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Chair

Mr. Rob Merrifield

Standing Committee on Finance

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● (1530)

[*English*]

The Chair (Mr. Rob Merrifield (Yellowhead, CPC)): I'd like to call the meeting to order. I want to thank the witnesses for coming at this time.

We have a couple of changes in the first panel. We will fill it out to have a full five, so that we have five here. We'll be hearing from the Conference Board of Canada, Key Porter Books, the Forest Products Association of Canada, the Tourism Industry Association of Canada, and the Town of Hearst in the first panel.

We have our witnesses before us. We have our members here waiting to hear your testimony. We appreciate your coming in and testifying in the pre-budget consultation process.

We'll start with Paul Darby. The floor is yours.

Mr. Paul Darby (Deputy Chief Economist, Conference Board of Canada): Thank you very much, Mr. Chair.

Good afternoon, everyone. Thank you very much for inviting the Conference Board of Canada to present today. The topic I'm going to be focusing on is the impact of the rise in the Canadian dollar on the Canadian tourism industry.

Just for background information, this is obviously a very important industry for Canada. The balance of payments, just on our export side, is expected to reach about $21 billion by 2011. Obviously, it's an important contributor to economic activity in Canada.

However, it's pretty clear that the imports of travel services are rising more rapidly than the exports of travel services, and that's at least in part because of the increase in the Canadian dollar.

There are other issues as well, such as the western hemisphere travel initiative, which will eventually require Americans, as you know, to hold a passport if they want to get back into the United States. This is going to have an impact, we feel, on the future of U.S. travel to Canada.

Americans are certainly the most important part of the Canadian travel market, in terms of foreigners visiting Canada. U.S. visitors accounted for 76% of all trips by foreigners who stayed more than one night throughout 2006. Last year—a full year of data—for American travellers to Canada, 76% of trips were for at least one night.

Our forecasts, however, suggest that spending by Americans visiting Canada for non-business purposes—so we're really in a tourism context here—will decline by about $1.9 billion per year between 2005 and 2008. By the time you get to 2008, you'd be about $1.5 billion lower in terms of that activity than in 2005. That's in nominal terms, so in real terms it would be even more substantial. This is obviously serious.

It's very hard to replace those American visitors to Canada with visitors from other countries, simply because of the sheer size of the U.S. market.

Obviously, attracting foreigners to visit Canada, particularly Americans, is going to be very difficult, but we have even a greater issue with respect to Canadians leaving to travel abroad, what we call travel imports. We are looking at about a 25% increase in Canadians travelling abroad—in terms of their spending, now—between 2007 and 2012.

If you do the math, the result is that if you look at the external trade deficit on travel, it should go from about $6.7 billion in 2006 to about $9.5 billion by 2012. Over that five- or six-year period, we're looking at a 41% deterioration in that travel balance, a deterioration of almost $3 billion a year. These are important numbers.

In the time left, let me mention that in terms of the sensitivity analysis we do, normally we would argue that a 10% increase in the Canadian dollar versus the U.S. dollar should result in about a 15% to 16% reduction in overnight travel from Americans; it's quite elastic, in fact. But our feeling more recently is that the sensitivity will probably be down now to about the 0.8% to 0.9% range. In other words, a 10% increase in the Canadian dollar should lower U. S. overnight travel by about 9%.

The reason for that is that generally the U.S. doesn't have the same kind of appeal as it would have had in the past. We've seen a lot of retailing giants now show up in Canada, so we're not seeing quite the same sensitivity. But we're assuming, with the recent increase in the dollar, which was about 18% over the last nine months, that Canadian overnight travel to the United States should be up by about 16% as a result of it.

The other side of the coin, U.S. visitors to Canada, is not nearly as sensitive as in the past, but basically we feel there's roughly a 0.5% to 0.6% elasticity. So again, that 18% increase in the value of the dollar over the last nine months should lower overnight travel from the United States by about 6%.

● (1535)

So we're looking at about a 16% increase in Canadians going to the States and about a 6% decline in Americans coming to Canada, and both are going in the wrong direction, if you like, in terms of our balance of payments.

That's just from that increase in the dollar that has taken place over the last nine months. Obviously, there is fallout from the rise in the dollar that took place in the years prior to that.

In the interest of time, Mr. Chair, I'll stop there.

The Chair: Thank you very much. I appreciate that.

Next is the vice-president of Key Porter Books, Jordan Fenn. The floor is yours for five minutes.

Mr. Jordan Fenn (Vice-President, Key Porter Books): Good afternoon.

My name is Jordan Fenn. I am the publisher of Key Porter Books, and I am honoured, having received the invitation to be here today, to present the impact of the strong Canadian dollar on the Canadian publishing industry.

Located in Toronto, Key Porter is one of the few remaining wholly owned and operated Canadian publishing houses and enjoys sales that place us in competition with the large multinational branch plants, such as HarperCollins, Penguin, and Random House.

We've been publishing books of importance to Canada and Canadians for close to 30 years and have had the esteemed privilege to work with and represent many talented authors during our history, including former Prime Minister Jean Chrétien as well as current party leaders Jack Layton and Elizabeth May.

The Canadian publishing industry has produced an incredible number of internationally acclaimed writers and has seen the respect for our homegrown authors grow, particularly over the last three decades.

Protecting this unique voice of Canadian culture is important, and ensuring a healthy industry today will provide a strong industry for future generations of writers and their respective audiences.

Our industry has faced many challenges over the years, and though there have been casualties, we have survived. The challenges we face today at the hands of a strong dollar, however, are significant, so much so that they will seriously impact the entire publishing community as well as associated businesses, including our retail partners, printers, distributors, transportation firms, and obviously the writers' union. As a result of the rising dollar, the media, politicians, and consumers have questioned the retail pricing of books and have demanded par pricing.

I do not believe that the issue has been properly communicated to the marketplace. If anything, it has been poorly represented and has created greater frustration and anger within the consumer sector. Instead of our finance minister holding up a copy of a Harry Potter book and challenging the Canadian price, he could have explained the economics of producing books for a population of 300 million versus 30 million.

Why does a book priced at $24.95 U.S. have a Canadian retail price of $32.95? With a par dollar, should these prices not be immediately changed to reflect this?

The development of a book sees work begin an average of 18 months before it hits retail shelves. All costs for titles published today were therefore incurred and budgeted well over a year ago and at the exchange rate at the time. For Canadian publishers, these costs are all in Canadian dollars.

While one would think that Canadian industry would benefit from a rising currency, the strong dollar provides no advantage or benefit to Canadian publishers, as the majority of our publications are acquired from Canadian agents representing Canadian authors, with each contracted in Canadian dollars. Our operating costs and overhead, including salaries, leases, promotional costs, utilities, etc., are all in Canadian dollars, and given that the majority of Canadian publishers support Canadian printers, the costs to print, bind, and deliver the books are also in Canadian dollars.

After scrutinizing and examining all facets of our business in the development of each book, I see nowhere along the line that allows for Canadian publishers to benefit from a strong dollar. Our costs are static, if not increasing, and yet in order to be competitive against the less expensive American publications crossing the border, we are forced to adjust our prices, which is a direct hit against the profitability and therefore the health and sustainability of our industry.

Profits in publishing are already thin. This is a fragile industry, and thus the impact this is having on Canadian publishers has the potential of being devastating, as the financial implications of reduced revenue against static costs produce an obvious outcome.

Books have long had accepted consumer price thresholds. Each format, whether it be a hardcover, a paperback, an oversized illustrated title, or a children's book, has an established price point that is the result of publishers' budgeting and is based on measures that allow the publisher to acquire the title, financially compensate the author, produce the book—including all associated costs, such as editorial, design, production—as well as to provide the retailers with a discount, which affords them the required margin. Additionally, each book has a set amount budgeted to cover overhead, marketing, and publicity and distribution costs.

In the American market, these same formats have established pricing based on the power of the American dollar. The exchange rate has determined the Canadian pricing on imported books, though if a title originates domestically, the prices are as mentioned.

● (1540)

As an example of what we're experiencing, if you look at a Canadian fiction title, paperback, average price of $21.95, south of the border, we see these books are approximately $6 or $7 cheaper. While Canadian publishers are not benefiting from the strong dollar, we've been challenged to lower our prices to place our formats in line with American titles of the same genre. Failure to lower our prices will impact our ability to compete with imports, although by lowering these prices we are in fact removing all levels of profitability. Without that, we lose the ability to offer retail incentives, promote our authors effectively, and market the books. Without supporting each publication with a marketing and publicity campaign, Canadian-authored titles will languish on shelves and the impact will seriously lessen the saleability of our books. This will not only affect publishers, but authors and retailers as well.

On the retail side, I understand from various partners that at the front lines of the pricing issue, they are faced daily with irate customers demanding price parity. I've even heard of a customer being removed from a Toronto bookstore by police for throwing books at store employees because of the pricing. What this consumer didn't understand was that even on the books that are imported from American publishers, these prices were set at least 12 months in advance, and that the Canadian company representing the American publications incurs all costs in Canadian dollars, has all staff compensated in Canadian dollars, has overhead expenses in Canadian dollars, bills and collects in Canadian dollars, and budgets based on annual anticipated sales revenue in Canadian dollars. To simply lower retail pricing for such firms is to—

● (1545)

The Chair: Very quickly now.

Mr. Jordan Fenn: I'll move on.

Is my time up?

The Chair: And then a little.

Mr. Jordan Fenn: Okay, the impact is there. I'll close there. I could go on.

The Chair: I'm sure you can, and you probably will during questioning, but I think you made your point very clearly.

Actually, the order is a bit out, but that's okay. We have the president and chief executive officer of Forest Products Association of Canada, Avrim Lazar.

The floor is yours for five minutes.

Mr. Avrim Lazar (President and Chief Executive Officer, Forest Products Association of Canada): Thank you.

I'd like to thank parliamentarians for holding these hearings. I know you hear many witnesses, and it might even get boring sometimes, but I just want you to know that we really care about this stuff and really appreciate it when you actually give us your attention. It matters a lot.

What's at stake in the forest industry is a million jobs, 3% of the gross domestic product, the largest employer of aboriginal Canadians, and 300 towns, which will shut if we have to shut the mills. In these towns, you can't just move to the next industry. In many of these towns there's nothing to do but go up either to Prince Albert or down to Toronto.

What's involved is the economic backbone of a lot of rural Canada and a huge number of jobs.

The good news is that this industry has been Canada's productivity champion for eight out of nine years. Of all of manufacturing, no other industrial sector has improved its productivity as much as the forest sector.

The good news is that we've outdone the U.S. in the wood sector in productivity year after year and have kept pace in pulp and paper.

The good news is that we are the environmental performance champion, having done Kyoto seven times over, but also having committed to carbon neutrality without buying offsets. Canada is the champion in terms of logging without deforestation: we have virtually no deforestation, whereas most of our competitors do.

The good news is that global demand for our products is going up 3% a year, equal to twice the whole production of Quebec every single year. And very few countries are positioned to supply that demand, because they have huge land-use problems, water problems, energy problems, and environmental problems.

So we have a great industry, a great employer, huge demand, and great productivity, and we are being taken down by a 40% increase in our cost structure. All of our input costs are in Canadian dollars and all of our sales are in American dollars. No matter how productive, brilliant, innovative, or entrepreneurial you are, when your cost structure goes up 40%, you're not quite sure where to look.

In addition, the volatility of the Canadian dollar has made many international companies say, “Let's go some place where the currency is more stable than a mining stock.” The future of our currency is being traded like pork bellies. Speculators are making huge profits or losing huge amounts of money betting on our currency going up and down, and in the meantime our industrial infrastructure is heading south.

Put yourself in the shoes of a Canadian company with mills in Canada and the U.S., let alone those of the American- and the Scandinavian-owned companies. Put yourself in their shoes. You don't know whether your cost structure is going to be at a 98¢ dollar, a $1.02 dollar, a $1.10 dollar. You have no idea where it's going to go. Even if you could make a profit at parity, are you going to take a chance and invest in Canada or are you going to move your money south?

Many economists have been saying that Canada is weathering this storm well and that it's amazing how well things are going. Economists live in the world of numbers that are published. Businessmen live in the world of numbers that are going to come, because they see where the investment is going. And the money is flowing elsewhere because of the instability of the dollar and because of the height of the dollar.

So first, we are saying to the bank: our economy is not a spectator sport; you are not powerless; allowing our dollar to move as if it were a penny stock is a mistake. The bank should send a strong interest rate signal for it to come down and tell speculators that they cannot make a profit on the backs of Canada's infrastructure.

Those economists who say there's nothing that can be done are wrong—the bank can act, can send a signal—and those who say “let the market decide” have been living inside their economic textbooks instead of in the reality of today's economy.

The second thing we are saying is not to the bank but to all parliamentarians. There is a unanimous report, an all-committee report, on the future of Canadian manufacturing. It has 30 excellent recommendations for creating a business climate that would make people want to invest here.

Key among these are the refundability of the research credits—the SR and ED credits—and also the extension of the capital cost allowance to five years. That would make a big difference. It would make people think we believe in our economy.

Let me talk for just one minute on the SR and ED. Right now we get this tax credit if we're making a profit. If we're not, the government says, “Oh, it's nothing to do with you.”

Why would we not want to allow support for innovation for industries going through transformation? Why would we only want to support innovation and those who are already doing well? Why would the government, why would the finance minister, why would Canada want to wash its hands, to abandon innovative efforts in manufacturing in the forest industry and those industries that have to innovate their way out of trouble? Refusing to make the investment credits refundable means you're betting on our going out of business and we'll never get those credits. We need the money now. It's money we spent on investment; it's money we'd get when we get profitable; it should come soon as refundable credits to help manufacturing.

● (1550)

Thank you.

The Chair: Thank you very much.

