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Chair

Mr. Rob Merrifield

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● (1530)

[*English*]

The Chair (Mr. Rob Merrifield (Yellowhead, CPC)): I call this meeting to order.

I want to thank everyone for coming. We have two sessions of witnesses this afternoon. We're looking forward to hearing them.

Before we get started on the witnesses, we'd like to inform the committee of a recommendation to invite Mr. Mark Carney here to testify before the committee. We have made that request to him and have had confirmation that on December 5 from 3:30 to 5 he will be here. That's the Wednesday that we are not travelling during the week that we are travelling. That's for your information. That week will be a very full week.

Mr. Mike Wallace (Burlington, CPC): Can you give me the full agenda, Mr. Chair?

The Chair: Yes. This gives information to the committee on that.

Today we want to begin with the pre-budget consultation exercise. The theme we have for this meeting is the rise of the Canadian dollar; we'll use that as a theme. For the subsequent week, the theme will be the tax system.

With that, we'd like to introduce our witnesses.

In the first session we have the Association of International Automobile Manufacturers of Canada....

I think what I'll do is just go through your titles; then as we give you the floor we'll introduce you individually.

There's the Canadian Auto Workers Union, the Canadian Manufacturers and Exporters, Cascades Paper Products, TD Bank Financial Group, and Toyota Canada Inc. Those are the ones in the first session.

We will yield the floor to you in order. I will give you five minutes to make your presentation, and then we will leave time for questions and answers after we hear from all of you.

We'll start with David C. Adams, president of the Association of International Automobile Manufacturers of Canada.

The floor is yours.

Mr. David Adams (President, Association of International Automobile Manufacturers of Canada): Thank you.

Mr. Chairman and honourable members, thank you for the opportunity to present before you today.

As you indicated, my name is David Adams. I am the president of the Association of International Automobile Manufacturers of Canada. My association is made up of 13 manufacturers, importers, and distributors of light-duty passenger cars and trucks whose head offices are located outside Canada and the United States. Those members are BMW, Honda, Hyundai, Kia, Mazda, Mercedes-Benz, Mitsubishi, Nissan, Porsche, Subaru, Suzuki, Toyota, and Volkswagen.

In 2006 AIAMC members sold over 733,000 new vehicles in Canada, representing approximately 45% of Canada's new vehicle market. AIAMC members have invested over $6 billion in manufacturing facilities, and annual production from those facilities reached a record 900,839 new vehicles in 2006, out of the 2.54 million vehicles produced in Canada; over 77% of those vehicles were exported out of the country.

Member companies with production facilities in Canada include Honda, Toyota, and Suzuki, with General Motors in a 50-50 joint venture in Ingersoll.

With respect to the automotive industry, the 20% appreciation in the Canadian dollar against the U.S. greenback has adversely impacted various components of the industry: vehicle assembly, parts manufacturing, and vehicle sales.

For AIAMC members Honda, Toyota, and Suzuki, who assemble vehicles in this country, the fact that they are very vertically integrated and have brought with them key suppliers to the country to ensure the local supply of critical components means they have not been able to take advantage of the natural hedge arising for other assemblers who import significant quantities of vehicle parts from the United States. So the appreciation of the dollar is a real issue.

Given that we turn around and export about 80% of vehicle production to the U.S., the economics of that market are critical to Canadian producers. There are other significant factors impacting vehicle sales in addition to the higher Canadian dollar, namely higher energy costs, the fallout from the reset of adjustable-rate mortgages, tighter lending standards, and overall lower consumer confidence. All these factors are converging to produce lower sales volumes currently in the United States. There was a 2.4% drop through October, and significantly lower volumes in 2008 are forecast, with some forecasters suggesting that a 9% drop from this year's sales figures is not out of the question.

With respect to the parts manufacturers in Canada, the currency appreciation is one more factor making them less competitive with their American counterparts and is contributing to the 11,000 job losses, the 41% reduction in profit, and the 4.5% reduction in production this year, according to a recent Conference Board of Canada report. However, there are other factors impacting parts makers over and above the appreciating currency, namely higher energy and commodity costs, decreased production from primary customers, lack of adequate capital investment, and globalized sourcing by all OEMs for parts. I would encourage the committee to invite Gerry Fedchun, president of the Automotive Parts Manufacturers' Association, to appear in front of this committee to more fully elaborate on the impact of the dollar on this critical segment of the automotive industry in Canada.

With respect to vehicle sales, it's not lost on manufacturers that with ready access to television, newspapers, and the Internet while the dollar is at par or above, Canadian consumers can readily compare prices for what they believe are identical vehicles in both markets and are justifiably concerned when advertised prices in the U.S. are lower than they are in Canada. It is, however, important to note that vehicles offered for sale in the U.S. are rarely exactly the same as the vehicles in Canada, due to different standard equipment packages and different regulatory standards. Not the least of these is the unique immobilizer standard in Canada vis-à-vis the United States, as reported in today's papers. Those differing standards contribute to higher costs.

That said, if vehicles were equipped exactly the same and if our regulations were fully harmonized, different cost structures exist for business in Canada versus the United States. For instance, the U.S. has greater purchasing power, lower distribution costs, lower hydro costs, and lower levels of taxation than Canada. With respect to our industry specifically, Canada has a 6.1% tariff on imported vehicles, versus a 2.5% tariff in the United States. That differential adds about $1,000 to a $30,000 vehicle.

● (1535)

But consumers really don't care about structural costs and regulatory differences. They are focused on price. By strictly looking at the market price, it would appear that manufacturers understand this and are responding. If they were not, highly discretional vehicle purchases would not have been made while consumers waited for lower prices, or they would have headed to the United States in droves for cheaper vehicles there.

There has been a worrying uptake in vehicle sales imported from the United States, but, importantly, there have been robust domestic sales, with October sales up 2.1% over the same period last year; and year-to-date sales are up 3.8% over last year. And it should be noted that last year saw the second-best vehicle sales in history.

The appreciating dollar is a concern for all components of the industry, and in this regard we would make the following recommendations:

We would encourage the immediate announcement of the 2008 eligible vehicles for the ecoAUTO rebate program. While the criteria have been set for that program, the list of eligible vehicles for 2008 has not been announced. Those rebates, as many of you are aware, can put $1,000, $1,500, or $2,000 into the pockets of consumers, giving them another reason to purchase vehicles in Canada.

We would also argue for the temporary tariff reduction on vehicles from all sources, removal of the excise tax on air conditioning, addressing unique Canadian standards as a top priority, appropriate funding for a vehicle scrapping program, investment tax credits, and clear signals from the government concerning the fair value for the Canadian dollar.

I look forward to answering any questions you may have.

Thank you.

● (1540)

The Chair: The Canadian Auto Workers Union, Jim Stanford, chief economist, the floor is yours. You have five minutes, please.

Dr. Jim Stanford (Chief Economist, Canadian Auto Workers Union): Thank you very much, Mr. Chair and committee, for having me.

The CAW represents about 260,000 members in a range of Canadian industries, mostly in the private sector. About one-third of our members work in the auto industry, which is one of the industries hard hit by the rising dollar.

The auto parts sector is feeling the pain most immediately. Over 15,000 jobs have now been lost in auto parts since 2002, when the dollar first took off. I know from personal knowledge that there are literally dozens of auto parts plants facing imminent closure—one more, apparently, announced today. Lear Seating in Windsor is going to close, I understand. Without a dramatic change in the industry's outlook, I would expect at least another 10,000 auto parts jobs to disappear in the coming year.

The situation in auto assembly is not as dire but is still very negative. Auto assembly has lost about 10,000 jobs in Canada since the late 1990s. Thousands more will be lost in coming months due to plant shutdowns and shift layoffs.

Now, it would be wrong to blame the auto industry's problems entirely on the dollar, but the rising Canadian dollar has taken a bad situation and made it far, far worse.

The same story can be told across manufacturing. Canadian manufacturing has lost well over 300,000 jobs since the loonie started rising in 2002, but the job losses we're seeing today are the result of the dollar's rise two or three years ago. There are significant time lags and adjustments resulting from company investment planning, multi-year contracts, the impact of hedging, and other transitional factors. So we have not yet begun to see the consequences of the dollar's rise through 90¢ and then the dollar's rise to and beyond parity.

If the Canadian dollar stays anywhere near parity with the U.S. dollar in the medium term, I project another 300,000 manufacturing job losses in the next two to four years.

Some commentators have said the problem is global and results from a weak U.S. dollar rather than a strong Canadian dollar. This is not true empirically. Most of our problem is that the Canadian dollar has been uniquely strong, not that the U.S. dollar is weak. Consider the evidence. Compared to its 2005 average level, our dollar is up by about 25% against the U.S. dollar. On a trade-weighted basis against all its trading partners' currencies, the U.S. dollar has fallen by 10%, so it's fallen by 10% against the broad basket. Our currency has risen by 25%. That suggests that less than half the problem is a weak U.S. dollar; more than half the problem is a strong Canadian dollar.

The picture is even clearer from a longer-term perspective. If we go back to average 2002 levels as the starting point, our loonie is up 60% against the greenback; the dollar is down only 20% against its trade-weighted basket. That means for every penny of depreciation against the trade-weighted basket, we've experienced three pennies of appreciation of our currency. So, again, more like two-thirds to three-quarters of the problem is the unique strength of our Canadian dollar.

Not all currencies have strengthened against the U.S. dollar. Some have been stable and have even fallen. The yen, the yuan, the peso, the Taiwanese dollar, and others have all been broadly stable or even declining. It is factually false to claim that Canada's experience of rapid appreciation is universal.

Our currency has risen faster against the U.S. dollar than the currency of any of its other major export partners. Look at the list of the 10 largest exporters to the U.S.: our currency has increased faster than any others, by more than twice as fast as the average, yet we are the ones who are the most dependent, along with Mexico, on exports to the U.S. market. The combination of the uniquely rapid rise of our currency and our unique dependence on U.S.-bound exports puts Canada absolutely in a class of its own in terms of the risks we face from currency markets today.

How do we understand the run-up in our currency? Monetary policy is clearly part of the story but not all of the story. Our central bank has increased rates while the U.S. Fed has cut rates. That differential is a consistent determinant of our exchange rate. The Bank of Canada's recent actions were clearly a mistake. They have been guided by an unduly narrow reading of their own inflation-targeting mandate.

The bank should cut rates immediately and substantially. Moreover, it should indicate more clearly that its future interest rate decisions will take into account exchange rate volatility and the long-term economic risks that volatility pose to us.

Those actions alone would release much of the steam from the loonie's bubble, but that would not be enough. The loonie has been driven up in tandem with world oil prices. Some people call Canada's dollar a petro currency. There's no economic justification for that. We export more motor vehicles than oil, but this is the behaviour of financial markets, resulting from record prices for minerals and energy exports, record profits for Canadian energy and mineral producers, the investment boom in energy and resource industries, and the surge of incoming portfolio investment from foreign investors, who are purchasing Canadian resource companies.

● (1545)

The inflow of many tens of billions of dollars of foreign portfolio investment to Canada has been a crucial cause of the loonie's assent in the last year, and the government can take action on this point, too. They can control the pace of Canadian resource development more carefully, they can ensure that Canadians are getting fair value from that resource development in terms of taxes and royalties that make sense, and they can review foreign takeovers to make sure they can add real value to our economy. Merely announcing those measures would be akin to taking down the “For Sale” sign that currently hangs on Canada's door and would cool down the overheated, speculative inflow that's driving up the dollar.

The federal government and the Bank of Canada have both declared they can't do anything about the dollar. In my view, this is an absolutely blatant shirking of their economic responsibility.

The Chair: Thank you very much.

Now we have Jayson Myers, president of Canadian Manufacturers and Exporters.

The floor is yours for five minutes, please.

Dr. Jayson Myers (President, Canadian Manufacturers & Exporters): Thank you very much, Mr. Chair, and thank you to the committee for looking at this very important and urgent issue for two of the most important sectors of the Canadian economy, the manufacturing and exporting sector, and for all those service jobs that depend on a strong manufacturing and exporting sector. I think it also shows the importance and the urgency of implementing the recommendations of the House of Commons industry committee that were tabled earlier this year.

I speak on behalf of Canadian Manufacturers & Exporters, but I also speak on behalf of the 37 industry associations that are members of the Canadian Manufacturing Coalition. We cover the entire manufacturing sector, and we've distributed the letter that we've written to the Prime Minister outlining our policy priorities for manufacturing over the year ahead.

