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**EVIDENCE**

## Wednesday, November 28, 2007

## Chair

**Mr. James Rajotte**

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● (1535)

[*English*]

**The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)):** Let's have order, please.

Good afternoon, ladies and gentlemen.

We will start meeting number 6 of the Standing Committee on Industry, Science and Technology. Pursuant to Standing Order 108 (2), we are undertaking a study of the impact of the appreciating value of the Canadian dollar on the Canadian economy. This is the first meeting we have on this issue.

We have with us today one witness, Mr. Dale Orr, the managing director of Canadian Macroeconomic Services for Global Insight Incorporated.

Mr. Orr, welcome back to the committee.

**Dr. Dale Orr (Managing Director, Canadian Macroeconomic Services, Global Insight Inc.):** Thank you.

**The Chair:** We're very glad to have you here.

You will have up to ten minutes for an opening statement, and then you will have questions from members from both sides.

Welcome. Please feel free to introduce yourself and to make comments about the impact of the Canadian dollar on the Canadian economy.

**Dr. Dale Orr:** Well, thank you very much for inviting me back. It was about a year and a half ago that I was last here, but I think I've appeared before this committee, off and on, probably for the last decade. So thank you for the invitation.

I've provided a handout that updates some of the charts from May 2006. There are a couple of new charts as well on some recent data on the issue before us.

In my opening comments I'd like to focus on some of the policy challenges in particular, and if I have time I will make a couple of comments on the charts. If not, please feel free to ask whatever questions you wish on those.

First, I have a couple of comments on the nature of the challenges the Canadian dollar appreciation presents.

Something that sometimes escapes us is that by far the most important impacts of the appreciating Canadian dollar on the economy are the many ways in which this appreciation redistributes money and redistributes income among different groups of Canadians—different industrial sectors, different occupations, different income groups, and certainly different provinces of Canada.

After a challenging period of transition, it's very important to understand that the Canadian economy can operate and has operated at a good level of performance at a high dollar and at a low dollar. It's a redistribution issue, most importantly.

With a sharply higher value of the Canadian dollar, as we've seen since 2002, it's also important, I think, to understand that the industrial composition of the Canadian economy should be different. That's appropriate. When the dollar goes from 65¢ to par, it's appropriate that there be significant changes in the structure of the economy.

To be competitive going forward means that there simply should be, and there must be, and there will be, fewer people in the economy making their livings exporting to the U.S.

It's critical that the government fully recognize the adjustment that must take place among firms and workers and between the provincial economies.

I think the government can and should help workers adjust to the new reality with retraining and relocation. Where there are already policies in place, I think some supplementary policies to help workers adjust to this new reality are important.

But before talking about labour market issues, let me talk about business sector issues. What I'm going to say to you today is that the question of whether the government should provide assistance directly to the business sector to compensate for Canadian dollar appreciation is quite problematic.

Clearly, many firms rely heavily on exporting to the U.S., and they're suffering a significantly decreased ability to compete in the U.S. market. There's no doubt about that. And the adjustments are nowhere near all behind us by any means. However, from a conceptual point of view, whether it's appropriate to provide new assistance directly to firms, specifically to compensate for the difficulties they're having in adjusting to the higher dollar, is problematic.

Adjusting to a changed exchange rate is a well-known risk of doing business in Canada. That's the way it is. Adjusting to an exchange rate is a well-known risk of doing business. There are other well-known risks of doing business—higher energy prices, a weaker U.S. economy. A change in the value of the dollar is one of them. We opt for a flexible currency, and that's the way it goes.

Now, it's very difficult to design fair and effective assistance to firms suffering from the high Canadian dollar. So besides this point that whether we should be compensating companies for this risk is conceptually very problematic, let's just assume that you want to do that. My next set of points says that in doing that it's pretty difficult to spend the taxpayers' money wisely, and here's why.

Some firms have adopted hedging strategies, and some haven't. So are you going to compensate those who haven't done the appropriate management strategy?

Some manufacturers do not rely heavily on exporting to the U.S. Some rely on exporting to Europe rather than to the U.S. Some can switch more effectively to other export locations.

Some manufacturers don't export. In fact, some manufacturers are doing very well supplying the energy sector, for example.

Some manufacturers are suffering from problems other than the high Canadian dollar. High energy prices would be a good example.

Some manufacturers—and here I specifically mean the Detroit-based U.S. auto companies—have serious problems that go beyond the high value of the Canadian dollar, and those problems are going to be with them for a little while.

Other companies, firms, and sectors are suffering because of a weakness in the U.S. economy, maybe indirectly related to the value of the dollar.

Also, some non-manufacturers—computer software people would be an example—rely more heavily on exporting to the U.S. than some manufacturers do. Many non-manufacturers do not export to the U.S., but they suffer seriously from increased import competition from the U.S. The tourism sector would be a good example here. So any form of assistance directed at compensating manufacturers for their difficulties in adjusting to the high Canadian dollar, if you decided you were going to do that, would likely be seriously off target and unfair to some non-manufacturers.

Let me get quite specific about the capital cost allowance that was in budget 2007, and of course the government is considering extending that in budget 2008. I'm saying that no specific or special break for manufacturers relative to firms in other sectors should be made. Any breaks should not be justified by particular difficulties that some of these firms are having in coping with the high Canadian dollar.

To be clear, I'm saying that assistance to the business sector in coping with the high dollar is problematic. If you want to do it, it's very difficult to spend the taxpayers' money wisely. And with respect to this particular tax break, if you do decide to extend that tax break, you should make that tax break apply to all firms, not just manufacturers.

That tax break should be extended not with the justification that they're having a difficult problem coping with the high dollar; it should be extended for the very good reason that this tax break can be very helpful in improving productivity and competitiveness. It would have been a good idea to have done this kind of thing three years ago, two years ago, one year ago, and one year from now. It's a good idea. This can be a very effective tax break in improving productivity, another reason not to limit it to manufacturers.

It could also, of course, move us into getting the marginal effective tax rate on investment closer to some of the other countries in the OECD. We're doing well relative to the Americans, but we're lagging behind others. So international competitiveness is another good reason for doing this tax break.

This tax break will not be as expensive as you probably think it would be. The reason is that in budget 2007 or any budget document the government always reports what's called the fiscal cost. That fiscal cost never incorporates the feedback and the stimulation that the government will get from extra economic growth that will be stimulated by that tax cut.

So when the government, as it always does—and make sure you press finance department officials on this—costs anything in the budget, that's the so-called fiscal cost. It does not include the fact that certain tax cuts, and this is one of the leading ones, tax cuts on investment or marginal tax cuts on people, will stimulate economic growth and the government will get some of its money back. That's not counted in. That's why I'm saying that with this particular tax break, because in the fullness of time it will stimulate productivity and economic growth, the government will get some of its money back.

When they cost it out and say “Dale Orr says expand it to everybody. Gee, I wish we had enough money. It's going to cost us three times as much,” I would say, “Much better, don't be non-discriminatory. Put it for everybody, and if that's too much, then don't keep it at 50%.” Cut the cloth to fit the money that you have available. It's much better to cut the rate and keep it applying to everybody than to be discriminatory.

But on this tax break, the extension of this capital cost allowance in whatever form you decide to put it, I'm saying if you decide to do it, please have it apply to everybody and not just limited to manufacturers. And don't justify it because of the high dollar; justify it because it's a good move for productivity and competitiveness.

● (1540)

If you decide to do that, I think it should be on the agenda for budget 2008. It should be on the agenda. But is this more important than reducing certain personal income taxes? Is this more important than putting that government funding towards infrastructure development? Is it more important than putting government money to reducing poverty? I don't know. That's why I'm saying it's problematic.

