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Mr. James Rajotte

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● (0900)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): Order, please, ladies and gentlemen.

This is the 13th meeting of the Standing Committee on Industry, Science and Technology. Pursuant to Standing Order 108(2), we are continuing our study, which is the review of Canada's service sector.

Of course, we'd like to welcome all the members of the media who have chosen this committee over the other one.

Voices: Oh, oh!

The Chair: The throngs of media covering good committees are impressive. That's my political comment for the day.

We have with us here today two organizations. First of all, we have two members from the Canadian Association of Management Consultants: Ms. Heather Osler, president and CEO; and the vice-chair, Mr. Bob McCulloch. Welcome to both of you. The second organization we have is the Conference Board of Canada. We have the senior vice-president and chief economist, Mr. Glen Hodgson.

Welcome to all of you. You will have up to 10 minutes for your opening presentations and then we will go right to questions from members.

So we'll start with Ms. Osler or Mr. McCulloch.

Mr. Bob McCulloch (Vice-Chair, Canadian Association of Management Consultants): I'll be doing that, yes.

The Chair: Mr. McCulloch, begin at any time.

Mr. Bob McCulloch: Good morning. Thank you to the chair and members of the committee.

My name is Bob McCulloch. I run an independent consulting practice in Toronto. I'm also vice-chair of the board of the Canadian Association of Management Consultants, also known as CMC-Canada, and I'll be referring to that during these words. With me is Heather Osler, the president and chief executive officer of the CMC-Canada.

Thank you for inviting us to appear before this committee today. While we always appreciate more time to prepare, being consultants we also always have something to say. So that's what we're here for.

Before I describe the current state of management consulting in Canada, it's probably helpful to this committee to understand a bit more about CMC-Canada.

The title, certified management consultant, or CMC, is a statute-protected professional title in all provinces across Canada. CMC-Canada administers the CMC designation and actively promotes it to the client community. To be eligible to become a CMC, one must have a baccalaureate degree in a relevant discipline and have at least three years' experience in management consulting. Applicants must agree to abide by the rigorous uniform code of professional conduct and successfully complete a comprehensive examination administered by CMC-Canada.

Currently there are 2,400 CMCs practising in Canada and a further 800 members of CMC-Canada who have yet to gain their designation. This represents about 13% of an estimated 25,000 management consultants in Canada. The CMC designation is recognized in 43 countries, and CMC-Canada is affiliated with many of the institutes that provide the CMC certification in their countries. We're also a founding member of the International Council of Management Consulting Institutes, the profession's international standards body.

I'll now give you a thumbnail sketch of the management consulting landscape in Canada. A lot of this comes from a study of management consulting in Canada that we just completed by the Kennedy Information group in the States.

After a tough couple of years at the beginning of this century, the post-Y2K letdown, 9/11, following the recession and structural changes in the business environment, Canadian management consulting is now again experiencing strong growth. In 2006 the industry generated gross revenues of approximately $9.3 billion. Gross revenues are projected to hit $11.5 billion by 2010. I would like to put this in perspective. Industry revenues 40 years ago were an estimated $25 million, so it has grown dramatically in that period.

For analytical and descriptive purposes, management consulting in Canada is broken into five service lines or components: strategy; operations management; information technology; human resources; and a recent entry, business advisory services, which focuses primarily on financially related matters and comes out of the accounting firms, by and large.

While each of these components has experienced solid growth for the last several years, the leaders are, not surprisingly, business advisory services, with their link to the large audit firms, and information technology. The public sector, which includes all levels of government and the publicly funded portion of health care, constitutes the largest single-client grouping for management consulting services in Canada, accounting for over 30% of total expenditures on management consulting. In addition to direct consulting expenditures, government legislation, policies, and initiatives drive a large part of consulting to clients in the private sector.

The Canadian management consulting industry is what economists would call an atomistic market, meaning there are many players in the marketplace and no one firm is large enough, relative to the market as a whole, to have any appreciable effect on price.

The structure is consistent with what those same economists—perhaps you, Glen, I'm not sure—would identify as perfect competition.

In composition, the industry contains several multinational firms, primarily in human resources and information technology, several Canadian-based companies with a global reach, a few large national players, smaller Canadian consulting firms that focus on one sector or a geographic region, and a long list of small management consulting boutiques and sole practitioners.

This atomistic structure keeps the management consulting industry very competitive and very nimble in Canada. Ontario continues to be the largest market for management consulting services of all types, and Alberta evidences the strongest rate of growth currently.

● (0905)

The factors that drive growth include strong economic growth of the companies that use consulting services; the pattern of economic growth, such as increased focus on international competitiveness and the increase in mergers and acquisitions, both of which are prime areas for management consulting involvement; the focus on improving effectiveness and efficiency in the huge health care sector; the growing shortage of highly qualified personnel, brought on by both economic growth and aging demographics; the Canadian-U.S. dollar exchange rate, prompting the drive for companies, especially manufacturers, to achieve greater efficiencies and competitiveness; and increased interest in and investment by governments at all levels in infrastructure projects.

The barriers to market entry for management consultants and management consulting firms are not as high as for other business areas. At the extreme, all it takes is the declaration that one's a consultant, and with fewer multinational management consulting firms in the United States, the Canadian market provides very fertile ground for locally formed small and medium-sized firms to establish themselves and prosper.

Challenges: the future of the management consulting business in Canada is very bright. We see that, and it's not without its challenges. One challenge is that there's currently no effective way to prevent anyone, including the charlatans—superficial celebrities and dubious experts—from hanging out a shingle, calling themselves management consultants, and offering their services. CMC-Canada and the provincial institutes do their best to warn potential clients of the dangers of hiring such individuals and to encourage them to hire only those who can demonstrate their qualifications of background, education, and experience through their membership in CMC-Canada. However, this is only a partial solution, and clients will still have unfortunate experiences with no recourse if the consultant is not a certified management consultant. When the foreign client assumes, in good faith, that a Canadian who calls himself or herself a management consultant must be competent, and experiences a shoddily executed intervention, that situation reflects both on the profession and on Canada as a whole.

Regulation of professions is within provincial jurisdiction. Still, members of CMC-Canada operate under a national uniform code of professional conduct, and the criteria for certification are consistent across Canada, providing a professional with unencumbered migration across all provinces.

Yesterday the competitions commissioner unveiled her report on professional regulation in Canada. The report cited several areas of concern, including entry to practice, interjurisdictional mobility, overlapping services and scope of practice, advertising regulations, and pricing and competition. We can say unequivocally that CMCs enjoy reciprocity not only across the country but in over 25 countries around the world. Our only caveat is that CMC entrants to Canada must complete a short exam on the Canadian code of professional conduct to ensure our cultural norms are adhered to while they are practising in Canada.

On the provincial front, the Province of Ontario has recently recognized the CMC designation as a preferred designation in the request for proposal for professional services. We want to encourage the federal government to incorporate similar wording in its procurement policies, consistent with other designations it already recognizes.

The second challenge: Canadian management consultants frequently have to address entering the United States to work for U.S. clients or to work on projects in the U.S. for Canadian clients. Management consultants are granted reciprocal temporary entry privileges to the U.S. under appendix 1603-D-1 of NAFTA but are too often stopped or detained at the border for what we would characterize as somewhat frivolous reasons.

The frequency of these irritants tends to ebb and flow and is particularly acute at Toronto and Vancouver international airports. These border issues have a disproportionate impact on small firms—I can speak personally on that one—and particularly on sole practitioners, who often lack the infrastructure and wherewithal necessary to navigate the U.S. border control system.

CMC-Canada spends considerable time dealing with the Canadian and American authorities, trying to resolve these issues, but thus far hasn't had a great deal of enduring success. CMC-Canada has also been dealing with Canadian authorities who try to bring the definition of management consultant under NAFTA and GATS into line with the eligibility criteria for certified management consultants that has become the international standard.

The third issue our members often confront is non-tariff barriers while competing for management consulting contracts in some countries, usually in the developing world. CMC-Canada believes that Canada has a competitive and comparative advantage in worldwide management consulting. This is because of our high academic standards, our varied and sophisticated industries, our leadership in certification, our multicultural and multilingual society, and the prudence and probity Canadian professionals characteristically bring to their business arrangements. This is why we have spent significant time trying to make it easier for members to do their business in other countries by expediting members' entry into the United States for temporary business purposes, by reconciling the definition of management consultant under GATS and NAFTA with industry practice, and by trying to level the playing field for foreign contracts.

● (0910)

I would be remiss if I did not mention our existing relationship with two federal government programs.

Here at home, for many years our CMC members have provided management advice in the areas of marketing, strategy, and operations to clients through the National Research Council's industrial research assistance program, IRAP. In support of our members seeking work beyond Canadian borders, we have enjoyed support through the program for export market development, the PEMD program.

Where do we seek support? What might you do for us, or think about? Support our efforts to spread a high standard of professional conduct for the practice of management consulting by Canadian practitioners, whether they are operating within or beyond Canadian borders; support our efforts to ease the flow of qualified Canadian practitioners across the Canada-U.S. border to carry out U.S.-based assignments; support our efforts to inform qualified Canadian management consultants on how to earn assignments in other countries where Canada has a trade presence; and encourage Canada's representatives in these countries to educate the local business community on the benefits of hiring qualified Canadian management consultants.

Thank you for the opportunity to present our perspectives this morning. Either now or later, we welcome any questions or comments you'd like to present.

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

We'll now go to Mr. Hodgson for ten minutes.

Mr. Glen Hodgson (Senior Vice-President and Chief Economist, Conference Board of Canada): Thank you, Mr. Chairman.

Good morning to members of the committee.

I'm going to give you a little bit different perspective. The Conference Board of Canada is the biggest think-tank in Canada by far. We produce about 200 studies a year, whether they're economic research or looking at human resources issues. I'm going to draw upon two or three studies we've done over the last couple of years with respect to services.