I've distributed this presentation to all members of the committee as well. You'll be glad to know that I'm not going to go through it page by page in this presentation, but it does show the impact the Canadian dollar is having on manufacturing sales, on pricing. It draws from the 1,014 manufacturers we surveyed earlier this year who have said that the appreciation of the dollar is their most pressing concern, and it shows here what their response is.

The very rapid appreciation of the Canadian dollar, of course, acts like a price cut on export sales for many companies that are either pricing their exports in U.S. dollars or having to adjust their prices to remain competitive in their major market in the United States. We have companies that are exporting 85% to 90% of what they're producing into the United States. If you look at the impact that's having on producer prices, you'll see that finished goods prices have fallen 6%—this is over the last five years. Consumer products prices are down 12%. Machinery and equipment product prices are down 14%. Automotive prices are down 32% over that period of time. Much of that is driven by the impact of the dollar appreciation.

But the two factors that are driving the dollar up are also having a major impact on investment decisions and on the bottom line for manufacturers and exporters. Of course, as regards the higher commodity prices and energy prices that Jim was referring to, manufacturing is the largest consumer of commodities and energy, so that's driving up costs as prices are coming down. That squeeze on the bottom line means that, last year, out of an average eight-hour production shift, Canadian manufacturers had about six minutes to make money, after they paid depreciation, operating costs, taxes, and financing expenses—six minutes to make money, and that's the money they needed to invest in new products, new technology, reorganization, new market development, and skills upgrading. Those are the things they have to invest in, in order to remain competitive.

So the number one problem right now is cashflow for companies. The problem, though, is this surge in the Canadian dollar, a 25% increase that we've seen over the last six months alone—or actually since February, so I guess we're at eight months now. That rapid surge has meant that on contracts that were put in place earlier this year, companies are getting paid now, but they're getting paid something like $800,000 on a million-dollar contract. The appreciation of the Canadian dollar simply overwhelmed their pricing strategies and overwhelmed their ability to adjust costs. We're in a situation right now where many companies are simply in a loss position on their export sales and export contracts.

That's the major problem—cashflow—right now, but it's also the other problem we're seeing: the weakness of the U.S. dollar caused by a weakening performance in our key industrial markets in the U. S., in housing, automotive, and consumer markets in particular. What we're seeing is an increasing rate of plant closures—Jim referred to that—but there's a common story here. There are conditions of overcapacity in the North American market. Companies are consolidating, and with the high Canadian dollar, Canadian operations, as good as they are and as efficient and as world class as they are, are being closed because it's no longer productive to remain here.

I just want to go to the very end, the policy recommendations, which are also outlined in our report to the Prime Minister.

We recommend that the two-year writeoff window for investment in manufacturing equipment be extended to a five-year period. But I think it's also important at this time, under these very extraordinary circumstances, to consider measures that would enable manufacturers to be able to monetize the loss they're incurring, to provide some form of either a loss carry-back for companies that were profitable over the previous number of years or some kind of investment tax credit that could help them to monetize their loss at the current time.

● (1550)

We've recommended making R and D tax credits refundable. This is the time when companies should be innovating, but if they're not making any money, they can hardly take advantage of the R and D tax credits. So the refundability is important.

We've also recommended the implementation of a trading tax credit that could be creditable against EI premiums. All of these target cashflow, and at this very urgent time for manufacturing and exporting, and all of the other sectors that depend on it, that's what is necessary.

Thanks.

The Chair: Now from Cascades Paper Products, we have Monsieur Lemaire, vice-president.

The floor is yours for five minutes, please.

[*Translation*]

Mr. Laurent Lemaire (Vice-President, Administrative Council, Cascades):

Ladies and gentlemen, members of the committee, Cascades is a multinational specialized in the production and processing of packaging products and tissue paper made mainly of recycled fibres. The company has over 100 production and logging units in Canada, the United States and Europe. Founded in 1964, the company employs over 14,000 men and women, and generates business on the order of $4 billion Canadian a year.

The relative increase in the value of the Canadian dollar compared to its US counterpart has become very significant for Cascades and the sector it does business in. I would like to thank the members of the committee, which is holding pre-budget consultations on the Canadian dollar, for giving us the opportunity to explain the scope of the impact of the high dollar on our activities, but also and especially to present solutions which may help us address this situation.

Given the fact that 90% of our sales are affected by the fluctuating value of the dollar, that 40% of Cascades' production is in the United States and 50% in Canada, that its labour costs in Canada compared to those south of the border are not competitive anymore, it is clear that Cascades has been struck hard by the stronger dollar.

The increase in the value of the Canadian dollar alone, which occurred between 2002 and 2007, has cost us over $300 million annually. The sudden rise of the dollar has forced us to close three manufacturing units in Canada, in Ontario and in Quebec, and two other plants temporarily. These closing alone have led to the loss of over 1,000 jobs in outlying areas. Whereas under the Cascades business model we have always tried to help struggling businesses, the recent decision to close plants was very difficult for my brothers and myself, our management team and our employees.

Furthermore, the price we pay for raw materials has gone up because of increased demand for waste paper from Asia, where the paper is sorted by hand by a much cheaper labour force. If we hadn't refocused some of our activities and if we hadn't reduced our costs, our company would not be profitable anymore, which is what happened to several other companies in our sector which had to considerably reduce their operations or merge with American companies.

If the loonie remains strong, Cascades will have no choice but to shut more plants in Canada and shift more of its production to the United States, if it is to remain as competitive as it was before. In fact, we will from now on make our strategic investments in the United States or in other countries where costs are lower. This is a market change for a company which 40 years ago began when it bought out a bankrupt company which exported all of its products to the United States.

The US greenback will remain the benchmark for the basic reasons we are all familiar with. And because our asset base in Canada is still significant, we still want to continue to export to the US. I am not an expert in monetary policy, but a businessman and a manufacturer of packaging products and tissue paper. I cannot tell you what to do, but I will make some suggestions.

Yes, it is possible to live with a Canadian dollar at par. Cascades has adapted and will continue to do so. No, it is not possible to live with the current direction and volatility of the dollar, and to plan for investments in Canada. We therefore have to make Canadian companies more competitive by making available better, faster and refundable incentives for our sector, including in the areas of research, development and innovation, infrastructure and labour support, as well as accelerated depreciation programs, as my colleague has suggested. In Scandinavia, the depreciation period is very short, and this has helped the pulp and paper industry to modernize and remain competitive. We would like the federal government to acknowledge the impact the sudden rise in the Canadian dollar will have on the Canadian manufacturing sector in the medium and long term, especially in sectors like ours, where we are trying to do things differently while protecting the environment.

● (1555)

As for the environment, a final measure could really help us, and that would be the creation of a carbon exchange. As do other companies operating in Europe, Cascades has greatly benefited from the European carbon exchange, and it still does. On this side of the Atlantic, for the fiscal year ending December 31, 2006, we have reduced our 125,000 tonnes of greenhouse gas emissions by 10%. That represents a fair amount of money which unfortunately is not credited to us in North America.

We need to quickly create a carbon exchange in Canada. This could easily be achieved with the Montreal Stock Exchange, which is in the best position to accommodate this type of exchange. This kind of system is recognized as being potentially the most effective one to fight climate change, and it would be a strong incentive for companies, as they would also benefit financially.

It is also imperative that the creation of a carbon exchange use 1990 as its base year, because we should not penalize the companies which first chose to become environmentally friendly before the environment became a concern for all of us.

Finally, such a system won't work within a reasonable timeline unless mandatory caps are imposed on each industrial sector based on yet-to-be-determined conditions.

Thank you for giving me the opportunity to speak. I remain available to take your questions.

[*English*]

The Chair: Thank you very much.

We're really asking the witnesses to keep it in that five minutes. I hate to cut somebody off, but to respect the panel and the time for questions, we really ask that you do that.

We have now the TD Bank Financial Group, with Don Drummond, senior vice-president and chief economist.

The floor is yours, for five minutes, please.

Mr. Don Drummond (Senior Vice-President and Chief Economist, TD Bank Financial Group): I'll keep way within the five minutes and pass on an opening statement.

I look forward to any questions the committee might have for me.

How's that? That got you back on schedule.

The Chair: It gets us right back on schedule. That's what you prefer to do?

Mr. Don Drummond: Yes.

The Chair: Okay.

Then let's go to Toyota Canada Inc., and Stephen Beatty, managing director.

Mr. Stephen Beatty (Managing Director, Toyota Canada Inc.): Thank you, Mr. Chairman. I promise not to use his five minutes as well.

I'd like to thank you and your colleagues for offering me the opportunity to address the committee. At Toyota we believe it's very important in these uncertain times to maintain a dialogue with Canadians, and clearly the committee plays an important role in that regard.

Mr. Chairman, the dollar's strong performance this autumn has created many challenges for all Canadian manufacturers, and Toyota is certainly no exception. In the face of a rapidly escalating loonie, Canadians have made it clear that they're looking for pricing equality with our neighbours to the south.

Toyota is a global company, but we firmly believe in building vehicles where they're sold, and I'm pleased to say that Toyota has invested billions of dollars in Canadian manufacturing facilities to build vehicles not only for our Canadian customers but for the North American market as a whole.

By building our most popular models here in Canada, Toyota was able to shield Canadian consumers from the impact of the dollar's slide in the early part of the decade and build export sales to the United States. Now, however, we're challenged to find ways to improve our offers to both our American and Canadian customers while remaining profitable.

Certainly, we pledge to respond in ways that are viable in the Canadian regulatory economic context that are meaningful to current and future customers and are respectful of our employees.

It may be stating the obvious to say that manufacturing starts with sales, but I think it's important to remember that without a market, there's no reason to build a product. It's also worth repeating that customers are driven by value, whether shopping for a book or a car. I mention books because with both Canadian and U.S. prices printed on their covers, books have become symbolic of pricing disparity.

I can't speak for the publishing industry, but I think there is some parallel with automobiles insofar as consumers look at vehicles bearing the same name in Canada and the U.S., see pricing differences in advertising on the Internet or other media, and feel they aren't getting a fair deal. As the old saying goes, “You can't judge a book by its cover”.

All vehicles that we build for sale in the Canadian market, as distinct from the American market, are equipped with features mandated by federal regulatory requirements—indeed, some that are not required by our U.S. counterparts. Other Canadian vehicle features, again as distinct from those American cars, relate to choices we make as a distributor based on a variety of factors, from what survives a Canadian winter to what has proven popular with our customers in the past.

Dollar parity has resulted in a new conversation with consumers to highlight the many differences between Canadian and U.S. products. We need to examine how best to minimize these, whether by truly harmonizing regulatory standards across North America or by changing standard features to make Canadian and American vehicles more directly comparable. I can report that we are responding on both fronts.

We're repositioning the prices and features of our vehicles that are popular with Canadians. We're offering a variety of financing lease rates. We're providing additional value through complementary service, gas cards, cash equivalents, and other programs. As we've done for the past 40 years, we're going to continue to monitor the market and adjust our operations, our products and services, to ensure best value for our Canadian drivers.

Now, Canadian companies are good at being successful despite a relatively small domestic market. But we're more successful when we're operating in a favourable economic environment, and this is something in which the federal government plays a key role.

Toyota Canada would like to suggest three ways in which the government can help. First, there's support for capital investment. Every time Toyota retools for a new model, it must invest hundreds of millions of dollars in equipment and technology. Out-of-date plants, clearly, are less productive, and American policy makers are keenly aware of this. As one example, in the state of Kentucky there's an incentive for this very type of investment.

Second, there are people. We must continually train our people to improve processes and enhance productivity, and there are almost no incentives or programs to support this effort in Canada. Support for technology investment and people development would help Canada compete more effectively with other countries.

Third, as you've already heard from my colleague, Dave Adams, inconsistent Canadian regulatory requirements and other policies that burden Canadian consumers should be removed to encourage consumers to buy Canadian. I've already mentioned disharmonious vehicle standards, but that's not the only reason why Canadians must pay more for vehicles. For example, subcompact cars are not built in North America, but both Canada and the U.S. apply duties on imports of these vehicles. Why any duties should apply is a perplexing question, but it's particularly perplexing that in Canada, a market that demands small cars, the duty is 6.1% while the U.S. limits its tariff to 2.5%.

In summary, we're making adjustments across all of our Canadian operations to ensure that Toyota is able to provide competitive pricing and features for our customers across North America. Governments can help us by pursuing economic and fiscal strategies that will restore stability to the marketplace, eliminate unnecessary costs through regulatory and tariff harmonization, and by assisting automakers to retool and retrain for added productivity.

I look forward to discussing these proposals with you and would be pleased to answer any questions you have.