Now we'll move to the vice-president of public affairs with the Tourism Industry Association of Canada, Christopher Jones, for five minutes.

Mr. Christopher Jones (Vice-President, Public Affairs, Tourism Industry Association of Canada): Thank you very much, Mr. Chair.

[*Translation*]

First, let me thank the committee for the opportunity to appear before you to share our views with respect to your investigation of the impact of the rising value of the Canadian dollar in various economic sectors.

[*English*]

First let me thank the committee for the opportunity to appear before you to share our views with respect to your investigation of the impact of the value of the dollar.

Tourism in Canada is a $66.9 billion sector that accounts directly for more than 630,000 full-time jobs and indirectly employs 1.66 million Canadians. Its economic impact is felt in all regions and communities across the country. Moreover, it is a key generator of tax revenue for all three levels of government. In 2006, an estimated $19.4 billion in tax dollars were generated, including $9.1 billion at the federal level.

Without question, Canada's tourism sector is greatly affected by the recent rise in the value of the Canadian dollar vis-à-vis its American counterpart. Earlier this month, TIAC held its annual tourism leadership summit in Victoria, British Columbia. We titled this year's summit “Red, White and Blues—Renewing American Travel to Canada”, and the focus of our program was the significant declines we have observed in visits from our neighbours to the south.

In five years we have seen the number of inbound customers from the U.S. drop by a significant 34%. This figure is particularly worrisome to the sector when you consider that Americans make up 86% of non-resident travel to Canada. Moreover, this decline predates the historic appreciation in the value of the Canadian dollar that we have seen in recent months.

The reasons for the decline in the number of Americans visiting Canada are not strictly tied to the dollar. The overall declining economy in the United States and the significant rise of gasoline prices have created a disincentive for the rubber-tire visitor to come to Canada. Gas prices are encouraging more Americans to fly rather than drive to their holiday destinations, and the relatively high cost of flying to Canada creates a price disadvantage compared to U.S. domestic destinations, Mexico, the Caribbean, and some European ones.

Significant issues exist at our border crossings for Americans as well, with lengthy wait times and confusion over the documents needed to be able to return to the United States. These factors have combined to alter what were longstanding leisure travel patterns for residents of both the U.S. northern border states and Canadian provinces.

These are all contributing factors that would have impacted Canada's tourism industry independent of the dollar's rise. But what we know from having observed the travel patterns over the past 25 years is that the number of inbound visits traditionally tracks very closely—as my colleague Paul indicated—the value of the American dollar. As the value of the U.S. dollar rose throughout the 1990s, the number of person trips to Canada rose to more than 45 million. But over the past four years, as the greenback slid in comparison to the Canadian dollar, the number of person visits has dropped to the lowest levels in 30 years.

The higher value of the Canadian dollar will also encourage Canadians to travel and spend their tourism dollars abroad, further magnifying our tourism deficit. We measure this deficit by looking at the amount that Canadians spend abroad versus the amount that foreigners spend when they're travelling in Canada. Since 2002 this deficit has risen exponentially, from $1.7 billion in 2002 to $7.2 billion currently. We can only assume by what we have observed this summer and fall that this number will rise. Numbers released this week by Statistics Canada demonstrate that in September, with a 95¢ dollar, overnight car travel to the United States rose to its highest level since 1993.

I know there are members of the committee from the Niagara region, and my guess is that tomorrow morning there will be a significant exodus of your constituents across the Rainbow Bridge looking for black Friday bargains. This doesn't only mean that local retailers will take a financial hit at a crucial time of the year; it also means that those families will spend money on food, lodging, and other attractions that they might have otherwise spent here in Canada. At the same time, we are being told by Niagara Falls tourism that they've seen a 16% drop this year in the number of people making day trips from the States. We're hearing similar stories from other border towns, such as Windsor and Victoria.

What steps can we take to ensure that tourism can regain its footing? First of all, let me emphasize that because of the foreign currency earnings that tourism generates, it has always been considered an export industry. It is affected by the rise in the dollar in the same way that forestry and manufacturing are. As such, we would urge you to remember tourism if you get around to recommending any sort of adjustment or mitigation policy to help defray the impact of the rising dollar.

We can also ensure that we invest sufficiently in the physical infrastructure at Canada's crossing facilities, including increased investment in the development of new biometric-based forms of ID, such as an enhanced driver's licence.

● (1555)

To help manage the flow of people across our borders, we should get the Canada Border Services Agency to actively monitor and evaluate peak border times with the intent of reducing processing delays experienced by visitors.

[*Translation*]

We should also invest in our border crossings so that wait times at the border can be actively monitored and evaluated with the intent of reducing delays experienced by visitors and of helping to manage the flow of people across our shared borders.

[*English*]

We also need to assess how we can make Canada a more economical destination by air. The tourism sector, the Canadian economy, and Canadian citizens will benefit from further open skies negotiations, which would increase competition and result in more flights to and destinations in Canada.

My final point is that marketing assistance for the Canadian Tourism Commission would be extremely helpful.

Thank you.

The Chair: Thank you.

Now we will go to our final presenter.

We have the mayor of the town of Hearst, Mr. Roger Sigouin. You have five minutes, please.

[*Translation*]

Mr. Roger Sigouin (Mayor, Town of Hearst): Thank you for the opportunity to address this committee.

The high Canadian dollar has added more fuel to the crisis situation of the forest industry in northern Ontario and is causing uncertainty and fear in all small communities across the north.

The entire economy of northern Ontario and the very fabric of our lives are in jeopardy. Although I represent the town of Hearst, this presentation could easily be made by Longlac, Smooth Rock Falls, Wawa, White River, Atikokan, Nippigan—northern Ontario communities that have permanently lost their single industries—or by Kapuskasing, Opasatika, Cochrane, Dryden, Kenora, Timmins, Kirkland Lake—who are currently struggling with significant cutbacks and massive layoffs in the forestry sector.

My municipality is 500 kilometres from Thunder Bay, Sudbury and Sault Ste Marie, 600 kilometres from North Bay and 955 kilometres from Ottawa and Toronto. Much of northern Ontario above the 50 th parallel is populated by First Nations, who live in isolated communities that generally are only accessible by air, although one, Moosonee, can be reached by rail.

Hearst has a population of 5,620 people, but my community serves a much larger geographical area of 10,000 people. Northern Ontario is boreal forest, and it holds most of Ontario's natural resource wealth. With only 7% of Ontario's population, we are exporters because we have to be.

Over the years, local operations have consolidated or closed. Hearst has lost four major mills, and two of the three newer operations now belong to North American conglomerates. The industry has always faced the challenges of surviving to the "boom and bust" cycles that are typical of our northern natural-resource-based economy.

This is no longer the case. The global market situation has made the crisis that we are facing today much more serious. This unprecedented challenge cannot be met without government intervention. The forest industry is our livelihood, and the driving force behind our local economy.

In the immediate Hearst area, three manufacturers—Columbia Forest Products, Tembec Industries Inc. and Lecours Lumber—employed 765 people directly in 2006, and another 171 indirectly in secondary support and service industries. In my community of 5,620 people, the forestry sector accounts is clearly the major employer and accounts for at least 43% of the labour force.

In Hearst, Tri-Cept (Hearst) Inc. permanently closed its planing mill with a loss of 40 jobs in 2006. Columbia Forest Products closed their particle board plant in Hearst at the beginning of this month, with a loss of 83 jobs. On November 9, 2007, 1200 layoffs were announced by Buchanan Forest Products across all their operations in both northeastern and northwestern Ontario, Bowater in Dryden and NorBoard in Cochrane.

Countless families are affected, not because they work in the industry, but because they supply goods and services to the forest industry and to its employees. Older workers in the mill in Hearst are poorly educated. They have not even finished high school and are now facing layoffs with no education.

Real estate values, both residential and commercial, are collapsing because the large plants are closing. This is what we are facing. Our young people are moving away. They are leaving town in order to be able to find a full-time job.

● (1600)

Northern Ontario industries, and, with them, our northern Ontario communities, are facing our most serious challenges. My neighbour here I think addressed the role now played by the issue of the dollar.

Electricity costs are very high in local mills and they have increased by 10-12% in recent years. Fuel costs have soared, but the increase cannot be passed on to the consumer because the market will not bear added costs.

As for transportation, the national rail infrastructure in northern Ontario is in poor condition, though it is vital to move our products to market. The Ontario Northland Railway closed its spur line to Lecours Limber, but the provincial government intervened to save the railway, and the jobs on the First Nations reserves.

Remote First Nations in the far north have no access to our northern communities. Some members of First Nations have no education and no access to services that can provide it so that they can play a full role in our society. The government should ensure that they have access. The far north has resources and the government should open it up so that the resources can save the north as a whole. The resources are there, and the First Nations want to work. Let us get to work together.

Thank you.

[*English*]

The Chair: Thank you very much.

We'll now move to the question part of our meeting, and we'll start with Mr. McCallum from the Liberal Party for seven minutes.

Hon. John McCallum (Markham—Unionville, Lib.): Thank you.

● (1605)

[*Translation*]

First, I would like to thank all the witnesses for coming, and especially Mr. Sigouin, because he had to travel for six hours to get here.

[*English*]

I'd like to begin with the subject of self-inflicted wounds, starting with Mr. Jones on tourism. I don't think the government can do anything about the value of the dollar. I think maybe the bank is just.... It's debatable. But in terms of fiscal measures, would you think the cancellation of the GST rebate for visitors was important?

Would you think it would be highly beneficial or only slightly beneficial if Canada got approved destination status from China? I know from visiting Australia, there were thousands of Chinese tourists, because Australia has that status. Would that be significant for the tourist industry?

Mr. Christopher Jones: Thank you for the question, Mr. McCallum.

Clearly, the industry was concerned last year with the cancellation of the visitor rebate program. We were heartened to see the replacement of two-thirds of it, which dealt with the group tour market and the meetings market in the form of a foreign convention and tour incentive program. That program has been in place now since April of 2007.

We have indicated to Minister Ablonczy, who's responsible for this sector, that we will be happy to review it with her at the year mark in April of 2008 and see if any features of it could be tweaked to enhance its function as an incentive scheme.

The loss of the individual program was a concern. We indicated that at the time. Many other countries that have value-added taxes rebate the VAT to the visitors to their country, but that's life.

On the ADS we would like to obtain that designation. We are concerned that the United States is close to obtaining that designation fairly soon, and that is a market...although the Chinese market is growing substantially without ADS because of visiting friends and relatives and business travel. So it is growing significantly, although we would like to be able to tap into the tour market eventually, which is what the Australians are doing at the moment.

Hon. John McCallum: Would it not be fair to say that if the U.S. gets it before us, that would be very bad for Canada? If the Chinese could only come to Canada within North America, then we'd have a bit of a monopoly there, at least for a little while. If we're competing one on one with the U.S., would that not be a big disadvantage, or if the U.S. gets it before us, that's even worse?

Mr. Christopher Jones: It would be a considerable concern, but we are doing what we can at the moment. We are gearing up to market the Olympics in 2010, and the government has recently made a significant and much appreciated investment in that marketing effort.

So, yes, over the longer run, we would like to tap into that market, particularly if the U.S. market stays in the doldrums. But we're confident that our foreign affairs department is going to push that file forward.

Hon. John McCallum: Thank you.

I would like to turn now to our two forestry speakers.

I think both of you are aware of the plan the Liberal government had. It was just before the election and it was $1.5 billion—$600 million if you exclude the loan guarantees. It involved supporting workers in communities at $150 million, the transformative technology program at $215 million, forest innovation and value-added products at $90 million, etc.

I don't want to sound too partisan, so I won't ask whether the government was wise to scrap it. Let me put it in a more positive way. Would such a program be a good thing today if it were to be reintroduced? Would these components, such as community assistance and transformative technology, be useful for your industry?

Perhaps each of you could comment.

Mr. Avrim Lazar: Certainly we've been very clear about what would be useful today: refundability of the SR&ED credits; extension of the two-year window for accelerated capital costs to five years; more money for research in research innovation; and all-party support for Bill C-8, which puts competition into the rail act would be very useful. Anything that can be done to improve the accessibility of technology would be very useful, and of course the communities need support in their transition.

The best thing you can do for communities is to create a business climate where people want to invest in Canada. The refundability of SR and ED, the capital cost allowance, and the money for R and D would help the most.

I want to be very clear, though, and this is something where I think there has been misunderstanding: we don't want subsidies. We don't want you to come in and save a mill that's uneconomic. What we want to do is make this a place where mills are economic.

● (1610)

Hon. John McCallum: Thank you.

Mr. Roger Sigouin: I think it was a great way to help the industries, but for my own municipality, and even other municipalities, I'm going to go a bit further. We face energy costs that are going higher and higher, and I don't know how much control we have over that.

We are looking for a green technology in Hearst, and we need support for that. I think the federal and provincial governments should be involved in the economic development. The Town of Hearst put in $250,000 for economic development. When your town is in trouble, I think the government should say that if you put in $250,000, we're going to put in $100,000 to support you in getting champions from outside of your country to invest in your community. There's a lack of money, and we need some help.

Hon. John McCallum: Thank you very much.

I'll take it from both of you that that's a yes, except there are other things you would want as well, such as SR and ED, accelerated capital cost allowance, energy costs, and many other things—

Mr. Avrim Lazar: Most of which come out of the all-party recommendations on manufacturing. All parliamentarians who've looked at this on the industry committee have agreed, and now I want to see action on it. It should be—

Hon. John McCallum: The government has had it for a long time and it has implemented only part of one.

Can I ask one last quick question?

The Chair: No, you can't. Actually, your time is gone, and we're going to go to Monsieur Crête.