I thought I'd start by pointing out the fact that services are about 70% of our national economy right now. Often we're stuck with what I see as a fairly old paradigm, where we think about resource extraction, agriculture, and manufacturing as the core of our economy. That may have been true 50 years ago, but it's not true today.

Everybody in this room today has a service provider. None of us make anything. None of us are knocking down wheat or sawing logs. That is really the face of the modern economy. So as the committee thinks about services, think about the fact that services are the core now of Canada's economy. It's not a little subset; it really is the guts of what Canada does within the world.

I'm just going to say a few words about three studies we've done over the last few years that looked at particular aspects of the service economy. In fact, it links very nicely into Bob's comments about barriers north-south, but I'm also going to talk about barriers across the Canadian provinces that really prevent our service economy from becoming as dynamic, efficient, and competitive as it could be if we could find ways to reduce those barriers.

As to the first study, we have done a report card in Canada for about a decade now. We've just re-branded it. But I'm going to go back to 2005-06. In the fall of 2005, we published a report, called *Performance and Potential*, which really examined ways in which we could make the Canadian economy more competitive and more effective.

One of those particular segments looked at a Canada-U.S. comparison of productivity by sector. It was based upon work we did with Industry Canada. If you want to call industry officials, Someshwar Rao has been the leader of research in that department for a long time now. He's a first-rate economist.

It was the first time we did a Canada-U.S. comparison of productivity by sector. One of the things we discovered is that in sectors in Canada that are open to international competition—and these are often the traditional sectors, such as forestry, autos, or mining—Canadian productivity is as good as U.S. levels of productivity or even better. But it's in those parts of our economy that are protected—and a lot of those are service sectors, such as financial services, retail, telecom, and frankly, consulting services as well—in those sectors, that we have levels of productivity that are below, and sometimes far below, U.S. levels. A sector like retail, for example, which is a pure service sector, has a productivity level output per worker that is less than two-thirds of the U.S. level.

That might be due to the fact that we have a smaller economy, just a matter of scale, American firms being able to move to scale economies, but it also might be due to different levels of competition between the two economies.

It's very interesting, in the recent debate about whether Canadian retailers should be cutting their prices as the dollar rose up to U.S. levels, what the factors were that led to the slow increase. I would argue that this is a topic definitely worth examining in greater depth, because retail is clearly a service sector that touches all of us. So was it a matter of having inventories that the firms bought when the dollar was at 85¢ or 90¢ and allowing the price to rise slowly, or is there something more fundamental about the nature of our national economy and whether there's adequate competition within retail?

Secondly—and this is a corollary study to it—we put a study out in the spring of 2006, with the wonderful name of *Death by a Thousand Paper Cuts*. It was really an examination of all the regulatory barriers that exist to competition within Canada, what economists call non-tariff barriers, things other than prices. That gets into the guts of what Bob was talking about, into the design of regulatory practice, standards, whether you need more standardization of standards, whether you need recognition of credentials.

We examined the barriers that exist across the national economy, from east to west, and put a lot of weight on the very many barriers that continue to exist between provinces, and also the misalignment of regulation between the federal and provincial levels. But we looked at the same thing north-south. We looked at the non-tariff barriers that exist, largely in services, between Canada and the United States, hence your point about the barriers that service providers encounter at the U.S. border. You simply don't have free passage to do management consulting in the United States.

● (0915)

The culmination of the study was that we did an econometric analysis looking at the impact of these barriers on Canada's productivity and whether non-tariff barriers really were a factor in explaining the productivity gap already talked about. Its very original research came out with a positive result, that yes, non-tariff barriers, either east-west or north-south, were a contributing factor to the fact that Canada has been slipping in the rankings globally for 20 years now in terms of productivity output per worker. That's an interesting piece of research you might want to refer to.

The third study—and I'm going to spend just a couple of minutes on this too, because my name is on it—was called *Opportunity Begins at Home*, looking at service exports in particular and what we can do to enhance Canada's service exports.

The facts are a couple years old now, but I think they really do explain a long-term trend. About 13% of Canada's exports are services; 70% of our national economy is services, but only 13% of exports. How do we stack up internationally? Well, for the U.K., it's a third of all British exports; 34% are services. For the U.S., it's 28%. But even for another resource economy, like Australia.... We often use Australia as a reference point. It's roughly the same size as Canada. It has a huge natural endowment of resources. It's a major resource player. For Australia, it's 22%. So the Australians are 50% to 60% higher than Canada in terms of service exports.

We tried to probe into why that existed, and it really came down to three factors explaining why Canada is an underperformer in terms of service exports. And that really does speak, Bob, directly to your comments in terms of management services, but you could apply it to everything from health care management systems to financial services to retail.

It really came down to three factors. One was the desperate need for domestic reform. The fact of the barriers, the fact that we had balkanized our national economy, and the fact that we've had an Agreement on Internal Trade for 13 years now and have made very tepid progress in terms of actually reducing the barriers—that was really an inhibitor in terms of service exports. We looked at sectors like the financial sector, education services, and transportation, as examples of where things like interprovincial barriers have really impeded the ability of Canadian service providers to get to optimal scale.

Second, it was around trade policy, and the fact that the Doha Round has failed now, has collapsed. Services were playing a small part within that. It's been very hard for the global trade community to find a way to reduce barriers in services around the world. We tend to do it on a bilateral basis, or on a reciprocal basis. That is not the basis on which we negotiate free trade for goods. So we're really taking baby steps forward in the whole area of trade globalization around services. And because Canada cannot gain access to other markets, it's no surprise that our service exports have really been impeded.

Third, it was around trade promotion. I think the global strategy that the government has announced in the last few months is a good step forward, but trade promotion is only one part of the agenda. It really starts with reform at home, domestic reform, to allow your service exports to achieve a scale to be internationally competitive and then go forth, combining with market access, which is really critical to success in service exports.

Committee members, that really just gives you a taste of the kinds of work we've done in looking at the service economy and asking questions about how Canada could be more competitive when it comes to both trade and services and the domestic provision of services.

● (0920)

The Chair: Thank you very much, Mr. Hodgson, for those remarks.

We will start now with questions from members.

Mr. Simard, for six minutes.

Hon. Raymond Simard (Saint Boniface, Lib.): Thank you very much, Mr. Chair, and I thank the witnesses for being here this morning.

My first question is to Mr. McCulloch. We've had witnesses here over the last several weeks, and one of the first things they talked to us about was the qualified labour shortage. As a matter of fact, we had the IT people here saying that in the foreseeable future they were going to be looking at 25,000 new jobs, but that when they looked at what's coming up in the pipeline, there were only about 8,000 people coming up.

I'm just wondering if you're facing the same thing. Do you foresee problems that way, in terms of being able to fill the spots that you have available?

Mr. Bob McCulloch: Do you have a comment, Heather? I do have a comment, but after you.

Mrs. Heather Osler (President and Chief Executive Officer, Canadian Association of Management Consultants): Go ahead.

Mr. Bob McCulloch: One of the things that I observed is that.... Remember I mentioned the notion that I can go out into the marketplace and declare that I'm a consultant. This is what's happening with a lot of people who are somewhat younger than I am who are retiring and moving into the consulting world. Being a consultant, you can carry on well into your late sixties, seventies, and beyond.

One of the things, I think, is that qualified people right across the board are in fact entering the consulting field as part of a change in career or a final career.

Mrs. Heather Osler: I'd just like to add that we have a member in Alberta who has his own rather significant consulting firm. He was telling us not very long ago that because business is booming so much in Alberta and because there is such a huge need for consultants, you can do very bad consulting and still earn more than $300 an hour. And the clients are simply thrilled because at least they have a consultant. This, to us, is not good business.

Hon. Raymond Simard: Can you give us an idea how much of your membership's work is international?

Mrs. Heather Osler: Our best guess is about 10% to 12%.

Hon. Raymond Simard: So the increase in the dollar will affect your people too.

Mrs. Heather Osler: I don't think it will change.

● (0925)

Mr. Bob McCulloch: I'm still doing the same amount in the States as I was before.

Hon. Raymond Simard: You briefly mentioned the health care sector. One of the things we've been talking about at this committee is the need for governments to find more innovative ways of delivering their products and services.

One thing the government introduced five or six years ago was the Health Infoway. Have you worked with that? I heard it was slow getting off the mark, and all that. It wasn't doing very well.

Mr. Bob McCulloch: I haven't worked with it personally.

Mrs. Heather Osler: No. Neither of us is in the health care area.

Hon. Raymond Simard: I'm batting zero for three here.

Mr. Hodgson, we've been talking about interprovincial trade barriers for years, and every government has tackled this in some way or another. As a matter of fact, I was parliamentary secretary to the minister looking after this.

What are the barriers to removing these barriers? It's just ridiculous. We know it's a problem and has to be resolved, but nobody can resolve it. The provinces seem to say they want to, but they don't really want to. I had a financial wealth manager in Manitoba who couldn't transfer his clients to Alberta. It was absolutely ridiculous. That kind of ridiculous thing is happening.

How do we tackle this? Probably every witness has mentioned this as an impediment to productivity as well.

Mr. Glen Hodgson: I would start with the politics of the issue. You have certain skill sets, businesses, and individuals who are gaining an advantage by having protection within their home markets. So even though it would benefit us as a national economy as far as productivity goes, and it would benefit us as consumers because there may be better prices available in the marketplace, it's a classic case where the interests of the few are crowding out the smaller interests of the many.

That is fundamental to what all of you do: trying to decide how to get that balance right, understanding that there will be losers, and whether you're prepared to compensate the losers, even though many of us would gain from the reduction of these barriers.

