the members will have a chance to look at that submission and give it some consideration.

One area that is of interest right now to CME nationally relates to some initiatives the government has taken on the west coast in announcing the Asia Pacific gateway initiative. CME nationally feels that this is a great initiative to help Canada to achieve global competitiveness in trade. Our national president, the Honourable Perrin Beatty, has spoken in favour of something that would kind of tag on to this, and that's the idea of a comprehensive national logistic strategy. We feel that would allow Canada to become a pivotal player in an integrated North American logistic system, so that it would include not just the more obvious players, but the manufacturers, shippers, ports and airports even, as well as rail and road transportation, the warehousing facilities, telecommunications, and border security. So again the idea is towards a national logistics strategy.

● (1045)

Here in Atlantic Canada we see marine transportation as an enabler of regional economic development. When you have your later tours on this visit I guess you'll see some of the advantages we have here in Atlantic Canada. Obviously the ice-free ports are an advantage, and you'll hear about costs and transit time advantages for our ports over New York and over the rest of the northeastern seaboard. We have the ability to expand container rail transfer and direct barge transfer here in Halifax. And elsewhere in Nova Scotia there's a potential for a dedicated container water transfer terminal; that's in Port Hawkesbury.

So there are a lot of advantages here, and we see marine transportation as something that can really boost the regional economy.

The Chair: Ms. Janega, we're well over ten minutes, so we would ask you to wrap up.

Mrs. Ann Janega: Okay. Sorry about that.

I'll close by saying that the concept of an Atlantic gateway corridor is something that we feel could focus on the benefits I mentioned as well as the need for a national logistics strategy and at the same time tie in with the initiatives on the west coast.

In conclusion, we do have a lot of challenges here in Atlantic Canada facing our manufacturers and exporters, but you'll notice that I also highlighted a number of opportunities. You'll find that the CME on this coast is not asking for any particular handouts, but we're looking for an even playing field and for the chance to be competitive at a global level.

Thank you for the opportunity to present.

The Chair: Thank you very much.

We'll go now to Mr. Cirtwill for a ten-minute opening statement.

Mr. Charles Cirtwill (Acting President, Atlantic Institute for Market Studies): Good morning.

I want to thank the committee for the invitation to appear today. I'll try to be brief, probably seven minutes or so, with any luck.

I would start with the question around the number one challenge facing almost every industry in Canada today, and that's the labour shortage. It's something I don't think we've experienced in our lifetimes, and it's time to start getting serious about it.

Ten years from now in Nova Scotia our unemployment rate is going to be zero. Today in Prince Edward Island we've got guest workers working at fish plants. Today in New Brunswick we've got guest workers being brought in from Europe to drive long-haul vehicles.

This is a reality we face and a challenge we have to address today. Immigration is not the solution. Certainly done right, immigration can help address the problem, but it is certainly not going to be a be-all and end-all.

Our current immigration pattern sees immigrants that look a lot like us already in terms of age, skill sets, composition, and place in life. We need younger entrepreneurial immigrants along an older model. We also need to take a serious look at guest workers along the lines of the recent invitation to enter into a guest worker program with Mexico, a ready labour pool, already inside NAFTA at a time when Canada and the United States are facing severe labour shortages.

We need to make those kinds of things easier, not harder. We also need to consider the long-term benefits of efforts to increase the domestic birth rate along the lines of the things that Quebec has done successfully. But more immediately and most urgently for this committee, we need to adjust the myriad of federal and provincial policies designed to mop up surplus labour of the 1970s.

For example, we still have employment insurance with benefits that probably outweigh the need. We have access to rotating benefits so EI can still become a lifestyle. We have regionally differentiated benefits that ensure that people stay in places of low unemployment and are not as productive as they possibly could be. We need to take a look at our public services. They're far too large. They're keeping people who could be used in the private sector out of that employment. We have to take a serious look at our universities and the post-secondary sector. They often take too long to instill skills into our youth, and they take an awful lot of labour to do that kind of training, so they take both of those groups out of our labour pool.

We also have to remember that not everyone needs a university degree. Not just software engineers can make $100,000 a year any more. The other thing we need to take a serious look at is our continued focus on job-based subsidies and forgivable loans. What we need are productive enterprises, not make-work projects. Maybe we need to consider rewards for eliminating jobs or focusing our tax credits based on the highest production per employee, as opposed to simply having employees.

If we dropped the civil service in every province to the national average, we would add about 133,000 people to the national workforce. If we just got the five easternmost provinces to the national participation rate, we'd add another 156,000 people to the national workforce. And even in those kinds of efforts we also have to stop penalizing people who want to work. For example, retirees lose pension income for working. They have high effective marginal tax on any earnings they make after retirement. The same thing applies for people trying to transition from welfare to employment. They pay the highest tax rates in the country. In some instances the marginal effective tax is 100%, so every dollar they earn by going to work, they lose.

Getting beyond labour, we have to recognize that an aging population and a labour shortage is not the death knell for Canada. The answer is improved productivity. And we've been talking about productivity for over a decade, so the question becomes why are we not celebrating our foresight in having recognized that was what we needed to do?

The answer is quite simple. Capital drives productivity, and our policies right now drive capital away.

On average, our combined federal and provincial tax on capital is around 4% to 6% better than the U.S. They take roughly 40%. We take roughly 36% on average, but our effective marginal tax rate on the next dollar added in investment is higher than most other jurisdictions. Other jurisdictions encourage the next dollar of investment. We tax it. As a result, we have among the lowest return of tax receipts as a percentage of GDP on business. We have a 1% to 1.5% gap between Canada and the U.S. in actual investment and we have a similar gap in investment in R and D.

● (1050)

When capital flees and labour is in short supply, we get negative results. Our GDP per capita gap between us and the United States is widening, not narrowing.

With capital and labour in short supply, clearly, smart investment becomes the priority. Research and development, new technologies, new industries, all result from this focus. And we certainly have seen some progress in this area—or have we? According to one measure I saw recently, Canada offers the best tax treatment of R and D in the G-7: tax credits, accelerated tax deductions, and a broader definition of allowable costs. But the problem is that our R and D investment is heavily weighted to the government and academic sectors.