[*Translation*]

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

Let us continue along the same lines. Let us talk about the unanimous report from the Standing Committee on Industry, Science and Technology dated last February 5. This is no commercial for the Liberals, it was signed by a Conservative member, Mr. James Rajotte. This was in February 2007; let me quickly read you an extract:

> While the rest of the Canadian economy is generally very robust, many industries within the manufacturing sector are struggling to remain competitive against the backdrop of the Canadian dollar that has risen in value by more than 40% in comparison to its American counterpart [...]

[*English*]

The Chair: Back off the caffeine and you'll be all right.

[*Translation*]

Mr. Paul Crête: That was in February 2007, so the additional rise in value that we saw this fall had not yet happened.

Let me read on:

> The committee believes that the Government of Canada should make the preservation of a competitive Canadian manufacturing sector a national goal, and that, given the gravity of the challenges facing the sector, the recommendations presented in this report should be implemented in a timely fashion.

Mr. Lazar, do you feel that the federal government has done enough to implement the 22 recommendations? By my count, they have implemented half of one of them, the one about accelerated depreciation. The others have not been implemented.

Could you comment?

Mr. Avrim Lazar: Certainly.

I have to say that members did good work together. This is a real demonstration of our Chambers' ability to work in a non-partisan and intelligent way that has the welfare of the country as its foundation. So first, I congratulate all parties for that.

But second, it is not enough. Action must come more quickly. A step in the right direction has been taken, some taxes have been reduced, but, given the crisis in our manufacturing sector, more urgent action is needed.

[*English*]

We've got guys being thrown out of their jobs; their houses, which used to be worth $500,000, are now worth $50,000; they don't know where to go; and there's no time for scholarly reflection on the economics. We have an all-party report.

[*Translation*]

As a minimum, this report should be implemented quickly.

[*English*]

and the top priority is the refundability of the SR and ED. You know, we've got companies now that are going to go down whatever you say and do with the dollar. They're just not going to make it. We have others that will do just fine; even though they're hurting and complaining, they'll survive. But there are a whole bunch in the middle who, with a little action from Parliament on something like the SR and ED, could move to the winner's instead of the loser's category. It's a question of two or three years of trying to survive in this extremely difficult time of transition.

So no, it's not a magic bullet for all of them. Some of them you can't help. The economics won't work. And some of them are just so smart and good, they're going to survive. But why give up on whole towns when something as clearly competitive as tax credits for research and innovation would help them innovate their way through this crisis?

● (1615)

[*Translation*]

Mr. Paul Crête: Mr. Sigouin, if the Conservative government sticks with its policy of reducing taxes across the board in 2008 and has no program that allows similar targetted actions, will tax cuts generate profits that will come back to your community?

Mr. Lazar, will your forest industry generate profits in 2008 as a result of these across the board tax cuts to the extent that your companies will be on their feet again?

Mr. Roger Sigouin: My feeling is that, if there are tax cuts, the local government ends up paying.

People do not understand the situation. When federal taxes go down, provincial taxes go down; when provincial taxes go down, municipal taxes go up. For me, that is logical, obvious and clear.

People have to understand that, if they want a healthy community, they have to face the fact that a tax cut means that the federal government has less money to help our forest industry and our community economically. We live on a two-lane Trans-Canada Highway. The highway is in its worst condition in Ontario, because it is four lanes everywhere else. The railway is in decline. It is in poor condition. There are resources in the north, but we have no access to them. Is anyone concerned about the people in the north? That is where the government should be looking if it wants to see the big picture.

Mr. Paul Crête: In your list of forestry towns, you could have added the names of several in Quebec.

Mr. Roger Sigouin: Yes, I could have.

Mr. Paul Crête: Mr. Lazar, I have a question for you about across-the-board tax cuts versus...

Mr. Avrim Lazar: Tax cuts are wonderful, but they are only half of the situation.

[*English*]

So I offer kisses, hugs, and thank yous for the overall reduction of the corporate tax rate; it's necessary. But it won't help with the transformation of the manufacturing sector because to benefit from it you've got to be profitable. We're in the middle of a transformation, and some companies won't make it from here to there.

So it's the right thing, but those economists who say just reduce overall tax rates and everything will be fine are just a little bit naive. Different sectors of the economy are at different points. Subsidies won't help the transformation, but the refundability of tax credits for innovation and research would help those in transformation get through the transformation.

[*Translation*]

Mr. Paul Crête: My last question has to do with the latest rise in the value of the dollar over the last month. If the dollar remains around par, what will be the consequences for the tourist industry?

Yesterday, the Minister of Financesaid that the dollar had gone down by two cents,and that things were beginning to stabilize again. What will be the reality if the dollar stays around par and no other measures are taken?

[*English*]

Mr. Christopher Jones: I think we'll see the travel deficit aggravated significantly as more and more Canadians are incentivized to head south of the border. We'll eventually see dislocation and some trouble within the border towns. I think the bigger cities will probably be okay, but some of the smaller border towns, who are used to a regular custom of American visitors, will probably begin to feel some pain.

As in other sectors, many of our operators had built a business model premised on a 63¢ dollar. When that disappeared and it moved to par, people had to change, they had to do things differently. The better ones will survive and others will probably go by the by. But I think over the long run our concern is that there are structural problems in our sector that we need to address, particularly around marketing and the structural costs of aviation in this country. Those are the two big factors.

The Chair: Thank you very much.

Now we'll move to the Conservatives.

Mr. Wallace, you have seven minutes.

Mr. Mike Wallace (Burlington, CPC): Thank you, Mr. Chairman.

And thank you for coming this afternoon in the ugly weather. I have a number of questions, and I'll start with the Conference Board.

Mr. Darby, thank you for coming. You're listed here as deputy chief economist, and you spoke exclusively on tourism. We've had economists here over the last couple of days, including Mr. McCallum, who likes to call himself an economist—he worked for a bank at one time. He said that the government can't change the value of the dollar, that it's not the government's ability to do so. He said that here today.

You focused on tourism. We've done some other things to try to make sure our business climate is competitive in terms of lowering corporate taxes and so on. Did you have any comment on the fiscal update we just had that the finance minister brought, other than on the tourism issue?

● (1620)

Mr. Paul Darby: Well, I think certainly the notion of extending the capital cost allowance beyond its sunset, making it even potentially permanent, is very definitely important, and that was I think at least hinted at in the economic statement.

Regarding the reduction of corporate taxes, as Avrim points out, it is appropriate and does stimulate business investment. But you do need to be profitable to benefit from that, and I think that's a very important point to make. It does have an impact, clearly, that will help manufacturing. But for some of the sectors that are most severely affected by the rise in the Canadian dollar, you may have to think of something a little more targeted.

In general, obviously, the economic statement was quite stimulative. So it does, at least to some extent, offset negative implications of the rise in the dollar in terms of our GDP, and from that perspective it is useful. But again, there are some interesting regional issues and interesting inter-sectoral differences that I think will challenge any government in terms of appropriate policies to help mitigate what Mr. Lazar, for example, calls a period of transformation. I think it's important for the government to think very long and hard about how it might effectively and efficiently address those problems, because subsidies are not generally seen as a good long-term strategy. In addition, we have seen artificial support for industry—again, not a good long-term strategy.

But I think along the thoughts of Mr. Lazar and others here, strategies that would encourage investment, that would help to encourage innovation, get the costs down so that manufacturing firms could be competitive at the higher dollar, and help them over that transition period are really the right way to go.

Mr. Mike Wallace: I'm just going to ask Mr. Fenn a very elementary question. I can certainly understand the publishing industry's issue with the high dollar. I'm not going to argue with that and the effect it may have. Can you tell me why your product puts the differential price on their sleeves well in advance of when they're actually...? I've been racking my brains to try to think of other products that print a Canadian and a U.S. price on their product well in advance of its hitting the shelves. Is there a law requiring that?

Mr. Jordan Fenn: No, there's absolutely no law requiring it. I guess it's a historical practice. Publishers have done this for many years. Books have suggested retail pricing. Unlike other items where you'll see one retailer sell a garment at one price and a different retailer sell it at a different price, books do have that price printed on them. You may see retailers sell it at lower than the suggested retail price, but it is the top dollar that you're going to charge for an item. Our books are printed months in advance of the release, and as I mentioned earlier, the developmental costs of a book are set 18 months before the book hits the shelves.

Mr. Mike Wallace: My personal comment on that—I have been in the sales side of the equation in numerous industries—is that there is a manufacturer's suggested sales pricing and a retail sales suggested pricing. I find your industry strange in that it eliminates a lot of flexibility in terms of when things change.

But I'm going to move on to Mr. Lazar. That was an excellent presentation, by the way. You mentioned a 3% increase in annual demand. Can you explain to me where that demand is coming from?

Mr. Avrim Lazar: Most of the increase in demand is coming from the rapidly growing economies in Asia. There's increased demand in South America as well. India, China, Indonesia—all those places are driving most of the demands.

The lumber business is in a cyclical decline in North America, but it's in a structural increase everywhere. Newsprint is in a structural decline in North America. It won't come back. It might bounce back a little, but it's going down, people are going to the net. But overall, as there's this explosion of wealth globally, as you find peasants marching into the middle class all over Asia, they want to blow their nose, read their newspaper, wrap their presents, build a bookshelf. There's a global scarcity of natural resources. You can grow trees in Brazil, but they're having huge fights with guys who want to grow food there. So we're very well situated that way.

● (1625)

Mr. Mike Wallace: I appreciate that on the demand side. You did, I think appropriately, say there's a mix of things, not just the increase in the value of the dollar that's driving business. What has the lack of demand in the United States in terms of the housing market done to the forestry business?

Mr. Avrim Lazar: The stuff that's making it really hard is the housing crisis, the export taxes or quotas on softwood, the pine beetle eating our wood. It has been a real piling on of crises. But all the things we could have done to survive all those were ripped away from us with a 40% cost increase because of the dollar. The dollar is by far the worst of all our problems.

The Chair: Thank you very much.

Mr. Mulcair, you have seven minutes.

[*Translation*]

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

Mr. Chair, my first question is for Mr. Lazar.

I listened patiently to the questions you were asked by the Conservative members of our committee, but I never heard them reply to your requests for relief, specifically for a quicker reduction in capital costs.

So let me put my question to you, since I cannot ask my Conservative colleagues. What will their answer be when you ask them to understand that something different must be done, that we cannot just blindly reduce taxes, because a company that makes no profit pays no tax anyway? What will their answer be when you explain that to them and ask them for the tax relief that you just described to the committee? It does not look as if you will get any answer here.

[*English*]

Mr. Avrim Lazar: When we have spoken with the finance minister, the industry minister, and the Minister of Natural Resources, they have expressed an informed understanding of our situation and a real interest, even though they're not listening. We have great confidence that the government will do the right thing. I know you want to put them on the spot. You guys should be on the spot; you're the government. Do we believe they will do the right thing and make it five instead of two years for CCA and make refundability a reality? Yes, we have confidence in them.

[*Translation*]

Mr. Thomas Mulcair: Thank you.

My next question goes to the mayor of Hearst. Mr. Mayor, have you had the opportunity for any joint action with people in other communities who are going through the same crisis, whether in the north, or even in other provinces, through national organizations, like the Federation of Canadian Municipalities, for example? Your assessment of the situation, namely that entire communities are going to disappear if something is not done, seems to be shared everywhere else but in the caucus of the Conservative Party of Canada. How are you working with other municipalities on the issue?

Mr. Roger Sigouin: I am the President of NEOMA, which extends from Matheson to Hearst, about a four-hour drive. I represent all the communities in northern Ontario. The way in which our forest industry works means that each community depends on the others for survival. Plants need each other, for wood chips, dust and so on. Everything is interrelated. When one plant closes its doors, the rest of the forest industry goes out of balance. That is where it is important.

I think that the government needs a new vision for the forest industry. Hearst has "gone green" for two years now, with a vision based on the environment, on people and on economic development. The government talks about it, but we need action, we need it to support communities who want to move with the times.

In Hearst, we have the Bio-Com Project, which is designed to provide information on biotechnology, on converting biomass to ethanol, on methanol, on information technology, on automation, on new processes, new materials and value-added products. In our neck of the woods, we are just used to making 2 x 4s, 2 x 6s and 2 x 8s. We have to adapt to demand if our communities are going to survive.

● (1630)

Mr. Thomas Mulcair: Mr. Chair, to wrap up, I gather from the contributions made by Mr. Lazar and the mayor, Mr. Sigouin, that what is sorely lacking from the government is an understanding that you cannot apply the same solutions everywhere, in all sectors of the economy. It makes no sense to reduce taxes where there are no profits to tax. These communities need more than economic ideology, they need more action and a long-term vision. Converting biomass into methanol could provide a sustainable development option that would meet the needs of future generations. The problem is that the present government has no vision and does not believe in sustainable development in the slightest.

[*English*]

The Chair: We'll get into that debate once we get into our report. If you are here with the witnesses, I'd ask that you ask the questions to the witnesses, and we'll debate the merits of that afterwards.

[*Translation*]

Mr. Thomas Mulcair: That is what I did, Mr. Chair, precisely because there was no answer from the government side.

[*English*]

The Chair: I think you made your point.

We now have Mr. St. Denis for five minutes.

Mr. Brent St. Denis (Algoma—Manitoulin—Kapuskasing, Lib.): Thank you, Mr. Chair.

Thanks to all the witnesses for being here. If I have time I'll come back to Mr. Fenn and ask him about the finance minister's much ballyhooed press conference, where he talked about how difficult it was to buy the latest Harry Potter book in Canada—much to his later embarrassment. But we'll come back to that.

I hope I have a chance to ask Chris Jones something about tourism, because I have a northern Ontario riding of 110,000 square kilometres, which happily includes Hearst. I thank the mayor of Hearst for making the long trip to help us out today. I should point out that the mayor of Hearst is the president of the Northeastern Ontario Municipal Association, so he's well qualified to speak for a large number of communities in northern Ontario.

