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Chair

Mr. James Rajotte

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● (0835)

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The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call this meeting to order.

First of all, as the chair I just want to make a brief opening statement. This is our thirty-third meeting of the Standing Committee on Industry, Science and Technology of this parliamentary session. It's continuing our study of the challenges facing the Canadian manufacturing sector, pursuant to Standing Order 108(2).

It's wonderful to be here in Edmonton, my hometown, the capital of Alberta, the gateway to the north. It's the final stop of our committee's national tour on the challenges facing the manufacturing sector. Of course, it's especially nice to be here when it's so warm and hospitable in the city. I think it was plus 15 in Windsor yesterday.

I just want to briefly recap. Since the spring our committee has been studying the challenges facing this sector. We issued an interim report in June. We hope to finish our report next week or the week thereafter, present it in Parliament in mid-December, and then have the government formally respond with policy direction changes and certainly with some actions in the next budget. The challenges we've been facing or identifying since the beginning have been the rapid appreciation in the value of the Canadian dollar; increasing energy costs; competition from emerging economies, particularly China; the availability of skilled labour; and the regulatory environment.

I would say all committee members have worked very hard on the study of this issue and we hope that our report will have a real impact. I think it certainly will.

So we are looking for specific recommendations, and that's exactly why we've embarked on the cross-country experience. We've done seven cities in five days: Halifax, Montreal, Granby, Oshawa, Toronto, Windsor, and now Edmonton. It's frankly been exhausting and exhilarating at the same time. I think our committee has only made it because of an Edmonton product, COLD-fX, which we should thank Dr. Shan for.

We've had some extremely interesting sessions. We've also had some very enlightening site visits. We've combined meetings typically in the morning with site visits in the afternoon to all sorts of enterprises across the country.

We have with us today witnesses for whom I certainly have a lot of regard. I know there are some big picture thinkers on the whole manufacturing sector, but also on competitiveness and prosperity in general. I'd like to introduce them now, and then we will start with five-minute opening statements and go to the members right after that for questions.

First of all, from the Alberta Research Council, we have the president and CEO, Mr. John McDougall. From the Canadian Manufacturers & Exporters, Alberta division, we have Peter Ouellette, who is chairman of the board for the Alberta division. From the Edmonton Economic Development Corporation, we have Mr. Allan Scott, president and CEO. From Standen's Limited, we have Mel Svendsen, president and CEO, and I understand he is the former chairman of the board, from last year, of the CME for Alberta. From Team Calgary, we have Mr. Bruce Graham, president and CEO of Calgary Economic Development. From Flexxaire Manufacturing Inc., we have Mr. Jonathan McCallum, vice-president, operations and engineering.

We also have Mr. Brian McCready, from the Canadian Manufacturers & Exporters, with us here in the audience. I just wanted to point him out for members.

We will start with five-minute opening statements. I was asked how tough I am with time. I do try to keep it to time. We have an hour and a half this morning, and we have a lot of members who obviously like to engage in questions with the witnesses. So if we could try to keep it to five minutes, that would be appreciated.

We'll start with Mr. McDougall, for five minutes, please.

Mr. John McDougall (President and Chief Executive Officer, Alberta Research Council): Thank you, Mr. Chairman. I appreciate the opportunity to be here.

I'm the CEO of the Alberta Research Council, as was mentioned, and also the chair of an organization just launched called Innoventures Canada, which is bringing together research and technology organizations that kind of live together in the middle space in Canada. As of this week, it looks like we have 20 or so of those organizations, representing probably 85% of the work that's done in Canada in this space, and we're very excited about the potential contributions we're going to make to the country.

I'd like to make three points today. The first one is that obviously productivity and competitiveness are important challenges. Second, there really is a disconnect between research investment and business outcomes. Third, research and technology organizations have proven the value of market-based models for helping Canadian companies create value and improve the value of research investments. We need your help to do more.

We all know that economic sustainability is linked to the ability of companies to deploy technology. Technology can certainly help mitigate environmental impacts, help companies grow, and generate exports and jobs—all the things that I think you, as parliamentarians, want to have happen.

You mentioned China. I just returned from China on the weekend. When you watch their pace of development, it certainly gives cause for concern and for thinking. It's easy, as you can see in China, to catch up by taking and using technology from other places in the world. It's harder to be in front of the innovation paradigm, where you actually have to be constantly creative and constantly innovative.

The challenge Canada has, of course, is that our balance of trade is heavily skewed toward the resource sector. Although we do have trade in other areas, if you look at the net balance of trade, the positive values come predominantly from energy and forestry. Our innovative products and services, in terms of manufactured goods, largely are in a negative or, at best, an even balance.

With all the challenges you've heard about manufacturing employment, the question is how we help companies that actually produce the goods and services become more successful. The public expects investments in R and D to be successful and to contribute to wealth. The government has made major efforts to increase investment, which is occurring. As I understand it, investment in academic research in Canada puts us at about number five in the world now, and that level of investment has been increasing steadily for several decades. But if you actually look at our economic performance and try to correlate the two, at the same time, we've fallen economically to number thirteen, and we've fallen in competitiveness to a rank of number sixteen in the most recent report.

The challenge we have is that the stock-in-trade of academic research is ideas and highly qualified people, both of which are very important. But unless they're actually taken up, used, and deployed commercially, they really are of little value other than for the researcher, if I can use that terminology. Successful innovation is all market-based. Wealth is created by companies, so R and D has to be linked to the needs of business. People who do not have market and managerial knowledge and know-how and an understanding of industry are often unable to help. This is where the Canadian innovation system is deficient.

If we look at the rest of the world, we find that every successful innovative economy has acknowledged that and has created special organizations to live in this mid-space, the space between the idea—the discovery part of the world—and the application or deployment part of the world. In Canada, we're sadly deficient in those areas. Our balance is inappropriate, and as we would describe it, we've created an innovation dumbbell, in a sense, with a high level of activity on the discovery end and a high level of activity on the using end, but not enough in between to connect them effectively.

Research and technology organizations do provide that. So we created I-CAN as a step toward a more effective Canadian system of innovation. Our challenge, of course, is that I-CAN members, by their nature—many of them are regional or provincial—are ineligible for many federal funding programs. Most of them have small, what would be called A-base or core funding. They're very market oriented, generating typically 70% to 90% of their total income from industrial contract work, so they are connected. The challenge is how to increase that.

● (0840)

The final thing that I-CAN has done is this: by bringing together the national capability into a single organization, we were able to identify projects and opportunities that none of us could take on independently. If there's time in the discussion period, I'd like to explore a little bit about how some of those kinds of projects can help things like greenhouse gases and that sort of thing.

So thank you, Mr. Chairman, for this opportunity.

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

We'll go right away to Mr. Ouellette.

Mr. Peter Ouellette (Chairman of the Board, Alberta division, Canadian Manufacturers and Exporters - Alberta Division): Mr. Chairman and members of the committee, it's a pleasure to have the opportunity to address you on the subject of manufacturing competitiveness in Canada, with specific reference to Alberta.

To establish my personal background, I've recently retired from a 34-year career with the steel industry. In that period I developed expertise in the application of steel throughout North America; in the automotive industry in Ontario, in mid-U.S.A.; in the mining industry coast to coast in Canada, in the United States, and internationally; and in the construction marketplace coast to coast in Canada. So I've seen a lot of manufacturing from high tech automotive through to garage entrepreneurial operations.