Let me turn to the labour side. I'm much more sympathetic with the government increasing their assistance on the labour side than I am on the business side. The government can and should provide increased assistance to workers, but this assistance also should not be justified or tried to be identified only with workers who are suffering from a high Canadian dollar. It should be justified because we're helping these workers train, retrain, relocate to find more rewarding and secure employment to help them and their families, and help the Canadian economy.

One of the most pressing problems in Canada right now.... If some of you are from western Canada, you'd say “Well, what's the pressing problem?” It's a shortage of labour, right? We're sitting here saying, “Gee, we have all these people losing their jobs because of the high Canadian dollar.” It seems ironic, doesn't it?

The unemployment rate in Canada is about the lowest in 30 years, but there are still about one million Canadians unemployed. About 40% of the unemployed are living in regions of perpetually high unemployment rates, mostly in eastern Canada. About 70% of these unemployed are under the age of 45. So a movement by those people to where the jobs are in western Canada would have a good payoff. That's why I'm saying it's important to maybe focus this relocation on people who are younger—there's bigger payoff.

Many of the job openings in western Canada are now being filled by immigrants into Canada, while Canadians continue to pay unemployment insurance to people who do not move to where the jobs are. This makes the standard of living lower than otherwise in Canada, and it's unfair to hardworking Canadians.

In recent years, an increasing number of people have relocated to more promising labour markets, but these people have been motivated by their own personal, private initiative as well as significant initiative from some private sector employers in the west. However, the federal government has not significantly ramped up its assistance to help people relocate to where the jobs are in response to the growing labour market needs of the west—increasing federal government assistance to workers for interprovincial relocation. That's a bad word in the federal government. It was a bad word when I was working in the federal government 20 years ago, and I understand it's still a bad word. But I think it's good for Canada. It's good for those people, it's good for those families—interprovincial relocation. Ramp up those efforts; they're long overdue.

That's it. I have the charts. I think my ten minutes are up.

● (1545)

**The Chair:** Yes, your ten minutes are up, but I'm sure there'll be lots of questions. There'll be lots of opportunity....

**Dr. Dale Orr:** Then if you have any questions, like why did you put that chart in there, what are you trying to show.... You'll see that those charts buttress some of the points I was making, but please feel free to ask whatever you'd like.

**The Chair:** Thank you very much, Mr. Orr.

The first round will be six minutes total for members for questions and answers.

We'll start with Mr. Eyking.

**Hon. Mark Eyking (Sydney—Victoria, Lib.):** Thank you for coming, Mr. Orr.

I was very interested in the first part of your conversation, but the last part about relocation really disturbs me, especially as I'm from a rural region and a region in eastern Canada. There's the assumption that we should start moving people around this country to follow the jobs as the solution. Especially for the rural communities, it really decimates them, and leaves them very short of tax base and various things.

I'll just give you an example of what we went through in Cape Breton ten years ago. We lost our groundfish industry, then we lost our coal industry because of international markets, and then we lost our steel industry. So we lost about 15,000 jobs in that region and went to 28% unemployment.

One could sit there and use your model and say let's just tell them all to go to Alberta, and that would have pretty well emptied out the community and that would have been the end of it. That's not what happened. There were funds available, and we had a development agency, and there was some help there from HRDC for retraining—retraining the coal miners, retraining the fish plant workers to work in telecommunications and various things. Right now we're at 13% unemployment. The community is doing quite well and we'd like to be at the national average. Yes, some of our people are working in Alberta, but they're coming back and forth, so their families are staying intact.

So I think it's a simple solution to say let them move. If you close a major lumber mill somewhere, or if you change a fishing industry, let them all move. But I think we can be more creative in this country. I think we can help. Businesses sometimes come to regions that are facing challenges. We can retrain workers so they can stay in the regions. Sometimes it's cheaper for companies to set up the infrastructure in these regions.

I'd like you to comment on that, that maybe there are models out there that can help people retrain, and communities can survive and go through this, with some government intervention and help. They're not to be there to subsidize them forever, and not to be there holding them up by the hand all the time, but helping them get through that transition, helping them introduce new industries to their towns, and helping them get through that.

I'd like to have your comments on that, because the model worked for us, and I think it could work in many other regions.

**Dr. Dale Orr:** Thanks.

I certainly recognize how difficult it is for the individuals, the workers, the families, the communities. There's no underplaying that. But I think the other side of this is there are a lot of difficulties if you don't do that. In my view, while the dollar may not stay at par for the next five years, I don't think it's going to spend a lot of the next five years below 90¢, so they're in for a pretty tough time if they don't move from some communities—a very tough time.

What would the country look like if people hadn't moved out of rural Saskatchewan 30 or 40 years ago, and the government had just subsidized them so their communities didn't shrink? Some communities there have shrunk significantly. Some have disappeared.

The other thing I would say is certainly I don't think anybody should do anything more than offer increased opportunities to those people to move, if they want. It's very clear that when western employers go there, people respond. I think the federal government should be in there helping them out as well. I also think, if they don't want to move, okay, that's fine. I've been in Cape Breton, and I'd probably rather live there than in Toronto. It's a very pleasant place. But I ask you this: if you're a worker suffering through all the problems we've got in Toronto, and there are quite a few—it's a tough place to live—and you're earning $30,000 or $40,000 a year, and the government is subtracting unemployment insurance from your pay, if that person in the east were to take that job and get off unemployment insurance, this person wouldn't have to be taxed to pay.... So while it's nice to think it's very hard for those people to move, the point is, they're being subsidized by other people. It's very difficult for some other people to subsidize them.

● (1550)

**Hon. Mark Eyking:** Just on that point, though, in order to have people working in our fisheries industry in the fish plants, we don't have 12 months. You're asking, do you close the fish plants in Atlantic Canada? Do you just close everything because it's seasonal work? We don't have the opportunity you have in Toronto, where you have work for 12 months a year. Your model would be to just keep people all close to the border in a manufacturing industry, and our rural industries are going to be emptied out. That's what your model would lean towards.

**Dr. Dale Orr:** I guess what my model would lean toward is moving the unemployment insurance system much closer to a real insurance system, so the costs there would go more on the employer who can't offer 12 months of work. Why should they go to the person who is working in Toronto?

**Hon. Mark Eyking:** What's your opinion on helping industry set up in regions where we are going through difficulties?

**Dr. Dale Orr:** Do you mean in general, or simply when they're going through difficulties?

**Hon. Mark Eyking:** In general. If you have a lumber mill that's closed in northern Ontario, shouldn't we be helping those companies to set up new companies?

**Dr. Dale Orr:** I would say basically not, because time and time again—and there are some very infamous examples.... So you subsidize that lumber mill—

**Hon. Mark Eyking:** Not a lumber mill, but helping them change to another industry.

**Dr. Dale Orr:** Oh, on the labour side. Yes, as I said, I'm quite sympathetic to helping on the labour side and less sympathetic to providing compensation to firms.

**Hon. Mark Eyking:** Do I have any more time?

**The Chair:** You're out of time, unfortunately. Thank you, Mr. Eyking.

We'll go to Madame Brunelle.

[*Translation*]

**Ms. Paule Brunelle (Trois-Rivières, BQ):** Good afternoon, Mr. Orr. Thank you for being here.

I'd like to know a little more about your organization, Global Insight Inc. Are you a consultant? What is your job? I don't know your business.

[*English*]

**Dr. Dale Orr:** I can understand your French. It must be very good.

Yes, we are an economic forecasting and consulting company. And as I say to people, we have clients of all stripes in the public sector and in the private sector, in most of the economic departments of the federal and provincial governments, and of course large corporations, hydro companies, whatever.