There has been a little bit of progress. Barriers on government procurement have come down under the AIT. You can buy B.C. wine in an Ontario or Quebec liquor store now, which you couldn't do 10 years ago. But the area where the barriers are probably most acute is around professional services. We still have 10 different standards when it comes to professional credentials. You have to ask yourself pretty profound questions about why nursing skills that are adequate in B.C. are not adequate in Alberta, Quebec, or Ontario.

A lot of this is about political will. I look to what has happened between B.C. and Alberta—the TILMA agreement—as a sign that it is possible to find the political will, the courage, to actually make progress. It is very instructive that Premier Campbell pushed so hard with the other premiers but there was so little uptake.

This is clearly not rocket science. How to make progress on this is quite clear. I'm really struck by the fact that the Europeans, in forming the European Union, have made huge progress. They have come up with a common European standard on everything from cheese to consulting services, and we're stuck in the 1940s and 1950s model in Canada with a balkanized national economy.

The barriers around goods are not that acute. People point to things like Quebec margarine having to be a different colour. So the goods barriers are slim. It's when you get into the transportation of goods—having to take things off a truck in one province and put them on a different truck in another province—that things become truly irrational in the effective functioning of our national economy.

But the biggest area is around professional services and standards.

The Chair: Thank you very much.

Monsieur Vincent.

[*Translation*]

Mr. Robert Vincent (Shefford, BQ): I will give the floor to my colleague, but I'd like us to take ten minutes in camera, at the end of the meeting, to discuss various things concerning witnesses who appear before our committee. If possible, I'd like to obtain more details about that, Mr. Chairman.

I'd like my colleague to use the time I have remaining.

[*English*]

The Chair: Mr. Carrier.

[*Translation*]

Mr. Robert Carrier (Alfred-Pellan, BQ): Good morning, gentlemen.

Mr. McCulloch, I listened to your presentation. I tried to understand it as much as possible, but I found you spoke rather fast, and English is my second language. I think that if you could have given us a document containing your presentation, we could have found out more about you. As a precaution, I searched the Internet to get a bit of information about your organization, and that's the only written information I have.

I'm a professional engineer. I also studied project management in Quebec. I was wondering what the status of your association was in Quebec. Its acronym exists only in English. CMC is the acronym for Canadian Association of Management Consultants. I see that in French, it's called l'Association canadienne des conseillers en management. That's a bit of a hard sell.

I personally worked for 35 or 40 years in the field of engineering administration and I don't recall ever hearing about the existence of your organization.

I'd like to get a glimpse of what your association does in Quebec?

● (0930)

[*English*]

Mr. Bob McCulloch: I'm going to have our president and CEO comment. She's working closely with the Quebec organization.

Mrs. Heather Osler: Some years ago—I think it was in the early nineties—the office of the professions brought a number of professional bodies together. In the CMC case, the AdmA or *administrateur agréé* designation became the regulated designation, and CMC became a subset of that designation. So they have not had very much visibility in Quebec.

Because the CMC population in Quebec is owned by the organization, we cannot manage them. They are managed by the organization. We have to defer to them for all of the management, whereas in the rest of Canada our office is a virtual office for the entire country and we manage.

I wasn't able to listen to all of your beginning parts, but I tuned in later. I'm sorry. Our website is not totally bilingual, that's for sure, although we do have some things in French. Our exam process is in two languages. Our code of conduct is different in Quebec, just because the law is different in Quebec, but there are great similarities to it.

Am I answering your question?

[*Translation*]

Mr. Robert Carrier: Yes.

[*English*]

Mr. Bob McCulloch: There's also the *conseillers*, the CMC.

Mrs. Heather Osler: They had to add the word *certifiés* to *conseillers en management* thanks to the CMAs who lobbied very hard in Quebec to ensure that the generic term *conseillers en management* was not protected.

[*Translation*]

Mr. Robert Carrier: Did I understand correctly that in Quebec, they refer mostly to “*administrateurs agréés*” in the case of your organization?

[*English*]

Mrs. Heather Osler: They must use both AdmA and CMC. But if you go to ADMA's website, you will have to dig to find CMC.

Mr. Bob McCulloch: There are some members of ADMA who are not CMCs.

Mrs. Heather Osler: Yes.

Mr. Bob McCulloch: So it's a subset.

Mrs. Heather Osler: They also have two other designations underneath the AdmA. So it's AdmA on the top, CMC, the financial planners, and one other.

Mr. Bob McCulloch: They've been in the Quebec statutes since 1968 or so.

Mrs. Heather Osler: The organization has.

Mr. Bob McCulloch: So it's been around for 40 years.

Mrs. Heather Osler: Yes.

[*Translation*]

Mr. Robert Carrier: In any event, to my knowledge, the professional orders are governed by each of the provinces. For example, in Quebec, it's the Office des professions du Québec who administers or supervises all professions such as architects, engineers, lawyers and so forth. It's the same in other provinces.

So really, your association is not a professional order, it's a professional association. I'd understood that you were asking for help from the Government of Canada to have your group or your name accepted.

Is that correct?

[*English*]

Mrs. Heather Osler: The Canadian Association of Management Consultants has all the individual members as members. The institutes of certified management consultants also have those individuals as members. The legislation belongs at the provincial level, as it does for all other professions. At the same time, we do have reciprocity; this is one organization in which we have so far succeeded in having the national body represent, for the most part, the interests of the various provinces.

The AdmA designation only exists in Quebec. It's not found anywhere else in Canada. It's a unique one.

Does that answer your question?

● (0935)

[*Translation*]

Mr. Robert Carrier: Yes.

[*English*]

Mr. Bob McCulloch: That one difference.... We struggled with it for about 10 years, trying to pull it together, so that we would have a national representation and people would recognize they were part of a national group.

The Chair: Thank you. *Merci.*

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

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

I was quite interested when you talked about professional associations and the difficulties in Canada.

In my former life I was a chiropractor. It's interesting—I can practise in Ontario, but I would need to write a whole new set of boards to practise in British Columbia. I have friends in the medical profession, and it's the same type of thing. This seems to be a challenge. I think it makes sense to have some type of national standard.

What do you think the federal government's role might be in some type of convergence of national standards? What could we do to help this process along?

Mr. Glen Hodgson: I think the federal government got the framework right. The Agreement on Internal Trade was the right starting point to make a political commitment to try to reduce the barriers. It frankly is a matter of how much energy you're going to bring to the table. I think the current finance minister's efforts to try to come up with one national securities regulator, for example, is clearly a step in the right direction.

It's almost like asking where you can make the most progress. Can you find allies at the provincial level to try to move the whole dialogue forward? Can you point to areas where the gaps are huge and, frankly, use almost the bully pulpit to embarrass provinces to have further degrees of alignment? Ultimately there is federal authority, constitutional authority, to use in effect a nuclear weapon to bring about a national economy. I don't think there's any appetite across the country right now to do that, but I think constantly shedding light on the irrationality of barriers, based upon things like chiropractic standards....

That's a fascinating story, because.... I find the TILMA really quite an interesting agreement. It's about trade, investment, and labour mobility, but on the investment side, the two provinces actually haven't agreed to a common securities regulator, which is of course what Minister Flaherty is trying to do. More importantly, if you look in the annex there are 63 categories—and I suspect chiropractors are in there—going from acupuncturist to water well drillers, and they're now talking about coming up with common standards and common recognition processes for these 63 categories over a three-year roll-in period. The fact that it's going to take three years across such a huge array is really quite instructive.

The federal government probably has to be there, constantly applying pressure by identifying areas where there are huge gaps and where progress could be made fairly quickly, trying to use its facilitating powers to bring the provinces together, and pointing to the benefits in productivity and competitiveness of having a single national standard. That has happened, as I pointed out, in Europe. It's really striking to look at the European experience and then at the lack of progress in Canada over the last 10 or 20 years.

Mr. Colin Carrie: It's interesting. When you brought up Europe, I thought of it as an area of the world where there are numerous linguistic challenges and numerous cultural challenges, but they seem to have gotten it together to a certain degree.

Now we're living in a global economy and we want to see Canada to be a global leader. Do you have any statistics to show that by making that change, European countries have become more productive and are able to export, as you mentioned, their services and can work together as a common area to increase the economies of all the countries involved?

Mr. Glen Hodgson: There has been a long series of academic studies done looking at the European economy. The key way to measure progress is to look at the price differentials between countries with the barriers in place, and then what happens to prices without the barriers. As the prices normalize, which is what should happen in a world without barriers.... You have to account for transportation and distance, but if you take all of those things out, as the price differentials shrink, it is a pure gain for the economy. Consumers then will usually be paying lower prices for things, which translates into more effective, more competitive companies going forward.

I think the anecdotal evidence looks at the share of those major European countries and what share of their exports are traded. In fact, there's a table on that in our report, *Opportunity Begins at Home*. Maybe I should just turn to it.

Of the major European countries, I mentioned the U.K., 35% of whose exports are services; and there's Ireland, which is a miracle economy, of course, whose services exports leaped from 12% of total trade in 1994 to 32% in 2004. Those two European countries are on the site, but you can delve into the data, and the committee's support from the Library of Parliament could delve into and get those data, which are probably available on the OECD website.

But the evidence is fairly clear that a country like Ireland, for example, has gone through the transition, has adopted the European standard, and has really become a platform for service exports as much as anything else.

● (0940)

The Chair: Ms. Osler wanted to comment as well.

Mrs. Heather Osler: It's anecdotal, but we have an international body, which Bob mentioned, whose European hub now comprises over 20 countries, and it's absolutely the strongest part of our organization.

I had the privilege of going over to Italy to one of their meetings, and it reminded me so much of Canada. We have so much to learn, and they are so strong. They have broken the barriers between the different countries, and English is the common language, and while nobody speaks it perfectly, it is the language they use.

Mr. Colin Carrie: You mentioned—

The Chair: You've just run out of time, Mr. Carrie. I'm sorry about that.

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

The Chair: Thank you.