He talked about communities being really stretched and stressed by forestry, and I would add towns like Espanola, for pulp and paper; the Nairn lumber mill, which has closed down; Midway Lumber Mills in Thessalon, which is about to close down; and in Chapleau... he knows all their stories.

Let's say the federal government had a program, Monsieur Sigouin, that partnered with you and other communities to say we're going to be your partner. You have the ideas for economic development. You want to transition to the next cycle of the forestry sector, which means there will be changes. You want to transition to the diamond mining opportunities up in James Bay area. There are other opportunities. It's not hopeless. You know that's why you're here. There is hope, but it requires transition and change. So if you had some federal and provincial dollars in your community, what are some of the things you could do?

Mr. Roger Sigouin: Last Saturday we started to talk with the first nations people, face to face.

[*Translation*]

The town council of Hearst and the band council of Countess Lake 92 got together and learned a lot about each other. I think that our future lies in the far north. The solution is to develop the far north, to go and get the resources, while still respecting the First Nations and their realities. We must help them move things forward. There will certainly be ups and downs, but as elected representatives, we have to have mutual understanding and support so that we can move forward.

Today, people in some First Nations in the north are going to pay $8 for a quart of milk. They are living in conditions that are unacceptable. We must try to help them. After all, we are going to benefit from the resources in the far north. We must work together and move forward, while respecting First Nations' culture. Otherwise, we will not be able to move forward, and we will all go under. I think that First Nations are open to the idea of working with us along those lines. It is going very well.

I encourage the government to invest in FedNor so that we can move projects forward, especially in communities that are in trouble and that need help. At the moment, there is a lot of bureaucracy. My apologies if I am insulting anyone, but the bureaucracy is awful. We get nowhere. Often we get money from the province, but the federal government steps on the brakes rather than help us. I think doors should be opened so that northern Ontario receives the help it needs to move forward.

● (1635)

[*English*]

Mr. Brent St. Denis: Mr. Lazar, you mentioned that the forestry sector provides the greatest number of jobs for our aboriginal citizens compared to any other sector. I think that's a revelation to a lot of people. That's good news in good times, but it also brings with it tremendous challenges.

I know your organization represents the employers, particularly the major employers. I know that the communities are important to your employers too. When they lose their tradespeople in down times to the oil fields, or the diamond mines in the Northwest Territories and other places, that hurts you in the long run.

But you did say that this is going to come back in about thirty months, give or take? Do you think it will be the same industry in two to three years, or will it be a changed industry?

Mr. Avrim Lazar: On aboriginal employees, even more interestingly, we do business with about 1,600 aboriginal-owned businesses. So in addition to them being a large part of our labour force, there's a lot of business-to-business activity, and it's very successful.

The industry is going to be different. There will definitely be fewer and more efficient plants. There will be small and medium-sized brilliant niche players, and there should be some very large economies-of-scale players. But we will not succeed by trying to hang on to the status quo. We have to go through the adaptation process, which is why we said don't subsidize; don't get in the way. When the industry is trying to go through a transformation, painful though it is, let us do that, but help with the investment and innovation.

We're talking about switching to biomass. The industry is now powered 60% by renewable biomass. The government can help speed the transformation there. New products, processes, and markets—all of that sort of work is supported by SR and ED tax credits that are not accessible to us, not that I want to beat that horse a little bit.

Thank you.

The Chair: Thank you very much. I think we got the point.

Monsieur St-Cyr, you have five minutes.

[*Translation*]

Mr. Thierry St-Cyr (Jeanne-Le Ber, BQ): Thank you all for being here.

When one of you started, he said that things were getting a little repetitive and that we were probably always hearing the same things. I must tell you that that is so. But personally, I am happy about it. I hope that it will open the eyes of the government and of theMinister of Finance. Such a jolly fellow he is, always saying that things are going well and that there are no problems.

It is the same story with the 22 recommendations made by the Standing Committee on Industry, Science and Technology that we talked about earlier. None have been adopted although there has been plenty of time to do so. There was time in the 2007 budget, and there was time in the recent fiscal update. Again, nothing. Two or three weeks ago, the Bloc Québécois presented a motion in the House. It asked the government to intervene. The government voted against it. It seems not to see the urgency in the situation.

Were we on the wrong track when we said that the situation was urgent and that immediate action was needed? We listened to experts —and you all are the experts in this area—who told us that the present situation is in good part a result of the rise of the dollar to 80c and that the worst is yet to come. Are we right to say that action is needed now and that we can wait no longer? Is that correct? Am I wrong in saying that?

Mr. Avrim Lazar: We agree with you completely. This is very urgent; it cannot wait.

● (1640)

[*English*]

It's simply because people are deciding today where to invest. The decisions are being made day by day: is Canada a place to put your money, or should it be put in mills in the south? So the faster we act on the all-party manufacturing committee recommendations, the more money gets invested in Canada. There's a tendency to look at the job figures and say this is how things are going. That's where the puck was yesterday. Where the puck is going is where the investment is going, and we can't move too quickly. It is very urgent that we make these changes.

To be fair, the government has done a lot of good things, and we respect that very deeply. To be fair, the unprecedented impact—at one point it was up 65% over five years; that almost never happens. In Germany, their currency has gone up 10% and the minister of finance was saying they've got to worry about this, they can't have a currency that fluctuates that way. The head of the European Bank started to talk about the impact on industry of a 10% change in the euro relative to the dollar. We seem to have sat back, and I'm not criticizing anyone in particular on this. I think as a politically light group of economists, we've sat back and said this is what happens. It shouldn't happen.

I don't agree that the government can't do anything about the dollar. There is a philosophy behind what the Bank of Canada does. It's a philosophy based upon the single value being the control of inflation and a belief that intervention can't work, but when Mr. Dodge and Mr. Flaherty expressed serious concern, the speculators got the message and the dollar started to come back down.

So I think we need to take more responsibility for our currency, because our currency is the base of our economy. I'm not talking about fixing the dollar or intervening in a way that sets it somewhere where the economics don't make sense, but the relative economic strength of Canada relative to the U.S. doesn't change 20% a year. Our productivity hasn't zoomed up so we can explain a 20% raise. Theirs hasn't dropped. The dollar's movement reflects speculators, not basic economics. Of course, it shouldn't be at 70¢, but neither should it go up that much that quickly. It should reflect basic economics, not the greed of speculators.

The Chair: Thank you very much, and thank you, Mr. St-Cyr. Your time has gone.

We'll now move to Mr. Dykstra for five minutes.

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

I want to continue on that. We can play politics here around who's moving fast enough, who's not doing enough, who should do more, and the government needs to do what. It's a minority government; it's not a majority. We can't implement everything we'd like to because we have to work with our colleagues. Every once in a while we have to remind the opposition of that.

You raised a very good point, and that is the intense escalation. It's interesting, because the reason you're here is to talk about the issue around the dollar, and we spent very little time talking about that today. We spent a whole lot of time on recommendations on what we should do in terms of improving the individual sectors you represent. It's fascinating and it's helpful because we are also doing pre-budget consultations.

To return to the issue of the dollar, the intense escalation is not based on anything other than, I guess, speculation of investors. That happens and there's not much you can do about it. The fact is, when things happen this quickly, it's very, very difficult for any business, or government, for that matter, to react in a way that isn't just going to be reactionary, to try to put on a band-aid and fix it, but to try to be substantive in terms of looking forward in the long term.

You touched on the fact that the dollar escalated so quickly. Is it not fair to say that if we're going to move forward, we need to make sure we do what's right rather than just what seems to be urgent?

Mr. Avrim Lazar: I certainly won't argue with doing what's right, but we also have to do what's urgent. Put differently, we have to do what's right urgently. Are we going to urge you to do stuff that's short-term easy and long-term stupid? No, we don't want that. We don't want subsidies. We don't want you to interfere in the economy in a way that would undermine our competitiveness. There are things you can do urgently that would support a competitive business climate.

Mr. Rick Dykstra: I know this gets back to improving the scientific research and experimental development tax and making it fully refundable. We at least launched consultations on how to make it work, how to make it better. I'm assuming you've presented on those as well. If we're going to do it and we're going to make that big an investment, we want to make sure we do it right and there's actually going to be a benefit to the companies you represent, because if you just charge ahead and make announcements, it may seem to be proficient in the sense of saying something, but if it's not doing anything, it's not going to help any of your industries.

● (1645)

Mr. Avrim Lazar: Due diligence is a wonderful thing as long as it leads to action in the end. We certainly respect the due diligence and doing the research as long as we see action at the end.

And you have to understand that the towns that depend upon these industries going through transformation are saying that if the investment goes to the U.S. tomorrow, it's not going to come back the next day when the committee reports. So time does mean something.

Mr. Rick Dykstra: There's no doubt about that. But when a dollar charges up 10¢ in less than 10 days, it's pretty hard to be able to say, okay, we're going to implement the following policies, so that they're immediately going to have a significant benefit to a company, because they're not.

Even the research dollars we're talking about, even if you make them fully refundable, you still have to put them out. At the beginning you have to see what the product is going to be, and then you're going to get that refund back at the end. You still have to make those investments, and if companies aren't making a profit, they're not going to be able to do science and research because they don't have that money to begin with.

Mr. Avrim Lazar: I'll just check with my chief economist. We're investing $4 billion a year?

So the money is going in. The way it works is that the tax credits accumulate so investments from the past can be recognized. They would be recognized at the time of profitability. We're saying recognize them now at the time of adjustment.

We know you don't have a magic wand. We know the tooth fairy isn't part of the government and that you're not going to make it all go away. But we know that most of the adjustment has to come from us, that we have to transform. All we're saying is create a business climate that makes it a little easier, that's all.

Mr. Rick Dykstra: Well, the 2006-07 budgets certainly tried to do that. I have them right here. I looked through them as we were talking and before preparing for the meeting. The economic statement and all of these things are drivers and indicators that this government is trying to help business—trying to make sure we're competitive and trying to get a tax rate down to the lowest in the G-7. What all of this tells me is that we need to continue to work together, obviously, and we need to continue to come up with results that are going to benefit.

Mr. Jones, I know I don't have much time, but I have a very quick question to you. You mentioned marketing in the United States. I am one of those you alluded to, in terms of being from Niagara. Obviously, I appreciate your doing that and standing up for the tourism industry, not only in Canada but specifically in Niagara.

I'm intrigued with the marketing part of it. If it is going to have a direct benefit, could you very quickly describe what that might be?

The Chair: Very quickly.

Mr. Christopher Jones: What we've detected in the last few years is that there has been a population shift and a shift of economic wealth away from the northeastern United States into the southwest, the midwest—the Rocky Mountain range—in the States. Those people are deemed to be mid- to longer-haul U.S. markets. They're not border states. To get to those people we need to market in Nevada; we need to market in Colorado. We need to market to places that aren't necessarily adjacent to Canadian provinces.

The Canadian Tourism Commission needs funds to get into those places and to market to those people who, when they're thinking about taking a holiday, instead of going to Mexico or the Caribbean, may decide to come up to Canada.

So we need more funding for the CTC. We want to commend the government, though, for the announcement on the Olympic funding. That was very helpful.

The Chair: Thank you very much.

Mr. McKay, five minutes.

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

I'd like to go to the lonely end of the table, to Mr. Darby and Mr. Fenn.

Mr. Fenn, you described briefly the Minister of Finance's grandstanding with one of the Harry Potter books, and other than causing fights to break out in your stores and making a very awkward situation for retailers to explain to their customers the input costs on a product, what effect has the volatility of the dollar had on your sales in the last six weeks?

Mr. Jordan Fenn: As soon as the dollar started to fall, consumers started paying attention to the variance in retail pricing. As a result, publishers had to immediately address this and start to bring our pricing down in line with what's happening in the American market. The result of our prices being decreased by as much as 25% is that it's impacting our revenues.

All of our budgets are done, obviously, at the beginning of our fiscal year, if not before that. So the impact is lower revenues. But again, our costs are all static, so it's having a devastating impact on the entire publishing community, not just the Canadian companies but also the multinationals.

● (1650)

Hon. John McKay: So it's just taking a good year and turning it into a lousy year?

Mr. Jordan Fenn: We were having a fantastic year. Our fiscal year ends April 30, and we know that the next quarter is going to be a very difficult one because we are just closing our spring publication list. All of our prices were set for all of our books, which were acquired 18 to 24 months ago, and we have had to lower all of our prices to try to be competitive. We will not be profitable, as a result.

I think we're going to see a lot of smaller, independent Canadian publishers suffer, if not go away, as a result of this.

Hon. John McKay: Thank you.

You would like to see the finance minister use his bully pulpit in a positive way.

I want to direct the next question to Mr. Darby.

We do have a reference where the finance minister did use his bully pulpit in a proper way, which was to try to express concern about the volatility of the dollar. Of course, the Governor of the Bank of Canada also used his bully pulpit in a responsible way and tried to jaw the dollar down, or jaw some stability into the dollar.

Almost all the witnesses from the economic side of the equation, Mr. Darby, said we have space for the Bank of Canada to reduce interest rates. I'm assuming that you endorse that position, but from an economic standpoint, work me through the situation in which if interest rates were reduced, how that would help, say, Mr. Lazar's industry or others, and what would be the inflationary impact of that kind of move on the Bank of Canada?

Mr. Paul Darby: The most direct impact on Mr. Lazar's industry would come from the movement in the Canadian dollar that would result from lower interest rates. Canadian financial assets would be seen as less attractive vis-à-vis American assets. There would be a smaller inflow of cash to buy those assets in Canada, which would take some pressure off the Canadian dollar, and money would flow elsewhere. Given the sensitivity of the forest sector to the Canadian dollar, I think that's by far the most important route by which a lower interest rate leading to a lower dollar would impact upon his business.