Thank you, Mr. Chairman.

● (1600)

The Chair: Thank you very much for coming here and testifying.

We'll now open it up to the questioning period of our meeting. We'll start with the Liberals.

Mr. McCallum, seven minutes are yours.

Hon. John McCallum (Markham—Unionville, Lib.): Thank you, Mr. Chair, and thank you very much to all the witnesses for being here.

Since this is the first session of six on this topic, I thought I'd begin with just a brief explanation of why we Liberals pushed for these hearings of nine hours on the connection between the high dollar and jobs. And I'm grateful to our opposition colleagues for supporting this. The reason we're pushing for this is that the Liberals feel there's a looming crisis in relation to the high dollar and jobs and that now is the time for action.

Partly I say this using my economist's hat, because it is definitely true that when there's a major exchange rate appreciation, it will have an effect on jobs and manufacturing and other exchange-rate-sensitive industries, whatever the state of the economy overall. I'm only talking about exchange-rate-sensitive industries. But these effects operate with a lag. Companies can go on for a while, but when they make their new business plans, if the dollar is still high and is expected to be high, they'll plan to produce elsewhere, like in the U.S. It's likely that we've seen only the tip of the iceberg in terms of layoffs. We had 1,100 at Chrysler and 800 in forestry in the last few weeks.

My hypothesis is that if this dollar is sustained at parity or thereabouts for the coming year or year and a half, then what we've seen to date will only be the tip of the iceberg in exchange-rate-sensitive industries. The oil sector might be fine. The economy as a whole might be all right, but I'm talking about exchange-rate-sensitive industries like yours. I think, to use a Wayne Gretzky metaphor, a good government should be focused on where the puck will be down the road, not on where the puck is today. We know that 12 months from now, if the currency is still at parity—and that's an "if"—the situation may be a lot worse.

I should also say, just as a premise, that we don't think the government has a plan, so part of the purpose of these hearings is to get your advice to develop such a plan.

I would like to ask my questions as follows. My first question to those who represent industries with jobs at risk—maybe starting with Mr. Myers—is whether you agree with the hypothesis. You have problems today. But do you agree that if nothing is done, assuming that the dollar remains where it is, then looking ahead 12 months to 18 months, the situation will be even more dire in your sector?

● (1605)

Dr. Jayson Myers: Yes, I agree, and Mr. Stanford said the same thing. I think the closures we're seeing and the layoffs we're seeing are the effect of adjustments that have been made over a period of time. Companies have been trying to respond to the dollar. They've been doing about as much as they can to cut costs and improve efficiency. We are at a stage right now where there is very little margin and where it's becoming more difficult to access financing. As for this very recent surge of the dollar, we'll see the impact of that over the course of the coming six months or so.

I think you are absolutely right. Next year we will see a much more severe impact on employment and on closures within the sector.

Hon. John McCallum: Thank you.

We'll have Mr. Stanford.

Dr. Jim Stanford: Yes, I agree wholeheartedly. With respect to the 350,000 lost jobs in manufacturing that have already been experienced since 2002, when the dollar took off, I estimate that there is a two- to three-year lag, on average, for the impact of an exchange rate appreciation to work its way through investment decisions, sales contracts, and production planning. What we're seeing today is the result of where the dollar was two to three years ago, which was in the low- to mid-80¢ range. If, indeed, the dollar stays at or anywhere near parity, we'll see that hemorrhaging continue, and it will get worse.

Hon. John McCallum: Thank you.

[*Translation*]

Mr. Lemaire, what would the repercussions be on jobs in your sector if the dollar stays as strong as it is now?

Mr. Laurent Lemaire: There would definitely be a strong impact. As far as our investment planning for next year and the years after that are concerned, we will factor in whether they will make us more competitive. The dollar at par does not really reflect reality. Salaries are at least 25% to 40% higher in Canada than in US plants. We are only at the beginning. We have to make adjustments and find ways of reducing our costs.

[*English*]

Hon. John McCallum: Thank you.

Since my time is almost up, let me just end with one question, perhaps, to the same three individuals.

Given the looming crisis, which you agree is a fact, if you had just one or two things—not the Bank of Canada, not the dollar, not interest rates, but fiscal policy, budget, and so on—what would be your top one or two priorities for the federal government? Can you say them very quickly?

Dr. Jayson Myers: Let me go first.

I think looking at tax credits or refundability of tax measures that would provide a boost to cashflow is the most important thing right now, and we've outlined the three that I recommend.

Dr. Jim Stanford: The fiscal incentive must be tied to an investment expenditure. It can't be a corporate tax cut that has no direct tie to expenditure. An investment tax credit, or some kind of investment partnering, or something such as Jayson suggested in terms of monetizing past losses, which directly assists investment finance, is what's needed.

● (1610)

Hon. John McCallum: Maybe Mr. Adams....

Or maybe my time is up.

Mr. Don Drummond: I'm just a little bit concerned with the context of the question. Some of the answers give a false sense of comfort, because the context was that the problems of the manufacturing and forestry industry are almost being uniquely related to the dollar. I would go further and say that the difficult period of transformation in these industries is going to continue, even if the dollar were to go down substantially.

To get a feel for that, just witness that the percentage losses in manufacturing employment have even been bigger in an economy like the United States than in Canada, and their dollar has been quite weak.

There's a whole set of other forces. Forestry prices are not going to recover until U.S. housing recovers. It's going to be under pressure. And unfortunately, the drive that's come very suddenly and very intensively on the manufacturing sector, which has unambiguously been exacerbated by the dollar, is going to continue, even if the dollar pressures ease somewhat.

The Chair: Thank you very much.

Mr. Crête, you have seven minutes.

[*Translation*]

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

Thank you for having responded to our invitation. The committee unanimously recognized that it had to begin its pre-budget consultations on the Canadian dollar because it feels that the strong loonie has already deeply affected the economy and that it will also influence the budget. I believe all committee members felt this to be an important issue which should be made a priority.

Mr. Stanford, I was deeply touched by what you said. You said that if nothing is done, we risk losing 300,000 jobs within the next two to four years. I was also struck by what Mr. Myers said. I am probably also struck by the fact that management and labour alike are saying that this is a pressing matter. I understand that the measures contained in the economic statement, such as across the board tax reductions, do not address your problem.

Could you tell us in more detail what it would take in the short term to produce goods which people will buy, yet nevertheless remain competitive?

Perhaps Mr. Myers can answer first.

[*English*]

Dr. Jayson Myers: Maybe I could go first.

Don is absolutely right; there are longer-term challenges that we have to address in terms of productivity improvement, innovation, skills development, and so forth, that are exacerbated by this very rapid surge in the value of the dollar. It makes the issues I think much more urgent to address.

To my mind, the recommendations we put forward—to consider some form of investment tax credit that would help to monetize the accelerated depreciation, refundability of R and D tax credits, some form of employer training tax credit—are not only measures that I think would assist manufacturers at this time, but they put in place the measures that are going to enable them to adjust to these competitive factors over the long term. All of these recommendations, which were made last year, were made at an 84¢ dollar. I think they're even more important today at a dollar that could be $1.02 to $1.10, depending on where the market goes. It's more important than ever.

The longer-term issues outlined in the recommendations the coalition has made for skills development, for connecting research to industrial innovation, for dealing with issues around enforcement of trade rules—all of these—are extremely important as well.

But this rapid appreciation of the dollar really puts the emphasis on tax measures that go to the heart of building a competitive industrial economy that is able to compete in the global marketplace: investment, training, and innovation.

[*Translation*]

Mr. Paul Crête: Mr. Myers, in your letter dated October 9, you refer to the unanimous report and its 22 recommendations. Indeed, would it not be urgent for the government to implement these recommendations? The last budget contained half of a recommended measure on accelerated depreciation, but there was nothing in the economic update. As time goes by, it will become increasingly difficult to fix the problem.

[*English*]

Dr. Jayson Myers: As I was saying, certainly all the issues are urgent. I think the need to respond to these recommendations is more urgent than ever. Going forward to the next budget, I think it's extremely important to take those recommendations and to ensure, at least on the tax part, that they're implemented.

The House of Commons industry committee had extensive consultation with manufacturers. They talked to manufacturers as the dollar was around 85¢ to 90¢ here. I think they heard from right across the industry how important these recommendations are. So to act urgently, especially on the tax recommendations, I think is very important.

The issue of the two-year writeoff that was introduced in the last federal budget was very important as well. With a 21-month window, this is not enough time to introduce new capital spending plans into a capital budget planning process. It takes time to customize the equipment, put the equipment in place, and even get regulatory approval for that. So extending that window to a five-year timeframe I think is extremely important. But, again, there are many companies that will not be able to take advantage of that, simply because they're in a loss position right now and there is no incentive. So to consider a measure to somehow monetize those savings would be an extremely important measure.

● (1615)

[*Translation*]

Mr. Paul Crête: Mr. Stanford, could you please explain the impact that this will have on the rest of the economy? We are told that things are going well in the west but that things are not as rosy in the east and that other types of jobs are being created there. Are we not heading towards a situation where many people will see their buying power reduced significantly as their hourly rates will go from $15 or $20 to $8, $9 or $10?

[*English*]

Dr. Jim Stanford: So far we've been fortunate in that the job losses in manufacturing, this export-oriented sector, have been offset by job creation in what I would call the domestic side of our economy—construction, personal consumption spending, government spending. But every trading nation knows you have to, in the long run, pay your way in global markets in order to maintain your high levels of income.

I am very pessimistic that if manufacturing continues to shrink, the momentum on the domestic side, which has been very important in the last couple of years, will carry on. Eventually, we will start to see a spillover effect, where every job that's lost in manufacturing will bring another one or two or three or four jobs down with it in the domestic side of the economy in terms of upstream linkages through supply industries and also downstream linkages through consumer goods industries and consumer spending industries, which depend on manufacturing jobs.

So I do not expect that if the shrinkage in manufacturing continues we will experience the same broad strength in our aggregate performance that we've been fortunate enough to have so far.

The Chair: Thank you very much.

Mr. Del Mastro, you have seven minutes.

Mr. Dean Del Mastro (Peterborough, CPC): Thank you.

Mr. Drummond, I want to start with you on a couple of questions I have.

First of all, it seems to me that the value of the dollar—and this is of course what most senior economists are saying—is more a symptom of U.S. softness and a soft U.S. economy and overall problems in the United States. Of course, within that—and I believe you already touched on this in your question—the U.S. has certainly not been exempt from the problems we see in manufacturing here in Canada. Clearly they're not affected by the high Canadian dollar in a place like Michigan, where they have lost well over 200,000 manufacturing jobs, I believe, in the last 18 months.

So I want to ask very briefly, with respect to the dollar, would you agree that it's more a symptom of issues in the U.S., as well as the strong resource market, than it is an issue of strictly the monetary policy of the central bank?

Mr. Don Drummond: Yes, I think there are three fundamental factors, and you mentioned two of them. There's just the general malaise of the U.S. dollar connected to their trade and fiscal deficits. Secondly, there's the rise of commodities, and that's why we've risen more than the euro or the yen.

But third—and Jim Stanford referred to this at the beginning—as opposed to the 1980s, when we had a readjustment of world imbalances and the U.S. dollar depreciated and it had a happy ending because the U.S. trade deficit almost went away, we have huge blocks of countries that have quasi-fixed exchange rates to the U.S., mainly China and the OPEC trading nations.

So a disproportionate amount of the U.S. dollar adjustment is falling on a small number of currencies, and we're only about 20% trade weighted in the U.S., but we've absorbed well over a third of the overall adjustment. So I would add that as a third factor. Less of that adjustment would have been forced on to the Canadian economy if the Chinese and the OPEC currencies were appreciating as they should, in theory, against the U.S. dollar.

● (1620)

Mr. Dean Del Mastro: Thank you. I appreciate that.

I attended a speech last week that was given by Derek Burney. I'm sure you know who Mr. Burney is. He made the comment—one that I happen to agree with—that Canada needs to focus, as the finance minister has said time and time again, on building productivity. This government put in place the accelerated capital cost depreciation for manufacturing, but very importantly, on October 30, we signalled to the world very aggressive tax measures to help our major companies compete, to put us on a very competitive footing, and to attract foreign investment.

My concern is that when we previously had very high tax rates and a very low dollar, we really didn't focus on productivity. It has led Canada to a position where we have to catch up on the productivity curve a bit.

Would you agree that the government's decisions to reduce taxes and encourage investment through accelerated capital cost depreciation allowances is moving in the right direction?