I think the important thing is that I'm here telling you what I can tell you from the point of view of an economist. When I was in the government, I worked in Industry Canada.

We have so many clients of all types of stripes that, no matter what I say, some client would think that's good for them and another one would think it's bad for them.

[*Translation*]

**Ms. Paule Brunelle:** That's good. You're definitely the right person to answer my question. We know the concerns of the currency traders, in particular, with regard to the enormous U.S. deficit and the increasingly large U.S. loans made in foreign markets to finance their deficit. We've seen the price of crude oil, which was $19.71 in January 2002, rise to $98 in 2007. We also see the demand for the natural resources of emerging countries such as China and many others. All that has fostered the increase in the value of the dollar.

Do you think this is a trend? Or are these rather circumstantial events that we've seen for some time and that will not reoccur? Should we instead expect the dollar to remain high and to experience cyclical and very rapid fluctuations, as we've seen?

● (1555)

[*English*]

**Dr. Dale Orr:** Thank you.

If you turn to the chart, I have the Canadian dollar forecast there. It shows, by our forecast, that over about the next six months the dollar will probably stay pretty close to par. It will be a bit under par for the latter part of 2008, and 98¢ or so for 2009. That is a combination of slightly weaker energy prices.... Also, that is compensated for. There will probably still be increasing downward pressure on the U.S. dollar generally. But we don't think oil is going to stay anywhere near where it has been in the last month—the $95 range. We see it ending 2008 at around $76.

To your earlier point about China and India, even $76-oil is a pretty high price relative to what people were expecting a few years ago. The Chinese economy in particular has been growing at a phenomenal rate of 9 to 10 percent. I think that is going to be the case for quite a few more years. They're going to demand a lot of our resources, not just for oil, but other metals and so on.

With respect to the demand for oil, to say that it's going to be in the $70 to $75 range is still pretty healthy demand. On the forestry side, though, I think it will be a while before the U.S. housing market comes back and provides the strength we need for our forestry sector.

That's where we see the dollar going, and that's why I think it's really important that whatever assistance you provide is in the nature of adjustment. Firms make these longer-term strategic decisions about investment and plant location. It's a very long-term business. They plan ahead. Even a year or so ago I think people making those big investment decisions such as plant expansion and moving were probably expecting the Canadian dollar to be in the 85¢ to 90¢ range. A very important point is that even if the dollar were to go to 95¢ tomorrow, which would be a fall of a nickel, and stayed there for the next quite a few years, a year from now people making these investment and relocation decisions would be looking at, say a 95¢ dollar, which is probably quite a bit higher than what they were looking at even a year ago.

So with respect to that part of it, the plant expansion and plant location decisions, we have not nearly seen the end of the negative impact from the Canadian dollar yet. We're going to be seeing that for the next two or three years.

[*Translation*]

**Ms. Paule Brunelle:** Earlier you said that companies had to adjust to the increase in the value of the dollar. The major difficulty we've seen are the delays. The changes were so quick that companies had trouble adjusting to them.

Do you believe that the government has a role to play in ensuring a certain degree of stability? You yourself said that firms develop over the long term and take the long-term view. Isn't there a role for government in all that?

[*English*]

**Dr. Dale Orr:** That's a bit of a tricky one. I guess I would certainly say that.

One of the difficulties of course is that the Canadian dollar can move unpredictably. It was $1.10 not that long ago, in early November. Now it's pretty close to $1.00—down 10¢. You say that it has moved fast. Well, it's at $1.00; it was over 90¢ a year ago, and it could be 95¢ two weeks from now. So when they say “it has moved so fast”, that's one of the difficulties.

I would say that if you're focusing your efforts on whatever sorts of tax breaks or program expenditures are helping firms to be more productive for whatever reason, then you probably can't miss.

On the labour side, I think one of the very important things that's driving up the dollar is the high energy prices, so that's creating all sorts of income and job opportunities in the west. That's really one of the major direct causes for why the dollar is high. You could take advantage of that and move the people to where the jobs are.

● (1600)

**The Chair:** Thank you, Mr. Orr. Sorry, we're over our time. I want to give every member their due time.

We'll go now to Mr. Carrie, please.

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

Thank you very much, Mr. Orr, for your presentation. I have some specific questions for you.

I represent Oshawa. Oshawa is an auto town, and there are definitely some challenges facing the auto industry. You mentioned that in your opening statement. We did a manufacturing study last year that was quite in-depth. One of the things we keep hearing repeatedly is how one job, say in auto assembly, can have a seven-job spinoff. So I'm going to ask you, why is it not a good idea to invest in value-added sectors from which it appears you get a very good spinoff from having that anchor in manufacturing?

**Dr. Dale Orr:** Well, from that spinoff, you could take that money and put it into a tax break for all companies for investment.

I think the answer I'm giving you is one you'd get from a lot of economists. We're really against targeted government funding to particular firms or sectors. You are much better off to take that money and use it to reduce corporate income taxes, or make depreciation rates lower, then let the market sort out who can best take advantage of it.

I know things are tough in the auto business, and they're tougher in Oshawa than most other places. To anybody who comes in front of you speaking about the auto industry, be sure to ask them to what extent are these problems the problems? Because, frankly, General Motors, Chrysler, and Ford have been mismanaged. They have grossly lost market share to Honda and Toyota. Ask them how Honda and Toyota are doing in Canada. They're hiring people. They've been well-managed companies. They've designed their autos and priced them to sell.

The Canadian dollar's been a problem, but now the settlements that have been made in the U.S. cause further problems for the Canadian auto industry. They've moved the health care costs off to the unions. They have set certain commitments for production in the U.S. You know, we could allocate an awful lot of the taxpayers' money trying to save auto jobs in Oshawa. It could get very expensive.

The point is to understand why these companies are having their problems and what the competitive equilibrium is. I think the competitive equilibrium for those types of production in Canada is a tough story. It's a tough story. They haven't finished adjusting to the Canadian dollar, and they haven't even begun to adjust to the new U. S. auto agreement. So it's tough.

**Mr. Colin Carrie:** It certainly is tough.

So far, you've had the opportunity to look at Advantage Canada and the economic update. In your opinion, are we on the right track in what we're doing here?

**Dr. Dale Orr:** Advantage Canada is absolutely on the right track. In terms of its substance, it wasn't that wildly different from a document put out in November 2005 by the Liberals. The recipes for productivity have been well known for many years. That's what I'm saying, it sounds good.

Now what happens is as we approach the budget one claim after another on the public purse takes away money. Then people say these things and Advantage Canada are all good ideas, but you don't have all that much money left to implement some of them.

I think it was a great document. I must say in the economic statement—apart from the GST—the personal income tax cuts and a couple of those other cuts were good for productivity.

**Mr. Colin Carrie:** You mentioned retraining and relocation. How do you think it's best for the government to do that?

**Dr. Dale Orr:** I am no expert, so I can only give some broad ideas from the way I understand it's done in a couple of other jurisdictions.

I guess we really have to recognize that it's a very wide-ranging issue. It goes from helping the worker identify a job in the west, to helping a family adjust to a move. There's a social work type of.... People have said how difficult it is for communities. That's why I'm saying it's not only a matter of identifying jobs. It involves a family moving. It's a very complex process.

I'm very disappointed that the federal government hasn't really got off the mark here. It really seems sad that one of the biggest problems of western Canada is a shortage of labour, while here we're sitting complaining about what we can do about all these people being laid off in eastern Canada. We have people who have been living in areas of eastern Canada with perpetually high unemployment and the federal government really isn't doing very much to help people with interprovincial moves to where the jobs are.