When we say we have room to lower the dollar, I think we're talking mainly about the possibility of a slowdown in the United States and the fact that the United States has lowered its interest rates to some extent. But I would be careful, frankly, because the inflation aspects are non-trivial at this point. Canada is in a strange situation I think of looking at a slightly split economy geographically, and we are looking at some substantial inflationary pressures out west, as we know. There is a sense that the Canadian economy as a whole, absent sectors that are obviously hurting from the dollar, is pretty close to full employment, if not there already. Further massive stimulus, if you like, through a substantial decrease in interest rates, I would argue, is probably not the most prudent course.

Hon. John McKay: Just two seconds.

Would 50 basis points have any effect for more than five minutes?

The Chair: You have five seconds to answer that.

Mr. Paul Darby: Yes, 50 basis points would have an impact for more than five minutes.

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

Mr. Ed Fast (Abbotsford, CPC): I'm going to pass to Mr. Wallace.

The Chair: Okay, Mr. Wallace.

Mr. Mike Wallace: Thank you, Mr. Chair. I get the pleasure of going again, which is great.

This is not a different topic but one where we're talking about demand and so on, so I want to ask our forestry friends this one.

You like to talk about the recommendations, and I'm not going to argue with my colleagues about how much of it has been implemented and how much has been announced. I've been in the private sector; I've worked for big, bad oil, I've worked for Imperial Oil, I've worked for Texaco Canada when they existed in this country, and I've worked for very small businesses. Business moves at a different speed. The larger you get, the slower it gets, there's no doubt about it. Government is no exception to that. We are working our way through it, but one of the recommendations—and I'm talking about the recommendation from the committee, because you talked about them all—was the importance of an impact analysis of any free trade agreements with South Korea and the European Free Trade Association. Does your organization, representing the forestry industry, have any comment on what's happening, the potential with South Korea or with Europe?

● (1655)

Mr. Avrim Lazar: We strongly support free trade in all directions. There are no tariffs on forest products coming into Canada, there are tariffs going out to some of our customers, and we strongly support the government in acting strongly anywhere where there is a possibility of opening up the channels to trade. Canadian workers sell their stuff in world markets, completely unprotected in Canada, and we'd like to see a level playing field that way.

Mr. Mike Wallace: Of the marketplace that does exist in Canada —I know we're a small player compared with some of the other markets—what is the percentage of forest product that is imported into Canada? Do you have any idea?

Mr. Avrim Lazar: It would be very small. We are the world's most successful forest products exporting nation. No one else exports like Canada does into global markets. We're almost double our nearest competitor, which is the U.S., and as much as Finland and Sweden combined. There's very little coming in. What does come in is brought in by our big customers for price discipline. So if we try to move the price of a tonne of pulp up by a penny, all of a sudden they start calling China and we move it back down. But mostly we are an export industry.

Mr. Mike Wallace: Thank you.

I have a question for Mr. Jones, if that's possible.

I'd like you to elaborate a little bit, if you could, on the open skies policy. My understanding is that we have recently signed a deal for an additional open skies partner. If we are able to allow more foreign competition, I guess you would say, in terms of flight stabilities, why is that important to your industry? And where should we be headed first on this?

Mr. Christopher Jones: Thanks. That's a good question.

Just by way of background, Canada has two open skies aviation agreements at the moment; the United States has 70-odd. We are just now embarking on negotiating one with the European Union.

It would assist our industry immensely if there could be a greater range of destinations from outbound markets into Canada, a greater range of flight options and fares, and more airlines flying. For Canada, the more of that the better. Many markets in Canada, from Newfoundland to British Columbia, claim that what they lack, from an inbound visitation point of view, is significant airlift and air capacity. These kinds of negotiations are incredibly helpful, and we need to encourage our Transport Canada officials to negotiate more of them.

The single biggest issue here, if I can just take a few seconds to talk about this, is that the domestic cost, the structural cost, of aviation in this country is a massive disincentive to travel, both within Canada by Canadians and by foreigners. The airport rents, the air travellers security charge, and a series of other fees and levies all combine to make landing a plane at Pearson, according to IATA, the most expensive airport in the world at which to land a plane. That has a massive knock-on effect on tourism, convention businesses, and all kinds of things that depend on Pearson being a gateway for foreigners. So anything that can be done to reduce the structural costs of aviation in this country would be much welcomed by our industry.

The Chair: Thank you very much, and thank you very much to the witnesses.

Just to let the witnesses know, and as a reminder to the committee, there was a reference made to a report from an all-party committee that worked in a non-partisan way in the best interests of Canadians. We also will have a report. We're trying to do that. Regardless of the political jabs you might have discerned around the table, I can assure you that the chair is trying to do the same thing here at this committee.

So thank you for your presentations, and we will now ask for a replacement at the other end.

Go ahead, Mr. Crête.

[*Translation*]

Mr. Paul Crête: Mr. Chair, I would just like to announce that, next Wednesday, I would like us to deal with the motion of which I have given notice and which reads as follows:

> That, in accordance with standing order 108(2), the Standing Committee on Finance recommends that the government promptly introduce the tax measures in the unanimous report of February 2007 dealing with the manufacturing sector, and entitled: [...]

The title will have to be added.

At the end of next Wednesday's meeting, I would like us to deal with this motion, of which notice will have been given 48 hours in advance.

● (1700)

[*English*]

The Chair: Okay. We'll debate it at the end of the next meeting. That's fair enough. We'll just reset the schedule.

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): We have no problem with that. Thank you.

The Chair: Good. Thank you.

We will adjourn now for a minute or two while they reset the table.

●

(Pause)

●

The Chair: As we start, we want to first of all welcome our witnesses.

We have a gentleman, Stephen Jarislowsky, by teleconference.

Mr. Jarislowsky, can you hear us?

Mr. Stephen Jarislowsky (Chairman and Director, Jarislowsky Fraser Limited): I can hear you splendidly.

The Chair: It's splendid from our end as well. Thank you for being here. We will yield the floor to you at the appropriate time; we just want to make sure our microphones are working.

With that, we have the Canadian Council of Chief Executives,

[*Translation*]

the Union des producteurs agricoles,

[*English*]

David Tougas, and I just introduced Mr. Jarislowsky.

We'll start with the Canadian Council of Chief Executives, David Stewart-Patterson, executive vice-president. The floor is yours for five minutes, please.

● (1705)

Mr. David Stewart-Patterson (Executive Vice-President, Canadian Council of Chief Executives): I'll do my best, Mr. Chair. Thank you.

Thank you for the opportunity to appear and discuss the impact of the Canadian dollar and its appreciation on our economy. It's only a few years ago, it seems, that we were worried about the dollar being too low. That weakness reflected our precarious fiscal state, low commodity prices, and other factors. We complained about the way it sapped our productivity, added to inflationary pressures, and left us vulnerable to foreign takeovers. Thinking about that today brings to mind that old adage about being careful of what you wish for.

Strong currency does have many benefits. Consumers are enjoying lower prices on goods imported from the United States. If the dollar stays high, you're going to see prices continue to fall as inventory works its way through the system. Businesses can also benefit from a higher dollar. As import prices come down, it makes it easier and more affordable to invest in imported machinery and equipment, much of which comes from our neighbour to the south. The downward pressure on both business and consumer prices in turn makes it easier for the Bank of Canada to justify lower interest rates, and that of course is a benefit to both business and families.

But make no mistake, both the current level of the dollar and the incredibly rapid pace of its rise are causing real problems for our economy. In the resource sector, tight labour markets keep driving up Canadian dollar costs even as the shift in exchange rate takes away much of the global rise in commodity prices that are expressed in U. S. dollars. Manufacturers have already shed hundreds of thousands of jobs. The damage in that sector could very much get worse.

Exporters of services are affected just as badly because their biggest cost is people who are paid in Canadian dollars. This includes Canada's vital tourism sector, which is being hurt by the rise of the dollar and increasing security requirements, both current and projected, at the United States border.

Perhaps the biggest risk moving forward lies in the causes of the plunge in the American dollar, not just against ours but against all major currencies. The United States faces huge fiscal, trade, and current account deficits, a situation that we in Canada remember well. The real danger is that these economic negatives, which have been compounded in recent months by the crisis in financial and housing markets in the United States, could plunge that country into a recession. A major downturn in our largest export market clearly would compound the damage already being done by the dive in the U.S. dollar.

In the meantime, the worse aspect of the exchange rate situation is not the absolute level of our dollar against its American counterpart but the speed and volatility of currency movements. Over time, Canadian companies can offset a higher dollar, either by moving operations offshore, purchasing offshore, or by investing in new technologies that deliver higher quality at lower cost right here in Canada. That, I would suggest, is the preferred outcome.

That kind of investment, though, takes time. It takes time to develop, to buy, and to put in place. At its recent peak of close to $1.10, our dollar had risen a stunning 29% since the beginning of the year—74% over the past five years. Even aggressive business investment cannot cope with that speed of change.

It has to be recognized that Canada has done remarkably well so far in replacing the jobs being lost in manufacturing with other jobs. Certainly there have been studies suggesting that those jobs being created are in fact better than the ones being lost. But I would suggest that this kind of performance cannot continue indefinitely in the face of both a rising Canadian dollar and a weakening United States economy.

The most important steps that governments can and must take now are to focus on helping business accelerate investments that are necessary if we want to keep growing jobs in this country.

Successive federal governments have done a good job in steadily bringing down the statutory corporate income tax rate. But because of the lead times involved in major capital investments, I would suggest that the federal government should extend the faster write-offs for manufacturing equipment that were introduced in the last budget. It also should consider improvements to drivers of innovation, such as the scientific research and experimental development tax credit.

I think that raises the broader issue that while it's a good idea to support business investment through the tax system, we have to take account of what you do when companies are not making any profits to be taxed and how you make sure the incentives are effective.

In any case, assistance on the tax front must not be limited to the federal government; provincial governments have to do their share too. That is a task that is most urgent in Canada's manufacturing heartland of Ontario, which currently suffers under one of the highest effective tax rates on new investment in the industrialized world. Provinces are gradually reducing their capital taxes—that's a good thing—but the most critical next step is for Ontario, British Columbia, and other provinces that still levy sales taxes on business inputs to convert them to value-added taxes similar to, and preferably harmonized with, the federal goods and services tax. Provincial governments should also be moving more quickly in eliminating their capital taxes and should be doing their bit to lower the provincial corporate income tax rates.

● (1710)

Tax policy is not the only lever governments can and should pull if they want Canada's long run of economic growth to continue through the current crisis in our largest market; they need to tackle every policy that adds unnecessarily to the cost of doing business in this country.

The federal government needs to achieve the goal of the smart regulation initiative, cutting the cost of the administrative burden of regulation by 20%. Federal and provincial governments need to continue their work to reduce the remaining barriers to the movement of goods, people, and investment across provincial borders within this country—and also ensure that other important policy objectives, such as addressing climate change, are done in ways that add rather than subtract from our country's competitiveness.

One other point I want to make, Mr. Chair, is that Canada also has to ensure that both people and goods move smoothly in and out of our country. This requires significant investment in transportation and border infrastructure, but it also reinforces the importance of strengthening the efficiency of the North America economy as a whole and in particular making sure that the Canada-United States border stays open and efficient. An efficient Canada-U.S. border is critical to the competitiveness of Canadian companies. By the same token, the potential combination of an increasingly security-driven, sticky border and a high Canadian dollar forms a powerful incentive for businesses to put any new investment into the United States rather than our country.

Cutting taxes on business investment, streamlining regulation, and working towards a seamless border, I want to admit, are not new ideas or new prescriptions. They made sense even when the dollar was low. What I want to suggest to you today, Mr. Chair, is not only that they make even more sense now, but also that they have become pressing necessities, given that the dollar has climbed so far and so fast.

Thank you, Mr. Chair.

The Chair: Thank you very much. I appreciate that.

We'll now move on. There is a change from an economist to a president. It seems like a fair trade to me.

We have Laurent Pellerin, president. The floor is yours for five minutes.

[*Translation*]

Mr. Laurent Pellerin (President, Union des producteurs agricoles): First, I would like to thank the members of this committee for agreeing to hear our views on the situation and on the effects of the rise of the Canadian dollar against the American dollar specifically, but more generally against other world currencies.

Most of you know our organization, the Union des producteurs agricoles. The organization represents agricultural and forest producers in Quebec. In our agricultural division, we have 43,000 members on about 30,000 farms throughout Quebec, with farm-based sales of $6.2 billion.

In our forestry division, which we represent through the Fédération des Producteurs de Bois du Québec, we have 130,000 owners of private forest land who contribute 20% of the supply to Quebec plants. This means 30,000 jobs directly in those forests, a figure that does not include the multiplier effect in processing.

Right off the bat, we must emphasize that the rise in the Canadian dollar against the American dollar is having unprecedented consequences that are destroying our sector. The extent and the speed of the rise in value of our country's currency—almost 30% against the American dollar in only two years—are closely linked to the rise in the price of oil. I have provided a graph that shows these changes. The rising cost of energy and the difficulty in getting our products to market are causing our production costs to increase. This structural and very sudden change has resulted in agriculture and forestry in Quebec becoming significantly less competitive.

As monetary policy is in federal jurisdiction, it seems to us essential that the Government of Canada must show its leadership by bringing in measures to help our industry through this crisis.

At the meeting of Ministers of Agriculture last November 16 and 17 in Toronto, the industry demonstrated the harmful effects of the rise in exchange rates on agriculture, specifically on meat, and the topic was a significant part of the discussions held by the Ministers of Agriculture.

Here are some of the repercussions of the Canadian dollar's rise against the American dollar: it affects the income of producers; it depresses market prices; it means that we lose markets; it adds more imports to our markets; it drives our exports down—especially in forestry, which is being very badly hit all round. Canadian measures to ease this crisis in forestry and agriculture are having little effect.