Since my retirement—and that was earlier this year, in June—I've maintained my involvement in the manufacturing industry by working through the Canadian Manufacturers & Exporters association, where I chair a very strong Alberta board of directors. They're leaders of successful manufacturing and exporting companies, a board that advocates for many things, some of which are lean manufacturing training, the establishment of best practice regional manufacturing cluster groups, for virtual centres for manufacturing excellence, for training and manufacturing innovation and skill development, for celebrating the success of exporting, for education in business ethics, and for interprovincial trade through a program called icosmo.

My colleagues and I have taken this icosmo program to Ontario, to New Brunswick, to British Columbia, and we've scheduled to deliver the program in basically every manufacturing centre in Canada. It's designed to present to Canadian companies outside of Alberta the opportunity to get involved in this very strong economic cycle that we have in this region. The program is designed to move work out of Alberta, but to keep it in Canada where we have manufacturing companies that have open capacity and have absolutely great capability to contribute to the Alberta capital equipment growth plans related to the oil sands.

The plan is to load up Canadian capacity before the work is offered to manufacturers in other countries. This is a strategy that will increase capacity utilization of Canadian manufacturers and assist in their overall competitiveness.

Allow me to highlight some of the priorities that I see related to Canadian manufacturing competitiveness. You are familiar with the CME and the 20/20 program completed last year. It's the most extensive survey ever conducted of the Canadian manufacturing sector, and I refer you to the database. The CME program appropriately surveyed the Alberta companies and the recommendations have already been recorded in your previous sessions with Dr. Jayson Myers and others of the CME.

Overwhelming in Alberta is the need for people to support the existing and new activities that are driven by the energy sector, specifically the oil sands. The economic spin-off from this red hot Alberta economy has stretched the labour demands in every sector, from residential construction and land development right through to the retail and food service industries. The drive has resulted in labour shortages in professionals, in skilled trades, and in general labour. So solutions require all levels of government to participate.

I'm sure others will speak with greater knowledge than I have of the solutions, but it's most important to put on the table that this is a priority for the short-term focus of attention, to be able to sustain the competitiveness of this very strong economy we have in western Canada.

I want to address with you now the problems that we have with integrating our Canadian industry with the global market. Only the best participants in the world marketplace can survive. We have some of those in Canada. We have them here in Alberta, best-in-class companies, and we have the valuable resources to develop more. We have the fundamentals—we have natural resources that are needed in manufacturing, we have the energy that turns these resources into products, we have the people who have the skills of senior management in operations and international marketing, and we have access to international transportation systems to ship the products to offshore markets.

● (0845)

There are two problems that we have. Manufacturing companies do not know the vision of the government as it relates to export strategies for manufactured goods, and these companies carry an unnecessary burden with the infrastructure and policy needed to move the goods across Canada to port and then further on to world markets.

My experience is that a strategy of being all things to all people does not allow for a focused strategy in any business; it confuses the workforce and does not focus a company's energy and innovation. This applies as well to regions and governments. There is a need to pick the niche products and markets and then to focus energy in those very specific directions.

I think my time is pretty well up, so I'm going to pass this over, and we can talk some more during the questions.

● (0850)

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

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

Mr. Allan Scott (President and Chief Executive Officer, Edmonton Economic Development Corporation): Good morning, Mr. Chairman and honourable members of the committee. Thank you very much for coming to Edmonton and for the opportunity to address you this morning. I trust that everybody will have a pleasant and productive time in our city in spite of this unseasonably cold weather we're having here.

On behalf of the Edmonton Economic Development Corporation and the Edmonton Chamber of Commerce, who could not attend today, I'd like to zero in on the critical challenge facing manufacturers from an Edmonton perspective.

Edmonton's diverse manufacturing sector—with over 2,200 companies—is probably the fastest growing manufacturing cluster in Canada and a major driver of this region's economy, which generates in total $42 billion of GDP on an annual basis.

At present, Edmonton's manufacturing sector is obviously closely linked with northern Alberta's oil sands and the conventional oil and gas sectors. We all know about the $81 billion that is forecast to be invested here over the next 15 to 20 years, and it's clearly a sign of the significant manufacturing potential that exists here. In addition, we have the other burgeoning sectors, including agrifood processing and emerging life sciences and nanotechnologies, all of which will require specialized manufacturing expertise.

Maybe surprisingly for many, the future of many of Edmonton's manufacturers is one of global customers, global supply chains, and international business networks. With customers demanding improved quality, quicker response times, and shorter times to market for new production, Edmonton's manufacturers need to embrace production efficiencies and the new technologies and techniques that offer maximum precision and high flexibility.

Your committee has done a good job of highlighting the many challenges facing the sector, including the high value of the Canadian dollar right now; competition from low-cost producers like China; rising input costs, including energy and material supplies; and extreme labour shortages, all of which are really high on the agenda here in the Edmonton area. These factors are obviously critically and negatively impacting our ability to compete in the global marketplace, let alone allowing us to retain our local market share against low-cost offshore manufacturers.

Our manufacturers are working to restructure their businesses in response to the challenges they face, but the future of competitiveness and growth in the manufacturing sector, I believe, depends to a great degree on productivity enhancement, building on the process efficiencies and improvements that emerge from innovation and skills development.

We at EEDC have already initiated many programs to support the region's manufacturing sector. We continually connect with industry through surveys, on-site company visits, and manufacturing leadership network groups. The examples of activities in this area are based on collaboration with various levels of government and, of course, the Canadian Manufacturers & Exporters.

To date we've been focusing on lean manufacturing efficiencies, linking Edmonton industry with seminar offerings, one-on-one expertise and major conferences on lean manufacturing at key educational institutions. Successful partnerships with NAIT's Shell Manufacturing Centre, and that college's production enhancement certificate program have already produced significant improvements in the industry. But this work needs to continue on a much larger scale to effect the long-term improvements required. Our work to date in this area has made it clear—especially with our current labour environment—that efforts need to continue to focus on productivity improvement, taking it to an even higher level.

The gap between Canadian and U.S. productivity has continued to widen since 1999. This productivity weakness has been shown, significantly, to be related to lower investment in machinery and equipment, in information and communications technologies adoption, and in automated processes and technologies implementation.

We know that once Edmonton's core manufacturers have built a solid business foundation based on productivity improvements, they find themselves in a much better position to explore further innovations, such as automation in welding and joining processes, and specialized materials.

We believe that support for productivity programs and innovation through automation is essential. We also support the key recommendation of the Canadian Manufacturing Coalition, made through a letter dated November 9, 2006, to Prime Minister Stephen Harper, which requested “a two-year write-off (CCA) for investments in new manufacturing, processing and associated information and communication, energy, and environmental technologies”.

● (0855)

We echo this recommendation because this is a visionary and very direct way that the federal government can quickly stimulate valuable investment that can lead to productivity gains across the manufacturing sector at this critical time in Canada, for this province, and for this region. By adopting and supporting these initiatives, the federal government will demonstrate a renewed focus on building a more competitive and sustainable economy. There will be continuing global market opportunities for Edmonton region businesses, and overall productivity increases will ensure that we are able to be a true global player.

In closing, I understand that you're going to have an opportunity to tour some of our manufacturing firms today. We thank you for taking the time to do that. Hopefully it will be an interesting process.

Thank you very much for this opportunity to comment on the Edmonton situation.

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

Shortly before turning to our next two guests, I do want to acknowledge the effort that both of them have made to come from Calgary, especially with the weather conditions. As a committee, we thank you very much for doing that. It certainly shortens our travel time, so we appreciate that very much.