● (1605)

**Mr. Colin Carrie:** There appear to be some interprovincial barriers as well, even with trade unions. I'm a chiropractor, and I can practise in Ontario but not in any other province.

So you really don't have any good, solid suggestions for how the government could work on relocation and retraining?

**Dr. Dale Orr:** Take the budget of HRSD or the money from EI and allocate a whole bunch of it specifically to help these people if they're laid off in a manufacturing community in Ontario or in another area. Do whatever it takes in terms of identifying jobs, helping them move, and paying moving expenses. There's a small income tax break now, but include everything involved in the move so you can get them from there to there.

In some cases there should be retraining. I don't know if any of you are from Alberta, but they're saying there are job openings for a wide range of skills. Job openings are not limited to welders and pipefitters.

**The Chair:** Thank you, Mr. Carrie.

We'll go now to Ms. Nash, please.

**Ms. Peggy Nash (Parkdale—High Park, NDP):** Thank you, Mr. Chair.

Welcome, Mr. Orr. Thank you for coming to our committee.

I'd like to pursue the line of questioning about your recommendation that people from Mr. Carrie's riding should just pull up stakes, leave the wonderful city of Oshawa, and move west—that's where their future lies.

I guess my question to you is about the value of the manufacturing sector to a country. Do you believe that a strong and vibrant manufacturing sector is important to a country like Canada—a middle economic power blessed with many natural resources, which has worked hard to develop this sector of the economy?

**Dr. Dale Orr:** I should be very clear that in terms of interprovincial mobility, the government should offer increased opportunities and assistance for those people to move. If they don't move, they should be cut back from employment insurance.

I can understand people not wanting to move—

**Ms. Peggy Nash:** What about people in the manufacturing sector?

**Dr. Dale Orr:** I'll get to that one in a minute.

If they don't want to move that's fine, but should people elsewhere continue to subsidize their EI?

There's no magic size for the manufacturing sector in Canada that's optimal. It depends on a lot of other things. I should point out that the manufacturing sector in Canada and in the U.S has been shrinking for quite a few years. Right now about 12% of our people are employed in manufacturing, and in the U.S. it's 10%.

**Ms. Peggy Nash:** Do you think a healthy manufacturing sector is important to an economy like ours?

**Dr. Dale Orr:** Yes, but it's not healthy if you're subsidizing an uncompetitive manufacturing sector. If it's competitive it doesn't need subsidization.

**Ms. Peggy Nash:** Do you see the spectacular rise of the Canadian currency vis-à-vis the U.S. currency as inherently uncompetitive on the part of Canadian manufacturers? Should they have been able to anticipate that rise and increase their competitiveness to deal with that?

● (1610)

**Dr. Dale Orr:** On your first point, our manufacturing sector should be smaller. It is smaller in the U.S. and they have a very vibrant, healthy, rich economy. So we shouldn't think that the Canadian economy would not be able to perform well if the manufacturing sector were smaller than it is today. The big problem would be trying to keep it bigger than the market wants it to be.

**Ms. Peggy Nash:** Is it your view that the role of government in the manufacturing sector, or in any sector of the economy, is to completely get out of the way, and whatever the market decides is what should happen?

**Dr. Dale Orr:** The government should set a good tax and regulatory environment. There are a lot of things they could do, not just for manufacturing but for the whole business sector, like have a good competition policy environment, and all of those sorts of things. They should not go in and pick winners and losers. They tried to do that and have a very bad record.

**Ms. Peggy Nash:** Let me ask you something. With across-the-board corporate tax cuts, are they not picking winners and losers? By that I mean sectors of the economy that some would argue are already quite overheated, such as the commodities sector, the oil and gas sector in particular, which then benefits spectacularly from tax cuts and is a winner. Then you have some parts of the manufacturing sector that are not profitable right now because of the high dollar, plus some other problems they have. They do not have taxable income and therefore do not benefit from across-the-board tax cuts. So is the government not picking winners and losers with this policy?

**Dr. Dale Orr:** No, not by changing corporate income taxes.

**Ms. Peggy Nash:** How so? The manufacturing sector loses and the commodity sector wins, so how are they not picking winners and losers?

**Dr. Dale Orr:** They're changing the tax environment and companies' tax status will vary from year to year. In any given year, some people are going to benefit more because they are in a tax position and others aren't, but the next year the picture could be reversed.

**Ms. Peggy Nash:** Right now, with the crisis in the manufacturing sector, to say that cutting corporate taxes is creating a healthy environment for the manufacturing sector is not helping manufacturers who do not have a taxable income to take advantage of that, and that point was impressed on me and others here by Jayson Myers, from the Canadian Manufacturers and Exporters. So, clearly, to my way of thinking, the policy the federal government is pursuing is saying in essence that everyone has an equal right to sleep under a bridge. Everyone has an equal right to take advantage of a corporate tax cut, but the reality is, only some can.

**Dr. Dale Orr:** In a given year, but next year it could be reversed.

**Ms. Peggy Nash:** For the foreseeable future, that's going to be the case for many manufacturers.

**The Chair:** Your time is up. Is that it? Thank you.

We will now go to Mr. Simard.

**Hon. Raymond Simard (Saint Boniface, Lib.):** Thank you, Mr. Chair.

Thank you for being here, Mr. Orr.

We had the financial services people here a couple of days ago, and I think it's quite obvious that the manufacturing sector has been affected quite drastically by this increase in the dollar—130,000 vehicles purchased by Canadians just in the last year or so. Do you foresee the same thing happening in the service sector? It's fairly easy, for instance, for Ditech or Wells Fargo or eBay, where you can access all this in the States. Do you see that happening in the service sector? Because that is what we're studying right now.

**Dr. Dale Orr:** It could and probably will happen in the part of the Canadian service sector that is competing head-on with Americans. Tourism would be a good example, although there are a lot of people in Canada who are maybe catering to European as opposed to American. But a lot of Canadian tourist operators are taking quite a hit, as are all sorts of entertainment people in Toronto and elsewhere. So some components of the service sector are going to take a hit because they're less competitive.

The other point I should make is whenever we talk about the high dollar, people are always thinking in terms of U.S. currency. Our dollar, while it's lost about 56%—I've brought some updated numbers to that chart—to the U.S. dollar, it's only lost about 12% relative to the euro. So we're in a much better situation.

● (1615)

**Hon. Raymond Simard:** That's my next question. The euro has also been losing some ground, right?

**Dr. Dale Orr:** Yes. The Canadian dollar has gained relative to every major currency, but less so with the euro than others.

**Hon. Raymond Simard:** The Europeans are starting to get concerned. Is that something the Canadian government should be concerned about, keeping an eye on what the European nations are doing to prop up their dollar in terms of giving tax breaks? Should we be watching them? If they're doing it and we're not, then you create a disadvantage for your Canadian corporations.

**Dr. Dale Orr:** As I said, I don't think we should be changing taxes in response to where the dollar happens to be. We should be changing taxes relative to how our taxes compare. They don't compare that favourably with some of the European countries on new investment, for example. The dollar is pretty volatile.

Also, I've got to emphasize, the manufacturers are highly organized. They come here and complain, but remember, a lot of other people who aren't in manufacturing hurt just as much as those manufacturers, and a lot of manufacturers don't export. A lot of them don't export that much to the U.S. So this is the problem with just responding to the particular groups that get themselves organized and come here as manufacturers.

**Hon. Raymond Simard:** One of the things you said was that it's one of the risks you take when you have a flexible currency, and I think you're absolutely right. You have to factor that into any decisions you make. And you probably should have been retooling and reinvesting in your firm when the dollar was at 63¢, isn't that right?

Having said that, do you have any views of the advantages or disadvantages of our dollar being tied to the U.S. dollar?