Mr. Don Drummond: I think the federal government has made tremendous strides on the corporate income tax side, to its credit. We're heading to a very competitive structure. A couple of years ago it got rid of the capital tax, which was really the silliest tax. We want to have capital, and we were fairly unique in directly taxing that. As we head towards a federal level of 15% tax, that will be one of the lowest in the world. We don't have a retail sales tax any longer at the federal level; we have a value-added tax, so that doesn't fall on business inputs. The federal side is fairly clean.

In fact, on the tax side, the problem is really at the provincial level. We still have a lot of provinces with capital tax. We have five of them with retail sales taxes that tax capital, and we have very high property taxes, which is also a form of capital taxation.

But when we get to that 15% rate, we will have one of the lower overall tax regimes on capital, certainly much lower than the United States, our main competitor.

Mr. Dean Del Mastro: Thank you.

I was going to ask you about a harmonized sales tax, the fact that we tax investment at the provincial level. It's really a fairly significant detriment to attracting investment in the province of Ontario.

Mr. Don Drummond: We tend to think about retail sales taxes as consumer taxes, but anywhere from 30% to 40% of the revenue does come from business inputs, and a substantial chunk of that from machinery and equipment. If you're a provincial government...I find it hard in this environment to look at what's happening in our manufacturing sector and not move on one of the major impediments. Not only has it raised the cost of machinery and equipment, but the tax gets embedded in exports. Export margins are already being extraordinarily squeezed. I'd like to see those get harmonized with the GST.

Dr. Jim Stanford: Could I add something, Mr. Chair, on the subject of the corporate income tax cuts, which have been very deep?

Mr. Dean Del Mastro: I have a question for Mr. Myers. I promise to let you in, if I have a moment left.

Mr. Myers, on October 30 you put out a release that said the reduction in the federal corporate tax rate is an extremely important step in sustaining Canada's ability to retain and attract business investment. It keeps us in the game as countries around the globe are lowering their tax rates to do the same.

These are pretty positive announcements from the finance minister.

Dr. Jayson Myers: Yes, it was a very positive move. I agree, it does keep us in the game in terms of overall rate of return. To some extent the situation in the manufacturing sector right now is extraordinary. With the surge in the dollar, there aren't a lot of profits and a lot of companies that can take advantage of the tax rates.

Mr. Dean Del Mastro: We've noted your recommendations and we do appreciate them.

Mr. Stanford, if you had a comment, you're welcome to make it.

Dr. Jim Stanford: I would like to make a couple of points on the corporate income tax cut. There's no dependence between the corporate income tax cut and a new marginal investment decision. If you're a company that's not earning large profits now, then the corporate income tax cut does you no good.

To the extent that the run-up in our dollar is in fact the result of incredibly lucrative profits in the resource and mining sector and the consequent foreign inflow of capital to invest in those companies, and in many cases take them over, a corporate income tax cut can have a perverse effect if it leads to higher profitability in that sector and more inflow of capital to take them over. It does very little good for manufacturing, and it could actually backfire.

Mr. Dean Del Mastro: Obviously foreign investment is a major driver in the Canadian economy. It's a major incentive for foreign investors to invest in Canada and for companies to see that if they make an investment there will be a payoff as the government is going to take less of those profits.

I have nothing further to say.

● (1625)

The Chair: That's good, because your time is gone. Thank you very much.

We're into the second round. We'll limit it to five minutes on this round.

Mr. McKay, you have the first five minutes.

Hon. John McKay (Scarborough—Guildwood, Lib.): Thank you, Chair, and thank you, witnesses.

It's a bit of an unusual day when I have the CM and E and the CAW talking from the same hymn book—they may not be on the same song sheet but at least from the same hymn book—and the TD being a bit of an agnostic here.

I just note in passing that half of the tax base in the mini budget in November was taken up by a GST cut, which pretty well does nothing for any of you. From what I can see, all it does is, in effect, create more inflation and higher interest rates, which leads me to my first question, directed to Mr. Myers—that is, the cost of money and the credit crunch. I think what you said was it's difficult to raise money. How does that relate to the sub-prime crisis that's going on in the U.S.? How is that spilling over to you?

My second question has to do with the differential rise in the strength of the Canadian dollar versus the U.S. dollar. I wonder what Mr. Drummond thinks of Mr. Stanford's analysis on that.

My third question was the comment by Mr. Stanford on controlling the pace of resource development and foreign takeover reviews. I wonder, Mr. Myers, if you could comment on that as well.

So I appreciate that those are a number of questions, but I think we may have a useful dialogue if we get some conversation among the panellists.

Dr. Jayson Myers: Let me go first to explain a few of my comments on the credit situation.

I think the uncertainty in U.S. credit markets is one of the reasons we're seeing a lot more volatility in the U.S. dollar that's also being reflected in the volatility of the Canadian exchange rate. So I think that's a part of this.

I'm hearing two things. Number one, companies exporting to the U.S. are finding that their customers are extending their time of payment. Many are over the 90-day usual terms of payment. Some are finding it more difficult to find the money for payment, particularly in sectors such as the automotive sector, consumer products, and housing. I think those are the three key markets in the U.S.

The second thing I'm hearing is that, of course, banks are a lot more willing to extend credit when cashflow is strong than when cashflow is weak. We've had a number of our members phone recently and say their lines of credit have been reduced and they're now being asked to pay back part of the outstanding line of credit, which is compounding some of the difficulty they're facing right now.

Hon. John McKay: Mr. Drummond.

Mr. Don Drummond: On the credit crunch, I didn't want to leave the impression from the way you've phrased your question that we are seeing a great deal of difficulty in financing Canadian businesses. We do have weekly statistics on bank loans to the corporate sector, and we've been following those very closely since the credit difficulties began in July. We don't see any evidence that it's going down. There is no evidence that there has been a tightening. The problems are largely with interbank lending, particularly on the short-term side of it. That may, in a minor way, be compounding the problems, but I don't think that's the major part.

Hon. John McKay: Are you agreeing with Mr. Myers or disagreeing with Mr. Myers?

Mr. Don Drummond: I think what he's talking about, particularly the payments coming from the United States, is quite a bit different. I thought where you were starting is at what we're typically thinking of as the credit crunch as it's falling through Canada and the United States, and asset-backed commercial paper is.... That's largely but not exclusively restricted to interbank loans. It hasn't really affected the corporate sector that much, and as every week comes out, we still have not seen, in through last week—

Hon. John McKay: So huge write-downs by financial institutions are not going to affect credit?

Mr. Don Drummond: We have not seen the banks—actually either in the United States or in Canada—restrict the availability of credit. The Bank of Canada has estimated that the overall change in credit, particularly the sharp run-up on selected instruments of very short terms is equivalent to about 25 basis points of interest rate tightening. So there is some tightening, but again, relatively small relative to the depth of some of these other problems we've been talking about.

Just on the currency rate, it's absolutely true, the Canadian dollar has gone up more than the trade-weighted U.S. dollar has gone down, and there are two reasons for that. One is the additional lift and just reflecting the mirror image of the U.S. weakness as commodity prices have lifted up certain currencies. Canada, having commodities, has been one of them. The Australian dollar experience has been fairly similar to the Canadian experience because it also has commodities.

The second one just relates back to what I said before. We have huge blocks that are quasi-fixed with the United States, mainly China. It has moved only 9% over the last year and yet it has the biggest trade surplus with the United States. I would argue that for their own purposes they should let their exchange rate appreciate, but if they did, that would take some of the pressure off these free-floating currencies.

● (1630)

The Chair: Thank you.

We'll now move on to Monsieur St-Cyr.

[*Translation*]

Mr. Thierry St-Cyr (Jeanne-Le Ber, BQ): I would like to thank you all for coming.

I would like to ask Mr. Lemaire a couple of questions. I really appreciated your presentation, in part because it was in French, which is a rather rare thing here at the Standing Committee on Finance, and in part because you told us about the importance of setting up a greenhouse gas emissions trading exchange. The Bloc Québecois has, for a long time, been talking about the need for proceeding with the Kyoto Protocol, setting binding objectives and absolute greenhouse gas reduction caps for environmental reasons, since we need to take care of our planet and because this carbon exchange creates new economic opportunities for our companies.

The government has always responded by saying that in fact absolute targets for reducing greenhouse gases pursuant to the Kyoto protocol would be, for all intents and purposes, an economic catastrophe. However, I have heard what you are saying. You are a businessman, you want your company to be profitable and I would imagine that you see this as, on the contrary, an opportunity to do business.

I would like you to explain to us, in greater detail, how this carbon exchange would be, in your opinion, a real business opportunity for Quebec and Canadian industries. You also talked about the fact that this carbon exchange would be in Montreal. Why do you think that Montreal should be the location for such a carbon exchange?

Mr. Laurent Lemaire: We are not talking just about principles, but we are basing our opinion on our experience. Europe has a carbon exchange. We have plants in Germany, Sweden, France and in the United Kingdom. We experienced the establishment of this exchange. It was very beneficial for our sector. We complied with the requirements, we reduced our emissions and that enabled us to trade credits with other companies that had to pay in order to reduce the volume of their carbon emissions. This is something that has been tried and proven to work well. It will continue next year. The European Union set it up for a limited time period, but it will begin again in January. I think that this is a good example to follow for two reasons: first of all, we must make it advantageous for those companies that comply with the regulations or objectives; secondly, we must penalize those who pollute, so that they pay a bit more.

In Canada, it is the oil industry that pollutes. It should be up to them perhaps to pay a little bit for those who are better corporate citizens and reduce their greenhouse gas emissions. That is the point we have reached. It can take some time to set up such a measure. Many people want this type of thing in the near future.

I think that it would be better to set up this exchange in Montreal rather than in Calgary. We are a little bit more aware of the environment. We have expertise in this type of thing, which would ensure that the carbon exchange would be effective and operational.

Mr. Thierry St-Cyr: My second question is for Mr. Myers. You spoke about the problems associated with the high Canadian dollar and its rapid fluctuation. For example, you sign an eight-month contract, but the Canadian dollar is worth something completely different by the end of this eight-month period.

The Bloc Québécois has for a long time been advocating the idea of having a single currency in North America, with the United States, to avoid all of these fluctuating exchange rate difficulties. Even though this may not be a solution to the structural problem referred to earlier, do you feel that, for the manufacturing sector, a common currency would alleviate part of the problem caused by the unpredictable fluctuating dollar?

● (1635)

[*English*]

Dr. Jayson Myers: Certainly the fluctuation in the exchange rate, the volatility of the exchange rate, and the rapid appreciation of the exchange rate are very difficult problems to manage. It's not the fact that the dollar is at par or is at $1.10—companies can adjust to that—but it's that rapid volatility.

But if you are looking at issues around a monetary union, our members would probably have various ideas about what level we should peg the currency at. I'm sure there are a number of companies that would have loved to peg the currency at 62¢ U.S., but in so doing we'd be locking in a very low rate of productivity as well. At $1.10, I'm sure other people would have different views about the currency's level.

So I think there are a number of good economic reasons why we would want to keep a currency that is unique, a currency that can adjust to Canadian economic circumstances. But clearly, we're in unusual circumstances in Canada and the United States right now.

The Chair: Thank you very much.

Now we move on to Mr. Dykstra.

Mr. Rick Dykstra (St. Catharines, CPC): Thank you, Chair.

I have five minutes, so I'm going to ask you all to answer a question, and hopefully it can be yes or no. If it can't, just pass on the question. I'll try to give you a little bit of time at the end of my time allocation for you to be able to respond.

One of the big questions that a lot of folks ask, and I'd like to ask you experts, is, do you think the government should actually wade into the Bank of Canada and pressure it to lower the Canadian dollar in accordance with the United States? Yes or no?

Let me just go down the row of witnesses and get a response.

Mr. David Adams: Are you looking for a yes or no answer?

Mr. Rick Dykstra: Yes.

Mr. David Adams: I'm going to pass on the question.

Some hon. members: Oh, oh!

Mr. Rick Dykstra: Mr. Stanford.

Dr. Jim Stanford: The government should negotiate with the bank over how it manages its inflation-targeting mandate. I don't think it's an either/or situation.

Mr. Rick Dykstra: Mr. Myers.

Dr. Jayson Myers: I think the bank should reduce interest rates, but there should be absolutely no government intervention.

Mr. Rick Dykstra: Monsieur Lemaire.

Mr. Laurent Lemaire: Yes, it should.

Mr. Rick Dykstra: Mr. Drummond.

Mr. Don Drummond: No, but if I can add another word, I'm just worried about the context. Even if they did, there's not a big impact from interest rate to the exchange rate.