In 2003, government and academic R and D spending was effectively equal to that in the private sector. Now, contrast that to the United States, where the private sector is about three times the academic and government investment. Then consider that balance in the light of the regular admissions that universities are generally bad at commercialization. Certainly they've got better over the last few years, but they've improved primarily by working with the private sector.

We need to rebalance our R and D investment. R and D can happen in the private sector. In terms of swift, practical commercialization and broad application, it's often better if it happens in the private sector. Consider a recent approach suggested to me by a small manufacturer in rural Nova Scotia. He suggested that we not only look at increasing our R and D tax credits, but we match that with a tax credit for production. So, in effect, if you have an R and D tax credit that results in a product you bring to market, you get a second reward for doing that exercise. To put it in his words, “You do R and D into something new, you receive an incentive. You produce something innovative and you receive an incentive.” That's innovation. That's technology. That's manufacturing. The added benefit is you might see some of our existing manufacturers, even small manufacturers, start to invest in R and D capacity, driving even more innovation, more investment, and more production.

Now, even if we had the ideal balance with workforce and capital and the right incentives for R and D, we also still have the challenge of getting our products to market, and quite honestly in this region in many instances you simply can't. East coast ports, for example, have been the poor cousin of trade expansion as Asian trade has driven growth. But we have real opportunities on this coast with post-Panamax and post-Panamax plus and the even larger ships that are coming along to meet that demand on both coasts. Again, it's about markets.

A twinned highway from here to central Canada takes us away from our markets, not toward them. CN has recognized this by increasingly expanding its rail service in the Midwest. We need to follow suit with expanded road and air capacity and improved, consistent regulations that allow traffic to move across provincial boundaries and across provincial, national, and state boundaries in the same manner. To use one example, we need to be able to load a road train—which is a truck with a couple of trailers attached to it—either in Yarmouth or Halifax and move it across roads into Buffalo without having to go 500 or 1,000 miles north to avoid roads that are either poorly serviced or on which those vehicles aren't allowed to operate. Here in Atlantic Canada, for example, the only stretch of road you can operate those vehicles on is between Moncton and Saint John.

● (1055)

The Chair: You have one minute.

Mr. Charles Cirtwill: That's good, because I have three paragraphs.

In closing, some advice. First, we need to remember the impact on government spending. Government spending in the U.S. is roughly two to one on consumption versus investment, and the ratio's getting smaller. Here in Canada, we're close to three to one, and the ratio's getting wider. Government consumption takes resources, people, money, and material away from the private sector. At the same time, failure to invest sees infrastructure start to decline and innovation fade.

In brief, we need to do five things. We need to act now. Any policy change is going to take between five and ten years to see any real impact, and we have about ten years to find a solution to this difficulty. We need to let people work in the private sector. A labour shortage is a worker's best friend. We need to invest in productivity, technology, innovation, commercialization, and access to market. We need to stop trying to find jobs for everyone and stop rewarding them if the jobs don't go and find them.

Finally, we need to stop placing barriers to the free flow of the practice of production. Interprovincial and international barriers to investment, trade, and labour mobility all have to be removed on an urgent basis. It shouldn't be necessary for Alberta and British Columbia to enter into a free trade agreement between provinces. We should already have that free flow within Canada.

Thank you.

● (1100)

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

We'll go directly to Mr. Durdan for an opening statement.

Mr. Robert Durdan (Executive Vice-President, Maritime Steel and Foundries Limited): I'd like to thank the committee, Mr. Chairman, for this opportunity to speak.

Being from New Glasgow, I must be one of those old country boys who the previous two speakers were referring to as being from rural Nova Scotia, so bear with me.

To give you a little background about Maritime Steel, Maritime Steel is a manufacturing company based in Nova Scotia and Prince Edward Island. The company manufactures steel bridges and other steel structures in the Dartmouth plant. We have a modern foundry located in New Glasgow, Nova Scotia. And we build food processing and fish processing equipment and other stainless steel structures in P.E.I. In fact, we recently finished doing some work for an Alberta firm in a reactor plant.

Maritime Steel has operated for 104 years in the New Glasgow area and currently employs 150 people in New Glasgow. We have a mere 25 people in Dartmouth now, because of a slowdown in the structural business, and 35 people in Prince Edward Island. The structural division is really in a state of decline. The foundry operation is relatively busy, as is the Charlottetown facility.

In terms of the business climate, Maritime Steel and Foundries Limited has been impacted by challenging market conditions that have restricted growth in the past five years. Currently, the company's foundry division has managed its way to record sales, despite a long-term decline in the industry and recent market conditions.

In the 1960s there were approximately 1,000 foundries in Canada. In the 1980s there were 500, and there are approximately 150 today. A number of foundries in Upper Canada, if you will, in Ontario, have recently gone out of business, and it's indicative of the issues that we face.

Some of the circumstances that have had an impact and may continue to negatively have an impact on the organization are as follows. The two previous speakers alluded to much of this.

As we export most of our product to the United States, the high relative value of the Canadian dollar and the speed with which it has increased in value have had an impact on both our revenues and our margins.

Competition from countries with low-cost labour, such as China, India, and Mexico, to name a few, and others, are an ever-present threat to our continued growth and prosperity.

The cost of energy and its impact on the shipping industry, as well as the direct cost of energy, is increasingly affecting the cost competitiveness of Canadian manufacturers and our cost competitiveness. The cost of meeting regulatory initiatives, as new environmental restrictions become tighter, is making our product more expensive in the marketplace.

Skill shortages in eastern Canada, as the migration of skilled trades and technical people to the west continues, has reduced our competitiveness here.

Competition from U.S. firms that are in close proximity to our customers means slim and shrinking profit margins as we pay the shipping costs to get our product to the market.

We have some suggestions to help Canadian manufacturers compete in this existing environment.

We would suggest that community colleges be encouraged to take an initiative to enhance formal industrial training initiatives directed at production workers, as well as in cooperation with industry and unions where the unions provide skilled people. We've seen a number of precedents for this in the Atlantic provinces that have been eminently successful in allowing people on unemployment insurance and welfare to become active members of the workforce.