**Dr. Dale Orr:** Yes, I definitely have. I'm glad you asked.

I guess the first thing I would say is that while you say “tied to”, I think we either go into a common North American currency or we don't do it. We don't do the peg thing, and that's a long story.

Should we have a common North American currency? It would certainly have some definite economic benefits. Frankly, I don't think the appetite is there for it in Canada, and it's not there for it in the U.S. But if the political climate changed, I think it could be something that from an economic point of view we should take pretty seriously.

A lot of the arguments against a common North American currency don't hold up very well. Obviously, the Bank of Canada cannot even whisper, hardly, that they would consider it. If I were the government, I wouldn't want to get into those discussions, and if I were a senior finance department official, I wouldn't either, because there's a real danger in saying that we want to. Among other things, you rather lose your negotiating power with the Americans.

But that's not to say that a common North American currency.... It's something that's out there as a possibility, yes. I think it has more attractive benefits.

**Hon. Raymond Simard:** In ten seconds, if you had a crystal ball, where do you think the dollar is going to be over the next ten years?

**Dr. Dale Orr:** Ten years? Well, I've stretched my chart into 2009, but I think even ten years out I would still see it roughly there.

But I have to say, that forecast, of course, as you appreciate, requires you to have a view on where energy prices are going. That's one of the reasons why forecasting the dollar is so difficult.

I'll leave it there.

**The Chair:** Thank you.

We'll go to Mr. Van Kesteren.

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

Thank you, Mr. Orr, for coming.

This is fascinating. We're really studying the service sector, but this is great; this is okay. We'll keep on going on this.

I'm curious. You're not in favour of the GST cut. My thinking is that in my riding, for instance, one point makes about $18 million back in the hands of consumers. Isn't that a good thing?

I have a whole mess of questions, so just.....

**Dr. Dale Orr:** When I say I'm not in favour, I'm saying “relative to other tax cuts”. If money fell from heaven, I'd be in favour of a GST cut. But there are better things that we could have done with that money. That's the point.

**Mr. Dave Van Kesteren:** But is my thesis correct? You have $18 million, so some guy has another $10 a year or $20 a year.

**Dr. Dale Orr:** No. All the federal government can do, unfortunately—I'm sad to tell you this—is redistribute the taxpayers' money. That money didn't grow within the federal government; you collected it from taxpayers. That's why I'm saying there are better things that could have been done with it.

And we always have to realize that every dollar the federal government has.... In fact, they collect the dollar, and you lose a bit putting it through the federal government, with all this administration, and 95¢ goes out the other door.

● (1620)

**Mr. Dave Van Kesteren:** I'm not an economist. I'm reading your background, and you certainly know your stuff. You're obviously not Keynes; you're more Hayek, I think it was, or something. Is the world going in that direction? Are countries that are lagging behind just lost to the obvious: that we need to move in that direction of free markets?

And I guess that leads to my next question. We talk an awful lot about free trade agreements. Are we going in the right direction when we do free trade agreements?

**Dr. Dale Orr:** Generally we're going in the right direction, and it's particularly important for Canada. We have to make our living as a trading country, and it's really important that we take every opportunity to diversify ourselves from the Americans. I'm going away back to what Pierre Trudeau said.

Right now—as a matter of fact, in the last few years—the fraction of our total exports going into the U.S. has fallen from about 87% to about 77%. In times like this, when we lose our competitive advantage to the Americans, it's very important that we have trade as free as possible with a range of other countries.

**Mr. Dave Van Kesteren:** We have nothing to fear if we move in that direction.

**Dr. Dale Orr:** Well, I mean, you have to negotiate.

**Mr. Dave Van Kesteren:** There is always the unknown, but this is the right direction to go in—

**Dr. Dale Orr:** Yes, absolutely.

**Mr. Dave Van Kesteren:** —with free trade and lower taxes.

What about opening up the north? Like the way we put our railroads with John A. Macdonald in the 1800s, should we be exploiting the north, getting roads up there, getting ready for resources, because we are a resource-rich nation?

**Dr. Dale Orr:** Well, I would say you have to be pretty sure that they're going to pay off. I'd hate to just give a blanket yes and no, because of course you can build bridges and roads to nowhere, and they can be real white elephants to the taxpayer.

You have to make sure that what you're doing is you're providing the infrastructure that's needed for economic development. That's why we're saying if the government were to make it easier to get trucks from different parts of Canada through to the U.S.—you know there's a demand there—and improve that infrastructure, it's really important to the north. You really have to make sure—

**Mr. Dave Van Kesteren:** I'm talking about the far north. Should we be doing geological explorations again? Should we be focusing on that and possibly recognize that there's a rich resource there that we can exploit?

**Dr. Dale Orr:** There might be. I wouldn't want to prejudge geophysical surveys and things like that. I'm just making the general point that you can't just say yes or no, because you can waste a lot of money building roads and bridges where the economic payoff isn't there. But likewise, you can forego an awful lot of money that we should be earning by not having the infrastructure there when the demand is there.

**Mr. Dave Van Kesteren:** What happens to countries that peg their dollars?

**Dr. Dale Orr:** Generally, the countries that have gone on a floating exchange rate have done better. And back to your other one, countries that have gone into freer trade have done better than those that haven't. Countries that have gone towards more market systems have done better than others.

I should also say, and this is something to think about, that most of the moves the Government of Canada has made over the last 30 years towards more open markets have been fought by the left wing. Most of them today are happy we did them.

I think we have a very good record of market-opening moves. I don't think the NDP would stand up today and say we should impose huge tariffs on imports from the U.S.; we should throw NAFTA out the window; we should throw out Sunday shopping. That's another market-opening move. I'm just saying that I think our record on market-opening moves of all types has paid off, generally speaking, and been well received. And the people that opposed them, I don't see them standing up today and wanting to undo those market-opening moves.

**The Chair:** Okay, thank you.

Thank you, Mr. Van Kesterern.

We'll go to Monsieur Vincent.

[*Translation*]

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

Good afternoon, Mr. Orr.

With respect with the appreciating value of the dollar, the rise in gasoline prices and Chinese imports, I think we're witnessing a systemic purge of the industry.

The government wants to assist industry, but is still doing it in two ways: it's doing nothing on the one hand and cutting taxes on the other. As Ms. Nash said earlier, tax cuts benefit big businesses.

As regards those businesses that are having trouble with these three issues that I've just named, do you think that a loan guarantee would help businesses in trouble more than tax cuts, if they don't pay any tax? A loan guarantee to buy new equipment, for example, might enable them to re-enter the market and continue their operations.

Could you give me your opinion on that point?

● (1625)

[*English*]

**Dr. Dale Orr:** If what you're saying is should we focus whatever fiscal room we have on making the cost of investment lower, that type of tax break versus a general tax break, the answer is you need to do a little bit of both, because some companies are much more capital-intensive than others, getting back to this point that we want to make our tax environment competitive and we want to make it as even as possible.

That's why we have, and we should continue to have, some tax breaks that are focused on lower depreciation rates, focused on making investment cost less, and then others that are just straight corporate income tax. This is partly because of the problem, as we said, that in any given year some companies can't take advantage of lower corporate income taxes, especially younger companies. So it's particularly good for them to have part of the fiscal room used for breaks on investment. We should have a healthy mix of both.

[*Translation*]

**Mr. Robert Vincent:** I understand your point of view, except that three industries are in trouble: the textile industry, which has nearly expired; the furniture industry, which is still having problems; and the plastics industry, where problems are already in the offing. You can give them all the tax breaks you want, but, if those three industries make no profits, it won't help them anymore. They're not paying any taxes and they're not making any profits. They're trying to get by and to get through this crisis on lines of credit here and there, except that it's always the same thing year after year. These industries were already in trouble when the Canadian dollar was at 90¢ and the price of gas at 86¢. Now that our dollar is worth $1.05 and the price of gas is $1.12, I'm not sure they can make it.