Mr. Rick Dykstra: Given the experience in New Zealand, I guess it would be yes, Mr. Beatty?

Mr. Stephen Beatty: The answer would be no, but I do think it's important for the government to give an indication as to where its longer-term economic policy is headed.

Mr. Rick Dykstra: Fair point. Actually, that's a great place to follow up with Mr. Drummond.

I'd like to follow up a bit on this because I think it delves into a little deeper issue—at least for me, as I've recognized and seen a lot of discussion on this over the last couple of years. You mentioned that even at an 80¢ dollar the manufacturing industry in this country would be in trouble.

Could you comment a little further as to why you would say that?

Mr. Don Drummond: Yes, because there's one common factor that's been going around the world, in that the emerging economies —China, Vietnam, and South Korea—have basically made an extraordinarily serious run at the lower value-added chains in manufacturing right around the world. You've seen that response. The decline in manufacturing's share of output has accelerated as a trend in virtually every country, particularly in most other highly industrialized countries, who have seen larger percentage reductions of employment in manufacturing than Canada has, particularly the United States, as they move more into higher-value niche markets but are losing....

We've talked a lot about automobile parts. North America didn't import a single automobile auto part from China five years ago, and these parts are now 5% of the market. They're probably going to be 10% or 15% in another five years, because this trend is going to accelerate. As I said, the dollar is exacerbating this. But these trends are going to be there, and would have been there, even without the dollar.

Mr. Rick Dykstra: Pursuing that a bit further, the inconvenience or convenience of the dollar issue we're facing at the present time, it seems to me that all of our discussion over the past number of years has been on the influx of China's imports, for example, in both Canada and the United States and the impact they have had on our manufacturing base.

So isn't that where we should be focused, at least from a government perspective, as Mr. Beatty said, given government's responsibility to try to move things forward and to at least show what our plan is? And what would you suggest?

● (1640)

Mr. Don Drummond: Well, if you're saying how do we respond to that by limiting it, my answer would be no.

Mr. Rick Dykstra: No, I'm not suggesting that.

Mr. Don Drummond: How we would respond to the competitive pressure, absolutely, I think that is the be-all and end-all of the Canadian economy.

As I said, they've basically knocked out the lower value-added chains. Actually, the fastest growing imports in Canada, and even in Ontario, our industrial heartland, and Quebec, are capital-intensive machinery and equipment. So they're moving up the value-added chain pretty quickly as well.

If we want to look at Canada five or ten years into the future, we will not have a strong industrial base unless we succeed in this productivity challenge. We're never going to succeed on a wage basis, and we'd never want to try it; we'll only succeed on a productivity basis. And productivity in China, while it's still a lot lower, is growing 6% a year. Ours has been growing 1.1% a year over this decade. That's not a pretty picture, unless we can turn that around.

Mr. Rick Dykstra: Mr. Beatty, I know you want to comment; I've got one more question for Mr. Myers, but go ahead.

Mr. Stephen Beatty: I just wanted to second the notion that it's productivity that ultimately allows us to be competitive going forward, and I say that from a company that's about to open a $1.1 billion plant in Woodstock, Ontario, next year, with 2,000 jobs and nine additional suppliers coming on board to support that plant. Those investments are there for the long haul. We're very focused on productivity, though, to remain competitive.

However, I did want to raise one other flag for you, which is that in the short term it's not the manufacturing part of our operation that faces some challenges; it's the retail side. Consumers are basically parking. They are thinking that now is not the time to be making a consumer purchase. In terms of pre-budget consultations and movement toward...signals in the marketplace, that's hugely important, because there are jobs at retail that are badly affected by current conditions.

Mr. Rick Dykstra: Thank you.

Very quickly, Dr. Myers, maybe this follows up a bit on Mr. Beatty's comments, and Mr. Stanford mentioned it. He and I have discussed this before and certainly will again. I'll get your thoughts on the concept of the corporate tax cuts not having a significant impact on the investment that companies may make, first, and tie into the fact that you've suggested we should extend the accelerated capital cost allowance for the machinery and equipment.

There's not a lot of time, but would you mind making a couple of comments?

Dr. Jayson Myers: I think the lower corporate tax rates are extremely important in making sure that Canada is an attractive location for global investment. That's an essential thing to do, but the point is with other jurisdictions around the world taking some very active measures to encourage investment in innovation, investment in new technologies, and investment in skills, that itself just gets us in the game. The issue is how we ensure that those investments....

As Don says, everybody is going through this, so we've got to make sure we have an industrial base that is as competitive as the best in the world. I think we do, but government, in my view, cannot do anything to offset the dollar appreciation. It can set a business environment that makes it a lot easier for companies to make these investments, to adjust in the short term, and then to compete in the long term.

The Chair: Mr. Turner, you have five minutes.

Hon. Garth Turner (Halton, Lib.): Thank you very much.

First, Mr. Beatty, you've made an interesting comment about books and about books being the visual symbol of what consumers were expecting. Of course, we all remember the Minister of Finance standing up there with his Harry Potter book and talking about what he paid for it here and in the United States.

My question to you is this. Do you feel that the Minister of Finance has had an impact on driving consumer expectations in terms of pricing?

Mr. Stephen Beatty: I think much of the public debate, no matter who's been involved, has driven public expectations about pricing, and right now consumers are frankly having a hard time understanding what a good value is.

Hon. Garth Turner: Right, but he's the Minister of Finance. He speaks for the Government of Canada, and it seemed that was his message during that press conference. Didn't he warn retailers and Canadian manufacturers, distributors, and wholesalers that they had to bring their prices down, and the government seemed to expect that? I'm just wondering if you and maybe any of your colleagues would care to chime in, because it seemed that the minister was telling the guys at your end of the table that you were gouging consumers.

Mr. Stephen Beatty: Everyone is entitled to their opinion about fair pricing. I think the point is that if it raises concerns in the mind of the consumer, then as a consumer-facing industry, we're obliged to get out and talk to that consumer.

I will say that on my way here today I stopped at a couple of auto dealerships along the seaway. They're seeing business down by about 50% compared to last year, so it's very clear that the current speculation, no matter who's involved, is causing those concerns.

● (1645)

Hon. Garth Turner: It's important to know.... There are some drivers.

Mr. Stanford, do you have a comment on this?

Dr. Jim Stanford: I think the symbolism of the finance minister's stunt that day was not helpful in terms of the adjustments of Canadian industries who are trying to preserve their footprint here. That was clearly trying to position himself as a vanguard battler on behalf of consumers. It will make absolutely no difference in the long run.

Hon. Garth Turner: Thank you.

Mr. Drummond, it's nice to see you again, sir. It's been a while.

Mr. Drummond, I have a question for you about the GST cut. I have a bit of concern that the GST cut may actually be successful in doing what the government wants it to do, which is to drive consumer spending further, perhaps to be a bit inflationary, perhaps to cause the Bank of Canada to be concerned a bit about its inflationary targets, and maybe to lead to higher interest rates and a higher dollar. Is the GST cut inflationary? Is it perhaps going to accelerate this unfortunate advance in the currency?

Mr. Don Drummond: Cutting the GST is a wonderful way of giving back tax money to people because this is a wonderful income distribution, but it has no other redeeming qualities, in my mind.

Vis-à-vis the economic challenges we talked about, particularly in the manufacturing sector, the forestry industry, or particularly the more general implications for productivity in Canada, it does absolutely nothing on that front. It can only stimulate consumption.

We have, quite frankly, the Bank of Canada saying that with a 5.8% unemployment rate, we don't lack for any consumption, so we have a very slow savings rate.

We do have other problems that, to its credit, the government has acted on I think very positively on the corporate tax side.

I think our remaining huge problem on the tax side is the extraordinarily high marginal effect of tax rates on families up to about $50,000 of income. If they contemplate earning an additional dollar, they only get to keep about 30¢ of it, and it just destroys any of the incentives to work, save, and invest.

It takes about $10 billion to address that, and there I think is the sad irony of the GST cut, because that's over $10 billion that could have been put more profitably to that purpose.

Hon. Garth Turner: Mr. Stanford, do you believe the American economy is going inevitably into a recession?

Dr. Jim Stanford: No, I don't think it's inevitable at all. In fact, monetary policy in the American context has been consistently very flexible. They have not bound themselves with a particularly narrow vision of inflation targeting. They've given themselves the flexibility to respond to circumstances as they arise. They've responded quite quickly in this current credit crunch, as they have in others.

I am hopeful they will not enter a recession, and their policy response from that side has been more appropriate than ours.

Hon. Garth Turner: How much time do I have, please?

The Chair: You have twenty seconds.

Hon. Garth Turner: May I have a one-word answer from the six of you? Should the Bank of Canada cut interest rates? We'll start with Mr. Adams.

Mr. David Adams: I think if you look at the hint that was made in the press about that the other day and its impact on the dollar, I'll leave it at that.

Hon. Garth Turner: Okay. We have to be quick.

Mr. Stanford.

Dr. Jim Stanford: Yes.

Hon. Garth Turner: Yes?

Mr. Myers.

Dr. Jayson Myers: Yes.

Hon. Garth Turner: Yes.

Monsieur Lemaire.

[*Translation*]

Mr. Laurent Lemaire: Yes.

[*English*]

Hon. Garth Turner: Oui?

Mr. Drummond.

Mr. Don Drummond: Yes.

Hon. Garth Turner: There we have it. It's unanimous.

The Chair: Mr. Wallace.

Mr. Mike Wallace: Thank you.

I remember campaigning with my colleague, who was in favour of the GST going to 5%. Those are interesting comments.

I'm going to stick with Mr. Myers. I brought your magazine, Mr. Myers, which I've read, and it's an excellent picture of you. I'm going to ask you a question from there.

I just want clarification. One of your policy recommendations is the harmonization of the sales tax with the GST. Our finance minister has been announcing that is where he would like to go. Obviously it's up to the provinces to join that bandwagon, and Mr. Drummond mentioned it earlier.

From your organization, what are you doing with the provinces to try to bring them on board?

Dr. Jayson Myers: We're very supportive of that and have been advocating that policy measure with all the provincial governments—Ontario west—whose sales taxes are not harmonized. I think it's a very important measure, and certainly we are urging it at the provincial government level and bringing our members to meetings, telling provincial governments that is a very important measure they should be pursuing.

● (1650)

Mr. Mike Wallace: In the article I read in your magazine—and it talks about 20-20 division of the organization and where we should go—you do talk about the dollar, and this was last year. It says “last year” here, so you've been thinking about where it was going for a little while. You thought it might head to the 90¢ range.

Dr. Jayson Myers: I was wrong.

Mr. Mike Wallace: You were close.

You also say in here that everyone should be ready to compete at par, and that it is a productivity issue.

What has your organization done to promote that concept with its members?

Dr. Jayson Myers: Right now, with cashflow under pressure, the most important thing companies can do is improve their operating efficiency so they have money to reinvest in new equipment and in training and in innovation. So we've been working very closely with manufacturers, implementing operational improvements, operating supply chain improvements.

We have a program in place trying to connect manufacturers to the opportunities in the western Canadian market, which is extremely important.

We've got a number of programs in place that assist manufacturers to reduce their energy consumption to save on their energy bills, which of course is a major area of cost increase. We're working at those levels.

And I'd say a couple of things. I don't know of any single manufacturer who doesn't know they've got to cut costs right now, so that's what they're really focused on and where we're trying to assist.

Mr. Mike Wallace: A final question. In the same magazine there's an article from John Manley, who at one time was the finance minister in the Liberal government. His article is about the strength of the loonie and says it's a good thing. He says in his last statement:

> A strong economy, a strong currency reflects an economy with swagger. Canadians should be enjoying their increased wealth by taking a global view of our ability to compete and to win on the world's economic stage.

Would you agree with Mr. Manley's view of things in this article?

Dr. Jayson Myers: I think in the long term the industrial base we will have and the businesses we will have at a dollar that's at par, or $1.10 or $1.20, are going to have to be of much higher value, much more specialized, much faster, much more customized—all of that. That's extremely important. That's where we want to go in the long term. I guess all of that depends on investments in the short term, and that's where the problems are right now.

I agree, in the long term a high dollar will be a reflection of a very strong and very competitive business sector and economy. How do we get there? How do we make those investments?

Mr. Mike Wallace: I appreciate that. Thank you.

Thank you, Mr. Chair.

The Chair: Thank you very much.

To enable the committee to discern and understand what is happening, the next group is coming in and we will have five presenters. However, we are going to be interrupted by the bells, so we wish to get through those five presenters and have a quick round of questions and answers.