Another suggestion is to encourage and simplify industry and university research and development partnership programs. As previous speakers have mentioned, we have some direct experience in working with universities in trying to develop a culture where we would share our capital equipment and expertise with the universities, and vice versa, in an attempt to rejuvenate the steel industry here in Atlantic Canada, which in days of old was a primary employer of Canadians.

● (1105)

Third, ensure that Canadian manufacturers have access to low-cost fuel to enhance their competitive advantage. For example, and this is one that is very specific to us, a natural gas pipeline passes within a few miles of Maritime Steel's plant in New Glasgow, and we and other industries in the area do not have access to that gas. This means that we are dependent on higher-cost propane for much of our process needs. Every dollar at the margin, every incremental dollar that you pay for fuel, reflects directly on your margins and your competitiveness in the marketplace.

Fourth, we are suggesting that the government help Canadian companies with market studies and provide additional assistance in matching our manufacturing capabilities here in Atlantic Canada and elsewhere in Canada with Alberta's industrial needs. The Canadian Manufacturers' Association in fact is working on that initiative, and I applaud that activity. Hopefully it will benefit companies not only in Maritime Canada but in Quebec and Ontario and will also satisfy Alberta's insatiable need to grow.

Fifth, ensure that environmental regulation is based on sound scientific research. In many cases we find that our province here has a tendency to adopt rules and measures that are put in place in other jurisdictions, and we find that some of these rules that are affecting us directly are in fact very expensive and cost the company a great deal of money.

Again, thank you for the opportunity to speak here today. That concludes my talk.

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

We'll now go immediately to questions and comments. Just for the information of the witnesses, the members have six minutes on the first round and five minutes on the second round. If we can try to get as brief a response as possible and brief questions, we'll get a good dialogue going.

We'll start with Mr. Lapierre.

Hon. Jean Lapierre: Thank you.

Thank you for being here on short notice.

First, Madam Janega, frankly, I was very impressed by the letter from your association. The fact that you could get all those signatures on one piece of paper shows that those recommendations are really tied to what we have heard at this committee in the last few months. It's impressive to be able to get all those people, not that they all have egos, but they all have different interests. I'm sure that will have some influence.

I'm a fan of the gateway strategy, and I would like to hear more about what's going on in the Atlantic gateway, because obviously the Pacific gateway has been confirmed and the money is there. Has anything moved on the Atlantic gateway, or are we still at the concept level?

Mrs. Ann Janega: I think we're very much at the concept level. The approach of CME is to look at this as an initiative that would be part of a national strategy. So it would not be, at least from my organization's point of view, just Nova Scotia or just Atlantic for the sake of Atlantic. It would only work if it's part of a national initiative. Locally, many people are involved in maximizing the advantages here on the east coast.

The discussions are just starting, and I think we're still at the consensus-building stage. In Nova Scotia there has been a senior provincial government official designated as a gateway officer. I believe that there's been an important study commissioned to address some of the issues related to logistics and cooperation.

At this point, the position of the CME is that we see it as a huge opportunity, and to the extent that we can, we're going to try to lead discussion on this and try to build consensus so we can present a nice sensible package that others can sign on to.

● (1110)

Hon. Jean Lapierre: Thank you.

Mr. Cirtwill, I was surprised by your statement that immigration is not the solution. When we talk about the Quebec measures to increase the birth rate, the only group in Quebec society that has an increased birth rate is the immigrants.

I happen to believe it's part of the solution; it's not the only solution. But how else are we going to provide for the number of people we need in such a huge country? I don't see any measures that could transform that except opening our doors to immigration. Other than that, I don't see how we're going to fight the aging population. Where are we going to get people who are going to help us keep our *niveau de vie*?

Mr. Charles Cirtwill: First off, I'd point out that Quebec's immigration profile is significantly different from the national profile. In fact they are younger, they are a bit more entrepreneurial, and as you noted, they are more prolific in their birth rate. I think that is an example the rest of the nation should be following.

The key point to recognize, though, is that there are a lot of societies that are aging—and aging quite gracefully. It's not urgent that we open our doors and bring in everybody. Quite frankly, we have hundreds of thousands of people in our society who are already here and who are underemployed, unemployed, and unproductive. There are all kinds of steps—and I listed some of them in my comments—we could take that would allow those people to contribute to society in a manner that's going to allow us to sustain the quality of life we've created.

Hon. Jean Lapierre: I was listening to your statements on having fewer public servants and having those people useful in the private sector and all of that. You know, all administrations are probably hoping to have fewer public servants. It would be very hard to take the ones we have now and make them competitive tomorrow. They have a security that the private sector doesn't give.

So with those challenges now, what are the measures we could take, other than opening the doors to immigration, that could change this? The fundamental changes you're asking for are for the next generation, in my opinion.

Mr. Charles Cirtwill: If you're talking about immediately addressing low-skilled worker needs, you have all kinds of guest workers in Mexico with nothing to do. We could access a labour pool tomorrow if we put the rules in place.

The other piece of the puzzle is to remember that production and economic development don't just require labour. You can substitute capital for labour. Right now, we have rules that keep us from doing substitution on the necessary scale.

Those are two changes we could make within the next hour and a half to start responding to that need. And again, it's not just that we have a bunch of public servants who could be shifted to the private sector. In fact, as someone just mentioned, many of them are shifting now. When they retire, or are getting close to retirement and getting their buy-out packages, they're going off to the private sector. They're not getting on the yacht and just sailing around the Canso Strait.

We have a lot of people who are underemployed. We need to get the barriers out of their way and bring them into the workforce.

The Chair: Thank you.

We'll go to Monsieur Vincent.

[*Translation*]

Mr. Robert Vincent: Thank you for being here today.

Ms. Janega and Mr. Durdan, in your presentations, you said that the value of the Canadian dollar, rising energy and raw material costs, and the shortage of labour were causing you difficulties. You also talked about free trade with China and Mexico. I'm happy to hear your comments, because I myself am at a lost in the face of all of this. It is difficult to find solutions, with all those unexpected situations. Yesterday, we could read in the newspapers that commercial trade with Mexico is currently worth $33 billion and that it will be $70 billion by 2010. I don't know how you're going to deal with this. Please enlighten me and tell me what you can do. You said that it could take 10 years before we get something concrete. If we go from $33 billion to $70 billion, the number of products coming from China will also double. I would like to hear your comments on this.