But wouldn't a loan guarantee be a kind of assistance for these businesses so that they could at least survive until the price of gas and the Canadian dollar fall?

[*English*]

**Dr. Dale Orr:** Yes, I guess as a general statement I would say, of this idea of the federal government helping companies and industries that are in trouble, that you can waste a lot of the taxpayers' money trying to do it. You can also make life much more difficult for firms in the same industries that are better managed.

We've had examples. The government of B.C. goes in and rescues a pulp mill and keeps it alive for a couple of years, basically at the expense of other pulp mills.

Whenever you try to do that, usually to a large extent you're just redistributing, helping out companies that are not as well managed as other companies. I don't think it's a very good.... It's hard to be dogmatic about these things, but as a general principle, most of the time you waste the taxpayers' money by doing it.

You should focus on the labour side of it, the side of those workers who are suffering, and make sure that we get them retrained, relocated, and into better jobs. Focus on the workers, not on trying to keep the plant going or the firm going. Focus the assistance on helping the workers make the adjustment and find new, better-paying, more secure employment.

[*Translation*]

**Mr. Robert Vincent:** You say we have to help the other businesses, that the other businesses are taking advantage. But when you give the oil companies $100 million in tax cuts, unlike the T-shirt factory, for example, which receives nothing, are we favouring the worker or the industry?

If we consider the oil industry, which is already making billions of dollars in profits and which we want to give another $120 million, I'm not sure that's the right solution.

**The Chair:** All right, Mr. Vincent.

Are there any other questions?

[*English*]

Make it just a brief response, Mr. Orr.

● (1630)

**Dr. Dale Orr:** Yes, generally I'm not in favour of giving firm- or industry-specific.... What we've done in oil is probably not appropriate; that could be.

**The Chair:** Merci.

We'll go to Monsieur Petit.

[*Translation*]

**Mr. Daniel Petit (Charlesbourg—Haute-Saint-Charles, CPC):** Thank you, Mr. Chairman.

Good afternoon, Mr. Orr.

I listened to your analysis attentively, at least to what you said about the high dollar we're living with right now. I would like to ask you two or three questions, and you can decide on the order in which you want to answer them.

I'm from Quebec, where there's a problem with employee relocation. One of the reasons for that is that, in the construction industry, for example, Quebec's Act respecting manpower vocational training and qualification prevents workers from Ontario, Alberta and all the other provinces from working in Quebec. However, I could go and work outside Quebec, but when people know that they can't come and work in Quebec, they don't hire me to go work for them. That's the first problem, and I'd like to know your opinion on that subject.

Second, you mentioned “apart from employee relocation”. I pay my taxes in my province in Canadian dollars. I pay approximately 50% of my salary in income tax, and the Quebec government takes my money to pay down a debt in U.S. dollars. I'm currently giving the same amount, 50% of my salary, but it repays the amount of the debt twice as fast. The Quebec government isn't complaining right now because this suits it. It's paying its debt like it never did before. Quebec has $112 billion in debt, and we can pay, precisely because of the appreciating value of the Canadian dollar.

Third, as a government member, how can I do or suggest anything when our monetary policy depends on the Bank of Canada? It's supposed to be independent from us. We aren't even supposed to make recommendations to it. So, from what I understand, how can I do anything today, even something minor, to influence the value of the dollar, if we have to influence it?

Those are my three questions.

[*English*]

**Dr. Dale Orr:** Okay.

On the first one, yes, there are interprovincial barriers, I think it was mentioned, to certain occupations and trades. I know the government is working, I think with some success, in reducing those barriers. That's an excellent effort and it requires a lot of cooperation. As you may know, the B.C. and Alberta people have signed that TILMA agreement and I think it's a good example for others to follow.

As for the high Canadian dollar paying off U.S. debt faster, as you pointed out, yes—and I'm not sure there was a question there—I guess it's a benefit. I know, as you sit here as a committee, you always hear an awful lot more from people who are hurt by something or another. There could be five people who are helped for every one that's hurt, but you're going to hear from the one who's hurt, and I guess this is an example. There's a big benefit of the high dollar.

On the Bank of Canada, I appreciate what you're saying, which is the bank is at somewhat arm's length. You can always talk to them, but you don't have any power over them. But it's not that this would do you a lot of good, because the Bank of Canada's ability to influence the Canadian dollar is pretty limited. I've often said, only somewhat facetiously, that about the only thing they can do is if the governor says something really stupid, the dollar can fall, temporarily. Fortunately, we have an excellent governor and we have had excellent governors and they haven't done that. That's one reason why we pick good people, and we're very fortunate.

It's much more difficult for him to cause the dollar to go up. They'll tell you this, that they have one instrument and that's the change of the interest rate, and in fact they really only have half the instrument because most of the impact of the change in the Canadian interest rate is dependent on what is happening to the gap between Canadian and U.S. rates. If the Bank of Canada lowers the Bank of Canada rate by a half a point and the next day the Fed lowers by half a point, not much is going to happen to the dollar.

So, again, the bank likes to tell us we have all this sovereignty because we don't have a common currency, but you can have quite a debate about that, because if we had a joint North American central bank at least we'd have a voice at the table. Right now we have no voice as to what the Fed does, and that's half the equation, so I'm saying it's a debatable point. Whether we'd have more or less influence in our interest rate changes under a common currency is a debatable point, because it's that gap that has a lot of the impact right there.

So don't feel too bad about not being able to talk to the bank, because their power is limited.

● (1635)

**The Chair:** Thank you, Mr. Orr. I'm sorry, I'm just trying to keep all members on time here.

Merci, Monsieur Petit.

We'll go now to Mr. Valley, please.

**Mr. Roger Valley (Kenora, Lib.):** Thank you, Mr. Chair.

Thank you for coming today.

I'm looking at your document here, and you mentioned you'd been here before. I think you said you had a decade or more of experience coming to committee at different times.

In your forecast for the Canadian dollar, you show the last year and for the next two years you project. If you'd have come here three years ago, how accurate would your projection have been?

**Dr. Dale Orr:** What were we projecting three years ago for the Canadian dollar?

**Mr. Roger Valley:** If you'd have been here, yes, how accurate?

I have to be honest, I'm not trying to be too chippy, but your projection isn't much. I can draw a straight line, that's all.

I just want to know how you would have done if we were looking at a document you provided three years ago.

**Dr. Dale Orr:** I'm only guessing, and I haven't looked, but clearly we were not forecasting par. Neither was anybody else.

As I say, it's very difficult to forecast the dollar because, among other things, it depends very heavily on the price of energy and oil. And if you can't get that right, you're not going to have the dollar right.

Basically, we can provide a lot of value to clients by helping them focus on adjusting to changes in the dollar and helping them understand how changes in the value of the dollar affect their companies and they can do their contingency planning. To try to give a pinpoint estimate of where the dollar might be, you have to go with that with an awful lot of modesty, as I have learned over a lot of years of experience, because so many things can affect the dollar. It's very difficult, but we do the best we can with the information we have.

I should say in regard to our forecast that you see in the chart there that just yesterday I got a forecast from a consensus of economists, and this is pretty close to consensus, for whatever that's worth. But I'm going to say it's very difficult to forecast.

**Mr. Roger Valley:** Thank you for that.

You notice that we're a little sensitive about the topic of moving workers around. You know, we're national politicians. This committee is embarking on a strategy to help nationally. We have to look at the national situation. We have to look at the big picture, but we're elected locally. We face those people you're talking about moving. It's very difficult for us.