Mr. Mulcair has come late. He's missed his slot, but he would like to ask a quick round, if that's okay. With the tolerance of the committee, I will allow it.

Seeing no objection, the floor is yours, Mr. Mulcair.

[*Translation*]

Mr. Thomas Mulcair (Outremont, NDP): Thank you, Mr. Chairman.

My question is for Mr. Beatty, from the Toyota company.

Mr. Beatty, could you give us an idea about the difference in price between a Toyota Corolla purchased in Canada and the same car purchased in Detroit?

[*English*]

Mr. Stephen Beatty: It would depend on the precise model, of course, but—

[*Translation*]

Mr. Thomas Mulcair: This is specifically the difference in price between a Corolla CE purchased in Ontario and the same car purchased in Detroit, Michigan.

[*English*]

Mr. Stephen Beatty: Off the top of my head, no, but probably about $1,300.

[*Translation*]

Mr. Thomas Mulcair: Would you be surprised to learn that the automatic Toyota Corolla CE, in Canadian dollars with all taxes included, sells in Canada for $20,334.50? This information can be checked at Toyota.ca, which is, I would assume, a valid source. However, when you key in a Detroit postal code, the price given is $15,935. The price difference between the same model of these two cars is $4,500 or, when given in a percentage, more than 25%.

Can you tell me how we can justify such a thing to Canadian consumers when, in fact, our dollar is worth more than the American dollar?

● (1655)

[*English*]

Mr. Stephen Beatty: The answer to your question is that the Canadian vehicle has more base equipment in it than the U.S. vehicle. It has a regulatory requirement for immobilization systems, which don't exist in the United States but are required for manufacturers here in Canada. It has available finance rates in Canada that are substantially reduced from those available in normal commercial terms. It has roadside assistance and a variety of other value-added features that are part of the package.

[*Translation*]

Mr. Thomas Mulcair: At any rate, Mr. Chairman, Mr. Beatty thought that the equipment that he just spoke about was worth only $1,500. Is he surprised to learn that, in fact, the price difference is $4,500?

[*English*]

Mr. Stephen Beatty: You mentioned, of course, that this is a tax-in price as well.

[*Translation*]

Mr. Thomas Mulcair: The prices are identical and all taxes are included.

[*English*]

Mr. Stephen Beatty: The taxes, of course, would be different between the two jurisdictions.

[*Translation*]

Mr. Thomas Mulcair: No, the price in Canada for a Corolla CE automatic, taxes included, is $20,334.50, but it is $15,935 in the United States.

[*English*]

Mr. Stephen Beatty: Again, we're making a—

[*Translation*]

Mr. Thomas Mulcair: Taxes are included in both cases.

[*English*]

Mr. Stephen Beatty: So different taxation in two different jurisdictions apply in this instance.

What we've seen over the course of the last 12 months is an unprecedented rise in the value of the Canadian dollar. The vehicle that sold in the United States may very well be a vehicle that is built at our plant in California, as opposed to being built in Cambridge, Ontario—which is where all of our Canadian vehicles are delivered—and the inherent differences in the specifications of vehicles drive differences in pricing.

[*Translation*]

Mr. Thomas Mulcair: Mr. Chairman, the only thing that I need to do now is ask Mr. Beatty how he could have been out by 300% with respect to the price difference. He thought that there was a difference of $1,500 whereas in fact the real difference is $4,500. How can he, as the spokesperson for Toyota, have such a wrong idea about the real price difference?

[*English*]

Mr. Stephen Beatty: Of course, when we compare pricing, we do it on a comparably equipped basis. The vehicle based as a CE in the United States is different from the vehicle sold as a CE in Canada.

[*Translation*]

Mr. Thomas Mulcair: But you knew that when you said that the difference was $1,500.

[*English*]

Mr. Stephen Beatty: But your question was, what is the typical difference? It is about that, on a comparably equipped basis.

[*Translation*]

Mr. Thomas Mulcair: I think that we can all understand why the Canadian consumer is frustrated, Mr. Chairman.

Thank you.

[*English*]

The Chair: Thank you very much.

Thank you to the witnesses for coming forward. Thank you for the questioning.

We will now suspend for a few minutes while we set up the next panel. Thank you very much.

●

——— (Pause) ———

●

● (1700)

The Chair: I'd like to call the meeting back to order.

With us for the second session of this study we have ACTRA, the Alliance of Canadian Cinema, Television and Radio Artists. We have the Canadian Labour Congress, the Canadian Vehicle Manufacturers' Association, the Quebec Federation of Chambers of Commerce, and from the University of Toronto by teleconference.... When Roger Martin, Dean of the Rotman School of Management, shows up on the teleconference we will introduce him, but he's not there at the present time.

We are going to proceed the way it is right now with the witnesses we have before us.

Please come to order as a committee so that we can properly hear, first of all, Richard Hardacre.

The floor is yours, sir.

Mr. Richard Hardacre (National President, Alliance of Canadian Cinema, Television and Radio Artists (ACTRA)): Thank you, Chair. Thank you, committee members.

My name, as you've heard, is Richard Hardacre. I'm a Canadian actor; I'm a professionally trained working actor. I'm also the elected president of ACTRA, the union representing the interests of performers in film, television, sound recordings, radio, and new media. I'm very pleased to bring you the concerns of more than 21,000 members of ACTRA who live and work in every comer of the country; English-speaking artists, all of us, whose performances entertain, educate, and inform Canadians and global audiences through the most powerful media that presently exist.

That's our boilerplate.

What I have to say here today is serious business, because for us, creative art in Canada is serious business. According to StatsCan, in 2002 the culture industries contributed $40 billion to Canada's gross domestic product. More people work in culture than work in agriculture, forestry, mining, and oil and gas combined. In the most recent year for which we have industry stats, the film and television production sector was a $4.8 billion business employing more than 125,000 people.

I hope you have copies of our September written submission. I'll briefly touch on the main points, and then we'll talk about the impact of the high dollar on the film and television industry, Mr. Chair. The clerk informed me that you want to hear specifically about that.

ACTRA made several proposals in our submission, which you have. First, we asked the finance committee to recommend adequate, stable, long-term funding for the Canadian Television Fund, for Telefilm, and for CBC. This is critical to being able to bring Canadian stories to our televisions and cinemas. It's important to us to establish a home-grown industry.

Our second recommendation is to reintroduce income averaging for professional artists. As many reports have observed, professional artists have income that can fluctuate enormously from year to year, and the present tax regime is unfair to creative artists. Just as artists must spread their income over years to survive, we're asking that the tax liability also be spread over years. Canada has previously had income averaging. Many countries still have it and specifically include artists. Quebec introduced a system in its 2004 budget to help artists in that province spread the tax load over several years.

Now I'll provide the committee with some insights from the film and television industry about the soaring dollar. The current surge of the dollar is indeed a serious threat to this sector of film, television, new media, and commercial production.

To understand the impact you need to know that we have two types of production in this country. We have Canadian producers making programs and movies primarily for Canadian audiences. Nationally, less than half our work at the moment is Canadian content. More than half of it is on service productions: making programs, movies, and television commercials, mainly from the U.S. locating in Canada.

This is the type of production that is the reason this country gets dubbed “Hollywood north”. It's primarily this U.S.-based service production moving to Canada for location—this “service production”, as we call it—that's affected by the high dollar.

A 2004 industry report pointed out seven factors that affect Canada's competitiveness as a filming location. Of these, the most important is the value of the Canadian dollar relative to the U.S. greenback. The ratio is simple: the more we lower the dollar, the more work there is; the higher the dollar, the less work there is in service production.

Remember that producers plan their productions well in advance. It can easily take more than a year of planning ahead for big budget films. The superpower strength of our dollar was not anticipated when locations for today's productions were being scouted.

This brings us to 2007 and currently 2008. At the moment, production levels throughout North America have been affected by the run-up to and now the complete strike of scriptwriters in the United States. I'm sure you've heard that the Writers Guild of America is in the third week of its strike. ACTRA supports them, because creators everywhere deserve a fair share of the returns from digital media.

U.S. producers and productions have been anticipating labour unrest for some time. This means that the studios were pushing very hard to complete projects before the writers' strike. Production in 2007 has been artificially inflated, so to date we've been insulated from the rise of the dollar. As the writers' strike continues to affect us, two big productions in B.C. have shuttered already, and more are coming. Canadian actors and crews work on these shows, and the strike has already put as many as 1,000 out of work in British Columbia alone.

● (1705)

So that brings us to the dollar. The full impact of the overheated dollar, the Canadian dollar, will not be felt until the middle or the end of 2008. We know the studios intend to let projects already on the books go ahead. But due to the dollar, they're not planning on many new productions. This will be felt especially in British Columbia, which is in the same time zone as Los Angeles, one of the reasons for its popularity.

But we have suggestions on what you can do to help—three things. Some of them are already in the written brief submitted to this committee. This is what we need to do. We need to build the Canadian industry, build an industry that's not dependent on foreign production moving to Canada. The way to do that is to increase the tax credits and broaden the base of the tax credit system. We've had tax credits in Canada for many years. We know they generate substantial economic activity, and more taxes are created than those that are forgiven.

We have suggested two formulas to increase the tax credit formula. One is for film and television video, the tax credit for domestic productions. Increasing the base is what's really important, so it's not just simply on a small labour component, Mr. Chair.

● (1710)

The Chair: Thank you very much. Thank you for being here and presenting that. We'll engage you again, I'm sure, in the questioning.

We have with us, Andrew Jackson from the Canadian Labour Congress.

The floor is yours, sir, for seven minutes.

Mr. Andrew Jackson (National Director, Social and Economic Policy, Canadian Labour Congress): Thank you, Chair.

I've distributed to members of the committee a short paper. There was a group of economists from the labour movement that met with the Bank of Canada this morning. This was prepared as a background note for that meeting.

In our view, the Canadian dollar is greatly overvalued compared to economic fundamentals. We see the key need now as being an interest rate cut by the Bank of Canada. That is by no means the entire solution to the problem. It's the immediately available solution that would be of most use in dealing with the problem. I think in the longer range there's a whole series of issues bound up with the international currency regime. The fact that the currencies of China and most other Asian countries are tied effectively to the U.S. dollar fundamentally makes the problem of overvaluation for us significantly worse.

In our view, an exchange rate at or above parity will destroy cost competitiveness for large and important sectors of the Canadian economy—not just manufacturing, but also, as my colleague has alluded to, cultural industries, tourism, anybody selling goods and services into the U.S., and for that matter, the Asian market, given their tie to the U.S. currency.

I think history teaches us that exchange rates can and do overshoot the level justified by fundamental economic factors, and that can persist for long periods of time with permanent structural damage being inflicted. One view of that damage can be seen by looking at the United States and what has happened to its manufacturing sector over the past few years as the U.S. dollar was overvalued.

How do we assess or correct the exchange rate? One way would be by purchasing power parity, which would take you to the low 80¢ range. Another really important benchmark for the manufacturing sector is the exchange rate that's needed to equalize unit labour costs between Canada and the U.S., and by most estimates that would be in the low 70¢ range. That's just given our lower level of productivity than the U.S. The fact is that now, in dollar terms, wage rates in Canadian manufacturing are equal to the U.S. Unless on average you have an exchange rate that offsets the productivity disadvantage, you're going to see significant shrinkage of the Canadian manufacturing sector.

In round numbers we've lost 300,000 jobs in the manufacturing sector already. That reflects the exchange rate appreciation that's taken place over the last two years. These exchange rate impacts operate with a lag for a number of reasons. It would be our estimate that if the dollar persists at parity, we're going to lose something in the order of another 300,000 jobs over the next two or three years, unless it falls back earlier.

So what is causing the surge of the dollar? Well, the conventional explanation, of course, is that it's an oil price effect, that Canada's dollar is a petrodollar, that this is what has driven the upward appreciation of the exchange rate. In point of fact, it's a misperception that the Canadian currency is a petrodollar. Only 12% of Canada's exports consist of oil and refined oil products. Energy exports are larger, but that includes natural gas. Natural gas prices have not been shooting out of sight. They're no higher than they were a year ago.

The fact that our dollar adjusts so quickly in relation to oil prices is, on the face of it, rather absurd. If it was the case that the increase in the price of oil was improving our balance of payments by increasing our exports, an oil price effect would be to improve our balance of trade. In fact, what we're now beginning to see is the emergence of a huge and growing manufacturing trade deficit, and a severe deterioration in our trade balance reflects in the overvaluation of the currency. Just look at the trade figures from last month.