● (1115)

[*English*]

Mr. Robert Durdan: At Maritime Steel we recognize that there are certain products that, because of our infrastructure and our capital equipment, are more difficult for us to make than third world countries or other world countries. We have, in the microcosm of the foundry industry and of Maritime Steel, decided that some of the smaller product we would actually source from China. I suggest to you that's not a cop-out; it's the only reasonable means we can take to satisfy our customers and customer needs as a complete supplier in the industry that makes any sense. That allows us to dedicate our capital equipment, our people, and our product to areas where we do best, and thus as an organization we're able to survive despite the onslaught from other countries that have a competitive advantage when it comes to low-cost labour.

Mrs. Ann Janega: If I may add to that, I think the answer to each of those challenges is different for each one. The manufacturers, at least here in the east, are very enterprising, tackling every single one. With regard to production costs, for example, we're seeing increased attention to lean productivity techniques, where manufacturers are studying virtually every aspect of their value-added and supply chain, trying to identify cost savings there. There's renewed interest in that, and that's a program that CME is helping with. It's also an area, by the way, that my counterparts in Quebec have been very successful in focusing on, especially with small manufacturers.

We are trying to emphasize the opportunity offered by export markets. Some manufacturers, believe it or not, have still not focused on the opportunity of exporting. So we're trying to assist in that regard.

In terms of my organization, we are tackling the energy issue head-on by launching a very significant energy study for manufacturers that will, in the end, demonstrate to our utility company how they can help manufacturers reduce their costs and also even provide energy credits. We're trying to tackle every one of these issues.

[*Translation*]

Mr. Robert Vincent: Do you believe that the government should do otherwise? There is for example China. More and more products are entering Canada. We believe it is a market economy. Therefore, shouldn't Chinese products be subject to a surtax? Shouldn't we take direct action to counter this invasive influx of products? China's market economy is equivalent to ours. If their wages are only one fortieth of Canadian wages, I don't believe that Canada can compete with China, and that we are all doing business in the same market.

Do you believe that one solution would be to apply a surtax on all products coming from China, in order to remain competitive with that country?

[*English*]

Mrs. Ann Janega: Speaking on behalf of CME, I haven't heard that particular recommendation. I am fairly new in the organization, so I'll give you a disclaimer. I can comment that one of the areas that CME is examining is the opportunity offered by the empty containers that are accumulating in Canada, which provide a great opportunity for our manufacturers to take advantage of an instant trade pattern and an opportunity to go back east and send our products to China. That's one aspect in particular that we're examining.

● (1120)

Mr. Charles Cirtwill: If I could just add to that...?

The Chair: Sure, Mr. Cirtwill.

Mr. Charles Cirtwill: I would just make two points in response to that. The first is that I'd be worried about placing a surtax on products coming from China, recognizing that that's going to translate into higher costs at Wal-Mart and Superstore and Sobey's, the places where your constituents all go to buy their goods and to ensure their quality of life. I mean VCRs, televisions, basic food stuffs, and that kind of thing. We'd be seeing all that, and suddenly the cost of living would go up.

The second thing, of course, is to recognize that if we're talking about developing a reciprocal trade, and we're going to put those barriers in place on this end, we had better be prepared for them to put the barriers on the other side.

Mr. Robert Durdan: Our response to that Chinese issue was to partner with them rather than try to compete directly with them. A surcharge levied against our import of Chinese castings that we resell into the North American market would mean that we would in fact not be able to do that any more. That would take us out of the game.

If you identified China as the only issue, I think that would be an error. It's really the rest of the world. It's Indonesia, it's Mexico, it's India. India is one of the great emerging steel-casting manufacturers of the world, and they will be competing directly with China in the next few years in terms of building castings.

The Chair: Thank you.

We'll go now to Mr. Van Kesteren.

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

Thank you all for coming here. It was very interesting, a great presentation. I'm seeing a pattern develop here.

Mr. Cirtwill, I'm very much intrigued by your presentation. I'd heard about this labour shortage. Is this something that's looming, or do you have it now?

Mr. Charles Cirtwill: It's today.

Mr. Dave Van Kesteren: You say one of the solutions for unskilled labour would be Mexican guest workers. What's stopping that?

Mr. Charles Cirtwill: I think we have some barriers around visas and visa processes and limitations we've put in place due to security concerns and that kind of exercise. I also think it's a mindset. We haven't really seriously thought about that labour pool as a way to access it. We've had labourers from that part of the region coming to Upper Canada, for example, in the farm industries for a good long time, and even that's not functioning as smoothly as it could.

All I'm suggesting is that we need to take a look at that evidence and expand it to other industries that could take advantage of it.

Mr. Dave Van Kesteren: I'm also hearing that you have a strong entrepreneurial spirit in this region of the country. In the past, has the federal government hindered that by policies that put in place maybe what we'll just call government jobs or poor unemployment policies? Would you concur with that?

Mr. Charles Cirtwill: My institute has done a lot of work in this area, looking at the natural rate of what's called closure between thriving economies and lagging economies. Basically what our resource has shown over the last 25 years or so is that the introduction of multiple layers of federal assistance to Atlantic Canada has basically kept us from achieving the level of closure that we would have if you'd just left us alone.

So I think the evidence is quite clear that some of these things are certainly slowing down the natural transitions and trade-offs that would have seen us respond much more aggressively to the realities of our situation. That said, I don't think there's any question that Atlantic Canadian entrepreneurs such as Maritime Steel have found a way to be successful and productive in the modern global environment despite some of the things we've put in their road.

Mr. Dave Van Kesteren: You mentioned something that had to do with R and D, that the U.S. private sector was three times ours, or two to one, or something. Are you familiar with Picarn and CFI, and do you feel that they're moving in the right direction? Are they doing the right things, or is that part of the problem? I guess I'm leading the witness here, but are they putting money in the wrong areas? Is that what it boils down to?

● (1125)

Mr. Charles Cirtwill: Unfortunately I'm not sufficiently familiar with either one of those program details to respond to that question.

Mr. Dave Van Kesteren: That would be the research and development arm of the federal government and the money that is spent—$3.2 billion, I think, since 1997. Are we spending it in the right spot?