We'll start with Mr. Svendsen, for five minutes.

Mr. Mel Svendson (President and Chief Executive Officer, Standens Limited):

Thank you for inviting me to be part of this process. I certainly welcome you to the west. Certainly, people who have grown up in the core of Canada understand manufacturing in a slightly different way. Our company is actually involved in that type of manufacturing.

We produce products for the automotive industry, and specifically for heavy trucks and trailers. Our focus has been, for most of the 36-odd years that I've been part of the company, to be a leading-edge player working solidly in R and D and transferring that research and development into the actual marketplace. We're trying to connect those two ends of the dumbbell. I sometimes wonder whether maybe that term could be applied a little more accurately.

We have about 10% of our business in China today, and that takes me to China quite regularly. It's very important that we continue to benchmark ourselves against global competitors in our industry. One of those benchmarks that I bring home from time to time is a set of the knock-off, counterfeit golf clubs. If you watch the development of golf clubs in the little stores in Shanghai or Shenjen or Beijing, you will see how quickly they evolve from being a copycat to something that is incredibly good. I found that out very recently as I tried out a new set of $150 PING G2s. I shot the best game of my summer with these clubs. If you think about it, that set is about a $2,500 product here in North America, but you can buy it at any golf store in the back alleys of Shanghai for $150, as I said, complete with travel bag, golf bag, a dozen balls, and probably a shirt and a cap, and away you go. And it could cost you an extra $25 for shoes. I bring these back and show them to our people. But this is what we are facing today.

If we look at the importance of manufacturing in Canada, it makes up almost one-fifth of our economy. Certainly, for every dollar that we generate, we're talking about another three-dollar multiplier. It gets tougher and tougher each day, so that today we're up to about seven hours and 50 minutes out of an eight-hour day before we start generating any profits.

Throw into that mix the job situation in Alberta, where the least little thing can annoy somebody and send them packing, looking for a new job. That makes it difficult to continue being globally competitive here in Alberta particularly, but in Canada in general. If we think about the $100-plus billion in new projects that are planned for Alberta, and a 3% unemployment rate—by the way, about 1.6% is the unemployment rate for male Albertans—we certainly are scrounging for more help in whatever we do.

We've lived with a tax policy in Canada that was geared toward job creation through most of the last twenty-odd years. If we look at our manufacturing shipments, we had a phenomenal run back in the nineties, when we grew at an incredible rate. Of course, the recession that was subsequently followed by 9/11 took a lot of the edge off of that. We did pick things back up in the last two or three years, but we're not doing it profitably. We're not leaving enough money for reinvestment.

Here in Alberta in particular, we desperately need reinvestment in things like automation technology enhancement. If we are going to remain competitive after the edge comes off of this energy boom, we must work hard to get more from our people. If you look at Canadians as a whole, we're running about $6,000 per year behind the Americans in terms of per capita GDP. There isn't a hell of a lot of room left for us to squeeze out of our internal systems without huge reinvestment.

● (0900)

Being an entrepreneur, I listened to some of the previous presenters and I think about some of the work we've done with the Alberta Research Council to be one of the first companies to implement robotics in roll forging. I relate well to Peter Ouellette's comments about bringing in leading technology. Together, our two firms took automotive tread worth about $50 a tonne, and using Alberta natural gas and electricity, we converted that at the mill here in Edmonton so that it was worth $500 to $600 a tonne. We loaded it onto Alberta trucks, shipped it to Calgary, and converted it again to a product worth $1,200 to $2,000 a tonne.

But we can no longer do that. We need help. We need more money left with us to put into R and D, capital expenditures, education, and skill development. Give us something back in our taxation policy that changes the focus from job creation to job preservation.

Thank you.

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

Mr. Graham.

Mr. Bruce Graham (President and Chief Executive Officer, Calgary Economic Development, Team Calgary): Good morning. Thank you very much, Mr. Chairman and members of the Standing Committee on Industry, Science and Technology. It's certainly my pleasure to be here, despite the cold. I'm almost positive it's not this cold in Calgary. It was just too early in the morning to really know what the temperature was when I left. It is good to be here.

Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC): It was the same when we arrived.

Mr. Bruce Graham: I'll begin by mentioning a few statistics, because I don't think western Canada, and certainly not Calgary, is thought of as a manufacturing centre.

About 47,000 people are employed in manufacturing in Calgary. That's about 7.2% of our total employment base. When you look right across Alberta, in the past decade 23% of Canada's new manufacturing jobs were created in this province. So it has certainly been an emerging sector, and Edmonton is a leader in that regard.

Just to put the employment figure into focus, we got Statistics Canada information last week on year-over-year employment gains across the country. The net new jobs in Calgary alone were 30% of the total job increase for the nation—that happened in one economic region. That kind of highlights some of the challenges you are hearing about from some of my colleagues across the table.

I'm not going to carry on talking about the challenges; I'm going to talk about just a small solution that we're exploring. Thanks to your member from Quebec for suggesting I do this.

We set up a relationship with our counterparts from Quebec City and the region around Quebec City. The purpose of that was to see how we could connect business-to-business opportunities, particularly in manufacturing, from the Quebec City region to the Calgary region. This really began in 1956 with a sister-city relationship between Calgary and Quebec City for the Calgary Stampede and the Quebec winter carnival. This relationship is now moving into an economic front.

On the program we've put together with our counterparts from the Quebec City region, essentially 17 manufacturers of building products from the Quebec City area have a representative working out of our office. The salary of that individual is paid for through our sister organization in Quebec City and those 17 manufacturers. We provide the overhead, office space, computer hookup, all the telecommunication links, access to our staff and networks, and all the coffee this person can drink.

In the past four weeks that this person has been here, she has already set up two contract situations for these companies. One of these companies has already set up a permanent employee, who is now working on behalf of that company. In the next five months that this program is being piloted, I'm very confident we are going to see some significant business-to-business opportunities.

We went to Toronto and Ottawa in June of this year, and preceded that visit by doing some surveys of people and businesses in the area. We discovered that there's still a lack of understanding and awareness about what's happening in western Canada. I'm sure if you did the same surveys here you might find there's a very significant lack of awareness and understanding of what's happening in parts of eastern Canada.

I mention this because I think it is something you should consider in your report. This kind of project starts to bridge that gap. While we are very fortunate to have significant economic opportunities—more than we can handle perhaps here in western Canada right now—that tide will likely turn at some point and we will be looking for the same opportunities in the east. So this will start bridging that gap.

Thank you very much.

● (0905)

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

We'll now go to Mr. McCallum.

Mr. McCallum, I want to thank you for being here on short notice. I know you're here in lieu of your president, Daryl Friesen.

Jonathan McCallum (Vice President Operations & Engineering, Flexxaire Manufacturing Inc): I appreciate the opportunity to speak. As was mentioned, the president of the company was supposed to be here, but he is laid up with the flu, so on short notice, I got parachuted in here. So bear with me if I'm not as polished as these fine gentlemen here as far as speaking is concerned.

I want to focus fairly narrowly on one of the challenges we face, which is commercialization. Flexxaire is a small to mid-sized company, with 35 employees. We have a product that we manufacture. It's an innovative product that we developed here in Alberta. We ship worldwide, but our biggest market is the United States. The product is a variable-pitch fan, used on heavy equipment. Caterpillar is probably our biggest customer, but we ship to John Deere and a lot of small OEMs and end-users.