You know, I am sure, that the prices of most of our agricultural commodities, grains, beef, pork and some market garden products, are set on the Chicago Exchange. Whatever happens on that Exchange affects the Canadian market once the exchange rate is taken into account.

In the Quebec pork industry alone, the loss of revenue, just for 2007, is almost $200 million. If I do the same calculation for Canada, the lost income climbs to the order of $600 million in Canadian pork production. The word "production" does not include slaughterhouses. Pork is our second biggest agricultural export, and sometimes, the biggest. The blow is extremely severe.

There is also an effect domestically. The substantial drop in the value of the American dollar makes their products very attractive in Canadian stores because they are now priced much lower than our own. This creates a substitution effect in our markets.

Furthermore, in export markets other than the United States, where we are compete with American products, the competition is intense, and we are losing export markets as a result.

● (1715)

According to one study at an American university, each time that the Canadian dollar increases by 1%, 0.2% of our exports to the United States disappear in the short term and 0.5% disappear in the medium term. So let us not downplay the medium term effect which is only just starting to appear. What we are seeing in the short term is only the beginning of the full impact that the exchange rate could have. That impact on the farm will be somewhere between $1.5 and $4 billion in the next few years.

In forestry, 68 mills in Quebec have shut down. Producers in the Gaspé, in the Lower St. Lawrence and in Abitibi-Témiscamingue have no way to get their products to market because of the impact that the value of the Canadian dollar has on our exports.

We are making four requests at this committee meeting: to establish an urgent action plan to cushion the harmful effects of the value of the Canadian dollar; to act on the suggestion made by Mr. Charest, the Premier of Quebec, to hold a first ministers' meeting as soon as possible; following on from the recent meeting of Ministers of Agriculture, to quickly implement measures to help the pork, beef and market garden sectors, because we are also losing our slaughtering capacity which is heading more and more to the United States; to establish an AgriFlex program, as proposed by the Canadian Federation of Agriculture, that would allow provinces to access federal funding for provincial programs.

Thank you for your attention.

[*English*]

The Chair: Thank you very much.

We'll now move on to Jarislowsky Fraser Limited. The chairman and director, Mr. Jarislowsky, is here.

The floor is yours. You have five minutes, please.

Mr. Stephen Jarislowsky: I haven't really prepared for this because I didn't know what we were going to talk about, but it's a subject on which I'm reasonably versed, so I won't have any great problem.

About three years ago I got together with Mr. Dodge and indicated to him that the dollar had already risen quite a bit. In a country where one-third of the gross product is dependent on the United States and 85% of our exports go to the United States, we cannot go through periods every 20 years when commodities do well and our manufacturing industry goes broke. That's exactly what's happening and will happen to practically all of our manufacturing industries in Canada—or they will move out of this country—if we continue at the current level of exchange.

I indicated to him at the time that inflation was one item, but for a country tied as closely as we are to another country, the exchange rate makes an enormous amount of difference.

Even your members of the more socialist parties will recognize that if you raised wages in one year by 29%—as we did this year as the result of the dollar differential between us and the States—and 74% in a four-year period, the unions would have done something about it. I don't believe there are any industries that have any amount of labour capable of overcoming that kind of disincentive...except to go bankrupt.

Until recently I was a director of Canfor, which is the largest sawmill operation in Canada. I can tell you that at this point, even though I'm no longer on the board, we don't have a single mill in Canada that isn't losing cash at the current exchange rate, despite the fact that we invested hundreds of millions of dollars in new equipment when we had the money.

Very often we are told that this is a wonderful time to invest, but if you're going to go bankrupt anyhow and the dollar keeps shooting further up, I would say it would be throwing good money after bad. You might as well go bankrupt and try to save as much of your money by pulling it out of there before you go bankrupt, rather than putting additional capital into the company.

When you have as close a relationship as we have with the United States—and I'm thinking long term—it's going to be very difficult to attract people to invest in manufacturing here, because for 60 years, ever since World War II, we have been trying to build a manufacturing base in this country. The result of what we have seen in the last few years is that the manufacturing base is being totally destroyed.

I believe that if we stay at the present level, practically the entire forest products industry will be in bankruptcy, with an enormous loss of employment. I believe that about a million people out of the 30 million depend on the forests, and it's going to create absolute havoc in the mill towns, especially in areas like British Columbia, where you have to compete with wages in Alberta.

If you look across Canada, especially in the heartland, where we don't have oil production, we are really living in a country where the hair on the tail of the dog, namely the 70,000 people who live in Fort McMurray, are really the engine of this petrodollar.

When you look at Alberta at the present time, conventional drilling for oil is practically non-existent, and very large reserves aren't going to be found there any more. Because of the differential in the gas-to-oil price internationally, most of the gas drilling—and that's really what the province is all about, other than in Fort McMurray and the tar sands—there's hardly any activity there, and it's very much reduced this year compared to last year. So it's really the hair on the tail of the dog that's wagging this dollar.

The other thing that has had enormous influence in the last few months is the fact that we have allowed some of our largest corporations to be taken over by foreign interests. I believe the recent upsurge in the dollar to $1.10 was largely the result of people who received the Alcan money translating it back into Canadian dollars. Our firm estimated that some $20 billion was involved in that alone.

● (1720)

If BCE goes ahead, the foreign investors from the United States who work together with the teachers' union will also bring probably another $20 billion in.

The way we have organized it—and this is an Alberta problem— the development of the tar sands, whereby everybody is building at exactly the same time, reminds me of what happened during the uranium boom some 40 years ago in Ontario. All these companies are going to have enormously high costs, far higher than if there had been scheduled building whereby only so many tar sands would have been allowed to be built.

My personal feeling is that in a country like Canada we cannot permit ourselves to have a dollar that goes through these kinds of gyrations, and I think we have to really seriously start thinking of a model of a continental currency, just like Europe has a continental currency. We have to work towards that, not at a price where we are today, but at an average price.

Even then, we have to keep in mind another thing, and that is that in a country as cold and as distant as Canada, we have a problem of productivity. Our productivity increases will continue to be slower than in the U.S.

● (1725)

The Chair: Thank you very much. I appreciate that. Now we'll move on to the questioning part of our meeting, and we'll start with the Liberal Party.

Mr. Pacetti, you have seven minutes.

Mr. Massimo Pacetti: Thank you, Mr. Chairman.

Thank you to the witnesses for appearing.

Mr. Stewart, I don't want to spend too much time on this, but you talked a bit about the challenges or the tax rates at the federal level and then you spoke about the provincial level. Is there nothing that bothers you in terms of the municipalities, in terms of how their taxation works?

Mr. David Stewart-Patterson: Municipal taxation matters too. The fact is, when companies are assessing Canada's attractiveness as a place to invest, they're looking at the total tax burden. We actually have a research project under way right now, which we're hoping will give us a better picture of the tax situation at all three levels of government and how they add up. Where we've seen the most significant progress to date has been at the federal level, by actions taken both by the previous government and the current government. I want to acknowledge that. I think the most urgent single step that can be taken now would be the conversion of remaining provincial sales taxes to a GST or GST-equivalent.

But no, I would certainly agree that municipal taxation is important, and probably disproportionately important for small or medium-sized businesses.

Mr. Massimo Pacetti: That's what I was thinking. Thank you.

Because our time is limited, if you would have shown up, say, even a month or two ago, the challenge would have been on the low productivity and where are businesses going. There have been some changes in the last few years in terms of tax policy, where the companies could invest and invest in their equipment. Now we're saying with the higher cost of the Canadian dollar and the lower cost of the U.S. dollar, companies should probably take this opportunity to invest in equipment. Is this something your companies are doing, or is this just another excuse to ask for more—I hate to use the word "subsidies", but for more help and handouts?

Mr. David Stewart-Patterson: I think the pressure to invest has been there. We've had five years of the dollar going up, and each year it's been a problem. The higher it goes, the more pressure there is for companies to invest. At the same time, I think as both of the other witnesses pointed out, when it goes up extremely fast, you end up with a situation where the pressure to invest is extremely high but the ability to invest goes down because you're not making any money.

So I think it is a legitimate criticism to say that back when we had a 64¢ dollar, Canadian companies took it too easy. Too many companies took it easy. Those that did take it easy are paying a price for it today.

On the other hand, as Mr. Jarislowsky pointed out, companies like Canfor invested heavily. If you look at the relative productivity statistics, there are industries where Canada and Canadian industries have higher productivity than their American counterparts. So it's not a uniform picture on the productivity side. The fact is that when you look at the dollar, where it is today, when you look at how fast it's got there, you have to ask yourself, what's the most effective way to get through the crisis?

Mr. Massimo Pacetti: That leads to my next question.

With the speed of the dollar going up, how long can businesses absorb that? It's part of the market I think if we're going to let the market forces dictate how it goes. How long can you keep it up? We saw that it has gone down almost 10% just in the last two weeks. Is that okay? You said over five years the dollar has gone up relatively at a lesser rate. Is that okay? Are you looking at controlling the rate at a certain level?

Mr. David Stewart-Patterson: I think there is absolutely no point in trying to predict short-term currency movements. Statistically, it's about the closest thing to a random walk that exists. But when you've seen a steady appreciation over a five-year period, I think it recognizes the structural differences that have emerged between how well we have managed our economy and how badly I think the Americans have managed aspects of theirs.

Mr. Massimo Pacetti: We have a limited amount of time, Mr. Pellerin.

[*Translation*]

Thank you again for coming.

I would like to ask you a quick question. Let us take pork as an example. You said that pork is less affected by changes in the exchange rate. But a lower market price for pork is not related to the price at which it is sold, because the price is controlled.

● (1730)

Mr. Laurent Pellerin: The price of pork is not controlled. It is a free market. The meat exchanges set the price as they do for beef, grains, and market garden products. So it is the free market and the increase of the Canadian dollar against the American dollar that impact the price directly.

Mr. Massimo Pacetti: So if people cannot sell pork because the price is not high enough, will there be more hogs in Canada that can be sold more cheaply here?

Mr. Laurent Pellerin: Just because producers are selling their products at a lower price does not mean that consumers get the benefit. This week, pork at the farm gate was 35¢ per pound. We have not seen that for 25 years. But consumers pay the same prices in the store because of the concentration in the distribution sector.

The problem is even worse in meat production, pork or beef. Our animals are now shipped to the United States on the hoof. Piglets are now exported to the United States live; the value is added there, as they are raised, slaughtered and processed. The same thing happens with cattle. We sell live cattle to the United States and they are slaughtered there.

Mr. Massimo Pacetti: Does the opposite happen when the exchange rate drops?

Mr. Laurent Pellerin: When the exchange rate was 85¢ on the dollar, or even 60¢ on occasion, it is true that these industries developed and captured markets at home, in North America and around the world.

Mr. Massimo Pacetti: You said that a change of 1% in the exchange rate represents a change of 0.2% in the market, did you not?

Mr. Laurent Pellerin: It represents a 0.2% loss of exports in the short term and a 0.5% loss in the long term. In agriculture, this means losses in the order of $4 billion in the medium term. So these are the areas of activity that are in danger of disappearing just like the forestry industry is already disappearing from the Canadian landscape.

Mr. Massimo Pacetti: There was not a lot of time left in your presentation, but one of the solutions you proposed was a funding program.

Would that be paid back, or would it be just a support program?

Mr. Laurent Pellerin: Our requests are for emergency support for the industry. For a number of years, for decades, Quebec and Canadian agriculture and forestry have been the source of tax revenue, especially for the federal government, providing very lucrative funding for Canadian society.

Now that we are going through a more difficult time, and other sectors, like the oil industry are filling the government's coffers with unprecedented revenues, it is time for the pendulum to swing back towards the agricultural and forest industries that have sustained this country for years. We are going through a bad time now, so it is time for someone to give us a ride.

[*English*]

Mr. Massimo Pacetti: Thank you.

The Chair: Thank you.

We'll go to Mr. Crête.

[*Translation*]

Mr. Paul Crête: Thank you, Mr. Chair.

Mr. Pellerin, I completely understand your position on the emergency plan. But could you explain your support of Mr. Charest's initiative a little more? We see the same thing here. People in parts of Canada are saying that action and involvement are needed, and the federal government is saying that the economy should just be left to roll along.

What would you want the initiative to achieve if the Prime Ministerwere to respond?

Mr. Laurent Pellerin: A federal government that, by definition, heads ten provinces and the territories cannot have a detailed appreciation of what is happening in each of those regions. It has its own vision. If it does not bring together the ten provincial partners and the territories to see the details in each region of Canada close up, it is just going to keep pocketing oil revenue—no argument from us about that—but it will not see the looming disasters in other areas that are very important for Canadian society, like agricultural and forestry production.

Now I think that it is extremely important to have this vision and to share it. We are not asking the Prime Minister to intervene with the Bank of Canada. Not at all. That is not the proper approach. The proper approach is to see what is happening in each sector and to minimize any negative impact for Canadians working there. We are not yet at the point of seeing all these areas shut down. But that is what will happen if nothing is done. The forestry sector in Quebec is all but shut down, and the same thing will happen to agriculture if there is no significant change of course, no leadership that will, at very least, bring together the provincial premiers and territorial representatives to look at applying solutions appropriately in each of the regions of the country.

● (1735)

Mr. Paul Crête: Mr. Jarislowsky, we have heard Mr. Pellerin talk about supportive measures in order to handle this crisis. You have suggested that a structural solution is possible, in the form of a common North American currency.

Last May 5, at a Standing Committee on Finance meeting, I asked Mr. Dodge at what point the rise in the dollar would make it too costly to support two separate currencies. Could you expand on that? What sort of future do we face if we keep playing the yo-yo as we are now? Do you feel that a common currency is economically viable? Are the only obstacles emotional ones?