Mr. Charles Cirtwill: I'd come back to the argument that if you take a look at the way R and D investment happens in other economies that are doing better than us in terms of improving their productivity or in terms of growing their GDP, what you see is a mismatch between where our dollars go and where their dollars go. You only have to look south of the border to see a really bad example.

We've basically been trying to close that productivity gap with the United States for probably ten years, and they've been widening the gap every step of the way. One of the things you see as an indicator of that is where they put their R and D money. They put it in the private sector. They encourage folks like Maritime Steel to actually start being creative themselves and doing the R and D on site.

Mr. Dave Van Kesteren: How much time do I have, Mr. Chair?

The Chair: You have two minutes.

Mr. Dave Van Kesteren: Elaborate for me. You spoke about the money that was going to the academic sector, and you felt that universities were missing the boat or something. Just elaborate on that for a second time.

Mr. Charles Cirtwill: Basically, if you take a look at the R and D expenditures in Canada, the vast majority of them are by either the government sector or universities. That would be research and development in chemistry departments or physics departments, or that kind of exercise. Quite honestly, that research is valuable. It delivers movements going forward. But if what we're looking for is immediate return in productive capacity and the production of products that are then saleable in the global marketplace, the universities themselves say routinely that is one of their biggest challenges to actually take all that research that's been funded and financed and find a way to turn it into commercial products.

Every now and again—for example with RIM—they have a huge success, and that's great, but they have already identified to themselves that doing so is a challenge. That is why they've gone out looking for people like Maritime Steel to work with them, because they don't have the entrepreneurial mindset. They think creatively, but they need to have someone else to help them make that into a product that is then going to be of value to you and me when we're sitting in our living rooms. That's the focus there.

Mr. Dave Van Kesteren: Could somebody just quickly comment? Do we need a national road policy? Is that what we're missing? Do we need a policy?

Mr. Charles Cirtwill: We have to have something beyond just a national road policy. We actually have to start treating transportation as an industry in itself, and, quite honestly, if we grow that industry, we not only service our own needs but we actually facilitate servicing the needs of the Asian market, the American market, and the European market. We're ideally situated to be a trade facilitator for all of those and to take a little for ourselves along the way.

Mr. Dave Van Kesteren: Thank you.

The Chair: Thank you.

We'll go to Mr. Masse.

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

Mr. Cirtwill, the Canadian Council of Chief Executives testified in front of this committee and said that we actually had to make sure our public service was stable because it was actually affecting their ability to access government programs and have stability in their relationships. You're saying we should tap into them and move them into the private sector. Your analysis is different from theirs. Where would you actually get these people from? Where would the cuts be to move those people out of the civil service into the private sector?

Mr. Charles Cirtwill: I wouldn't necessarily agree with the suggestion that we need to refocus our public service, and that downsizing it significantly would translate into a public service in disarray or a public service that is not stable and consistent. All we have to look at, for example, are some of the things that government does that it shouldn't do. For example, here in this province, we still run government liquor stores. We still have a significant portion of our private sector doing retail work.

We have all kinds of departments for policy branches and that kind of exercise, which are redundant. They repeat the same process that other agencies within other branches are going through. On the regulatory side, for example, we have a model here called Service Nova Scotia, which saw a significant refocusing of our resources and the ability to do more with fewer people, which didn't translate into any instability or confusion in the private sector. In fact, it clarified things. It made it easier for folks to access government programs, and it made the rules better.

Mr. Brian Masse: What type of analysis have you done, though, on those types of workers who actually fill the gap that you're talking about in terms of the needs out there in the private sector? Privatizing liquor stores and having the cashiers and stock people.... That's not going to significantly affect what you're proposing, I don't believe. Have you done that analysis?

You're also talking about policy branches, but that's what we heard from the representative of the Canadian Council of Chief Executives, who said that they were losing these people, and they couldn't communicate any more to get access to government programs. If you take those policy people out, what do we do then in terms of trying to access government programs that are supposed to be helping business, like Picarn and a series of other operations?

● (1130)

Mr. Charles Cirtwill: In terms of matching specific skill sets within the public service to specific skill sets within the private sector, no, we haven't done that kind of analysis. What we have done is taken a look at what the needs are in the various sectors and where the current labour pool is. What we're finding is that in jurisdictions that have robust economies, that have a private sector that's not facing these kinds of immediate labour shortages, they've managed to move quite successfully many of those public servants into the private sector. As I said earlier, in most cases those skill sets are readily transferable. We have all kinds of evidence of senior and mid-level bureaucrats moving quite effectively into management and operational roles, moving into situations in which they facilitate the exercise of entrepreneurial systems.

That's not to say investment in training will not be required to move particular types of skill sets, but I think the idea that what the private sector needs and what the public sector needs are somehow fundamentally different and that those people can't move between the two economies is just not based on fact.

Mr. Brian Masse: No, it's not; you're absolutely correct. In fact, this is transferable: people go in and out of both services. But it's just that what you said is a rather big departure from what we've been hearing from other delegations.

Mr. Durdan, could you expand a little bit on some of the research you've done, especially in the steel industry, and some of the advances that can be made through research and development there?

Mr. Robert Durdan: I'm glad you asked that question. I wanted to respond to Mr. Van Kesteren's question earlier.

Maritime Steel's division in Prince Edward Island, where we do stainless steel work, has developed a continuous cooker for the seafood industry, for example, which continuously processes shellfish and dramatically improves the productivity of a fish plant operation. We've developed that on our own; we had little or no help from a government agency. We have come to the point where we're likely to patent it. Our prototype is still in the shop. We've sold two other units and we're about to build the third. By the third one we got it right; we know how to build them now. We expect to be able to sell the product internationally. In fact, we'll be marketing it in Chile in the coming months.

We've also entered into a partnership with a British firm in developing a stunner for shellfish. When seafood is cooked these days, you'll find the market is demanding uncooked lobster tails. If you went into a processing plant and saw a lobster trying to crawl around without his legs and without his tail, you would think that might be deemed to be inhumane. What our stunner does is allow that animal to die quickly and effectively without having to go through that kind of processing. That product is under development now.