We'll go to Ms. Nash, please.

Ms. Peggy Nash (Parkdale—High Park, NDP): Good morning, and welcome to the witnesses.

Mr. Hodgson, you mentioned earlier that Canada's productivity was slipping. We have spent quite a bit of time on this committee discussing the manufacturing sector and, most recently, the rise of the Canadian dollar, amongst other factors, impacting the manufacturing sector, and we've heard about hundreds of thousands of jobs being lost and that the full ramifications of this job loss are still down the road.

As you said this morning, the manufacturing sector is far more productive because, I suppose, it's more capital intensive than the service sector. To what extent is the drop in Canada's productivity attributable to the loss of manufacturing jobs and growth of the service sector?

Mr. Glen Hodgson: First of all, we haven't lost productivity. It's a slower growth rate compared with anybody else in the world.

Ms. Peggy Nash: It's a loss in our standing in productivity.

Mr. Glen Hodgson: That's right. We have slipped in terms of income per capita from fifth in the world in 1990 to about tenth or eleventh now, and that is purely due to a slower growth rate in output per worker, or productivity, which is the way most economists measure it.

It's actually the other way around. Productivity in manufacturing has actually kept pace with, or been even stronger than, productivity growth in services.

Some economists would say the job loss is actually a good thing, because by investing more heavily in technology and capital, by being forced to adapt their business models, firms are actually really keeping themselves very sharp.

Ms. Peggy Nash: So the job loss would be a function of investing in new technology, whereas most economists would argue that the job loss is caused by other factors.

Mr. Glen Hodgson: I would argue that the investment in new technology is a response to the need to get more competitive. It's what economists call the shedding of labour.

Ms. Peggy Nash: But I don't think manufacturers have really been making that investment in new technology. Many of them have told us they haven't been able to make those investments, and if you look over the last decade or so, I think many of the manufacturers have been a bit lazy in terms of investing—although some have invested. That's why they were arguing for greater government assistance to be able to do that.

Mr. Glen Hodgson: You've packed a lot of things in there. Maybe I could help you take that apart.

First of all, a weak currency generally means a slowdown of productivity growth, because firms are able to make their profits without heavy investment in new technology or new technique. Clearly firms have really been challenged the last five years, and in fact the last six months, as the dollar has soared. Arguably, the pace of investment in new technology, new machinery and equipment, has not kept pace with the rise of the dollar. That is part of the scrambling that our business community is doing right now to cope with the strong dollar.

Then add to that the meltdown of the U.S. housing market, the U.S. whole subprime mess, which is really a source of end demand for a lot of manufacturers. People who are making autos and parts are feeling it right now, because the consumer in the United States is very weak.

So those are all factors, absolutely, in explaining productivity. But at the same time, we're pretty close to full employment as a national economy. So even though we are seeing employment losses in manufacturing, many of those people are getting absorbed fairly quickly in other parts of the economy.

● (0945)

Ms. Peggy Nash: I'm just curious about your thoughts on the impact on productivity of that shift.

Mr. Glen Hodgson: Ultimately it would actually boost productivity, because firms would be compelled, frankly, either to go out of business...and a lot of what happens when your currency gets strong, when you get challenged by new competition from China, from India, from other places, is that the weak fail, and then those resources are reallocated to firms that are actually able to adapt —

Ms. Peggy Nash: Let me help you with what I'm asking.

Mr. Glen Hodgson: —so it's kind of ironic that productivity goes up.

Ms. Peggy Nash: What is the impact on the growth of our productivity with greater employment in the service sector? Does it boost Canada's rate of productivity that there are more people working in the service sector?

Mr. Glen Hodgson: That doesn't happen automatically. Remember again, productivity is output per worker. I think what you're talking about is actually overall economic growth in the sector. Clearly the kinds of reforms we've talked about—national standards, reducing barriers between provinces—would very clearly add to both productivity growth and output growth.

Ms. Peggy Nash: But what do you attribute as the major factor in the slowing of our productivity standing?

Mr. Glen Hodgson: There's no one factor. I wish there were a silver bullet we could point to and say, gee, if we only fixed that, we would solve all of our problems. Clearly reliance on a weak currency for a long period of time—the fact that we've relied on the dollar at 70 cents or lower—created a form of a crutch for a lot of our economy. People came to expect that to be normal. With the tremendous run-up in global commodity prices, that's driven the dollar to sky-high levels. So there's an adaptation shock we're going through right now.

Ms. Peggy Nash: You attribute some of it to the rise in the currency.

Mr. Glen Hodgson: Absolutely. I would say that the fact that we've underinvested in our education system over the last 10 to 20 years is another major contributing factor. We're actually spending less as a share of our GDP than we were 10 years ago. We've cut it by a whole percentage point.

Ms. Peggy Nash: By education you mean on post-secondary education.

Mr. Glen Hodgson: And that, frankly, I would say is due to the fact that every province puts health at the top of the list in terms of their spending priorities. So we're growing health spending at 7% or 8%, but we're growing education spending at 3% or 4%. Over time, that really does lead to an erosion of the quality of a kid who's coming out of school being able to work in the workforce. We are simply not retooling. We're not educating ourselves enough on an ongoing basis.

Ms. Peggy Nash: Thank you.

Mr. Glen Hodgson: So that's another critical factor.

The Chair: Thank you, Ms. Nash.

We'll go to Mr. Eyking, please.

Hon. Mark Eyking (Sydney—Victoria, Lib.): Mr. Chairman, I appreciate the witnesses coming today. We've had quite a variety of witnesses over the last few months, dealing with the economic situation and challenges.

My questions will be mostly to Mr. Hodgson, dealing with the Conference Board of Canada.

Your group compiles a lot of data, no doubt, on our economy and probably does some projections. Some of the projections we've been getting over the last few days have been pretty bleak, especially on manufacturing. I'd like you to give us a little bit of a snapshot of what you see in the upcoming months, half year, or year on some of the industries we have out there now—manufacturing, of course, but you also mentioned service industries, tourism. How is that going to be impacted over the next year?

Maybe also, how do the small and medium-sized enterprises adapt to what's going to be happening, or how do you see them adapting to this so-called shock we're going to have with the U.S. situation?

Mr. Glen Hodgson: I'm actually going to have a piece in *Canadian Business Magazine*, I think in their year-end issue, talking about this exactly.

Very quickly, our view on the Canadian economy for the next year is a little more positive, a little more sanguine than others, because of the very strong income growth we see in Canada, which is going, to a great degree, to offset the loss of export growth as a result of the mess that's unfolding in the United States right now. Even in central Canada, we think Ontario and Quebec can achieve growth rates of, say, 2.5% in 2008. Now, that is not potential. That is not as good as they could be. But it is actually better than we've seen for the last year or year and a half, driven by strong real income growth and the tax cuts we're seeing across the board, which put more purchasing power in consumers' hands. That's a little better setting than some others would probably set out for you—western Canada, much stronger; Atlantic Canada, slower, as a foundation.

Tourism is a particular sector that's getting clobbered by the triple whammy of the rising dollar, slowdown in U.S. consumer growth, and security. We've not been able to make more progress to open the border. The United States keeps raising the bar in terms of security. Things like the Western Hemisphere Travel Initiative are really quite crippling to our tourism industry.

We're seeing a bit of an offset in terms of visits from other countries and we're seeing fairly strong domestic growth in tourism, but visits are down 20% from before 9/11, and that's a huge hole to have to fill, as the American consumer is feeling a little under attack right now because of the meltdown of their housing market and is coming to Canada and discovering that prices are the same as back home. So tourism is going through a really rough patch right now.

We think there are actually a few bright clouds in a dark sky, in that as Americans age and as populations age, tourists get a little less enamoured with visiting exotic locations and they might look a little more favourably on visiting Canada than they would on going to the jungles of Brazil. But that's only one positive factor in what's a pretty dark outlook for tourism.

If I were to tell the story around forest products, it would be very much the same story. It's been a very, very tough year for forest products, pulp and paper, in 2007-08.

For autos and parts it's the same, because of that sharp slowdown in demand in the United States, combined with the dollar at par.

We do central analysis. We actually do detailed forecasts for 16 sectors, and I've plucked out three or four that are actually the ones facing the most difficulty, we think, through 2008.

● (0950)

The Chair: You have one minute.

Hon. Mark Eyking: My second question would be dealing with the environment and how we can help, as a government—I guess, how they should help.

There are some things laid out on how to help large companies deal with the carbon crisis or what not. How can we be helping small and medium-sized business adapt to some of the environmental challenges, or help them, with their own businesses, deal with the environmental challenges out there?

Mr. Glen Hodgson: I had a chance to meet with Garth Whyte from the CFIB last night. In fact, we were talking about this very issue. Usually they start with easing the regulatory burden, and I think that's very consistent with our own view as well. Any progress we can make to have better alignment between federal regulation, provincial regulation, and alignment across provinces would be a huge net gain for small business.

Secondly, continue to reduce the tax burden, and that doesn't necessarily mean cutting tax rates. That might be making our tax system more efficient.

I'm completing, right now, a fairly major study on broad reform to the tax system, and I'm really struck, for example, by the lack of harmonization between provincial sales taxes and the GST. I'll set all the politics on the GST rate aside, but the truth of the matter is that you'd be hard-pressed to find a credible economist to come in and talk about the GST not being a good form of taxation. It is stable through the business cycle and it rebates the input costs to business. And in fact what we really need, I would argue, is harmonization of provincial sales taxes with the federal system to create a national sales tax system, knowing full well that Alberta doesn't have sales tax, but also knowing that Atlantic Canada has already harmonized.

The Chair: Thank you.

Mr. Glen Hodgson: Atlantic Canada has found a very efficient way of levying consumption taxes.

The Chair: Thank you, Mr. Eyking.

We'll go now to Mr. Stanton.