Mr. Stephen Jarislowsky: There are a number of countries whose currency is pegged to the American dollar. China has done it with the yuan. There are small adjustments to be made, but I think that we could do the same with the Canadian dollar. We could allow 5% each side of a logical value for the Canadian dollar, that I would put around 80¢. Our dollar could go up or down by 5% depending on the time. I would find that acceptable.

You can attribute China's success to the fact that its currency is tied to the American dollar. Many other countries have done the same thing, like Saudi Arabia.

In our case, although a third of our gross national product is tied to the Americans and 85% of our exports go there, all we are doing today is resigning ourselves to becoming [*Editorial Note: inaudible*] because of the Americans. Actually, the Americans are importing Canadian industries to the United States, and ours are going bankrupt. In English, we would say:

[*English*]

they are beggaring us.

[*Translation*]

This is something that they were already talking about during the Great Depression in the 1930s. I think that the solution is either to adopt American currency for the entire continent or allow a 5% margin on either side of a value for our currency that would reflect the country's gross product compared in real terms to theirs.

However, what is happening today is that enormous tax revenues and profits are being lost. We are even selling oil at $50 instead of $95 today, if we compare it with the price five years ago.

[*English*]

The Chair: Thank you very much.

We'll now move on to Mr. Dykstra. You have seven minutes.

Mr. Rick Dykstra: Thank you, Mr. Pellerin.

One of the recommendations you made with respect to the forest industry in terms of the issue you've outlined, in terms of where you think government should move a bit—and I trust from your comments that you're supportive of “Challenges Facing the Manufacturing Sector”, the report that was completed.... One of the pieces in there with direct relationship to the forest industry is the consideration of the positive impact the Canada-Korea free trade agreement would have. I'm wondering if you could comment on whether you support that aspect of it, if it obviously would, in the forest industry anyway, relative to the forest industry, have a benefit directly related to a deal between South Korea and Canada in terms of free trade.

[*Translation*]

Mr. Laurent Pellerin: All this theory...

[*English*]

All this theory about free trade, free enterprise, free everything.... The actual situation is bad. Certain people continue to think the market will resolve the problem by itself, and I don't think that's true. It's so bad that the finance minister has to call the distribution companies in this country and tell them to look at the dollar's value and sell the products they're selling in Canada now for lower prices because of the impact of the dollar's value. The market itself is not able to correct what is happening. The finance minister has to call the big owners of the big companies to remind them that the market is not doing the job.

So I'm not confident in all those free trade—so-called free trade—agreements or discussions, because in real life, some people are making money on the backs of others. That's the case for all Canadians. Mr. Jarislowsky had a very good image of that: the U.S. is beggaring our industries. Agriculture, forestry, and raw products are moving south. The ownership is moving south, and we are all losing control over the processing industry in Canada. We will be very low-wage workers in the next generation if nothing changes. So don't wait for a free market or free trade or free anything to solve that type of problem.

● (1740)

Mr. Rick Dykstra: So while that is a supportive aspect of the report, you don't support that component of the report.

Mr. Laurent Pellerin: I don't think it will be an answer for Canadian industry at all.

Mr. Rick Dykstra: Mr. Stewart-Patterson, you brought forward a number of recommendations, a number of which we have already implemented and a couple of which, you said, need to be extended. I find it interesting that a number of things we did within the report itself that have already been moved forward, such as investment in manufacturing and processing machinery and equipment that's eligible for the 50% straight-line writeoff and the temporary accelerated CCA rate, will provide about $1.3 billion of assistance to businesses over the periods 2007-08 and 2009-10. I suspect that the number will be incrementally higher as we extend them over a further period. That would be based, first, on companies finding out about them, and second, on their determining if making the investments they are talking about fits into a business plan.

It strikes me that we've taken a good first, second, and maybe third step after the report in terms of implementing probably the biggest portions of it.

We had a lot of discussion in the previous session about the scientific research aspect of it. I wondered if you could comment a little bit more on how we could do that in such a way that, obviously, it has an immediate impact. Also, what are your thoughts on how it would impact over the longer term? I suspect it won't be an impact that's going to happen over a period of four to six months; it's going to take a longer period of time to be implemented and to have a lasting impact.

Mr. David Stewart-Patterson: There is no question. For anything that is a driver of research, obviously, it will take time, first of all, to generate the discoveries, and second, to allow the discoveries to move into the marketplace in terms of new products and processes.

If I may just step back quickly to the accelerated writeoffs for manufacturing equipment, I think if the government chose to extend the temporary writeoff for a longer term, the impact would be more than incremental. I think the major criticism that has been made of that particular initiative is that when you're talking about making major investments, given the planning times, the environmental approval times, the regulatory and the investment cycles, it is very difficult to actually get investments in place within the two-year timeframe. I think, therefore, that if it's limited, and stays limited, to two years, the take-up may be smaller than predicted.

I think extending it would simply make it possible to use it.

Mr. Rick Dykstra: I supposed you mean that by doing that the growth would be exponential.

Mr. David Stewart-Patterson: I'm worried that you won't get nearly as much take-up within the two-year window as you would like to see simply because the big investments, the most important investments, take more than two years to get done.

Mr. Rick Dykstra: That's a fair point.

The other thing you commented on was the whole aspect of...you didn't necessarily say environment, but you talked about climate change. And there is, of course, a lot of discussion around how to move forward on climate change and the issues around the environment without having a significant or at least a direct impact on the ability for business and the economy to continue to grow in Canada. I wondered if you could comment a little bit more on that, give your thoughts on our approach—the government's approach, obviously, but Canada's approach to how to deal with the environment and climate change.

● (1745)

Mr. David Stewart-Patterson: This is a subject that our membership has given a great deal of attention to over the last six months in particular, and a couple of months ago we brought out a set of principles that essentially laid out what we thought was a path forward, a framework if you want, that would enable us to make effective progress as a country on the climate change challenge while also moving us forward as an economy, rather than adding to the problems of growth.

One of the key elements in that was understanding the importance, if we really want to make substantive decreases in emissions of greenhouse gases, of developing the new technologies and getting them in place at the consumer level as well as the business level. That's what's going to give us the big gains in terms of production.

But as for your first question, the research cycle can be lengthy, and I think what we have to make sure of is, first, that government policy recognizes the importance of technological improvement to the environmental challenge, and second, that economic policy, the business framework, encourages that research.

If I may, just on the scientific research tax credits, Mr. Chair, I think one of the short-term suggestions that's important is the potential to make that refundable to companies that are not profitable but would like to invest. We are working currently with Industry Canada doing a joint study to try to get a better handle on how that tax credit and other drivers of innovation might be improved.

The Chair: Thank you very much.

Mr. Mulcair, the floor is yours.

[*Translation*]

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

My first question goes to Mr. Pellerin.

Mr. Pellerin, you mentioned potential losses of $1.5 to $4 billion. That suggests that the agricultural sector is going to collapse in the next year. Can I ask if you have specific numbers of farm bankruptcies in the last two years, and your prediction for the next year or the next two years?

Mr. Laurent Pellerin: Traditionally, the number of bankruptcies in agriculture is not high, but a lot of people just sell out. These days, the rate of change in farm ownership and the consolidation of property is increasing, especially for hog farms.

In western Canada, the hog industry works differently. Here, the growing phenomenon is the export of live piglets to the United States for feeding, slaughter and processing. We are not talking thousands, we are talking millions of piglets that are exported live to the United States to create added value, prosperity and economic activity on the other side of the border.

The same thing is happening with beef. Because of the impact caused by the value of the Canadian dollar, yes, but also because of regulations that are—and I hesitate to use the adjectives—abusive and nitpicking compared to American ones, we are losing our cattle and hog slaughtering industry in Canada.

Mr. Thomas Mulcair: It is interesting, because when you think of the added value we are losing, you also think of the Keystone pipeline when we were about to export 500,000 to 600,000 barrels a day, and 18,000 jobs to the United States. You think of the forestry, where there is very little secondary and tertiary processing, or of aluminum. You do not think so much about agriculture. We are about to make the same mistakes there.

My second question goes to Mr. Jarislowsky.

Mr. Jarislowsky, have you ever written anything, it does not matter what form it is in, that confirms the explanations you gave us earlier about Alcan and the negative effect that its sale to foreign interests had on our currency? Have you written anything about this, and, if so, can you share it with the members of this committee? Of course, we have your evidence, for which you have our sincere thanks, but I for one would like to have something written from you.

[*English*]

Mr. Stephen Jarislowsky: I can tell you what happened and how I got to those numbers. I was consulted by Paul Tellier, a director of both BCE and Alcan, before their takeovers. He had the figures from Alcan and BCE, and we estimated at that time that each would entail about $20 billion owned by Canadian holders. That is why I said Alcan alone was $20 billion.

In addition to that, there are these enormous sums coming in for the tar sands that are, as I said before, being brought in here absolutely inefficiently and are going to be overspent tremendously. The companies' costs are going to be such that their profitability will be negligible unless the price of oil stays very high. That has brought in an enormous amount of money.

There have been many other smaller companies in this country taken over by money coming in. We were involved in St. Lawrence Cement, in this connection, etc.

I am not a great believer in just selling all our companies in this country. Already, 80% of our stock market today is either cyclical or made up of materials and financial stocks—80%. That's not a market anybody can diversify in properly for investment.

I am not in favour of subsidies, but we have to come at some early stage to a long-term solution to the relationship of our currency with the United States, because we are tightly tied to that market and we cannot permit ourselves either to go back to 62¢ or to stay at the present level; we're going to destroy all kinds of things in this country.

● (1750)

[*Translation*]

Mr. Thomas Mulcair: Thank you very much, Mr. Jarislowsky.

[*English*]

The Chair: Thank you very much.

Monsieur McKay.

Hon. John McKay: I, too, would like to direct my questions to Mr. Jarislowsky.

A number of us have been watching asset-backed commercial paper, and just from reading articles in the newspaper, this appears to be a bit of a sleeping giant.

The Quebec assembly has apparently asked the head of the Caisse de dépôt to give testimony before a committee at the assembly. You had a half-billion-dollar writeoff by the National Bank in this past quarter, which is a significant sum of money for that size of bank. You have some newspapers estimating that the Caisse is in for $13 billion to $17 billion worth of asset-backed commercial paper. You have a Montreal protocol in which the government has apparently been a participant, and it appears to be a rather high-level exercise trying to keep the panic from squeezing out.

What role, if any, do you see for the Bank of Canada in this concern? What role, if any, do you see for the Government of Canada with respect to this concern?

Mr. Stephen Jarislowsky: My basic feeling is that these are faulty products that have been developed. Our own firm was never invested in them. They were bought by people who wanted to have better performance, and they got eight or ten basis points more by going into these products. We didn't go into them because we didn't understand them. We felt that if you had a short-term piece of paper with Alcan, you would get paid at the end of the period when it was due. But how do you go after 100 people who have mortgages that don't come due for another 10 years? So it was a faulty piece of paper. We believe that everybody should basically have seen through this kind of thing.

I don't believe in government bailouts and I don't believe in subsidies, but I believe in playing fields that are predictable. There I come back to what I said before, that we have to arrive at a band in which our dollar relates to the American dollar, or adopt the American dollar, because we cannot live and have our industry destroyed every 20 years. We cannot ask people to invest here if the chance is they get wiped out in 15 or 10 years, or whatever it will be in the next cycle.

Hon. John McKay: I don't disagree with your analysis that the priorities are somewhat obscure when a default occurs; that seems to be confirmed, particularly by U.S. judges. But having said that, and having said that going for eight or ten basis points appears to be attractive to some people, there does seem to be a significant number of apparently fairly smart people who have bought this paper.

If in fact this works its way through the market, how do you see these kinds of significant writeoffs affecting both the market and the Canadian dollar, if at all?

● (1755)

Mr. Stephen Jarislowsky: We have to come back to a market for these types of instruments, and to the extent that the mortgages are not bad mortgages, I think the plan put forward by the Caisse de dépôt to turn them into longer-term bonds, and also the plan put forward by the commission, which is headed by my favourite lawyer-friend who says those who need money immediately should be helped and those who can stand owning bonds long term should not be helped as much but should be owning the long-term bonds.... But we have to come to a marketability of these, and I think as far as the Bank of Canada is concerned, the best thing to do is to make money available to the banks so that at least the banks have money to lend and can support the economy until such time as this gets cleaned up.

Hon. John McKay: One quick final question.

You seem to advocate a continental currency. I find that a peculiar position in that you are effectively linking yourself to decisions that are made in Washington. Over the past number of years, both the monetary and the fiscal decisions that have been made in Washington have been, how should we say, something less than stellar. The trade deficits, the government deficit, some would argue the ill-advised war in Iraq, etc., lead me to not quite understand why you would be an advocate of a continental currency where essentially you're giving away any control you have over your economy, your monetary policy.

Mr. Stephen Jarislowsky: I go back to the European example, where you have a common market, a common currency in Europe. We don't have a common market. We saw it in the softwood lumber situation, where we made an agreement that I didn't think was very good.

I agree fully with you that the Americans have been totally out of control. I think that Bush is the worst president in American history, personally, and I would rather do something else. But I do believe that we cannot permit them to beggar us and have us make obsolete trillions of dollars of industrial investment over 60 years.

We have to get through that. We cannot allow these industries to be bankrupted, and we cannot help them with government money during these periods to stay alive, waiting for the time when the dollar goes down again, for the simple reason that the cyclical industries and the commodities go back down in price, which they have always done before. I do believe that we have to have stability for our industries in these periods. And however much I agree with you on the suitability of the American central government and of Mr. Greenspan, who never saw a bubble he didn't like, I think we have no other alternative.