We have faced a lot of challenges. Some were mentioned, as far as the U.S. dollar and the strengthening of the Canadian dollar are concerned, but I want to focus specifically on commercialization for small companies, and I want to compare it to the support that you get during the R and D portion of product development.

I think the government realized years ago that R and D is an expensive endeavour, and it's a high-risk endeavour. It's key to developing new products here in Canada, so the government stepped up and partnered with companies in order to encourage this activity. A couple of ways they have done it is with IRAP and the SR and ED program, to help support and encourage the R and D activity.

Once a product is developed, that support stops—prematurely, I believe—because you have gone from the phase of the R and D portion to the commercialization. The commercialization, getting the product to market, is in a lot of ways very similar to the R and D. It's a heavy investment. It's higher risk. You believe there's a market, but you have to invest fairly heavily. A lot of times, the lack of support between the R and D portion and revenue generating leads to companies not investing appropriately in that portion.

I'll use our company as an example. We developed a new product for a new industry that we hadn't been in, the oil and gas industry. Our products are mostly shipped into the forestry industry. We used the R and D support to develop this new product. We came up with a great product. When it came to commercialization, we didn't know that we wanted to hire a salesperson specifically to target this, so we added it to the rest of our product line. That commercialization phase has stretched out and it hasn't taken root as quickly as it should have.

A solution to this would be to extend the R and D type of funding into the commercialization phase. That would be partnering with companies for marketing efforts, for maybe hiring personnel, for attending trade shows, especially in the international arena. It's quite costly to do that. Again, this is an area where you don't have revenue coming in, so businesses tend to avoid the risk, or they're a little bit risk-averse to that in small companies when resources are tight.

The other issue that was mentioned is patenting, protecting the product. Especially when you're in a world market, it's quite important to protect the product. If all the money has gone into investing in developing this product and then during the commercialization, if the product is not protected, somebody picks it up in another country, then that investment has been for naught.

Basically, how I see the government's role, so far, is to invest and partner with the companies on the R and D portion of the product, and as a partner, they expect a return on investment. That return on investment is once the product gets to market and generates revenue. So continue that support during the commercialization phase. I think it falls right in line with the spirit of the R and D program.

● (0910)

I like to suggest you step up to provide support for the commercialization, for getting the product to market, supporting us as we try to open up the markets in other countries, and also supporting us as we're patenting. It's quite expensive to get patents issued for products in North America, but if you're dealing globally, then you have to get patents in these other countries. And, follow through with partnering with us, because you want the return on investment, you want the product to get to market quickly, and you want that product protected, so we can continue to generate revenue. Follow through with the investment you've already made in the R and D portion.

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

We will now go directly into the question and answer session. We have about 45 minutes allotted for the question period. We have about five- or six-minute rounds for each member. So I'd just make the witnesses aware of the timing. I ask members to be brief in questions and witnesses to be brief in response. Members may ask a specific question. If another one of you would like to comment, just indicate to me, and I'll ensure you have the time to comment on the question.

I'll start with Mr. McTeague, for six minutes.

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

Thank you, guests, for being here today. It may be cold outside, but you certainly have received us very warmly here, and I appreciate those of you who've travelled from Calgary. I'm sure it wasn't easy to do that this morning. We are interested in the comments you've made, and your perspectives are very refreshing. Some of them are diverse, but ultimately they're all helpful.

I want to focus on one area that would give us a trade-off. We've heard different and varying remarks from manufacturers, from business representatives, from chambers of commerce, from labour groups right across the country, and depending on the region, the exposure to international markets affects the relative health of commercial entities across Canada.

In terms of catching up on the productivity gap that was mentioned, if the government were to make a decision on a two-year regime on depreciation, would that stave off the onslaught of cheap goods coming in from countries like China, which have enormous subsidies? Is this really a panacea in and of itself? Or are we going to have to be a little quicker on our innovation? Or as they said in the nineties, we'll be quick or dead.

Mr. McDougall, if you wish.

● (0915)

Mr. John McDougall: I won't pretend to be a tax expert. But I certainly see that the biggest need is for people to be able to move quickly and nimbly. If we're moving quickly and moving innovation into the market faster, then a two-year window is certainly going to be helpful. One of the things we see in companies that stay in the forefront is that something in the order of a third of their product mix typically is less than five years old, so it would be quite helpful.

The Chair: Mr. Ouellette.

Mr. Peter Ouellette: When we most recently evaluated the capability of other companies in Canada through the various trade missions coming into Alberta, we saw a huge gap in Canada in the capability of innovation and of performance and experience these companies have relative to other regions of Canada. And that was absolutely shocking to many people, not only in Alberta but in areas like Windsor, where automation is so very strong, driven by their historical experience in the automotive industry. So a huge amount of acceleration can take place at not a whole bunch of cost, and advantages will go directly into the profitability of these companies in eastern Canada that are looking for extra work to load their books.

The Chair: Mr. Scott.

Mr. Allan Scott: I'd say it really could be a direct stimulus. Here in Edmonton you will see some of the best of the best in terms of manufacturing technology, and you'll also see other folks who are struggling because they haven't invested for a period of time. This can be a tremendous catalyst and incentive for that portion of the manufacturing sector that perhaps has not had to push to invest in the new capital. So we look at it as an instrument that can be used across the entire manufacturing sector.

The Chair: Mr. Svendsen.

Mr. Mel Svendson: As business owners, we always have this magic word called “cash”. If we don't have it, we can't function.

The nice part about these rapid writeoffs is that we know we need to reinvest, but we also need to have cashflow. If we can get the rapid writeoff, we know that in a number of areas we can enhance our productivity dramatically, but at some point you have to make choices. Quite often those choices are based on what your net cash position will be when you're done. You're dealing with bankers who are not exactly overly flexible, and they too look at your cashflow.

Giving us that rapid writeoff returns cash to our operation so that we can maintain other parts of our business while we reinvest it. Some of our best growth was back in our rapid writeoff days, when we were able to restore competitiveness globally and move into new markets.

Hon. Dan McTeague: In essence, you believe that here, certainly, you're able to meet the challenges of products coming in from other nations. You yourself, Mr. Svendsen, have some experience with work over there, where we may never be able to compete with the low-cost pricing that is there. But you believe this will lead to higher levels of innovation, the type that sustains jobs in Canada and that increases jobs in Canada?

Mr. Mel Svendson: I honestly do.

One of the things that concern me is that I don't want to see our country get overly lost in the service sector, whether it be research or whatever the case may be. Keep one thing in mind: when we manufacture things and we deliver them promptly in North America, we do have a significant advantage over our competitors overseas. If we're quick and responsive and flexible, we can hang on to a lot of market share here in North America.

As transportation improves, we'll see a tougher battle there, but understand one thing: when we start moving high-tech jobs overseas, where we are transferring knowledge, it takes about six weeks to move manufactured goods from China to the mid-west; it takes about six-tenths of a second to transfer intellectual knowledge, intellectual property, around the world.

So...got it?

● (0920)

Hon. Dan McTeague: Got it.

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

We'll now go to Monsieur Crête.

[*Translation*]

Mr. Paul Crête (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, BQ): Thank you very much for being here.

I'll go through my questions quickly. My first question is for Mr. Graham and Mr. Ouellette.

What is your assessment of the future of Calgary Economic Development's initiative on the construction industry? How can it be expanded? Mr. Ouellette talked about the possibility of using an Industry Canada program. I would like to hear your thoughts on this.