We've been working through ACOA—though we haven't got this off the ground yet—trying to rejuvenate the steel industry in Nova Scotia and working with the steel foundries association in the U.S. and the Canadian Foundry Association to do some real research and development here at Dalhousie in partnership with ourselves. They have a scanning electron microscope that we can't afford; we have a mass spectrometer that they don't have. So we're sharing that high-priced capital equipment and our expertise; we have three metallurgists on staff, two from Quebec with master's degrees, and another fellow. We're ready, willing, and able to get on with some really effective R and D. But I must admit, I don't know how to go about it; I don't know how to approach the government and take advantage of what's out there. It may be my fault for not educating myself well enough on it, but I would like some help, because we've got a real opportunity to direct our capital investment in the future into areas that are going to dramatically improve the population.

We've grown the foundry threefold in the last four years, and we've done that because we've become very efficient at what we do. We've put some capital into the process and we've educated our workforce and we've partnered with our unions to become more effective. So we're on the move and we want to continue to do that.

● (1135)

The Chair: Okay, thank you.

We'll go now to—

Mr. Brian Masse: Maybe Mr. Durdan could get in touch with one of our representatives here for government services about what programs are available.

The Chair: Okay.

Mr. Carrie.

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

First of all, I'd like to thank the witnesses for your presentations. I think they're among the best we've had. I say this because what we're looking at with this manufacturing study is what government can do to help the manufacturing industry right now, not just what government shouldn't be doing.

I like the fact that we have some maritime ingenuity. We've got some thinking outside the box and we've actually had some new ideas today. I really do appreciate that, and I hope you're able to give us a written paper or something that gives us a little more detail.

I'd like to say I've heard different things from our witnesses. I don't want to contradict Mr. Masse, but I've heard that industry wants a smaller government; they want decreased regulation, decreased government intervention, and decreased paperwork, so they can get on with business without having the big bureaucracy holding them back through each stage of the game.

Mr. Cirtwill, I know you wrote a paper in 2001 about portability, in which you talked a little bit about partnering with the public and private sector. This is something that really excites me, because I've seen how other countries do it. They work together: you've got the government, industry, and academia all working together, and everybody benefits. I'm wondering if you could expand on that and tell us a little more about your ideas on that.

Mr. Charles Cirtwill: The portability study wasn't necessarily focused on the concept of cooperation in the way you describe it. In fact, one of the arguments we made in portability was that the approach to the way we were managing the ports, particularly the ports in Atlantic Canada, wasn't matching the way ports were being operated globally. We had to operate more on a private sector concept: there had to be a profit-driven approach or at least a cost control approach, and we had to start acting as if we were selling a product in the global marketplace, and that meant finding connections to the realities of global trade. The reality of global trade is that it's driven by large multinational organizations that control their trade either through ownership of a shipping line or ownership of a series of ports.

Our argument for Halifax is if they wanted to meet the goals and objectives they've been setting for themselves for the last one hundred years, they need to find a way to bring those partners to the table. In fact, Halterm was just purchased by one of those international players. Ceres is our second terminal, and it was already owned by one of those international players, so from that perspective we've certainly seen a movement forward.

In terms of the cooperation side of it, again using the port of Halifax as a model, what you're starting to see now is a focus of all the players, be that the academics at the various universities studying the port, be that the various employer and union groups operating the port and delivering services within the port, or even the government agencies responsible both at the provincial and at the federal level for managing the port and maximizing it as an investment asset. They're all working together now with one goal in mind, which is how do you increase trade, how do you turn it into a profitable exercise, and then how does that translate into an economic driver? This is as opposed to the way it was previously done, in which, quite honestly, there was a lot more political interference, a lot more balancing the interests of regions versus areas. For example, do we invest in Halifax versus the strait, do we invest in rail into Halifax versus rail into Montreal? It's much more focused now on the business case of each individual site.

Mr. Colin Carrie: Could you talk a little bit more, Mr. Durdan, about industrial and academic programs? We've heard from other witnesses that there seems to be a bias toward universities, and they'd like to see more college, more practical research being done. Could you expand on what you think government could do to really get...? I like this idea of partnering in the different ways. Could you expand on that, please?

● (1140)

Mr. Robert Durdan: You'd be amazed at how much research and development or product development goes on at the industrial level that you never hear about. We do it every day. We're looking at new chemistries in steel. We're looking at providing the same physical properties in a casting without using alloying material, which has become very expensive, and thus reducing the cost of our product and becoming more competitive in the marketplace.

We're doing that in a vacuum. We have talked to Dalhousie about partnering with their material science division and having our metallurgists work with the metallurgists there and sharing the facilities and doing a cooperative research study and developing a steel industry in Atlantic Canada again that will be self-sustaining.

We can't seem to get that off the ground. It may be as much my fault, because I'm so busy doing other things, but it would be great to have a liaison officer at the university who would wake me up every once in a while and say “Hey, Bob, you said you were going to do this and you haven't done it yet. Now why don't we get on with this partnership and make it work?”

Maybe that's a way of getting at it, having somebody there who would do an outreach program to industry and say this is what's available. It may be that government has done a great job of laying out those opportunities and funding, but I'm not aware of it. I know that ACOA provides opportunities in some of its programs and I know there's IRAP out there and other programs, but getting to it is what needs to happen. From my perspective, I would suggest to you that money put into that relationship, an R and D partnership between industry and the community colleges as well as the universities, would go a long way to improving our capability in doing what we do and developing new business.

Mr. Colin Carrie: Excellent. Thank you very much.

The Chair: Thank you.

We'll go to Monsieur Crête.

[*Translation*]

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

Ms. Janega, last week I attended the Pacific NorthWest Economic Region Regional Economic Leadership Forum which brought together parliamentarians and industry heads in Whistler, British Columbia. I asked them how our manufacturing jobs in Quebec, Ontario, and the Atlantic provinces could also benefit from the economic growth experienced over there. I would like to hear you talk further about the examples you cited, such as Icosmo, I believe. There's a similar example in Quebec. Pôle Québec Chaudière-Appalaches recently opened an office in Calgary, in collaboration with the Calgary economic development, in the construction sector. I believe that there are opportunities for international development. Can you elaborate further on the Icosmo project which is somewhat similar to the project being carried out in Western Canada.