The other factor that is driving the appreciation of our dollar is the fall of the U.S. dollar. And yes, this is indeed important. But over 30% of the depreciation of the U.S. dollar, in terms of their basket of trade with the rest of the world, is accounted for by Canada alone. We are bearing 30% of the brunt of the depreciation of the U.S. dollar. Most other major exporters into the U.S. market, from China through Japan through the developing Asian countries, have tied their currencies to the U.S. dollar, so they're not affected by this depreciation.

● (1715)

In fact, as our export share of the U.S. market falls, it's not being filled by U.S. domestic production, by Asian exporters, just as the U. S. is not gaining in our market as their dollar depreciates. In fact, that is going to Asian imports.

So what is the explanation? Why has our dollar surged so high just recently?

The Chair: Please be very quick.

Mr. Andrew Jackson: The commodity price, the relative appreciation.... The fact of the matter is that the Bank of Canada has raised interest rates by a quarter of a percentage point, while the U.S. has cut policy interest rates by three-quarters of a percentage point, so policy decisions have closed the interest rate gap by one percentage point.

Now, the U.S. was higher at initial levels. The Bank of Canada did that because of its outlook for inflation for the Canadian economy, but the fact of the matter is that this relative alignment of interest rates has had a big impact in this recent surge. It's up to the Bank of Canada to close that gap, which it can and should do.

The Chair: Thank you very much.

As I said, we give you five minutes and we hope you keep to it. I don't want to cut people off, but I will if it goes too much further than that.

We have with us Mark A. Nantais, president of the Canadian Vehicle Manufacturers' Association. The floor is yours, but before I yield you the floor, I just want to do a sound check.

We have with us Roger Martin. Roger, can you hear us?

Dr. Roger Martin (Dean, Rotman School of Management, University of Toronto): I can hear you. Can you hear me?

The Chair: Yes, I can hear you. As long as you can hear us, that's fine.

We'll yield the floor to you at the appropriate time. We just wanted to double-check on the sound.

Mr. Nantais, the floor is yours.

Mr. Mark Nantais (President, Canadian Vehicle Manufacturers' Association): Thank you, Mr. Chairman, and I thank everyone for this opportunity to appear before you today.

In the previous panel you heard the other side of the auto industry, if you will. The CVMA, on the other hand, is a national association, a leading association that represents light- and heavy-duty manufacturers, including Chrysler, Ford, General Motors, and International Truck and Engine Corp. Together, these companies account for over 70% of all domestic vehicle production, 55% of vehicle sales, and in total they support 150,000 Canadian workers and retirees throughout their entire operations.

On the surface, Canada's auto industry looks to be in fairly good shape, especially when one reads news reports about near record levels of new vehicle sales across the country and the significant recent automotive investments in Canada, including those from our member companies. However, under this thin facade is a much different reality. Today we are witnessing what I would call a perfect storm, demarcated by several threats, and one that will make for a wild ride as we go forward.

The rapid acceleration of the Canadian dollar has been one of the largest hits, no doubt. However, this is just one of the many impacts on our industry in Canada that include most recently what I call deep impact regulations, such as the new requirements on fuel economy, unique and inconsistent Canadian regulations, record levels of auto imports from offshore, outdated trade infrastructure, and border backlogs, just to name a few.

In the not too distant past, Canada had a competitive advantage within North America to help attract investment, one being a lower Canadian dollar compared to the U.S. dollar and another being the often repeated labour and health care advantage. However, recent contract negotiations in the United States between our members' parent companies and the UAW have changed part of this dynamic as a result of health care trusts being established to reduce some of that burden, while the rapid acceleration of the Canadian dollar has had a dramatic change on the other.

The rise in the dollar impacts Canadian assembly in several ways. Generally, all inputs into production are calculated in U.S. dollars to create a baseline for comparison of costs between assembly plants in various jurisdictions. The cost of all local inputs increased significantly with the rapid rise of the dollar. These impacts have wide-range inputs, including labour rates, employee benefits, corporate taxes, parts and services, and sourcing, etc.

In light of these realities, I'm here before you today to present an opportunity for Canada to develop and implement an automotive strategy that will help our sector deal with the rapid rise of the Canadian dollar, and the other impacts and, create a position for Canada to be a competitive location of choice for automotive investment.

First is ensuring that we have a globally competitive investment fund and corporate tax regime. The second critical element is supporting auto industry efforts and environmental sustainability. Canada really needs to introduce national vehicle standards, and in particular fuel economy standards, that are in line with the dominant North American standard. Recently in Canada several provinces have publicly stated their desire to adopt their own standards or California standards. These are what I call deep impact standards that have a tremendous impact on our industry.

The third element is creating a smart, efficient, and cooperative regulatory regime with Canada and with our major trading partners.

Expanding critical trade infrastructure and simplifying border processes is the fourth major element of the auto investment strategy. Simply put, it is 27,000 times more difficult and costly from a customs perspective to get 4,500 North American built vehicles into our market than it is to import those vehicles from offshore. This is because, during production of those vehicles in North America, parts and components can cross the border six or seven times, each time with the necessary paperwork and security checks, while imported vehicles simply clear customs by the boatload or 4,500 units at a time.

The last but not least important element of an automotive investment plan for Canada is opening foreign markets through free and fair trade agreements. Canada's auto industry, and Canada, as a result, has benefited greatly from free and fair trade, especially with our NAFTA partners. However, implementing trade agreements that create unbalanced, one-way trade in vehicles without reciprocal access would undermine all other aspects of an automotive investment strategy if they were implemented.

Canada is currently negotiating a free trade agreement with South Korea that would result in continued one-way trade in automobiles and no broader economic benefits for Canadians. In most cases, products can be built anywhere within corporate global enterprise and sold in markets around the world. If Canadian manufacturers simply cannot access foreign markets, then production mandates will be placed in other jurisdictions.

In summary, I cannot stress enough the difficult situation our member companies in the OEM parts sector are now facing within Canada. The rapid rise in the Canadian dollar is just the latest strike against our industry in which 570,000 Canadians are directly and indirectly employed.

● (1720)

We urge the government to immediately develop and implement an automotive strategy to help restore a competitive advantage to investing in Canada's critical automotive industry.

Thank you, Mr. Chairman.

The Chair: Thank you very much for being very, very prompt and absolutely on time. You must have rehearsed that.

We now have with us the economist, Jean Laneville, from Quebec Federation of Chambers of Commerce. The floor is yours for five minutes, please.

Thank you.

[*Translation*]

Mr. Jean Laneville (Economist, Quebec Federation of Chambers of Commerce): Good evening, my name is Jean Laneville. I am the economist for the Quebec Federation of Chambers of Commerce. I am very pleased to be here to talk to you about the impact that the rising dollar has had on our members, particularly those from the manufacturing sector.

The Quebec Federation of Chambers of Commerce represents 162 chambers of commerce bringing together more than 55,000 members. We claim to be the largest and most representative business network in Quebec. Indeed, we have members in all administrative regions of Quebec and we also have members in all of Quebec's economic sectors.

During the next three or four minutes, I will first of all address the issue of the soaring dollar from a structural perspective. I will also discuss the Dutch disease effect theory. I would be pleased to answer any questions you may have in order to clarify the economic context.

The rise in the price of raw materials has had an impact on the Canadian economy because Canada is a net exporter of natural resources. This increase has had an impact primarily on our currency. Over the past five years, the Canadian dollar has appreciated substantially. On average, it has climbed 10% per year. This situation has proven to be relatively difficult for exporters and manufacturers because the profit margin of exporters has declined whereas most of them are price-takers on foreign markets, particularly the U.S. market.

If we were to divide the Canadian economy into three sectors, we would have the natural resource sector, the domestic and service sector and the manufacturing sector. We can see that the soaring dollar has created a great deal of upheaval. Over the past few years, in Canada and in Quebec, we have noted that the natural resource sector has performed relatively well: very well in the west and not so well in Quebec. This has resulted in a great deal of wealth that has contributed to the service sector, namely to domestic consumption.

Resources have been displaced, they have gone to the natural and service sectors, whereas the manufacturing sector has performed very poorly. With the soaring dollar, this sector has found it increasingly difficult to export, but it also faced the problem of dwindling resources. We are starting to see the situation, in Quebec, where there are shortages for certain types of jobs. This is rather difficult in a situation where competition is fierce. The situation is difficult because of the appreciation of the dollar.

In terms of the GDP, on the manufacturing production side, Quebec has had an average annual decrease of approximately 4% since 2002. This is not huge, but we have observed, on the employment side, an average annual decrease of approximately 4% since 2003. So we are talking about a substantial impact.

There is one fact that is alarming: over the past three years, from 2003 to 2006, we have seen declining investment in the manufacturing sector. However, the government refuses to see this and tells us that, with the higher dollar, it will be easier and less costly to purchase machinery and equipment, which is completely false. Our members are telling us that certain conditions have to be present before investing. One does not invest because the machinery is cheap, but because better performance can be achieved. This is how we have to look at the situation. We can't simply say that the higher dollar will enable us to purchase machinery at a lower cost. The first point that we want to get across is that the higher dollar is making the situation less profitable for Quebec manufacturers.

In Quebec, we have seen production, employment and investment decline. That is very alarming. Everything is pointing to the beginning of deindustrialization. The word may be strong, but there are certain indicators present that lead me to the theory of the Dutch disease effect.

● (1725)

As the name suggests, this theory originated in the Netherlands. At the end of the 1950s, natural gas was discovered in the North Sea. There was a period of prosperity in Holland, which made it very wealthy and increased the value of the currency. In the long term, over 15 years, the manufacturing sector declined. Once the economic prosperity caused by the natural resources disappeared, Holland found it no longer had a manufacturing sector to drive the economy. That is what we fear. That could happen, particularly in Quebec, because we are more dependent on the manufacturing sector than the United States and Canada are as a whole.

There are a number of very appealing solutions that have been put in place in Norway. The first is to be cautious as regards fiscal policy. When there is very high potential growth and consumption, the economy should not be over-stimulated, by reducing the GST, for example, because this results in inflationary pressures.

Quebec manufacturers are suffering because of the fluctuation in the value of the dollar, which is something that cannot be controlled. It would be a good idea to do what Norway did and establish a fund to stabilize the dollar. Natural resources and government revenues should be invested in the fund, and it should then be used on the exchange market to stabilize the dollar.

[*English*]

The Chair: Thank you very much.

We'll now entertain, through videoconference, Mr. Roger Martin.

The floor is yours. You have five minutes.

Dr. Roger Martin: Terrific.

I have just five points.

First of all, a higher dollar is good, and good for the country. How high and how fast it's gotten high is another question, but I'm not despairing over the dollar being higher.

Number two, being below purchasing power parity, as Andrew Jackson mentioned earlier, when purchasing power parity has stayed constant over the last 30 years, in the low 80¢ range...I think it was bad for Canada to have the dollar consistently below that, at 75¢ or below, for a decade from 1992 to 2002. Why? Because we're then selling the entire economy too cheaply compared to our costs of operating.

What's the problem? I think the problem, as everybody said, is obvious. It has risen too fast and too high.

Just to give some perspective, it is truly unprecedented. If we look back over a long period of time, if we go back to the height of May 1974, at $1.04, the dollar took 11 years to drop 31%, to December 1985, to 72¢, and then did its big rise. The biggest rise the dollar has ever experienced prior to this one was from December 1985, over a six-year period, to October 1991, to 89¢, or a 24% rise. It then took another decade to fall all the way to 63¢, and another six years to rise to the current levels, a 60% rise. So think of this as being a rise that is more than double the amount in the same period of time as our previous most rapid rise, and it has dramatically overshot anything approximating purchasing power parity.

I agree with Jean Laneville, who just talked about the conflicting messages this sends to manufacturers or anybody buying machinery and equipment, hardware and software. All the service industries buy enormous amounts of hardware and software as well. On one hand, all the imported product, machinery and equipment, is cheaper by a long shot, but on the other hand, they're scared because they don't know where the dollar is going. The dollar has gone up so rapidly that it's hard to make the adjustment. That's why, as Jean said, they don't automatically go racing out and becoming more productive really quickly, because they're scared and they're experiencing something they haven't experienced before. So if anything, there is a lag effect until we'll see any kind of pickup in investment in machinery and equipment. It will only happen when the manufacturers feel comfortable and confident that their economic equation is going to work for them now in this new higher regime.