My second question is for Mr. McDougall. How can we enhance your Innoventures Canada I-CAN model so that we can take on a more appropriate share that is more in line with the successful countries on the graphs that you showed us?

My last question is as follows. Mr. McCallum, like the other speakers, talked about intellectual property. Are we currently taking enough action in this area? And what concrete measures could we take?

[*English*]

The Chair: Mr. Ouellette, do you want to start?

Mr. Peter Ouellette: Yes, thank you.

In terms of my comment earlier, east-west trade is something that we're not comfortable with in Canada. We've grown up with a tremendous amount of north-south involvement. What are the benefits? In Quebec particularly there's a very strong structural fabrication industry. That is what is required here to support the capital investment we have in Alberta. The Quebec region particularly has a stronger contribution than most of the other provinces. Because it is strong in that area, there's a tremendous amount of opportunity.

I can qualify that by saying that in New Brunswick, just in the last six months, $35 million of structural steel business has been contracted. The expectation is that this will grow to $100 million by January of next year. That is sustainable, based on the amount of capital.

So there is value. It's been proven.

The Chair: Mr. Graham.

Mr. Bruce Graham: I would echo those comments and only add that it has traditionally been the strengths of the federal government to help companies expand their markets abroad with the representation they have internationally. One of the unique assets that are available within market is the economic development networks that are here. I can speak for Calgary in that this business is very much done on a relationship basis. The greater the opportunity to put business face to face, the greater the chances are to create business opportunities.

There's a natural network available here that I think federal and provincial governments can tap into. Economic developers are the last mile of that network, and this initiative that we're doing with Quebec City is proof of that.

The Chair: Mr. McDougall.

Mr. John McDougall: The I-CAN group of partners brings basically a special, unique infrastructure that is very large-scale, very industrially oriented, quite unique, and not duplicated elsewhere in the country. The challenge is that it isn't recognized as a national resource; it tends to be recognized either as a provincial or a regional resource.

The first and most important thing would be to have the federal government acknowledge that this is an important part of our innovation system and allow us to participate in the national scheme. In that respect, if this committee were, for example, to support the idea of some modest funding, perhaps $1 million over three years, or something like that to help us knit this capability together, that would be very helpful.

The second thing is that by our nature we're currently ineligible for many of the federal programs that support the R and D system—the CFI, Sustainable Development Technology Canada, NSERC, and so on. The eligibility to be able to bring some of that support a little downstream would be very helpful.

I was listening to my colleague talking from Flexxaire's point of view. For example, there are programs that I know are being looked at—both TPC and IRAP—where I-CAN might in fact become a very useful partner or even a manager for that program, to help get it a little further downstream and more effective in helping companies.

● (0925)

The Chair: Mr. McCallum.

Mr. Jonathan McCallum: In reference to the intellectual property and protecting it, I see two components to that. The first component is getting the protection. The second component would be enforcing that protection.

Most of my experience has been in getting that protection, and that's in the way of patents. I think encouraging companies to pursue that and pursuing it as we get into a global market.... You need to protect your rights in other countries, and it gets costly. You have the European Union, the United States, Canada, Australia, and Japan. A lot of these areas require patent applications in each of those areas in order to protect your market. Ways of encouraging that are helping to support it and partnering with the companies on doing that.

Regarding the second component as far as protecting it is concerned, enforcing, unfortunately I don't have a lot of expertise there, but I see that as being a key part. I think a lot of that would happen at the borders when product is imported. I see that as being a key component, but I don't have a lot of expertise in that regard.

The Chair: Thank you, Mr. Crête.

We'll now go to Mr. Carrie, for six minutes.

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

I want to thank the guests for being here today.

I actually have about three pages' worth of questions. I've been trying to figure out which ones to ask for my six minutes, so I'm going to get right to it.

I come from Oshawa, and other members here are from Ontario, and manufacturing in the auto sector is the heart of the entire economy. We were in Windsor yesterday, and they said this isn't just a problem, this is a crisis, this is an emergency, and we have to do something. We've heard of problems, as you were saying, about these knock-offs. We've heard of patent protection and we've heard of problems with commercialization.

The first question I'd like to ask the panel is this. How do we fight these unfair offshore subsidies and their trading practices, where other governments allow these things to go on that are really hurting our manufacturers?

Number two, I want to talk about the relationships across Canada. I know there was a recent trade mission from Ontario to Alberta. You mentioned your program with Quebec and the partnering in that regard. It's so important, because we have different areas that could be manufactured and there's a real shortage here. There might be layoffs in Ontario. What are your comments on helping those two things out?

The Chair: Mr. McDougall.

Mr. John McDougall: I almost hate to be a lead on this one, but your comment about Oshawa is interesting. I happen to be the chair of something called AUTO21, which is the national centre of excellence for R and D in the automotive sector. So we've been very concerned about these. But we also do business as the Alberta Research Council in China.

The point I was alluding to in my opening statement was that emerging economies are very aggressive. They are copycat economies. China currently is largely a copycat economy. It doesn't mean they can't make great quality as they do so, and they can certainly run around and gobble up IP and have no bones about it. There's very little, practically, that this country can do to prevent that happening, other than to keep banging the drum about how inappropriate it is.

But in my experience, the economies going through it used to be Japan, then it was Taiwan, then it was Southeast Asia, and now it's China, and so on. They do tend to flow along through a very common path. So the first step is that you have to keep the noise up so that they view it as at least a bad thing to do, notwithstanding the fact that they may continue to do it.

The second thing I think we need to remember is to be careful in managing our relationships with these countries so that in fact, if at all possible, we're allowing them to copy the last generation rather than this generation.

The third thing we can do is to make sure we're innovating rapidly, which means helping our own companies to stay in the forefront and be creative, because that's the only way, at the end of the day, you're going to stay ahead. The point has been made that the stuff moves around the world at the speed of lightning.

● (0930)

The Chair: Mr. Ouellette.

Mr. Peter Ouellette: When you compare China, for example, with what we have in Canada, there's no question that we have a lower cost of energy and we have better material costs. So how can they possibly be producing products and landing into North America at such low prices?

Obviously everyone goes to the labour component. If we have automation, in those products that are highly automated the percentage of labour is small. Even though the cost of labour is very, very small, it ends up being less significant.

I think we have to defend our borders against unfair trade. We've done that in the steel industry, and we need to do it now in more products downstream, because the Chinese have moved off the steel industry international trade and are now moving into the secondary products. We have to be sure that we can evaluate, under a constructed value model, what the costs are in each country.

Mr. Colin Carrie: Would you be able to provide us with some written recommendations—I know you don't have a lot of time now—about how we would go about doing that?

Mr. Peter Ouellette: Very much so. It's well documented, on how to do constructed value analysis, and it is a technique that's used in Ottawa with the evaluation. But yes, per manufactured product, that can be done.

Mr. Colin Carrie: Thank you very much.

The Chair: Mr. Graham.

Mr. Bruce Graham: Just to comment on the cross-Canada trade opportunity, I think it has been an overlooked opportunity up until lately. A lot of the attention to this has been generated through what's happening in the energy sector. What we're discovering, particularly with this Quebec relationship, is that the opportunities are actually outside of the energy sector. This is in building products.

I think the activities that the Province of Ontario is doing are great steps, and we did similar efforts back into Ontario in June of this year. I think what's unique and different about this approach is that it's a sustained effort. We have a person in market for six months, with targeted efforts and results, and it's being supported and funded, in part, by the manufacturers that are participating.