[*English*]

Mrs. Ann Janega: We all recognize the great economic situation in Alberta right now and the challenge of the potential loss of our skilled people here.

Nationally, the Canadian Manufacturers and Exporters has launched a website, www.icosmo.ca—iCOSMO is an acronym for the Alberta oil sands. It's a matching service for buyers who are registered in Alberta and potential sellers from across Canada, and it is the particular interest here. So as we speak there are new companies signing on to this service, and the advantage for them is that they will have the opportunity to do business into the future.

A particular event we are promoting, which Nova Scotia is promoting here on December 12, is the opportunity for our manufacturers to get together to hear about a very large buyer-seller forum that will be held in March 2007 in Alberta. It will be comparable to trade missions that our governments often sponsor to other countries, except our firms from across Canada—and particularly from the east in my case—are going to meet with designated buyers of services in many fields that are supporting the oil sands. There will be a lot of attention on metal fabrication—the steel industry, as we've heard—but other areas too. So we're trying to make it easy for our local businesses to stay strong and build their businesses by taking advantage of the opportunities in the west.

● (1145)

[*Translation*]

Mr. Paul Crête: I would like to make a brief comment before Mr. Durdan replies. For Canadians out West, they are currently losing out on business opportunities because they do not have enough industries to meet the demand. We are looking at a win-win scenario that may improve.

My next question is for Mr. Durdan. In my riding, there is a small foundry called Fonderie Poitras Ltée. To answer the question asked earlier, there is a federal program called Technology Partnerships Canada, which was initially set up to serve the type of project that you yourself are developing. The program is currently being assessed. We're hoping that the federal government will extend and improve the program so that it can be beneficial to industrial sectors such as yours. It would be interesting for you to have additional information. Can you tell us what the ideal conditions would be for this program to help your industry in a concrete manner, because governments are disconnected from industry needs.

What is the winning formula for a proper relationship?

[*English*]

Mr. Robert Durdan: I'm not aware of the program that the foundry in your constituency is using, but—

[*Translation*]

Mr. Paul Crête: I don't know if the people from Fonderie Poitras Ltée. used that program, but I believe that the Technology Partnerships Program would be helpful to you in developing the prototype to process shellfish and fish.

[*English*]

Mr. Robert Durdan: I would very much like to get more information on that program and how it works. My view is that with the changing economy there's research and development of new product in the marketplace. We do have industry associations where Quebec foundries and Ontario foundries do meet. There's a Canadian Foundry Association, and one in the United States, a broader one, that's North American-wide, that we belong to. That's probably the best forum to bring together people in that industry and have them look at issues related to the federal government and its support of industry and how we go forth.

I think they're relatively effective groups. I've met a number of foundry people from Quebec and Ontario, and every time we get together we learn. The interesting thing is in most cases we don't compete against each other. We're exporting to the U.S. or exporting elsewhere in Canada and we don't seem to bump heads. It's a cooperative relationship.

[*Translation*]

Mr. Paul Crête: Yes.

[*English*]

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

Mr. Bev Shipley: Thanks so much.

I know we're running really close, and I know Mr. McTeague hasn't had an opportunity, so I'll maybe pop one question.

Mr. Durdan, I want to just go to one issue, and I'm looking for suggestions here. How do we link you throughout the country with all these industries that are doing great things every day, just like you say, are doing their research and coming up with things within their own manufacturing? What are the logistics of this? Is it through the manufacturing coalition? How do you get to it? Does anyone have a suggestion of how that might work? I think it's really critical. We've heard we have a disconnect between academia and what's needed out in the manufacturing and industry part. How do we bring that together, the logistics of it, so that there's a vehicle to put the flag up to you and say, "Robert, we haven't heard from you. What about...?"

● (1150)

Mr. Robert Durdan: The only thing that really came to mind immediately, Mr. Shipley, was a liaison officer who would work between industry and academia to pull the resources together and move things along. There are a lot of creative things going on at the universities as well, which we don't have access to. We might have access to it if we'd get out and find it, but to bring the two parties together when they're so busy is difficult at the best of times.

Mr. Bev Shipley: Yes, I agree, and I think some of that has come up. We've clearly been told that there's a disconnect and we're now going to have to find the vehicle. We'd like to get from any of you the efficient vehicle without layering more of the civil service to do it. How do we get it to be an effective, productive vehicle through which you can access it?

Mr. Robert Durdan: In the U.S. they're far more cooperative in their approach, and far more effective in delivering technology from academia to industry, and vice versa, and the interchange creates products and jobs.

Mr. Bev Shipley: Yes, okay.

I don't know if Mr. McTeague has one.

Mr. Charles Cirtwill: Can I just add one point?

The Chair: Sure. Yes, please.

Mr. Charles Cirtwill: You asked for ideas. The federal government spends a lot of money on research and development. Have we ever considered putting a condition on it that there's a requirement for a partnership between the private sector and the university? That's one suggestion. You've already got the resources and the infrastructure in place to monitor compliance. Certainly people respond to incentives, and if that's an incentive, then they're going to find ways to work together.

Mr. Bev Shipley: One of the other things that was mentioned that is maybe worth making sure it is in it is that there are measures in terms of productivity and how you measure for the staging of funding. It all then comes to an end if it doesn't actually become effective research and result in productivity for the industry in the end and how it is actually integrated with the industry. I think those sorts of things laid out clearly would be very beneficial for us and appreciated.

Mr. Charles Cirtwill: I know you're short on time, but it gets back to this question of how the federal government actually has a nice model for bringing private sector people into the public sector to get fresh ideas and to encourage those interrelationships. There's certainly an avenue there to find a way, either through some training dollars or some tax recognition, to encourage the private sector and universities and community colleges to transfer staff between them. We do that at the trade school level in terms of apprenticeships and that kind of exercise. Maybe we should be looking at the middle and higher levels to encourage that kind of interchange.

The Chair: Mr. McTeague.

Hon. Dan McTeague (Pickering—Scarborough East, Lib.): Chair, thank you.

Mr. Shipley, thank you for that as well.

If any of you can resolve the problems that one experiences in having their baggage lost by Air Canada, I'd be very glad to put that as a recommendation to the chair when we do follow-up.