**Dr. Dale Orr:** Yes, I appreciate that.

**Mr. Roger Valley:** I would like to ask you to give me your advice on a very specific thing, and I will use my riding, the riding of Kenora.

We have a huge pulp and paper mill sitting there. It's a brand-new facility from a brand-new investment of about $350 million in the last few years. It's very similar to what's out in Prince Albert. There is a bright future for these things. You mentioned—and I don't think you meant to—that forestry is tied dramatically to the housing crisis in the United States right now. Well, that's just one factor. A factor equally big is what's going on in B.C. with the pine beetle, energy costs, and high fibre costs. All the things we know, and what forecasters like you say, is that out in the future there is going to be an industry there for us.

I live in Dryden. We had 1,200 workers in the plant five years ago. We have 300 now working half-time. That facility will run full-time, so you can't move those workers out. I think we've put words in your mouth, maybe, by saying "relocation". I'm not sure that's what you meant. You meant move them to where the jobs are, but hopefully not forever.

What I want to know, before you answer, because I'm going to be cut off, is what you do in situations like that. There is a place for the federal government, especially when it has resources. They can help those companies. They can help them get ready through technology upgrades. If you're familiar with the term "closing the loop", in big pulp and paper mills.... The pulp and paper mill that's there cannot run by itself. It's facing tough issues in softwood, meaning that if they can't sell lumber close by, they can't get the cheap chips. These are integrated systems. They all have to work together so they work properly.

So what do you do in a circumstance like that? There is opportunity. The government does have money. They can do the technology upgrades and close the loops, protect the environment, and protect the water resources that are there. That's what should be done now, because 24 to 36 months out, there will be jobs in those communities.

**Dr. Dale Orr:** As I say, it's a problematic thing, and really tough questions have to be asked. If the shareholders of that company aren't willing to finance the upgrades, why should the taxpayers of Canada do it? I also make the point that if that particular plant has been online and operating for three or four years now through taxpayer assistance, it probably means that there's some other plant in Canada that has fewer employees than it otherwise would have. And you always have to take that into account.

I don't have a magic answer. But I'm saying that there are tough questions that should be asked about that before the taxpayers' money goes into it. And so much of the discussion and the profile is given to the benefits, not to the opportunity costs of using that money. Those dollars, they could have been used to reduce poverty. They don't fall from heaven. They could have been used to reduce taxes across the board. As well, what I'm saying is that very often the output of that plant is at the expense of some other plant whose shareholders were willing to make the investment rather than go to the taxpayers for it.

That's why it's problematic. I'm not trying to say that there's a yes-or-no answer here. These are tough questions, but those are the sorts of things I hope get a good discussion.

● (1640)

**The Chair:** All right. Thank you.

Thank you, Mr. Valley.

We'll go to Monsieur Arthur.

**Mr. André Arthur (Portneuf—Jacques-Cartier, Ind.):** Thank you, Mr. Rajotte.

Good afternoon, Mr. Orr.

I wish my economics professor at university had had the gift of clarity that you have. Maybe I would have been a better student.

Should we be ashamed of the strength of the Canadian dollar?

**Dr. Dale Orr:** No, we shouldn't be ashamed. It's nothing.... In fact, I think a lot of the opposite happens. I think most Canadians sort of have a new-found pride in the strength of the Canadian dollar. You could ask if we should be proud of it, as more people are. I mean, it's fine. You can go to the U.S. and people treat you with a lot more respect than they used to, or to Europe or anywhere. So I think that's part of it.

But we have to recognize, going back to what I think Ms. Nash was saying, that the dollar is strong because China and India are demanding oil and other natural resources from us. A lot of that strength is not because of things we have done right. It's the fact that China and India are growing.

Again, another thing that escapes attention too often is that the value of the Canadian dollar is a ratio. The Canadian part is the numerator; the U.S. part is the denominator. We can go on doing exactly what we're doing. If the Americans make mistakes, then what's going to happen is that our dollar goes up. If they happen to do things way better, then our dollar goes down. So it's a ratio and it reflects a relative price.

**Mr. André Arthur:** Is this a good time to start giving some attention to the possibility of having a common dollar with the United States, now that we are not in the cellar?

**Dr. Dale Orr:** This actually received a lot of attention about three years ago, and probably at other times in history.

Frankly, I would say it probably isn't a good time, because it's clear there's no appetite for it politically in Canada or the U.S. So if you're asking me, am I going to devote a month to writing a paper about a common currency, I don't think there's any audience for it.

I did write a little paper, though, when it was very topical about three years ago. The theme of that paper was that for most of the arguments that are being used by the Bank of Canada and the Department of Finance against it, there are very good counter-arguments that don't get the play that they should. But you throw them up and say it really is a debatable issue from an economic point of view.

**Mr. André Arthur:** We talk a lot about all the misery of the manufacturers because of the strength of the Canadian dollar. Is it a case of the squeaky wheel getting the grease? Is it because they have better hostages than the other sectors of the economy because of the huge enterprises and the huge unions that are there?

I realize, for instance, when we talk about forestry, in my riding the big companies are in trouble; the little family companies are thriving and opening night shifts.

So why are we so emotional about the manufacturers? Is it because they have better hostages than the others?

● (1645)

**Dr. Dale Orr:** That's a good point.

One of the things that I hope I've contributed today is to at least have given you some tough questions that you should place to the manufacturers, saying sure they're hurting, we know that, but there are a lot more reasons than the exchange rate for a lot of them hurting. There are a lot of other people who are hurting because of a high exchange rate who aren't manufacturers, and there are a lot of people in manufacturing who are hurting for reasons beyond the high dollar.

But there seems to be this highly organized profile that manufacturers are hurting because of the high dollar. I'm saying you have all sorts of things inside and outside of manufacturing and whatever. That's only a very small part of it. And why should that receive special attention? That attention should be much more broad.

**Mr. André Arthur:** Thank you, sir. It's an honour.

**The Chair:** Thank you.

I have a number of questions, and I appreciate your presentation, Mr. Orr, but I want to limit it to one question, because the committee does have some other business that we have to deal with.

I appreciate your comments with respect to the capital cost allowance, that if we do this, it should be done for the general issue of productivity rather than for one sector or another.

I did want to ask about the scientific research and experimental development tax credit, the SR and ED tax credit, because there are a number of companies from a broad range of industries that have come forward to the government and are asking for the SR and ED credit to be made refundable.

In our manufacturing report, we've recommended that the government consider this, but obviously it goes beyond manufacturing. Finance Canada's response officially seems to be that this is an $8-billion fiscal cost over five years, which many of the companies themselves are saying is actually $1 billion per year.

But what I want you to address, which I thought was quite interesting, is that you said the fiscal cost never reports back the economic benefit stimulated by that particular cut. So if I could, I know it's officially not on the dollar issue, but if you wanted to comment or provide me with something on the SR and ED issue, the finance department does say the fiscal cost is $8 billion over five years. Do you have any comments on that? And do you have any comments with respect to the benefit of amending that to make it refundable for companies?

**Dr. Dale Orr:** Yes, anything reported in the budget is the fiscal costs. The capital cost allowance extension we're talking about, and this tax credit you're mentioning, would particularly be the ones from which you'd expect productivity benefits, and the government would get some of its money back from them. So the fiscal cost would be an over-estimate of the cost to the government. I think the officials in the Department of Finance would agree with that. I've taken it up with them, frankly, and they agree that's the situation, that the revenue the government will get will be ongoing, though sometimes it takes several years before the productivity benefits arise. A lot more revenues can be expected from certain tax cuts than others, and they are not included in the budget.