Our interest in doing this, in part, is that we look at our friends in America as friends. We look at our colleagues across Canada as family, and we see a real win-win national opportunity that can emerge from this type of activity. It makes us all stronger by gaining best practices and understandings. Many of these relationships are happening between companies that are in the same business. It's not a customer-supplier relationship in many cases; it's actually companies that are in the same business, learning and working together.

The Chair: Thank you.

Last then, we'll go to Mr. Svendsen briefly.

Mr. Mel Svendson: We've been competing against China in our industry for about 25 years, and as Mr. McDougall said, the best success we've had has been to stay at least one step ahead. That isn't always easy. As I pointed out with golf clubs and the ability to clone, it's a whole new industry that's focused in China.

So I think we've seen our Prime Minister focus on human rights here recently with China. That's probably not a bad place to start in some respects. But I think we have to work harder at higher levels, not just here but with our peer group in the developed nations, on saying there must be respect for intellectual property. That's a focus we must take.

They know it, and our colleagues in the U.S. know it. So it's not something that's ignored. Yet you can bring golf clubs in at $150, and nobody stops you.

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

Thank you, Mr. Carrie.

We'll go to Mr. Masse, for six minutes.

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

Thank you, gentlemen, for being here today.

It's interesting. We've gone around for a number of months now and listened to all this testimony. It is very frustrating to hear about intellectual property rights, knock-offs, and even cars. Coming from auto town, I can tell of you the frustration there.

It would also be interesting to look at what Canadian natural resources are being shipped and then used in knock-off products that are sold back into our country. I'm looking at some reverse ownership in terms of our natural resources.

I know we've been talking here about Ontario—and I come from Windsor, Ontario—and access to the development out here. How do we do this in terms of the current context of our infrastructure? For example, if I wanted to get out to Manitoba, even to the border from Windsor it's 18 hours of driving through the Canadian side. Does our current rail, road, and air service accommodate this type of ambition? I think it's a great thing that we should be doing. It seems that we're behind the eight-ball because we don't have that element right there. Are there things we need to do now to start thinking about this, if we really are sincere?

I worry about the Pacific gateway project that's opening up, and you guys out in this section have easy access to send natural resources over to Asian markets that then build products that are shipped back into Ontario. As well, not having access to their markets for different things, we're not participating in this whole thing.

So what can we do about that? Or what do we need to do about making sure the trade time between our provinces is reduced and the efficiencies are there?

● (0935)

The Chair: I have Mr. Ouellette first.

Mr. Peter Ouellette: Right now, the establishment of interprovincial barriers for trade is significant. There's been some work done between Alberta and B.C. The barrier has been quantified as a $4 billion barrier, and that's what they're trying to tear down. Interprovincial trade barriers were recently quantified at $80 billion per year. This has been acceptable in the north-south approach to trading that we've had.

If we're going to combine the capacity and capability of our manufacturing sectors across the country, we have to tear those barriers down, whether they be trade and regulation, or simply the ability to move freight. You can't move trucks across this land currently in the springtime when we have breakup. So we have to encourage the railways to allow interprovincial shipments. They're much more interested in moving from the port into Chicago, where they can move Wal-Mart products from China and make a lot more money.

So there's some interest that we have to have interprovincially on regulations and on infrastructure on interprovincial transportation.

The Chair: Would anyone else like to comment?

Mr. Svendsen.

Mr. Mel Svendson: One of the concerns I have is that we bring some steel in from China and the guys who supply the steel can ship from Shanghai to Calgary more cheaply than, or as cheap as, you can from Montreal to Calgary.

I have another concern, which perhaps is not in your mandate, but some of the international ownership of companies is becoming awfully big. Mittal, for instance, has a huge lock on the steel industry. There used to be two competing mills in Montreal for our product, both good mills, both good competitors. Today they are owned by the same multinational firm. They're going to squeeze the hell out of forging quality products in Canada. I'm afraid they're going to make many Canadian companies uncompetitive, but in the big picture it will make Mittal more profitable.

So I have some concerns that we're seeing large global conglomerates. I would like to not maybe use the word “conspire”, but certainly their strategy no longer takes into consideration any kind of loyalty towards their employees in Canada, and consequently, there's not much loyalty to their customers in Canada. For us, it doesn't matter as much; we'll survive one way or another. But I do know that it's going to hurt many people who need special bar quality in central Canada, making it that much more difficult to compete.

The Chair: Mr. Masse, you have one minute.

Mr. Ouellette, did you want to go again?

Mr. Peter Ouellette: Very quickly, there is a forum right now that has the potential of being functional, but it seems to have a tremendous amount of drag, and that's the Canadian Steel Partnership Council. It is not moving forward fast enough, but the forum is there to address these issues in the entire supply chain, from mining right through to the customer base, whether it's a constructed model for pricing and costing or whether it's the concentration of power.

● (0940)

Mr. Brian Masse: I have a question. In terms of capital reductions, in terms of depreciation, briefly, one of the concerns I have about this is that we've seen in Windsor, Ontario, some companies bought and literally harvested for their equipment and machinery to be brought over the China and other areas. Would there be any objections if we moved aggressively on this file? I think it's actually one of the things we could do, but there would also be an ownership penalty if the machinery and equipment was not maintained in Canada. Would that be agreeable?

The Chair: Mr. Svendsen.

Mr. Mel Svendson: Are you talking about something in addition to the recapture penalty that currently you would normally pay?

Mr. Brian Masse: Yes, if we went really aggressive on this, even potentially beyond what's being requested, to show to the world that we're serious about this, would there be an objection to additional penalties?

Mr. Mel Svendson: In my company, we'd be happy to see that. It doesn't do us a hell of a lot of good either to see companies take advantage of a tax writeoff here and then simply move the equipment elsewhere to compete against us.

Mr. Brian Masse: Thank you.

The Chair: Thank you, Mr. Masse.

We'll now go to Mr. Shipley.

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

Again, welcome. One thing we've found is there's a huge diversity across this country. This tour has just been amazing.

To Mr. Svendsen, and also to Mr. Scott a little bit, I always love the analogy that we can easily relate to, and it's the golf club and the $150 to the $2,500 value of the copycat one here. If we produced them for nothing and we gave them the material, we couldn't do it for the $150. How does manufacturing then, and how do we as a country, deal with that? How do we have the manufacturing industry, as they're talking to us, saying they can't compete against this....? I listened to your comments about one tier and two tier, first generation and second generation. How does manufacturing deal with that and say, this is what we can do, but this is what we can actually be competitive in?

Mr. Mel Svendson: Would you like—

Mr. Bev Shipley: To help us understand when we're hearing these kind of issues.

The Chair: Mr. Svendsen.

Mr. Mel Svendson: I think in the case of the golf clubs, obviously it's a fairly extreme comparison, because for things like golf clubs, the big costs are marketing and advertising and that sort of thing, which they are able to totally avoid. If you take a look at golf clubs, much like springs, we forge them, we heat-treat them, and we do a number of things to them. We don't spend any money on television advertising, obviously, but we do spend money on R and D. So we are trying to make sure that our research and development is protected through patents that are enforceable.

In China, they occasionally raid certain areas and shut down these black market marketing areas. I think the real issue is how we get to the core of protecting this intellectual property. Having stronger international agreements on intellectual property and forcing China to live up to their commitments would be number one, but it takes a concentrated effort on the part of the developing countries to do that.