Mr. Bruce Stanton (Simcoe North, CPC): Thank you, Mr. Chair.

And thank you to our presenters. There is a wealth of information here this morning, I have to say. It's just terrific.

My first question is really directed to Mr. Hodgson, again. Yours is a very coherent message here and it is certainly consistent with what we've been hearing.

One of the issues I want to explore a little further is this. You talked at some length about the need for our service sector to expand its export capability, and we heard from CMC that in fact about 10% or 11% of your industry is able to derive export receipts. This goes back to one of the examples where Doha has really stalled at this point. Canada has been working at more bilateral arrangements. These last several years and up until now we haven't been doing enough in that area. We're having vigorous discussions with the likes of South Korea, through which we have the capability to potentially expand our service economy.

Using that as an example, I wonder if you could drill down a little further on how we can build a stronger economy from those kinds of bilateral arrangements.

● (0955)

Mr. Glen Hodgson: Our research suggests that if you can't compete at home, you can't compete abroad, which is why we invariably start with reducing barriers within the Canadian economy. That's pretty simple. That would allow even small businesses to serve a larger domestic audience and to become more efficient and more competitive. That really is the starting point. Then you're in a better position to go abroad.

In this report on service exports, we drilled into health management systems and education. Education is a great example. Australia has seen a spectacular takeoff in the number of foreign kids in education, either by bringing them to Australia or by having campuses go abroad. They have a national strategy. They've come up with a national Australian brand. It's not a state brand, because there are seven or eight states in Australia, just as there are ten provinces in Canada. New South Wales does not go to China to try and sell education services; Australia goes to China.

There's an area where you have to get into the guts of the sector and identify the barriers that exist. Foreign students who come to Canada pay differential fees, but only recently have we allowed them to look for jobs and made it easier for them to stay and become Canadian citizens afterwards. So you have to really look at the elements in a given sector and figure out the domestic barriers that are preventing you from becoming more competitive internationally.

We did the same sort of work around business process outsourcing, and around transportation.

I keep coming back to the domestic performance agenda, because really, if you cannot compete at home, you're never going to find clients abroad.

Mr. Bruce Stanton: Okay. I have a question for either Mr. McCulloch or Ms. Osler.

Our study is here on understanding the dynamics of the service sector in Canada. We've seen how large it is, and we've heard about how the service sector is in fact well integrated into our economy as opposed to being a secondary industry to other primary sectors like manufacturing, agriculture, and so on.

I wonder if you could comment on that mutual dependence between what you do, say, for the manufacturing sector, and how interrelated you are with those other important industries. I would say that you're often a supplier to those industries, and so you're deriving....

Could you comment on that interdependence?

Mr. Bob McCulloch: I'll make some comments, and then I'll turn it over to Heather.

First, we go back 40 years, to when the Canadian industry was $25 million in revenue. If you hired a consultant, it was because you didn't know how to do your job. If I was a CEO and hired a consultant, I was admitting weakness.

Now we're a $9 billion industry. The smart CEO or executive is saying, I don't have the expertise in-house and I don't want to train the expertise in-house; it's going to take me too long to get up to speed. Let me get an expert and put him or her in for six months or twelve months or whatever, and then I move on.

Everything is changing so rapidly. The technology is changing. The human resources, operations management, etc., are changing so rapidly. I want somebody who is current, state of the art, and who can do the work, transfer some skills, and then get out of here. I'm prepared to pay a premium so that we're highly integrated with our client base.

Mr. Bruce Stanton: Good. Thank you.

The Chair: Ms. Osler, did you want to follow up? No? Thank you.

We'll go to Monsieur Vincent.

[*Translation*]

Mr. Robert Vincent: Thank you.

My question is for Mr. Hodgson. You talked about the manufacturing sector by saying that it had not invested enough in new machinery in order to be more competitive.

Do you really believe that if this industry had invested money in machinery, it would have been as competitive as China, which engages in dumping its products? Even if we had the best machines and the best operational processes in the world, how could we compete with China on the market for various products?

[*English*]

Mr. Glen Hodgson: That's very much an apples and oranges comparison.

China's comparative advantage in the world is what I call standardized labour, standardized process. They can take people who can read and write, who have some number skills, and train them to work in a basic manufacturing setting, where Canada probably was 50 years ago. Our niche within the world, I would argue, is in highly specialized things, in niche markets where we can add huge amounts of value.

We have seen different classes of jobs move from Canada, from the United States, to Asia over the last 20 years. You can see it in the apparel industry in Quebec, for example. You can see what's happened for people who are making pretty basic things that can be reproduced quite easily in China—those jobs are gone. The firms that have succeeded are firms like Perlis or the specialized apparel manufacturers who have found a way to do high-value-added things within Canada.

And I'll go a step further. What has happened? I've had one big idea as an economist. I came up with a brand about five years ago called integrative trade. I tried to explain that in the modern world of trade you don't make things in country A and sell them in country B. Trade is now an integrating process where you link together investment, imports, exports, services, and sales from foreign affiliates—all as part of the equation for businesses to be internationally competitive.

So more and more what you're going to see is that people in apparel, still based in the Montreal economy, for example, where they do the research and development design, will do the sales, the marketing—all the financials will stay in Canada. And they will have shipped out a small portion, which is actually the manufacturing itself, to an offshore facility that will be in Costa Rica or the Dominican Republic or China.

The same thing is happening across global trade. We're doing a study right now where we're trying to measure what we call Canada's missing trade with Asia, because the official trade statistics that we get from Statistics Canada or Industry Canada represent only a small slice of what we're actually doing, if you start to probe a little bit deeper.

The most concrete example of this is the iPod. Our kids are buying iPods. I don't know what they sell for, about $300 in the store. If you take apart the iPod and figure out functionally where the work is actually done.... When the iPod arrives, it says “Made in China” on the box, but only about 2% of the value of the iPod is actually Chinese. There's another 30%, 35%, 40% that's from other countries in Asia that build the components that are shipped to China to be put together, but half the value is actually in the United States. That's where all the thinking happens, to design the thing, to keep advancing the technology, to do the ads, and to take the profit that's coming back.

So your Canada-China comparison is an interesting starting point, but we're at very different stages within the global value chain. Our challenge is how to get people who are doing basic manufacturing into the high-end functions—being management consultants, frankly, because that's where the money is being made.

● (1000)

[*Translation*]

Mr. Robert Vincent: As I listen to you speak, I start to wonder whether we wouldn't need specific and specialized industries.

Based on what you say, all manufacturing industries in Quebec and Ontario will have to shut down. We're going to have to transform these workers into service sector employees who get the minimum wage.

What's your vision of the future if there is no more economy in Quebec, Ontario and the rest of Canada? If we tell the manufacturing industries who pay their employees $13 to $22 an hour that their jobs aren't very good and that we're not competitive enough compared to other countries, if we just sweep all that aside, do you think that the economy will actually flourish? There are a lot of jobs in Canada but these are jobs in the service sector, and workers will see their wages cut in half.

This will be dramatic for Canada as a whole and for Quebec, because wages will be reduced by half and regional economies will suffer the consequences. This will lead to the closure of convenience stores and anything else because there will no longer be a real economy.

[*English*]

Mr. Glen Hodgson: I understand your sentiment. I actually am quite concerned about the loss of jobs in particular segments. I would put this in a really long historical context, and then I'll come back to your specific point.

A hundred years ago, probably 75% to 80% of the Quebec economy was in agriculture. It was a rural economy. It was agriculture-based. Today, it's probably less than 1%. So you have to understand, I guess, economic transformation over a long period of time. Manufacturing at one point was probably a third of our economy; now it's about 12% to 13%. There is constant evolution. Part of the reason rich countries got rich and have stayed rich is that they have been able to adapt on an ongoing basis. We spend money on education. We go back and learn other languages. We learn mathematics. We learn skills that can be sold in the marketplace. That's the context I start from.

To the specific point about job loss, I am actually quite concerned about the huge spread of employment that exists in the service economy. You have everything from what I call McJobs, with people working for minimum wage turning over burgers or doing fairly minimal service things—and we all rely on those services, and for our 16-year-old kids, that's a great place to enter the workforce—all the way up to investment bankers, who are making $3 million, $5 million, $8 million, and $15 million a year.

So one of the challenges we're facing in the sort of pre-industrial age is that we have people who are often unionized making very good money in manufacturing. Those jobs are disappearing, because the firms figure out that if they don't transform, someone else is going to, and they will lose their market share regardless. The challenge is how you actually help people transition over a lifetime from entry-level job to building the skills so that one day they can dream to be management consultants making $300 an hour.

● (1005)

The Chair: Thank you, Mr. Hodgson.

[*Translation*]

Mr. Robert Vincent: It's not necessary to get training.

[*English*]

The Chair: We'll go to Monsieur Arthur, please.

Mr. André Arthur (Portneuf—Jacques-Cartier, Ind.): Monsieur Hodgson, when Canadian companies ship goods that have been manufactured in Canada, their product is judged by its quality and by its price and by the relation between the two. So maybe they sell, maybe they don't. But when a Canadian company tries to sell services, it's less tangible. Most of the time, initially, this company will be judged on its reputation or on the reputation of Canada.

If we are still at 13% in exports of these services, do we have a problem with our reputation in the world?

Mr. Glen Hodgson: That's a very interesting perspective. I would say that price and quality still matter when you look at service exports. That matters as much as it would for exports of goods or agriculture products. But you're right, at the end of the day, services are a people-to-people business. It really is a personal thing, having confidence in your chiropractor, your barber, your lawyer, or the person who's doing your books in India, because you can now outsource bookkeeping and translation services to India. So reputation does matter.

I'm not sure that Canada has lost its reputation in the world. I suspect that we haven't actually had a fair fight yet, because we've held so many of our potential service exporters back by not allowing them to get truly competitive, to get out there in the world to compete on a fair basis.