The Chair: I think one of the members of our committee would. I think he was the former transport minister.

Hon. Dan McTeague: Hence the lack of a tie.

I apologize again for not being here for the presentation, but I am interested in canvassing your ideas—as briefly as I can, Chair—on the subject of using employment insurance to bolster apprenticeship training or to take on, as it were, sharing the risks in training, particularly in the apprenticeships and the trades. Would you have any opinions with respect to using EI to that effect, so that you would have perhaps a greater number of people taking up training, over a four- to five-year period for a journeyman or whatever the case may be, and with less risk to the employer?

I note that there is a comment here in French from the Canadian Manufacturers & Exporters:

[*Translation*]

"Introduce a training tax credit creditable against EI premiums."

[*English*]

I'd just like some comments, if you would.

Mr. Robert Durdan: To comment on that, in a previous life I worked as the director of HR at IMP Aerospace, in Amherst, Nova Scotia. We developed a program with the local community college that saw an advertisement go out for people who wanted to work in our aerospace divisions. One of the requirements was that you were on unemployment insurance or on welfare and were willing to go through an eleven-week program, during which your benefits would be maintained. In cooperation with the industry, we took these people and put them through some job readiness training at the community college level, and at the community college a lot of it was computer-based. In a lot of cases, these were minorities or females who were non-traditional workers.

It was in excess of 90% successful in taking people through a program that actually put them to work at the end of the program. We brought them into the plant and employed everyone who made it through the program. Without exception, they were extraordinary workers. They had the right attitude. They had the right approach. They had already committed eleven weeks of their own lives to getting trained. In the last three weeks, the industry actually took the people off-site, where we taught them how to fabricate skins for aircraft, bonding methods for putting composites together, riveting, welding, and using the skills that are required in the industry. It was a tremendous success.

We tried to do that again at Maritime Steel fairly recently as we were going through an extremely rapid growth rate, but the opportunity wasn't there. We tried to work with the Canada Employment Centre, HRSDC, and the community college to replicate the program. For whatever reason, though, it didn't work. We weren't able to get there.

● (1155)

Hon. Dan McTeague: Thank you.

The Chair: Mr. Cirtwell.

Mr. Charles Cirtwill: Just to add a point, there was one phrase in Bob's answer that was the key to the success, and that was “maintain your benefits for the eleven weeks”. I think one of the structural problems that we have in EI right now is that it's not available currently for people who are in school or taking training. They lose those benefits. As a result, there's very little incentive to actually go out there to try to improve your skills and match your skills to employment opportunities. Of course, the challenge there is that if you expand EI into those areas, where are you going to find the money? You have to be willing to make some trade-offs on the other side, and I think there are all kinds of other areas where we could save in EI and fund it to make that transition.

The Chair: You have one minute left.

Hon. Dan McTeague: Maybe I can try to hone this down a little bit.

I've heard from several larger employers anecdotally, not just witnesses, who explained to me that the amount of money they're paying in terms of EI is substantial. Of course, they would like to see that reduced, but they're also concerned in a much more profound way about the number of people they would like to hire. There is a risk, obviously, that if you train someone they will move on after four years to another industry or get a better job somewhere else.

Have you given any thought to sharing that burden? In other words, if a company hires or takes on five or six apprentices, the amount of money they would have would be remitted for the time they were training those individuals. Clearly, one of the things that has been identified is a labour shortage, particularly a flexible labour shortage. I'm wondering if that's something you've been able to consider in your travels.

That's open to all of you.

Thank you, Chair.

Mr. Charles Cirtwill: I can't respond in terms of concrete studies in that area, but I can tell you that over the last two and half to three years we've had an opportunity to talk to lots of employers along these lines, talking about the labour shortage and EI. I can't think of a single individual I've spoken to who wouldn't be open to that sort of exercise. They're eager to put up their money as long as there's some potential payback at the other end. I think IMP would have expended quite considerable resources on that program.

Mr. Robert Durdan: Right now at Maritime Steel, when we bring a welder aboard we'll bring in an individual who usually has a base set of skills and who can do what we term a 2G weld—a flatter weld and a horizontal weld. Over time, we train them in-house to become a 4G welder who can do overhead and other things like stainless steel if necessary. That just automatically happens. So there is a great deal of in-house training going on at the industrial level right now, which people may not be aware of. So we typically hire a welder at the marginal level, if you will, and by the time three or four years have gone by we've got a pretty competent person who is transferable.

● (1200)

The Chair: Thank you very much.

I just have a couple of comments to make as chair to wrap this up.

I'm the only member of the committee from Alberta, and my riding has the famous Leduc 1 well, so I'm quite familiar with the oil and gas industry. I want to commend you for your comments on partnering, certainly. And it's very heartening to hear Mr. Crête talk about how the economic growth of Alberta is benefiting the entire country. I'm going to quote his remarks time and time again.

Mr. Paul Crête: I have no problem with that.

The Chair: Because the labour shortage you describe is something that is only going to get worse. In 2007-2008 the oil sands will go into another major expansion; at the same time, there is a major public expansion to deal with the increase in people. There are 86,000 people predicted to move into the city of Edmonton over the next five years—and that's just Edmonton. The rest of the province is experiencing that type of growth as well.

So I compliment you, especially the CME, for setting up a program where you're actually linking manufacturers across the country. It's an excellent initiative. Secondly, I want to compliment you for your letter, which Mr. Lapierre raised as well. I think it's an outstanding letter, and the fact there are so many associations and industry groups willing to put their name to it is a very good sign.

You don't have to answer this now, Ms. Janega, but has any sort of costing been done of the recommendations on the SR&ED tax credit, the third recommendation, to make the credit refundable and exclude it from the calculation of the tax base, or is there any more specific information you can give us on that? We did have the finance department present on that and on CCA investments, but if there's any costing the CME has done on that, it would be very helpful for us.

Mrs. Ann Janega: I'll check into that and certainly let you know.

The Chair: Thank you.

I'll just wrap this up.

Thank you very much for coming out today and being with us. I encourage you to exchange cards and get to know the members. Thank you again. It's been a very productive session here this morning. We appreciate your time.

The meeting is adjourned.

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

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

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