I think that without international cooperation we're not going to get there, but on the other hand, we can't just simply say here in Canada, well, we only have one golf club manufacturer, so we're not going to worry too much about it. We have to look at the whole principle behind it. If we're going to develop intellectual property, then we must protect intellectual property.

Mr. Bev Shipley: I can see the relationship with that if only you used it, but it goes to those easy copy things and the whole auto sector—

Mr. Mel Svendson: Absolutely.

Mr. Bev Shipley: That's really what my point is. It's about protecting those small plastic things, which are integral components of our auto sector, for example, and that's going to be hard. But, man, how do you protect that intellectual property over in Shanghai and in some of these other countries? I think what I've been hearing—and I heard it earlier—is that it's very difficult.

Mr. Mel Svendson: I know what it is too. If we're going to chase our markets, and those markets move to China.... In the case of our products, we're chasing the international shipping container market, and that has largely migrated. First of all, it started to migrate from the U.S. and Canada to Mexico. Now it's largely migrating to China. Yet we're trying to hang onto our component in that, so we're going to continue to work with those customers.

We have to work with the end-user to keep our market share.

● (0945)

The Chair: I have Mr. McDougall and then Mr. Scott.

Mr. John McDougall: Just quickly, there are actually a number of issues that emerge. The first one is actually that IP, whether you're fighting China or anybody else, is a real issue. Everybody today is reverse-engineering. If you actually patent, you in a sense give them a step up to do that, because you teach them how you're doing what you do now, and they'll find another way to do the same thing, even if they respect your IP. It's a very competitive world.

In working with China, we've been concentrating on know-how rather than the patentable kind of IP. A classic example of that is a material we've developed here, which Toko is now building a $300 million facility to produce. It produces a core material that will actually be sent to China, where they will add value to it, but they won't be able to really replicate the mill or the know-how of how to produce this particular product. In our view, it's very unlikely that will happen.

So part of it is the way you do the deals too. I would agree, though, that you'd never want to give up on aggressive positioning with respect to counterfeiting and avoiding of IP. You just have to keep on in that case.

The Chair: We'll now go to Mr. Scott, briefly.

Mr. Allan Scott: My comment on this is that obviously it's going to be a complex world, and maybe in golf clubs we're ultimately not going to be able to compete, but I think our ace in the hole is our ability to innovate, our ability to quickly adapt, and the environment we have here. I think we have to protect that, and we have to stimulate that across the spectrum. That, in the final analysis, will give us the opportunity to compete worldwide. We have to remember that, and that's why I think we need to move quickly to create the incentives so that everyone across the spectrum can have the opportunity to compete.

Hopefully, Mr. Svendsen's company can use that, and others can use it, some to a far greater degree. I think if it's put in across the spectrum, it will give us an opportunity to strengthen the total economy.

The Chair: Thank you, Mr. Shipley.

We'll go now to Mr. Van Kesteren.

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

Thank you for coming. It's been very interesting. As my colleague says, what a perspective we're getting.

I want to talk about that PING thing and to bring it back to something else too, or something we discovered in Windsor. Oftentimes we talk about the unfair trade practices of China, but we're discovering—and I think one of you alluded to this too—that multinationals and, in some cases, large Canadian companies are just as guilty, if not guiltier. What they're actually doing is what we called in wartime.... I forget the terminology, but they're taking your products and actually bringing them—the moulds and such—to China. Is that happening here too, in Edmonton and Calgary?

I'm just going to open it up. I apologize, as I wasn't expecting to take the next round, so I didn't prepare myself as to....

Mr. Svendsen, you mentioned PING or talked a little bit about that. Is that happening in your industry? Are we seeing more of that taking place?

Mr. Mel Svendson: In our particular industry, in aftermarket products typically, we're seeing things being moved around the world in that manner with some impunity.

If I were to look at some of the multinationals, I think they are guilty of transferring the knowledge. As we've stated about the golf clubs, you wouldn't have a golf club problem if the multinationals hadn't moved so much of the golf club manufacturing to China. We probably wouldn't have, in North America, as much of a bicycle problem if Schwinn hadn't said, hey, I'm going to quit manufacturing; I'm going to quit research; I'm going to quit this and that, and I'll buy my stuff out of Taiwan with a Schwinn name on it.

We have a term at our company: No Schwinning.

Some hon. members: Oh, oh!

Mr. Mel Svendsen: We have to do a lot of this stuff ourselves; we don't want to lose that edge.

● (0950)

Mr. Dave Van Kesteren: I think we've fallen asleep at the wheel. We're talking about a whole culture that's evolved around our industry. You mentioned it: advertising. That's a huge cost. We're taking that out.

I'm hearing a lot of other things: we heard about energy, about the Shanghai Three Star Stationery Industry Corp. in China, and we heard about productivity. But I'm surprised that until we got to Windsor, and also heard from you today, we hadn't heard about intellectual property and patent rights, those things that we understand. We understand why we pay more for a pair of shoes that have the big name.

I'm concerned about this, and I'm surprised that nothing's happened.

Peter.

Mr. Peter Ouellette: Mr. Svendsen's earlier reference to the steel industry and the concentration of power is a great example, but we no longer have any Canadian steel industry ownership; the industry is owned now by the Brazilians and East Indians and South Africans, by other countries. When you have the ownership, you transfer the technology, you transfer the ideation, and you transfer all of the previous innovation. In the setting of the last five years, where we've had the effects of the rising Canadian dollar so that we can't trade, these multinational managers have the responsibility to continue that innovation. They relocate the idea, so they can continue to produce and ship.

Mr. Dave Van Kesteren: So there may be another problem.

Do I have a few more minutes?

The Chair: You have one minute.

Mr. Dave Van Kesteren: Just quickly then, you brought up something else, the fact that we've lost these industries. But in a sense, possibly, we aren't too sorry to see them go—maybe with the steel industry, which has a lot of pollutants. Now, of course, these companies are producing these things. They don't have the same restrictions. And we're hearing a lot of pushing for carbon credits and those sorts of things.

I see Mr. McDougall shaking his head. Maybe he just wants to comment on that too.

Mr. John McDougall: [*Inaudible—Editor*]

Mr. Peter Ouellette: That steel industry is a fundamentally strong industry because, remember, for every job in that industry there are four others servicing the industry. As much as it possibly has not kept up with technology, there is still some room for it to improve. We have some world-class steel production in Canada and some world-class steel products that ship globally. You don't recognize that if you only focus on the Hamilton production; but if you focus on the entire steel industry, there are definitely some world-class examples.

Mr. Dave Van Kesteren: Did Mr. McDougall have a chance to respond?

I have a quick one.

The Chair: Mr. Svendsen, briefly.

Mr. Mel Svendson: I have one concern about the carbon issue. I have travelled to China extensively, and I have travelled to Mexico fairly extensively. Somebody is going to do this job. Somebody is going to make our cars. Somebody is going to make our steel. Somebody is going to do it. If they can stop all that pollution at the border, they'll have done one hell of a job. My guess is that it will continue to blow around the world and we'll still have it.

The thing is that the rules and regulations we apply in Canada make us do the job better. We will do a better job. If you look at some of the huge improvements manufacturers in this country have done to reduce carbon emissions, it's phenomenal. When the jobs are moved to those third world countries, where there are no rules or the rules are not enforced, we will continue to have pollution. It will just get poured onto the other side of the ocean instead of here in a cleaner fashion.