That's why I use the example of education services in Australia. The Australians came up with a plan. They decided they wanted to be a world leader. They wanted to win market share away from other countries. So they came up with an integrated plan in terms of curriculum, quality of teaching, and having the Australian brand in another country.

We don't have such a plan. You can go service sector by service sector, and it's very hard to see a Canadian brand for services. It's not that we have a bad reputation: we don't have a reputation. We're really kind of unknown in many service sectors. I would have a hard time, for example, telling you what the Canadian brand was with respect to management services or with respect to business processing.

Mr. André Arthur: We've met a lot of people from the manufacturing sector, be they owners of companies or leaders of unions, who come here and sit at this table and tell us how much manufacturing is the real thing, how much manufacturing builds real money, real wealth. Looking at services, it's something like the bad cousin in the family—we still invite him for Christmas, but not for the real personal holidays. How do you view this kind of upstairs-downstairs view of the Canadian economy?

Mr. Glen Hodgson: I think that's a bit of a cartoon, frankly. I was with Export Development Canada for ten years as the deputy chief economist there before joining the Conference Board. A lot of the analysis we did was showing the inseparability of goods and services. I'll take a really prominent example. If you sell a regional jet, made by a prominent manufacturer, and you sell it to a buyer in Brazil, you're not just selling the jet. You're selling maintenance agreements. You're selling a refit if they decide to retool the airplane. You'll even help them take it back and then sell it to somebody else at the end of the lease if they want. So services are now an integral part of all our manufacturing sales.

We also rely very heavily, by the way, on imports for the things that we manufacture in Canada. About 40% of the average manufactured product in Canada is imported, so it is a bit of a cartoon. I don't see how in the modern world today you separate services from goods. Services are a stand-alone product in and of themselves, but they're hugely embedded in the manufacturing process, whether it's management services, or legal services in getting the documents written up, or the accountant who adds up the numbers at the end of the day. Those are really integral pieces, and you can't separate them.

● (1010)

Mr. André Arthur: Should the Government of Canada be busy conceiving national standards in areas where we should be exporting, be it services or something else? Or should the Government of Canada try to arbitrate or be in the middle of all those provinces that have standards that are destined to stop the trade between them and their neighbour? Should the Government of Canada be very active in writing those standards, giving national standards, and letting others decide if they compare or not to the national standards that the Government of Canada should have promoted?

Mr. Glen Hodgson: That's a very crucial question around the process, and that's not really my area of competence, but I think it's very clear that if we had national standards in particular areas, that would give us a much better chance of being a global player when it comes to services. How much pressure the federal government wants to put on provinces or whether you want to be a facilitator, pointing to good practice, for example.... I would rather take a positive route and try to find areas in which progress is being made and push those along. But the fundamental point you're making is that having a Canadian standard could potentially allow us to create a Canadian brand that we could then sell to the world.

Mr. André Arthur: Thank you, sir.

The Chair: Thank you.

We'll go to Ms. Nash, please.

Ms. Peggy Nash: Many of the service sector folks we've had here have talked about a labour shortage. Mr. Hodgson, what do you think Canada should be doing about the labour shortage? I know it's particularly acute in the west. What's your vision of what we should be doing?

Mr. Glen Hodgson: I have the joy of writing stuff all the time, and we actually covered this in a publication a year ago called *Mission Possible: Stellar Canadian Performance in the Global Economy* in which we talked about demographics and the emerging labour shortage. It's clear that in some provinces it's already arrived. I call it the labour crunch, because ultimately there will not be a shortage. Wages will rise, and we just won't do certain things, so you'll just shed certain functions.

We're actually doing a study right now on Quebec, identifying the demographic forces in Quebec.

[*Translation*]

We will also publish it in French in order to have the greatest possible visibility in Quebec.

Ms. Peggy Nash: Yes, that's preferable.

[*English*]

Mr. Glen Hodgson: If you have a challenge because of the demographics, first of all you need to rethink your immigration policy and ensure that the immigrants get their credentials recognized before they arrive in Canada, get help with settlement into communities, speak one or both official languages well enough to be able to work in an employment setting. So there are a lot of things to do around immigration.

We have to find ways to give positive incentives to older workers to stay longer. Mr. McCulloch made an interesting remark earlier about management consultants being very mature workers, because that's when your experience is the greatest. Right now we often incent people to leave the labour force really by giving them access to pensions. I don't want to take that away, but I do think we have to think very hard about creating positive incentives for people to stay longer. Why shouldn't older workers pay a lower rate of income tax, for example, if they're willing to stay in the workforce longer? That is actually the easiest pool of talent to access, our mature workers who are here right now, who know what Canadian standards are, who know Canadian practice, and who maybe don't want to go to the golf course four times a week.

We also looked at our education system and the fact that from our perspective we have underspent on education across the board, both at the firm level and within the public education system. We have to find a way to stop letting health care, frankly, crowd out education and infrastructure spending at the provincial level, because that's what's happened in the last few years.

Ms. Peggy Nash: I'm really sorry to interrupt you, but we get such a short period of time for the questions and the answers.

I'd like to go back to the immigration piece. We've had a few people talk about the temporary foreign worker program and wanting to expand that program. I want to share with you some concerns I have about that program, because there does not appear to be adequate training for foreign workers and monitoring. *The Economist*, as I'm sure you know, wrote an article last month about some of the abuses in the program, people being paid quite low wages and their health and safety being put at risk.

Certainly we don't want to have an immigration policy that really ghettoizes certain people. Obviously that's not what we're about as a country. When you talk about immigration, I obviously share your concern about the lack of recognition of foreign credentials. I come from Toronto, where we have the best-educated taxi force in the world. It is a colossal waste of skills and resources at a time when Canada desperately needs them.

Do you have any specific recommendations either about the recognition of foreign credentials or about the foreign worker program, so that we're not, to solve the short-term problem, letting ourselves go down a pathway we may not want to go down?

● (1015)

Mr. Glen Hodgson: I think you're absolutely right that relying on temporary workers and that program is a second best. The right thing to do is actually re-examine the entirety of our immigration system, how three levels of government fit together, and why we don't recognize credentials, and far before people arrive in Canada, let them know whether they will be recognized as chiropractors—

Ms. Peggy Nash: Do you know, offhand, whether they recognize the credentials before people actually get to Australia?

Mr. Glen Hodgson: I don't know that. I do know that we did a report about five years ago, in fact, calling for the formation of a national agency to recognize credentials offshore, which was announced and then withdrawn. That takes us, frankly, back to the issue of having 10 jurisdictions with 10 different standards.

It's very hard to go to someone who wants to immigrate to Canada and say, “Well, you meet the New Brunswick standard, but you don't meet the Ontario standard, so you can only go and live in....” Frankly, that's not the way to build a railway.

So the right thing to do, in fact, would be to develop a capacity to recognize credentials, understand what international standards are as well, and do it before people arrive.

Ms. Peggy Nash: Thank you.

With respect to the temporary foreign worker program, do you have any thoughts on that? A bill that I put forward is about strengthening our family reunification program, where you have people who may not qualify under the point system but are adult brothers or sisters, or adult children, and who could certainly be active in the workforce but are short of the skilled levels that would get them the points necessary to get in today. We know that when people come from family reunification programs they have a greater likelihood of success.

The Chair: Thank you, Ms. Nash.

Just a brief response, please.

Mr. Glen Hodgson: The reason we've seen a growth from 20,000 to 150,000 a year in temporary workers is because employers feel the need for particular skill sets. But that really is a poor reflection, I would argue, on how we're managing our immigration system right now.

The Chair: Okay. Thank you.

Mr. Brison, please.

Hon. Scott Brison (Kings—Hants, Lib.): Thank you.

Mr. Hodgson, you mentioned that you're working on some tax reform proposals now. You also mentioned that you believe it's more rational economically, from a competitiveness perspective, to build a tax base on the consumption side as opposed to taxing either personal or business revenue or earnings.

I'd appreciate more advice from you in terms of the kind of tax reform we ought to be undergoing in Canada. We haven't had real tax reform since 1971, with the Carter commission. Except for the advent of the GST, there hasn't really been significant tax reform.

Other countries—Ireland, Australia, New Zealand, Scandinavian countries, Sweden, and the Netherlands—have undergone massive tax reform to make their countries more attractive to capital and talent, both of which are more mobile today than they've ever been globally.

So I'd appreciate your further insight on the kind of tax reform we should be looking at, with one other consideration, which is how we should be greening our tax system. There's a global consensus among the business community that whether or not you agree with the science of climate change, whether or not you support Kyoto and its framework, there's going to be a price put on carbon by individual countries through carbon taxes and potentially imposed on other countries through carbon tariffs on imports.

So it's going to be broadly based, it's going to be felt, and it's broadly felt that if you're not environmentally ahead of the curve, you're going to be left behind economically once there is a price put on carbon.

I want your input on tax reform, but also on whether or not we ought to be greening our tax system by moving pre-emptively on putting a price on carbon.

Mr. Glen Hodgson: Our research is still a work in progress, but I can speak specifically to two areas and then talk more broadly. The two specific things where we have more or less coalesced....

The way the Conference Board works is that we have quality researchers in-house, but we also turn to the leading experts across the country as readers. We have reached a view around revenues for cities, for example, which is seldom mentioned on Parliament Hill, but cities are the missing partner in the Constitution.

We think the time has come to give Canadian cities access to some form of growth tax, but that's going to have to change from province to province. You'll see our further thinking around that, as well as things like uploading various services back to the provincial or even federal level, all of which was done during the 1990s as we dealt with the fiscal problem at both the federal and provincial levels. That's one element.

Secondly, I agree with your point that we have to find a way to put a price on carbon. The challenge for the next 40 to 50 years is going to be building what economists call negative externalities, putting a price on the negative things that happen as we're creating wealth. We've forgotten to put a price on the bads.