What does that mean? For policy—these are points four and five—there are two things I would say. One is that this is the best time ever for Canada to finally fix the problem with how we tax corporations and how that impacts corporate investment. As we've said on our task force for a number of years, Canada has one of the worst regimes for new investment in the world, among the highest taxation of corporate investment. Why we think we can be a great importer of capital and a place where companies want to set up shop and our own companies want to grow and expand, when we have one of the greatest punishments for new investment, is beyond me.

I think it's great that we finally have a dialogue in Ottawa on this, with both the Liberals and the Conservatives suggesting that they're going to cut corporate income taxation. All I say is that I would use the very positive treasury situation now to cut deeper in that than even planned, to make Canada below the OECD average in terms of its effective tax rate on capital investment.

So do it. I'm thrilled to see the fall update address it, but now is the time to go even farther to help our companies.

● (1730)

The final point I'd say is that this gets back to the question of fixing the exchange rate against the dollar. I know there's this argument every time this is raised, where everybody says, “Well, that will reduce our sovereignty and our flexibility”, and the like. All I have to say is, look what we're doing and talking about and saying now. Is this just so terrific to have this kind of sovereignty when it begs the question, in what respect is this great sovereignty that we have this huge problem now because the dollar has swung up 60% over a course of six years, 10% a year on average, and now we have to scramble to do something about that? Nobody in the world is free from the effects of the global economy. So saying that because we have our own currency we somehow are sovereign, more sovereign than we would be if we fixed it to our major trading partner, I think is an old-fashioned view, and I wish we as Canadians would just get over that and do the thing that will create the stable platform for our companies to invest and grow.

Thank you very much.

● (1735)

The Chair: I'll now ask the committee, because the bells are going to ring, instead of the first round being seven minutes, I believe we can get in a full round of four minutes. Let's try that. It will go into the bells, but I think we'll get to the vote in time without any problem, if that's all right.

Mr. McCallum, the floor is yours.

Hon. John McCallum: Thank you.

I agree with much of what Roger Martin said. We're the party of deep corporate tax cuts, and I'd like to see Canada as the Ireland of North America. But today my focus is more narrow. I have advanced the hypothesis that this big exchange rate jump will have major negative effects on jobs. What's happened so far is just the tip of the iceberg of what will happen in a year from now, given that there are lags, assuming the dollar remains about where it is. So now is the time for a plan, because governments should look to the future and not just to today.

First I want to do a survey of our witnesses. Do you agree with this hypothesis that if the dollar stays where it is, the layoffs and job losses that will occur 12 months down the road will be much greater than what we've seen today?

I won't ask Mr. Hardacre, because he's confirmed my point that the effects will occur in 2008, but maybe Mr. Jackson, Mr. Nantais, and Mr. Laneville could respond.

Mr. Andrew Jackson: Absolutely. Just to repeat myself, I think the 300,000-odd jobs we've lost in the manufacturing sector to date reflect the appreciation to the—

Hon. John McCallum: So you think it will be much worse?

Mr. Andrew Jackson: I think we'll see at least that many lost jobs in the next two years.

Hon. John McCallum: Mr. Nantais.

Mr. Mark Nantais: I would concur. We fully expect, particularly in the supply chain, that our suppliers themselves are going to incur more job losses.

Hon. John McCallum: Monsieur Laneville.

[*Translation*]

Mr. Jean Laneville: From memory, economic studies tend to show that the impact of a rise in value is felt over two years. That would take us to 2009.

Hon. John McCallum: Thank you, I agree 100%.

[*English*]

My next question is for Mr. Nantais and it's about the auto sector. The auto sector is crucial, for Ontario in particular. We all know that this government has done a lot of harm to it through the Korea trade agreement, through the silly feebate program, through not investing any money in the auto sector. We like the corporate tax cut, but I don't think that deals with the immediate crisis.

My question is a twofold one. Has this government done anything good, other than the bad things it's done, vis-à-vis your industry? Do you have one or two positive suggestions for how they might redeem themselves going forward, vis-à-vis the auto sector?

Mr. Mark Nantais: Boy, talk about a loaded question.

Let me say this. I think whether it was the previous government—they did some great things for the auto industry—or whether it was the economic statement this government made a month or so ago, those are all things that we can well support. I think we're at a position now where we have the opportunities I mentioned.

Putting the dollar aside for the moment, we need to do things that are going to offset the ramifications of that. Our view, as we said all along, is that we need a comprehensive, balanced automotive strategy, one that incorporates many of the things that have been announced, one that most importantly, again, reintroduces large-scale investment supports.

Any country around the world that wants to maintain or wants to introduce an auto industry to its economy provides supports. We can be very creative here. Australia is very creative, for instance, where they take revenues from import tariffs and funnel that back into the industry to fund these large-scale investments, and they've been very successful. So the key thing, moving forward here, is to put in place now an effective, balanced, and comprehensive automotive strategy that factors in things such as research and development incentives, that factors in many of the large-scale investments, as I've said.

Yes, we do need to get rid of some of the things that are impacting us very negatively. One of them is the ecoAUTO green levy program. That, clearly, amidst all these other things—

Hon. John McCallum: And the Korea free trade deal.

Mr. Mark Nantais: The Korea free trade agreement, the way it currently stands, based on what we understand about it, could be very detrimental to the auto industry in Canada, yes.

Hon. John McCallum: Thank you very much.

The Chair: Thank you.

Monsieur Crête, you have four minutes.

[*Translation*]

Mr. Paul Crête: I would like to ask Mr. Martin a question. He was talking about a fixed exchange rate. Do you conclude that we need to have parity with the American dollar as quickly as possible? Do you think the government should make such a decision quickly, or when it tables its next budget?

● (1740)

[*English*]

Dr. Roger Martin: Actually, other than for the fact that parity has some kind of simple “Hey, wouldn't it be nice if a dollar were a dollar?” appeal, I'd rather get away from the notion that it's some magic number. I think we should think long and hard about what to fix it at and just fix it at something.

My hope would be to have a dollar in the low nineties. I'd like it to have a tug up on purchasing power parity, not down. My guess is that parity with the U.S. dollar is higher than is optimal for Canada at this point.

[*Translation*]

Mr. Paul Crête: Very well.

You said about the same thing, Mr. Jackson and Mr. Laneville. But it's interesting, because the CLC and the chambers of commerce have quite different points of view.

Could you talk a little more about the consequences of replacing well-paid jobs in the manufacturing sector with less well-paid jobs, for example those in distribution or storage centres? What will the impact of this change be in the medium term if we do not put an end to this shift in employment in Canada and Quebec?

[*English*]

Mr. Andrew Jackson: I'd be in agreement with my colleagues here from business. The reason a manufacturing sector is important is that it is a relatively high productivity sector and that it has the capacity to generate ever higher productivity.

By far the majority of research and development expenditure in Canada is within the manufacturing sector. If we're going to be a major player in the global economy of the future, we simply can't abandon manufacturing, the business of making things.

A lot of important service industries make a huge contribution. A lot of those are tied, in turn, to manufacturing. It's not a matter of fetishizing blue collar, metal-bashing jobs. I think what we have to realize is that the manufacturing sector is changing. But with a dollar at parity, it's going to kill our potential across a huge swath of industries—important industries of the future, not least auto and aerospace, which have been absolutely key building blocks for our future.

It's not a matter of preserving the status quo, I think. It's that we have to change the manufacturing sector. We have moved up the value chain and have become much more innovative. But we're not going to get the investments and innovation and training and so on that we need if the dollar is killing off any prospect of profit from new investment, as Mr. Martin said, and I absolutely agree with him.

Dr. Roger Martin: Mr. Chairman, may I also chip in on this?

I think it is really important to understand what's happening to manufacturing globally in advanced economies. Benchmarking ourselves against what manufacturing jobs we used to have I just don't think is useful.

Whether exchange rates are low or high, in Canada and the U.S. manufacturing is just becoming a smaller part of the economy.

I would agree with Andrew about the point of not fetishizing one kind of job or another. We have to ask what all the high-paying jobs are in industries, and, whether they're service or manufacturing, understand the linkage between the two and have a broader view of it than just saying we're losing manufacturing jobs and that is bad.

Part of it is that it's becoming more productive and becoming smaller in total employment as it becomes more productive. The same thing exactly as happened in agriculture.

The Chair: Thank you very much.

Mr. Menzies, you have four minutes.

Mr. Ted Menzies (Macleod, CPC): Thank you very much, Mr. Chair.

Thank you to our presenters.

It's funny that Mr. Martin would, in his last comment, mention agriculture. I think there are some interesting connections that we can draw, because the way agriculture has managed to survive and prosper, I would suggest, is by becoming competitive.

I'm very concerned when I hear Mr. Jackson comment about the loss of 82,000 jobs. As a matter of fact, this year alone Canada overall has gained 345,000 new jobs, 655,000 new jobs since this Conservative government has taken office, and 80% of those are high-value jobs. So your suggestion about 82,000 job losses—not to trivialize that, of course, but there are new jobs.

To Mr. Martin's comment, the new way of doing business in Canada...people are changing their job profiles, and that's a positive thing.

A little clarification for Mr. McCallum: it was the Liberal government that started the free trade negotiation with Korea—

An hon. member: No.

Mr. Ted Menzies: —if I recall correctly, and I think I'm accurate on that. For him to suggest that the deal is done, unless he's privy to some information I'm not, the deal is not completed. The minister has said it will not be finished until we make sure we're protecting Canadian companies.

I have one quick question, and I want to address this question to all of you. I need a very quick answer because we have bells and we have to go. Should the Canadian government interfere with the Bank of Canada to influence the value of the Canadian dollar?

A quick answer, yes or no, to all of you, please.

● (1745)

Mr. Richard Hardacre: No.

Mr. Ted Menzies: Thank you.

Mr. Jackson.

Mr. Andrew Jackson: [*Inaudible—Editor*]...the Prime Minister for saying the dollar is too high.

The Chair: Yes or no?

Mr. Ted Menzies: We'll take that as a “no comment”.

Mr. Andrew Jackson: Well, there's such a thing as moral suasion.

Mr. Ted Menzies: “No comment”—thank you.

Mr. Mark Nantais: No, but it needs to look at these other supports that I've mentioned as it relates to the auto industry.

Mr. Ted Menzies: Thank you.

[*Translation*]

Mr. Jean Laneville: The Bank of Canada has a great deal of credibility throughout the world. We should not jeopardize this by making such a change to its mandate. So my answer is no.

[*English*]

Mr. Ted Menzies: Thank you.

Mr. Martin.

Dr. Roger Martin: I would concur. There is no immediate crisis that I can imagine that would make it worthwhile for the Canadian government to jeopardize the independence of the Bank of Canada. The damage, long term, would be much greater than any benefit you could get in the short term.

Mr. Ted Menzies: Thank you, gentlemen.

The Chair: Thank you very much.

Mr. Mulcair, very quickly.

[*Translation*]

Mr. Thomas Mulcair: Thank you, Mr. Chairman.

Perhaps Mr. Jackson could share with us his views about non-monetary incentives that could help us deal with the current crisis. Could he elaborate on his ideas about non-monetary incentives that could be helpful to us?

[*English*]

Mr. Andrew Jackson: I don't know about non-monetary incentives. I think part of what is needed to create a strong manufacturing sector, a strong cultural sector, is in fact supports from government for new investment. I guess where I'd take issue with Mr. McCallum and his Conservative colleagues is whether a general cut in the corporate tax rate is the answer. Most of the benefit of that would go to the financial sector and the resource sector, which are extremely profitable. I think we need much more targeted measures, like the measures to support our auto industry.

[*Translation*]

Mr. Thomas Mulcair: I was pleasantly surprised to hear Mr. Laneville refer to Holland and Norway in his remarks. Am I interpreting you and your group correctly to say that tax reductions would be a bad idea if they do not benefit sectors such as forestry and manufacturing, where there have been no profits and therefore there cannot be any reduction? Like Mr. Jackson, do you think that what we need are measures targeting those industries experiencing the greatest difficulty, in light of the current crisis?

Mr. Jean Laneville: Yes, exactly. A number of industries in the manufacturing sector are not making any profits and are actually posting losses. Reducing the tax rate is of no help to them. We have to target the industries that are having trouble, show some originality and find ways to support them.

Mr. Thomas Mulcair: Thank you, Mr. Chairman.

[*English*]

The Chair: Thank you very much.

I'm just going to remind the committee to come back after the bells, because we have three motions that we have to complete today, hopefully. So let's make sure we come back, and we'll do an in camera session. We also have dinner coming in.

With that, I want to thank the witnesses for coming forward and presenting and for the questioning the committee did so capably.

We will adjourn now until after the vote.

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