The Chair: Thank you very much, Mr. Van Kesteren.

We'll go now to Mr. McTeague.

Hon. Dan McTeague: Mr. Chair, I think I speak for all members of Parliament. We wouldn't be here without your help in providing the perspective. I can tell you that every member who has asked a question has received an interesting and very helpful remark. Given your background and your harassing us on things like productivity and commercialization and innovation, I think it's fair to say, from everyone's perspective, that we'd like you to take the next questions, if you don't mind, Mr. Chair.

The Chair: Thank you, Mr. McTeague.

It's a rarity. As the chair, I'm generally the one allocating questions, not asking them. I thank all of you for allowing me the time, especially in my hometown.

First of all, I have a question that was actually provided by one of the members. It's a very tough question. He wanted it directed to Mr. Scott.

This is going to put you on the record on this one. How long will the economic boom in Alberta last?

Mr. Paul Crête: Forever.

The Chair: It's a good thing we're retiring soon, because this could be front page of the *Journal* tomorrow.

That was Monsieur Crête, by the way.

● (0955)

Mr. Paul Crête: It's not the objective, to be in the newspaper.

The Chair: No, I know.

Mr. Allan Scott: How do they say it in the economic textbooks in Latin? *Ceteris paribus*, all other things remaining equal, we will continue for some period of time.

For those who have lived through previous crude oil price increases, going from $3 to $12 in 1973 was a tremendous jump. Immediately, because of decisions made on the other side of the world, people in Alberta were substantially better off. In 1978-79, when crude oil doubled again, from $14 to $29 a barrel, obviously that was a tremendous jump. But we all remember the 1986 period when crude was down around $11 a barrel and the tough times in the energy sector.

If the emerging economies of China and India continue to grow and evolve and continue to require more and more energy, if there are no significant geopolitical upsets, we will probably have a period of sustained prosperity. There will be ups and downs in the industry, but we have the opportunity to continue to become a larger supplier—I will use the term “globally”. Obviously a lot of the energy will go to the United States because of geographic proximity. It's a Canadian opportunity.

I would make the comment that I think the initiatives of the Quebec relationship and perhaps the most recent Ontario trip out here are important. I believe there can be Canadian solutions to help this part of the country maintain that prosperity and competitiveness that will allow this period of prosperity to extend for some considerable period of time.

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

I want to stay with the energy theme. Energy is obviously one of the main challenges we're dealing with, from both an environmental and input cost position. I'd like to ask Mr. McDougall to highlight some things, and others can comment.

You're working on the Alberta Research Council. As well, we have been to the facility in Vegreville. On CO2 capture and the algae program that you're developing at the ARC, would you quickly highlight some of those initiatives for members?

Mr. John McDougall: I appreciate that, Mr. Chairman. Let me make a bit of a preamble comment as a follow-on to Alan Scott's comments.

It's virtually certain, I think, that the oil sands will be producing three million barrels a day within the next decade or so. In Beijing last week, one of the economists from the energy and utility board suggested that by 2047 they'll be producing nine million barrels a day, which would put Alberta, if not at the front, very close to the front as number one producer in the world. Of course, that brings pressures, not only the labour pressures that we've talked about but actually the CO2 and other greenhouse gas emission pressures. We'll be talking about hundreds of millions of tonnes of emissions. What's fascinating about that is what we've said and concluded, that this will put Canada in the position of having the world's largest resource of CO2, as opposed to the biggest problem.

We're looking at a number of options for dealing with it. The obvious one is to hide it away, which is what sequestration largely is. You kind of stuff it in the basement and forget it, and that's okay. You may get extra value by trying to enhance oil recovery or coal-bed methane production. But the real value comes if you turn it into a product. And we have a scheme we're pursuing to actually convert CO2 into algae, use the algae to then produce hydrogen and methane, take the remaining biomass and turn it into other products and materials, ranging from biofuels to plastics to whatever.

We're quite excited, and so is industry, about the potential of this. We've been trying to encourage the federal government, NRCan, to support this work; so far, I might add, without success but with good encouragement. We're hopeful the two will come together soon.

The final thing to comment on is not only that oil production or hydrocarbon production creates problems, but we have many things that have been classed as wastes that, with new kinds of thinking, you can turn into value. I'm referring to what we call our integrated manure utilization system, which actually takes cattle manure from feedlots and turns it into power, takes clean water out that can be used for the cattle, and creates compost and chemicals for fertilizers and various things. So there's a lot of actually exciting things happening nowadays, really positive things.

● (1000)

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

I have a lot more questions, but the clerk is reminding me of the time. We have two site visits today.

I just want to touch on a few themes. When we started off we had four challenges. We had the rapid depreciation of the Canadian dollar; the energy cost issue; competition with countries like China; and skilled labour, which is probably most in demand here in Alberta. We added on the regulatory environment as a challenge in terms of both paperwork for businesses and dealing with environmental regulations and others.

But just from the hearings this week—if I can speak for the committee—the issue you have raised and that has been raised across this country is patent protection. I think pretty much all of you touched upon getting the patent, but also protecting the product once it's actually developed. That will likely be added as a main area of the report. So I thank you for that as well.

I want to thank you very much, because I'm the only Alberta member of this committee and I keep sending the message, but I think you've done an excellent job of showing just how big Albertans are in the sense of the economic growth in this province. It's something we want to share with all regions of this country. I thank you for spreading that message today, as well as the message on the importance of research and development staying out of the curve. That's essential. The issue of capital cost allowance is one we've heard at every session we've had, if I can speak on behalf of the committee.

So I want to thank you very much for your presentations here today and for taking the time to be with us,

Because this is our last session, I want to thank the members as well. We have 12 full members of the committee, but these are the magnificent seven who went from Sunday night in Halifax and did this trek across this country. So I want to thank all of the members who are here today, because they did the full trek and deserve a lot of applause.

I also want to ask your indulgence and thank very much the people who actually made this happen. When a committee travels, it's not just the members; we travel with a whole group of staff. So I'd like to thank our fearless leader, the clerk of the committee, James Latimer. I'd like to thank the logistics officer, Laurette Dionne; the two researchers, one of whom had to return to Ottawa yesterday, but Lalita Acharya is with us here today. Dan Shaw was with us for most of the trip. The three interpreters are amazing. I have no idea how they do it, but they are Justine Bret, Susan Vo, and Hervé Carrière. I think Hervé is interpreting me now. Our two proceedings officers are Michel Legault and Stéphane Monfils.

Thank you very much to all of you who have made this week such a success.

Members, if you have any further recommendations, presentations, or information, please get it to the clerk. We hope to be discussing this report and finalizing it within the next two weeks in order to present to Parliament by mid-December.

I encourage you to talk with the members a little bit afterwards, exchange business cards, and get to know each other. If you're ever in Ottawa, look us up, for sure.

Mr. Dave Van Kesteren: Mr. Chair, I know I can speak for all the committee. I would like to thank you for the splendid job you have done as well.

It's somewhat fitting to end here. I have to tell you, gentlemen, I came to the west for the first time—and I'm ashamed to say that I didn't travel a whole lot—about five years ago, and told my wife that if I had come here as a young man I would have stayed.

It's exciting and somewhat unfortunate that, as much as I want to go to the site visits, we have to adjourn at this point, because this has been a fascinating discussion. Thank you for your western hospitality.

The Chair: Thank you.

The meeting is adjourned.

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