There are only two choices for doing that. You can do that either by setting limits, capping and then allowing firms to trade the permits among themselves to set the price for carbon that way, or through a carbon tax or green tax or a combination. In fact, part of the research challenge, as I read the literature, is finding the best way to do that.

I hope early in the new year we will have some thoughts on how you can link cap-and-trade, particularly for the major emitters, and green taxes across the board. Then of course, there'll be the political challenge of convincing the Canadian public that's going to be a good thing in the long term.

I talked earlier about sales tax harmonization. I think we'll have some thoughts around that and ultimately linking the economic research on productivity to the fundamental tax base, which is the balance between income taxes and consumption taxes, and throwing in corporate income tax as well.

● (1020)

Hon. Scott Brison: We have undergone significant growth in Canada as a result of our natural resources and particularly energy exports. There's a fear that when a price is put on carbon and carbon tariffs by countries like the United States, it could make our energy less competitive.

Would you agree that being ahead of the curve and building competitiveness pre-emptively in a carbon constrained economy would make good business sense? That's one thing.

Secondly, do you believe a Dutch disease impact is going on right now as a result of our growth in natural resource exports?

Mr. Glen Hodgson: You're touching on huge issues.

The Chair: Yes, but he has about two seconds left. Mr. Brison likes to ask big questions at the end.

Mr. Glen Hodgson: I'll answer the first one.

The Chair: Yes, if you can just—

Hon. Scott Brison: I love big answers.

The Chair: Yes, he loves big answers—just very briefly.

Mr. Glen Hodgson: I'll answer the first one more generically. In my experience, the earlier you begin adapting, the more you can reap the benefits by positioning yourselves as suppliers to others who haven't adapted as quickly. I think that is a pretty solid first principle in all human behaviour. Those who adapt early gain a strategic advantage, and usually the cost goes up the longer you delay.

Dutch disease is a massive issue. I think part of the bleeding we're seeing in manufacturing is the challenge firms are having in trying to cope with a fundamental restructuring of the Canadian dollar, driven by global commodity prices. The demand for commodities in China, in particular, but also in India is so strong that most economists would agree there's been a structural shift in how commodity prices are going to keep flowing.

The one I'm most attracted to right now is food, because the demand for food in India, China, and other emerging markets is going up, up, up. As the protein content rises, there'll be increasing demand. I think we're now at a point of a structural shift in global food prices over and above what we've seen around energy and metals prices.

The Chair: Thank you. Thank you, Mr. Brison.

We'll go to Mr. Stanton, please.

Mr. Bruce Stanton: Thank you, Mr. Chair.

Through you to Mr. Hodgson again, I'd like to go back to the notion of interprovincial trade. It's quite insightful to see that some of our traditional industy sectors and those where there are more free and open markets are pretty competitive, pretty productive by comparison, but the service sector is not.

Do you have any measure on how the lack of open trade between provinces and its impact on our lack of service sector productivity is a drag on the Canadian economy as a whole?

● (1025)

Mr. Glen Hodgson: I referred earlier to the study we'd done called *Death by a Thousand Paper Cuts: The Effect of Barriers to Competition on Canadian Productivity*, where we tried, using economists' tools, to come up with a measure on the drag on productivity. We found that there is a relationship between the price differences. We did a Canada-U.S. comparison, and the assumption was that non-tariff barriers, barriers really on the service sector, would be the drag on productivity, and we found a positive correlation. We had a hypothesis that barriers would slow Canadian productivity. The numbers confirmed our hypothesis.

We have not done a similar study across the country. There has actually never been a study to look at price differences between the B.C. Lower Mainland and southern Ontario and the Saguenay to see whether consumers have to pay more for services because of barriers that exist, for example, in the mobility of skilled workers between provinces. It is really quite striking how we've been debating interprovincial trade barriers for a long time.... And there is a method. We've actually read the literature, and studies were done in Europe, as the Europeans moved to more of a common platform, concerning how there were huge gains to the European economy from reducing barriers. It is very striking that a similar study has not been done in Canada. We would love to do it.

Mr. Bruce Stanton: You commented earlier that it's really not that complicated. The steps are there. The knowledge is there to know how to make a more productive economy through relaxing and liberalizing—I don't like to use that word—

An hon. member: Get used to it.

Mr. Bruce Stanton: Yes, get used to it....unbelievable.

Would you say then in summary that essentially what's preventing this from happening is just a lack of political will?

Mr. Glen Hodgson: That's a good summary. If you look at the fact that B.C. and Alberta are the ones that have become the leaders in reducing barriers between provinces, still the TILMA annex has 63 categories and they're giving themselves three years to actually bring the alignment about. But you have to get over the first hurdle, to have the willingness to bring about change.

Mr. Bruce Stanton: Do I have one more minute?

The Chair: Yes, you have two minutes.

Mr. Bruce Stanton: Back to the management consultants association, on this notion of the export, is your association making any initiatives around how to expand your ability to export? You mentioned a few of the barriers and we have that on the record, but are there some initiatives that you're undertaking, as an association, to grow that part of your business?

Mr. Bob McCulloch: I'll make just an introductory comment as I'm reflecting here on some of the challenges interprovincially. Because we fly under the radar and we do have that designation by province, we are self-directed. Nobody is holding back from doing the interprovincial stuff. So we selected...saying that we had to get our act together. This was back in the 1980s when I was involved. We had to make sure that our code of professional conduct was consistent across the country, and so we did that ourselves, and because we're under the radar, nobody stopped us from doing that. We were able to get a national cooperation in operation.

Going externally, because of our orientation to helping the International Council of Management Consulting Institutes, yes, we are trying to develop some way to get our members involved in foreign contracts.

Let me turn it back to you, Heather.

Mrs. Heather Osler: We're trying to formalize groups within the organization to come together to do international work. About 75% to 80% of our members are not in the large firms, so it's a lot tougher for them. It's costly to go into other countries. It is very costly. So we are working with them to help them do that, because there's a great interest and a great need—

Mr. Bruce Stanton: This is where your association can actually help the smaller operators.

Thank you, Mr. Chair.

The Chair: Thank you, Mr. Stanton.

We'll go to Mr. McTeague, please.

Hon. Dan McTeague (Pickering—Scarborough East, Lib.): Mr. Hodgson, I want to shift gears a little bit to the health and viability of the service sector. I'm reading some of the stories today from U.S. Secretary of the Treasury Paulson with respect to his concerns about the rising trade deficit in the United States, concern about labour costs being artificially bumped up high by increased oil imports into the United States making it inflationary, while at the same time dealing with the fallout from the commercial paper issue, the so-called subprime controversy there.

Give us an idea of whether or not Canadian services into places like China are being hampered by its currency valuations. I understand that our increase on an annual basis...and there's not just manufacturing aside, but as you quite rightly point out, a lot of what we produce is in terms of know-how, and given the relative slow increase since 2005 in the Chinese yuan relative to the Canadian dollar since it has skyrocketed, what do see as the challenges for public policy-makers as we try to come to grips with the prospect of being dragged into a recession that no one wants?

● (1030)

Mr. Glen Hodgson: First of all, our view is that the United States is barely going to avoid a recession. We do a U.S. forecast, and we're forecasting growth in the United States of about 2.3% next year because we see a real vibrancy in U.S. exports. We see enough investment supporting exports to avoid a recession.

Really, the bigger question is about the competitiveness of Canadian service providers. It's going to be a challenge. We've now entered a new phase. Because of commodity prices and because our currency is so closely linked to global energy prices and other commodity prices—gold, for instance, and a whole array of things—we've entered a new phase.

China is just one of many examples. We probably have a very small share of our service exports going to China. That is one thing we're going to try to capture in a new piece of research on our missing trade with Asia.

But yours was more of an across-the-board question. The fact is that service exporters are challenged structurally because their costs are Canadian-dollar costs. We're paying ourselves in Canadian dollars, we're getting supplies from Canada, and we have foreign currency revenues at a time when the currency is strong.

So it really is quite a fundamental challenge, and I don't think there's a magic solution. Service providers have to ask themselves about how to get more efficient, how to boost their own productivity, or how to actually have pricing power by being a specialist in something.

Having thought through it, I guess that is probably the key: stop being what I call a price taker, where you just have to take the world price, and get so specialized that you can actually drive the price. You can charge $300 an hour because you're worth it; you really do provide that specialized a service.

Hon. Dan McTeague: Tell me, are you concerned about the recent development of commodity prices increasing but no response by the Canadian dollar? I've noticed in the past week that oil, for instance, is up from $87 to $94 a barrel. At the same time, the Canadian dollar has plummetted almost 2¢.

Is there a disconnect here as a result of something we're not seeing? And what impacts do you think that will have?

Mr. Glen Hodgson: I think the more accurate word would be “relief”.

The Canadian dollar was the strongest currency in the world from about mid-summer, let's say July, until the spike at $1.10. That was a little bit of irrational exuberance on the part of the young people trading currencies on trading desks. Our forecast is that the dollar should be something in the high nineties, which is kind of where it is now.

So maybe we're seeing a little bit of a delinking of the exuberance and looking back to the fundamentals, looking at the fact that our trade surplus with the U.S. is shrinking a little bit, taking all factors into account.

Hon. Dan McTeague: Thinking services for a second—real estate, banking, accounting, and so on—if the situation in the United States with respect to credit becomes....

Let's say there's wider recognition—I've been saying this for several weeks now, and I think colleagues are starting to pick up on it—that Canada's lending institutions had a little bit more of an indelible role, shall we say, in partaking; these writedowns continue; and we have a day of reckoning where all lending institutions can say yes, we did a little bit more than we've actually been able to say. What impacts do you think that will have for commercial lending for Canadian consumers?

Mr. Glen Hodgson: There are basically two transmission mechanisms right now from the U.S. subprime mess. One is through in demand, which we talked about earlier, but the other, as I think you're rightly pointing out, is through the financial system.