I would say that in some of these broad-based tax cuts, roughly speaking, they'll get about 20% of their money back. That's the order of magnitude. Some arguments can be made that some tax cuts can pay for themselves. I would say that's what we would call a corner solution. That will only apply when companies then start reporting their profits in Canada, rather than in another country for tax purposes—a transfer pricing situation that does not apply to real movements of resources, and whatever. In those situations where you get into transfer pricing, maybe you can get your money back; but other than that, if you can get 10%, 20%, or 30% of your money back going forward five years, that's the sort of thing we're talking about. It's going to be in that range. And that would apply to that tax cut too, because it should help productivity.

**The Chair:** I appreciate that very much, and I appreciate your being with us here today. I know members certainly enjoyed the discussion.

The committee does have some other business we have to deal with. We have a motion and then we have some other business. The committee will turn to the motion by Ms. Nash. We will stay in public for the discussion.

Thank you very much, Mr. Orr.

**Dr. Dale Orr:** Thank you very much. It was a pleasure to serve you, and any other time—let me know. I wish you all the best in going forward.

Thank you very much. It was a pleasure.

● (1650)

**The Chair:** Thank you.

Ms. Nash, could we turn to your motion? Could you read it into the record and then explain the rationale for the motion?

**Ms. Peggy Nash:** The motion reads:

> The Standing Committee on Industry, Science and Technology calls on the government to adopt the recommendations put forward in the “Advisory Group Report: National Roundtables on Corporate Social Responsibility and the Canadian Extractive Industry in Developing Countries”, to announce its proposals for the implementation of these recommendations, and for the committee to immediately report on these proposals to the House.

**The Chair:** Okay, did you want to explain the rationale for the motion?

**Ms. Peggy Nash:** The report referred to in the motion has been provided to the federal government. It develops a framework for corporate social responsibility as it pertains to mining activities in developing countries.

This is something that has been requested. There's been criticism of some Canadian operations abroad. Certainly there are requirements for Canadian companies here in Canada that are very different from the requirements and the practices of these companies in other countries. I'm speaking specifically of mining activities in developing countries.

This framework for corporate social responsibility would be monitoring and assessing these mining companies' practices via strict human rights, environmental and economic standards. It would hold companies with mining activities in developing countries to greater account for their activities there.

So it's really about corporate social responsibility. It's about treating other countries as we would like to be treated here, just as companies are required by law to treat people and environments here. It's about exporting those standards to other countries.

**The Chair:** Thank you.

Mr. Carrie.

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

I believe this motion has also been tabled at the foreign affairs and natural resources committees.

I want to point out that many Canadian companies have integrated corporate social responsibility practices into their operations at home and abroad, with great results. We encourage the Canadian business community to continue to do so.

Last year round tables were held across the country to discuss practical approaches to help Canadian companies conduct their operations in a socially and environmentally sustainable manner. An extensive and comprehensive set of recommendations was developed, and the government is reviewing them carefully right now.

Once a response is finalized, the government will honour its commitment to report back to Parliament on a proposed course of action. In the spirit of efficiency, the committee has a limited amount of time and resources to devote to studies before Christmas.

We've worked well together to set priorities. We've set out good priorities, and we need to continue with these priorities and the studies we've set out. In that framework, I'd like to inform the NDP that we would be opposed to this motion.

**The Chair:** Thank you.

Mr. Eyking.

**Hon. Mark Eyking:** Thank you, Mr. Chairman.

I understand the motion quite well. I think there's a good intent there, but I think the home for it is the foreign affairs committee, especially when you're dealing with witnesses, bringing in people from other countries, and various aspects of it. I think that's the place for it. I would recommend that our colleague put it there and push it forward. I don't think this is the right committee to have it. So we will be voting against it if it comes forward.

**The Chair:** Mr. Van Kesteren.

**Mr. Dave Van Kesteren:** I agree with that, Mr. Chair, thank you. I think it's a very important thing to study, but we have other issues that are more within our mandate. I agree with Mr. Eyking.

Unless somebody else wants to discuss the matter further, I think we should call a vote on this.

● (1655)

**The Chair:** Okay. But I have Ms. Nash and then Madame Brunelle.

**Ms. Peggy Nash:** Simply to correct the intent, this motion would not lead to a whole study by the industry committee. There is already a report that is in the hands of the government. What that report does is incorporate the best practice voluntary frameworks that I believe Mr. Carrie referred to earlier. It really would put them into a policy framework for the Canadian government. So this report is already in the hands of the government. This motion is simply calling for the government to adopt these recommendations.

It's not the desire of the motion to have this committee reinvent the wheel and set in motion a whole new study of the recommendations. The recommendations exist. They're in the hands of the government now, and have been for some time.

**The Chair:** Thank you.

Madame Brunelle.

[*Translation*]

**Ms. Paule Brunelle:** We understand that this motion was introduced in other committees, in particular the Standing Committee on Foreign Affairs and International Development. We can understand why it is appropriate to introduce it, but, as a member of the Standing Committee on Industry, Science and Technology, I have been contacted by organizations because the situation of mining companies in developing countries is subject to caution.

It is normal for the Standing Committee on Industry, Science and Technology to take clear action signifying that the situation was serious enough for a report to be prepared. This motion simply asks that we report to the House without delay because the matter is urgent, because it's known to the public and because there is talk about it in the media. It's beginning to come out.

I think we have a duty to address this concern. We are going to second the motion. I also think it is very clear that we are asking the government to report without delay. This committee will not be hearing from witnesses on this subject.

[*English*]

**The Chair:** Merci.

I have no more speakers, so I will proceed to a vote.

(Motion negatived: nays 7; yeas 3)

**The Chair:** I declare the motion defeated.

Members, I just wanted to touch on two other items. The first item is the fact that we're having challenges in terms of the witness list that was given. I want to thank all members for submitting witnesses for both studies, the Canadian dollar and the services sector, but we're having a challenge getting some witnesses. We were hoping to have three witnesses today, but we could only have one here today. Secondly, we're having a challenge getting all the witnesses in the number of meetings we have allocated to the two studies.

So what I'm asking, and what the vice-chair, Mr. McTeague, has recommended, is that we have a steering committee meeting perhaps Monday late in the afternoon or Tuesday in the afternoon to decide on future business in terms of the two studies and whether we want to continue them and what we want to do with respect to a report.

Do I have agreement from members that we can set up a meeting?

**An hon member:** Yes.

**The Chair:** Is Monday late afternoon okay for members?

**An hon. member:** Perfect.

**The Chair:** I take that as agreement. There are no comments on that, so we'll try to set that up for late Monday afternoon.

Mr. Simard.

**Hon. Raymond Simard:** Mr. Chair, I would just like a clarification on the work plan. I know that these meetings on Wednesdays are to study the impact of the increase in the dollar. Are we limited to the service sector, or are we talking about the impact of the dollar in all sectors? I wasn't clear on what Dan had in mind here.

**The Chair:** That's a good question. The Tuesday and Thursday meetings are for the service sector specifically. The Wednesday meetings are on the Canadian dollar and the Canadian economy in general, overall. You can ask manufacturing, or whichever industry you want to focus on. It's a very general motion.

**Hon. Raymond Simard:** Okay, thank you.

● (1700)

**The Chair:** I have one last brief item with respect to blues, but I'm going to ask that we go in camera. This should be a five-minute discussion, but I'm advised that perhaps we should make this decision in camera.

I'm going to suspend for two seconds, and if we could ask all those who are not members or assistants to members to please exit the room, we will just go in camera for a brief time.

[*Proceedings continue in camera*]

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