The Chair: Thank you very much.

We have to move on to Monsieur St-Cyr.

[*Translation*]

Mr. Thierry St-Cyr: Thank you, Mr. Chair.

I would like you to continue what you were saying, Mr. Jarislowsky. I liked your presentation very much, precisely because you were telling us about the short-term problems that we should be acting on. You also said that, in the longer term, a similar situation will keep happening periodically as long as we keep putting up with our fluctuating dollar.

I would like you first to return to the short term and to the measures that we have to take. Do you think that the Bank of Canada should intervene with the tools it has at its disposal, such as interest rates, for example? Should it intervene on the money market, buying and selling currency?

In the longer term, in connection with the single currency idea, that the Bloc Québécois shares, how do you see it working in Canada? What timeline would we use to put the idea into effect?

Mr. Stephen Jarislowsky: Now that we are at par, I think that our dollar is too high for us to come to an agreement with the United States. That seems clear to me. We have to wait for a more appropriate time.

If you have been watching the situation in recent months, you will have noticed that, in Canada, we have raised interest rates by 0.5% while the Americans have lowered theirs by 0.75%. That kind of thing clearly causes our dollar to rise.

The other solution is to impose a moratorium on the mass sale of the Canadian companies we have left. It is a certainty that people are going to want to buy companies like SunCor, Canadian National, Talisman and so on, at prices that, once more, are going to make the Canadian dollar rise.

● (1800)

Mr. Thierry St-Cyr: In the longer term, you mentioned the possibility of, for example, accepting a 5% variation in a dollar whose value has been fixed, or going all the way and having a common currency as they do in Europe. These are different scenarios. Do you personally prefer one over the other?

Mr. Stephen Jarislowsky: I prefer a 5% or 10% margin on either side. I think that it is the way to go, but you have to know that the rate of increase in productivity here is less than it is in the United States. So we would eventually have to change the margin from time to time.

Mr. Thierry St-Cyr: Now I have a question for Mr. Pellerin.

As to the timelines, how do you weigh the importance of acting now or acting later? For example, do you think that the situation that you are going through at the moment is because of what the exchange rate is now or even what it used to be? Even if we acted now, would the negative impacts continue? How urgent is it for us to act, in your view?

Mr. Laurent Pellerin: There are two kinds of actions. If you want to keep areas of economic activity like agriculture, which is not about made in China T-shirts, but about products almost exclusively produced for Canadian consumption—over 75% of Canadian agricultural production is consumed here—the first priority is to make sure that, in the future, we will not depend on agricultural or agrifood imports. So that is a change in course that we should make quickly.

In the medium term, decisions should be made to restructure sectors like slaughtering, to change Canadian rules so that our industry can be at least as competitive as our American neighbours'. This is certainly not the case at the moment. There are gaps that make competition completely impossible. In other areas, like market gardening and other fresh products, all the annoyances about cross-border trade need to be dealt with soon. Everyone has fresh products sitting at the border for 24 or 48 hours. You know what happens with fresh products that have spent two days at the border, they are no longer good enough to sell.

Mr. Thierry St-Cyr: Thank you.

I have one last question.

[*English*]

The Chair: Your time is gone. Thank you very much.

Mr. Dykstra.

Mr. Rick Dykstra: Thank you, Mr. Chair. I'll try to be brief in order to turn it over to my colleague.

Mr. Jarislowsky, obviously we're doing some pre-budget consultations and some discussions around the rapid rise of our dollar, but one of the other issues that we think, and certainly our finance minister has indicated.... Canada is the only industrialized country without a common international securities regulator. In the past you've indicated that a common securities regulator with real teeth would be a lot more effective in protecting Canadian investors than the multitude of provincial and territorial regulators we have now that have no teeth...or from that perspective to be able to prosecute folks, at least in federal jurisdiction. You've also indicated, too, in a speech, and I'll quote, that “most of the 13 securities commissions do little other than make people fill out forms and take in fees”. I see I got a smile out of you there. That's great.

Having a national regulator, one of the aspects that we've talked about and that our finance minister has talked about, is the ability of one regulator in this country, with some teeth, to be able to bring forward and ensure that we've got security measures in place that would make sense from a regulatory perspective.

Could you comment on that?

Mr. Stephen Jarislowsky: As you know, I'm a director of the Canadian Coalition for Good Governance, which comprises about $1 trillion of Canadian institutional money. I haven't talked, of course, to all the members, but there isn't anybody on our board who wouldn't want to see one coordinator for all these kinds of things. But it would take a lot more than that. We would have to give to that coordinator both criminal and civil responsibilities, which are currently divided between the provincial and the federal.... We would also have to have judges who understand this kind of legislation, because the average judge isn't going to say he is smarter than a board of directors. Also, the process of being eight or ten years in court at millions of dollars doesn't give any small or medium-sized investor protection. The Castor Holdings case, I think, is now 12 years in the court and costs $20 million on each side every year. So that's no solution.

We also have to get an RCMP or a police force that understands white-collar crime, which is also not the case today.

So there's a real problem there. But the passport system, whereby the things that are decided by two people in the Yukon are going to be binding on all of Canada, I just can't see as a solution.

● (1805)

Mr. Rick Dykstra: Thank you very much.

I'll turn the rest of my time over to my colleague.

Mr. Ed Fast: Thank you.

Most of the discussion has been on the value of the dollar. There have been some strategies that have been suggested to address the rise in the dollar. Most of those are focused on the accelerated capital cost allowance as well as the SR and ED program.

We have heard, however, from Mr. McCallum that he doesn't believe the government can do anything about the high dollar. I believe it was Mr. Lazar from the previous delegation who suggested there was a role the government could play in trying to reduce the value of the Canadian dollar. Mr. Jarislowsky, of course, has proposed that we either peg the dollar to the greenback, the U.S. dollar, or we actually go to a common North American currency.

The one person we haven't heard from is you, Mr. Stewart-Patterson. Could you give us your views on whether there is a role for the government to play in depressing the value of the dollar? If so, why, and how aggressively should the government do that?

Mr. David Stewart-Patterson: If I may, perhaps I'll address both halves of that.

First of all, obviously it is not the role of the Government of Canada to tell the Bank of Canada what to do. So what the government can do is not on the monetary policy side; it's on the fiscal policy side. I believe the government has all sorts of levers, not to change the value of the dollar necessarily but to enable companies to cope with that and to ensure that companies are able to continue to maintain and to build jobs in Canadian communities despite whatever value the dollar may achieve from one day to the next and from one year to the next.

Some tools the government can use would be more useful in the short term. Refundability of tax credits, for instance, is one of them, whether research tax credits or other vehicles. Faster writeoffs is another. Those are things that I think can be helpful in the short term.

In the longer term, I think it's a matter of keeping fiscal policy on the right track. I think this government has done a lot of things right. I think the previous government laid the ground work for some of that, particularly on corporate income tax rates, and that has to be recognized. I'm glad to see a cross-party consensus on the fact that high corporate tax rates don't pay and lower ones in fact are generating more income tax revenue for the federal government than ever before.

So I think it's important to use the levers that governments do have, whether on the tax front or through regulatory policy, as I mentioned, for instance. Look at what tools are actually going to be most effective in reducing the costs that companies face or enabling commerce to move more quickly. The number of years it has taken —still is taking—to even get near a second bridge between Detroit and Windsor, which is a crossing that's currently carrying 20% of our exports.... It's staggering that it has not been able to move forward faster. Clearly, the federal government has a role in that. It can't do it alone.

The Chair: Thank you very much.

I shorted Mr. Mulcair about two minutes, and I want to give that back to him now.

You have two minutes.

[*Translation*]

Mr. Thomas Mulcair: Actually, Mr. Chair, I would like to give the time to Mr. Jarislowsky, because I would really like to finish by giving him the opportunity to give us his opinion.

In the coming days, we are supposed to meet with the person nominated to succeed Mr. Dodge. If you were a member of our committee, and in the light of what you have told us today, what would be your first question to Mr. Carney? You can be sure that he will read it.

● (1810)

Mr. Stephen Jarislowsky: I am going to ask you the first question that I would ask Mr. Carney. What powers should be given to the Bank of Canada so that it can accomplish two missions: controlling inflation on the one hand, and, on the other, keeping the value of the Canadian dollar somewhat separate from the value of the American one?

The Bank of Canada is telling us today that it can do nothing about the value of the dollar, and that it is only worried about inflation. If the dollar appreciates by 50% or 60%, there will not be a lot of inflation here. Canadian salaries are so high that people are starting to buy in other places, especially China, where the currencies are valued much lower than the Canadian dollar.

Let me give you an example. I am chairman of the board of Goodfellow Inc. in Quebec. We are not so much a sawmill as wood sellers. We even have a few manufacturing plants. Recently, we have bought our wood in the United States because it is cheaper than we can buy it here in Canada. The situation is quite bizarre. People are buying flooring for houses in China and having it sent from China in boxes, which takes two or three months. The price is better than if we used Canadian wood. And I can tell you that we have plenty of wood in Canada.

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

[*English*]

The Chair: Thank you very much.

As we're going into another round, I've been trying to talk our committee into considering doing it in a very tight way, so one minute or two minutes. Let's do it as tightly as we possibly can, no more than a couple of minutes, and we will get into a short, snappy, quick round.

Mr. McKay.

Hon. John McKay: Mr. Jarislowsky has just dropped a little bomblet about continental currency, Mr. Stewart-Patterson. He readily admits that the management of the economy in the United States has been somewhat less than stellar in the last decade. And some argue that we are being really whipsawed by that whole exercise.

My recollection of the previous testimony of your organization in past years is that it has been something of a similar argument. So could you correct me on what the position of the chief executives is on that particular issue?

Mr. David Stewart-Patterson: We've always been willing to look at the costs and benefits of that strategy. On balance, we have in the past believed, and we continue to believe, that adopting the current currency or adopting the U.S. dollar would not be in Canada's interests.

Frankly, there are two options Mr. Jarislowsky has put forward. One is to try to maintain a band. There are a lot of currency speculators around the world who got rich taking advantage of governments or central banks trying to prop up bands. George Soros springs to mind, in the U.K.

The other possibility is simply to adopt the U.S. dollar, which would give up all control of monetary policy in this country. We're not Europe. We're not going to get a significant say in U.S. monetary policy if we adopt their currency.

What you really have to look at, whether we're looking at short-term problems—the sub-prime mortgage crisis, and so on, going on in the United States, and the impact that may have on U.S. inflation and U.S. interest rates—or the long-term impact of these huge U.S. deficits on the government side, the fragility of their social security system and what's going to come out of that in terms of U.S. inflation rates down the road, and therefore U.S. interest rates.... When we look at the U.S. doing all the things wrong that we did wrong in the nineties and fixed...do we really want to pay the price for that by paying U.S. interest rates, by hooking our currency to that over the long term?

● (1815)

Hon. John McKay: Amen, brother.

The Chair: Thank you very much.

Mr. Wallace.

Mr. Mike Wallace: Mr. Jarislowsky, you chatted to us today about preventing companies from being purchased by foreigners. You also said that Canada should not be in the bailout business, and so on. My question is more philosophical, and I'm sure you've thought about this.

My concern has always been why Canadians aren't more aggressive in their investments. Why are we complaining that foreign companies and foreign investors are buying Canadian companies? What's wrong with Canadians doing it? I asked a professor who was at a previous meeting a similar question.

I know you understand the marketplace quite well. Why should we be putting a moratorium on that? Why don't we do something to convince Canadians that they should be investing in their own companies? I'd like to know what your response is to that.

Mr. Stephen Jarislowsky: There's absolutely no question that Canadians invest in their own companies. Our firm invests in Canadian companies, but it also invests enormously in foreign companies at this stage because we can't find many of the industries in which we like to invest in Canada.

In the case of Alcan, for years and years it was not an extremely well-managed company. The foreigners got big benefits out of it because they had economies they could make between their companies and Alcan, etc., which obviously a Canadian company alone wouldn't have.

I'm basically not against takeovers, but I am against takeovers at a specific time, as we had here recently. If because of the takeover we close enormous sectors of our economy and destroy capital for years to come on a semi-permanent or permanent basis, that is the time to close this kind of border.

Further, I believe that many countries in the world would never have permitted such takeovers of practically every large mining company in this country except one, which couldn't be taken over because it had multiple voting shares.

The Chair: Thank you.

Monsieur Crête.

[*Translation*]

Mr. Paul Crête: Thank you.

Mr. Pellerin, we often hear that there is a crisis in the lumber industry, but we often completely forget the people who grow the trees, the lot owners. I would like you to tell us a little more about them. You talked about an assistance plan, but, at the moment, are there any specific measures that would help forest owners survive this situation? From what I understand, they are now keeping their wood because they cannot sell it at a reasonable price.

Mr. Laurent Pellerin: The law in Québec is supposed to give supply priority to private forest owners and to link the price of wood from crown land to sales from private lots. Not many ministers would dare apply that principle to the letter. The area is out of control and the place of privately held forests in Québec is quietly eroding. In Québec, 130,000 private owners supply 20% of the wood being processed. It is still significant.

Industry, forestry workers, mill workers, everyone has received some assistance to get through the present crisis, except the owners. What can be done for these private forest owners? They cannot sell, there is no market. Can we use the time to establish forest management programs designed to increase the value of the forest, like selective thinning, draining and land improvement? Now would be a good time to keep the workers and the equipment working in order to enhance the value of the wood in the years to come, in one or two years, when the good times are back.

Mr. Paul Crête: That is kind of news that ...*Editorial note: inaudible.*

[*English*]

The Chair: Thank you very much. I think we'll leave it there.

We want to thank you for coming in and presenting before the committee. We will take your comments forward and hopefully address them in our report. We want to thank the committee for their good questioning.

The meeting is adjourned.

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