The fact that financial institutions around the world have been hit by this, some hit very hard, has probably led many boards and many management teams to rethink credit standards and whether there should be a bit of a pulling back of credit availability, even though, at the other end, the quality of borrower hasn't changed in the slightest.

There is a very legitimate fear right now for all people who need to access financial markets and financial services that they're going to lose some degree of access, either pay a higher price...which has already happened in certain markets, where people are paying 25, 50, 100 basis points more for the same thing they'd been getting from the banks back in August, but probably more on the volume of credit available.

So you might have to pay a higher price when you can only get two-thirds of what you could access in terms of working capital three or four months ago. That is a legitimate concern, and of course it really flows from all the problems in the financial sector, then rippling out to the rest of the economy.

● (1035)

Hon. Dan McTeague: Thank you.

The Chair: Thank you, Mr. McTeague.

I'm going to take the next Conservative spot.

To the management consultants, you talked about barriers north-south with the U.S. You talked about a high standard of professional conduct. You may have answered this already, but I just wanted to clarify, are there discussions going on between the provinces, or with your association with the provinces, the federal government, or even between Canada and the U.S. in terms of establishing some common standards with respect to consultants?

Mr. McCulloch, I don't know how you phrased it, but I believe you said anybody can put a shingle out and call themselves a consultant. Are there standards being discussed, and if so, have you recommended a list of standards that provinces, the federal government, and Canada-U.S. should adopt?

Mrs. Heather Osler: First of all, Canada has national standards right across the board. They are the same in every province. If you're a CMC in one province you will have reciprocity across the country. We also have reciprocity with 25 countries around the world.

As Bob mentioned, the only thing we do challenge is around the code of conduct, because we all know that there are different ways of practising around the world and we want to ensure that when people come to Canada they understand the way we do business. That's an accepted exception at the international table.

I think it's important for you to know that Canada has 2,400 certified management consultants. The United States has fewer than 1,000 today. It was larger at one point, but it's never really gotten off the ground. It doesn't do us any benefit to have a weak American organization on the other side.

The Chair: Did I mishear you, Mr. McCulloch, with respect to the idea that anybody could call themselves a consultant? Were you describing the U.S. situation? I thought you were describing the situation here in Canada.

Mr. Bob McCulloch: That's correct. I mentioned 13%.

The Chair: I'm hearing that anyone can call themselves a consultant, and then I'm hearing that we have national standards.

Mrs. Heather Osler: For the certified. We represent the certified management consultants. That's where the standard is.

Mr. Bob McCulloch: That's the standard, and approximately 13% of practising management consultants in Canada are bound by that standard. All the rest are not.

The Chair: Are you asking that the rest be bound by them? The standards are good, but are you saying all consultants should be bound by them?

Mr. Bob McCulloch: Ideally. It would be useful for the protection of the public, the customer, and the consultants.

Mrs. Heather Osler: It's the code of conduct, really, at the base of it all.

The Chair: Thank you very much for that.

Mr. Hodgson, I have a lot of questions. It's been a fascinating discussion from all members. A lot of your points are essential in the sense of trade as an integrated process. We tend to describe ourselves in silos in this country in terms of resource extraction, agriculture, manufacturing, and then services. Yet there's much more interplay between them. I think, as Mr. Arthur said, services are unfortunately seen as the poorer cousin, when they shouldn't be.

If you look at ICT or other service sectors, you see the way they transform every other sector—the resource sector, the manufacturing sector. Do we need a different way of actually examining the economy? I know that's a big question, but I'm sure the Conference Board is looking at not siloing things, where we would actually describe the various economic sectors in different ways.

Mr. Glen Hodgson: Part of the reason I enjoy being the chief economist of the Conference Board is that I think I have a platform to try to help people understand the modern world from a new perspective. That's why we do so much work on cities. Cities really are the forgotten partner in Confederation. We have starved them of resources. We put a report out yesterday—a report card on Canada's cities. You'll see something very soon on how to give tax capacity to cities. It's exactly the same concept as you're talking about, Mr. Chairman, around services, seeing them as part of the integrated whole within our national economy.

You're absolutely right, we have a kind of old “rocks and logs and maybe a little manufacturing” view of Canada, because that's what we all grew up with, that's what we understood. That's actually quite easy to understand. You can look at the GM line in Oshawa and see how cars are put together—the car pops out the other end.

Management consulting services are sophisticated. You actually have to train yourself for a long period of time to be very good at it. You have to know the literature and have a past history of experience. The same story would apply across most sophisticated service sectors.

You're absolutely right, they are an integral part of everything we do in our national economy. So yes, we need a new paradigm, understanding that all the pieces fit together and you can't really separate them out and assume this will stand on its own or that will stand on its own.

● (1040)

The Chair: Thank you.

I have many more questions, but my time is up. I'll apply to myself the same rules as I apply to everyone else.

I have Monsieur Carrier.

[*Translation*]

Mr. Robert Carrier: Am I starting?

I'll be sharing the time allotted to me with Mr. Vincent.

Good morning, Mr. Hodgson. I'd like to talk to you specifically about the environment and reducing greenhouse gases. You know that in that regard, Canada's track record is not very good. It's been criticized by many countries, including France. France is threatening Canada with economic retaliation and threatening not to do business with Canadian companies because we're not respecting the Kyoto Protocol. The current government is lagging behind significantly in the reduction of greenhouse gases. Like it or not, we will have to achieve this at some point. You said earlier that we should start as early as possible, rather than delaying the deadline.

Recently, I was reading that companies or states, such as California, which have very strict environmental measures, have seen a growth in their economy, contrary to what we hear from those who say that it's not good for economy to respect the environment.

As a structural engineer, I also remember that in Quebec, in the 1960s, we lacked schools and highways. There was a boom in investment, which led to the development of the economy.

Has your organization set out a position on the development of new technologies that may be beneficial to both our economy and the environment, and where a lot of work still needs to be done? It would be interesting to hear a summary of your opinion.

[*English*]

Mr. Glen Hodgson: We've had research on the environment for a long time at the Conference Board. We have a series of networks where we bring experts together to talk about good practice.

Our view is as follows, and I'll fall back to a brief I did in the spring for our membership.

First of all, the Conference Board is not a great supporter of Kyoto. We don't think it was a good deal because it was not inclusive. It did not include all the creators of greenhouse gases around the world. There were free riders. The United States didn't ratify, but China and India were also left out. China's level of greenhouse gas production is almost as high as that of the United States now, and it's going to get higher very soon. So an agreement that is not global in nature and that allows free riders is not a particularly good one.

In my career I've had a chance to negotiate, on behalf of the Government of Canada, a series of international agreements and comprehensive matters. So I actually see big flaws in Kyoto, and I'm not particularly concerned that Canada has not acted on Kyoto.

That being said, what do we need? We need a global agreement now. We clearly need to make progress and have all parties that are major emitters of greenhouse gases be part of an international agreement.

The second element is that we need attainable targets. There's really no point in going back to 1990. We have to look ahead. I think there is a scientific consensus that we need to find a way to reduce greenhouse gases by between 50% and 80% by 2050. So that's the end state. Then we have to establish mileposts along the way.

I would turn to an American organization that I find quite interesting, called United States Climate Action Partnership, or USCAP. It is a totally private sector affiliation with the environmental groups in the United States. Those radical firms like GE, GM, and DuPont are part of the USCAP, and they're now working with Congress trying to set out the elements of a U.S. plan going forward.

Thirdly—and this is a point Mr. Brison made—the price of carbon has to be established around those credible targets.

[*Translation*]

Mr. Robert Carrier: I'm sorry to interrupt you, but we're pressed for time.

Do you think that postponing the repair of environmental damage is a good thing?

● (1045)

[*English*]

Mr. Glen Hodgson: No, I think we have to understand that as we create wealth in any economy we're doing bad things to our environment. We have to factor that in explicitly.

Our view is that we need to put a price on all of the negative things we do as part of creating wealth, and greenhouse gases are at the top of the list.

[*Translation*]

Mr. Robert Carrier: Fine.

The Chair: You have one minute left.

Mr. Robert Vincent: So in your opinion, the best thing is to create wealth, destroy the planet [*Editor's Note: Technical Difficulties*] the other countries that do not sign on to the Kyoto Protocol.

That's as if your neighbour's house was on fire, and you had a small hose but you didn't spray the house because the two fire trucks weren't there. I think that your view—let's create wealth but destroy the planet—is your specialty...

[*English*]

Mr. Glen Hodgson: I think you've completely misinterpreted what I said.

The first principle in economics—

[*Translation*]

Mr. Robert Vincent: That's what I understood.

[*English*]

Mr. Glen Hodgson: —is that you put a price on all the byproducts of an activity, and that includes carbon and greenhouse gases. We believe very strongly that we need to build that into our tax system—or by tradeable permits—and establish a price for greenhouse gases and carbon. That would fundamentally change our behaviour in our investment patterns.

It'll be a challenge for the oil sands—

[*Translation*]

Mr. Robert Vincent: You're talking about the carbon exchange.

[*English*]

Mr. Glen Hodgson: Other jurisdictions around the world are doing that now. Countries in northern Europe, for example, have made huge progress in factoring the price of carbon into their decision-making as they produce energy and as they redesign their economies. We are in a little bit of a catch-up mode, but I want to do it in such a way that we can actually sustain wealth creation in Canada.

The Chair: Thank you. Thank you very much.

Members, we are going to end a little early. We do have to do some business in camera.

At this point I want to thank the witnesses very much for their presentations, for being here with us today, and for answering a number of substantive questions from all sides. I want to thank you.

We're going to suspend, members, for a couple of minutes and say goodbye to our witnesses. Then we'll come back and go in camera in about two minutes.

[*Proceedings continue in camera*]

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