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**EVIDENCE**

## Thursday, January 31, 2008

## Chair

**Mr. James Rajotte**

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● (1100)

[*English*]

**The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)):** I call to order the 16th meeting of the Standing Committee on Industry, Science and Technology. Pursuant to Standing Order 108 (2), we are continuing the committee's review of Canada's service sector.

We have two panels, with an hour for each. We have three organizations for the first panel.

The first organization is the Air Transport Association of Canada. We have the president and CEO, Mr. Sam Barone. We also have the vice-president of policy and strategic planning, Mr. Fred Gaspar.

The second organization is the Canadian Trucking Alliance. We have the senior vice-president, Mr. Graham Cooper. I understand we also have a second individual, Mr. Ron Lennox, vice-president of trade and security.

The third organization we have is the Supply Chain and Logistics Association Canada. We have the president here with us today, Mr. Bob Armstrong.

Welcome to all of the witnesses. Each of your organizations has up to five minutes for an opening statement. We will start with Mr. Barone, and then immediately after your presentations we will go to questions from members.

Mr. Barone, begin when you are ready.

**Mr. Sam Barone (President and Chief Executive Officer, Air Transport Association of Canada):** Thank you, Mr. Chairman.

Good morning, ladies and gentlemen. My name is Sam Barone, and I'm the president and CEO of the Air Transport Association of Canada, representing Canada's commercial aviation industry.

I would like to first thank the members of this committee for inviting us here today and to congratulate you for your initiative to examine the state of Canada's service sector.

It is probably fair to say that no service sector operates under as much scrutiny and is as vital to Canada's economic interests as our air travel industry. Every day our members connect tens of thousand of Canadians and their products to each other and the world. Put simply, commercial aviation is a vital input into every segment of the economy in Canada.

With this perspective in mind, I would like to share some thoughts with you about how we can best ensure the ongoing availability of world-leading fare and service options for Canadians.

As many of you will already know, Canada's commercial aviation industry is enjoying an upswing in fortunes over the recent past after a decade of often difficult restructuring. Even in these very good times, however, ours is still a volatile business that is highly vulnerable to global economic and geopolitical shocks. With high fixed costs, low margins, and oil hovering at around $100 U.S. a barrel, we must remain vigilant to ensure the sustainability of a healthy aviation sector in Canada.

While carriers have succeeded in reinventing themselves in response to the new permanent reality of a low-cost air travel model, our ability to sustain that service standard, especially in light of growing economic pessimism, is being dragged down by a highly punitive, industry-specific taxation regime that limits investment in new service and fare options for Canadians—goals that, as I suspect you might agree, ought to guide the policy framework for our sector.

The airport rent regime, for example, along with other input taxes drains approximately half a billion dollars a year out of our sector. Every year the Government of Canada collects between $200 million and $300 million in rents from not-for-profit airport authorities for simply having the facilities that they entirely built and paid for on crown land.

As you well know, these airports were transferred in the 1990s as a deficit-cutting measure. Transport used to lose millions of dollars a year running these airports and had no financial means to invest in the upgrades that these increasingly old facilities would require. Once they transferred the responsibilities to these local airport authorities, they absolved themselves of all financial responsibilities while guaranteeing themselves perpetual rents. Unlike any other landlord-tenant relationship, the tenants—more accurately, our customers, the passengers—of the airports are the ones who pay all the costs, including the cost of building the place.

I began my remarks by referring to the strategic importance of our sector to Canada's broader economic interests. Committee members would do well to ask themselves about the effect of such punitive aviation taxes on our tourism and hotel sectors as well as other key service industries.

In addition to rent, the air traveller security charge represents another critical element of taxation policy deserving of reconsideration. The air transport security charge now has a surplus, according to the Department of Finance, of over $80 million. Since its inception in 2002, it has taken $200 million in excess revenues.

The fuel excise tax is another industry-specific tax policy that has to be reconsidered. Originally introduced in the 1980s as a deficit-fighting measure, this surcharge imposes a 4¢-per-litre levy on jet fuel, which is four times that in place in the United States. With fuel as one of our top costs, we estimate that the Government of Canada, on this fuel tax alone, took $100 million. This is at a time when we have $12 billion U.S. outstanding on new aircraft on order.

We should help lower the costs of doing business to encourage a healthy, competitive industry, which should be taxed as all other sectors are, on the outputs of their business activities—namely, profits and wages.

In various policy statements, programs, and initiatives, we hear the right kind of messaging that is very much reflective of what we are calling for here today. Advantage Canada, the Pacific gateway strategy, Transport Canada's own blue skies initiative, slogans such as “A strong economy, a strong Canada”—these are all designed to aid and leverage Canada's international competitiveness.

What we can't figure out, Mr. Chairman, is why these high-minded programs and the principles they are based on are not applied to our sector. Other countries, such as Singapore and the UAE and Dubai, have all figured out the strategic importance of their aviation sectors by addressing their fiscal and policy frameworks first.

● (1105)

Let's recall that we're talking about a tangible and direct contribution to Canada's GDP. Every time a foreigner flies on a Canadian carrier, we are an exporting industry, which shows up on the balance of payments. Canada, on the other hand, chooses to treat its aviation sector as a cash cow.

I hope, Mr. Chairman, that I have shown you a vision of how fiscal and taxation policy in our sector can and should be changed to promote growth and innovation and investment—in short, to promote an advantage for Canada in domestic and global aviation. Policy can and should be used as a strategic instrument to enhance Canada's place in a competitive world and to keep Canadians connected to each other and the world.

With that, Mr. Chairman, I thank you once again for inviting me here today, and I look forward to the panel's questions.

Thank you.

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

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

**Mr. Graham Cooper (Senior Vice-President, Canadian Trucking Alliance):** Thank you, Mr. Chairman.

Good morning, ladies and gentlemen.

I'll say just a quick word about the Canadian Trucking Alliance. We are a federation of Canada's seven provincial and regional trucking associations, collectively representing over 4,500 motor carriers coast to coast. CTA is the voice of the Canadian trucking industry on policy, legislative, and regulatory issues at both the national and international levels.

I will say just a few words about the structure of the trucking industry. Trucking in Canada is made up of for-hire carriers, private carriers, owner-operators, and couriers, and it's an almost $60-billion-a-year industry. The for-hire sector, comprising over 10,000 carriers, accounts for about half the industry's total revenue. Overall, the industry employs more than 400,000 people, including 260,000 drivers. There are just over 600,000 commercial trucks on the road, and half of these are classified as heavy trucks, including about 200,000 tractor-trailers.

Trucking is Canada's dominant freight mode, accounting for an estimated 70% of domestic shipments by value. Trucks carry almost two-thirds of Canada-United States trade, 50% of exports, and 75% of imports. Cross-border transportation represents over 40% of the industry's revenue stream.

Trucking is a derived-demand industry, and therefore economic conditions in domestic and international markets are reflected in the industry's freight volumes and financial performance. The high value of the Canadian dollar, combined with the general weakening of the U.S. economy, the resulting reduction in Canada exports to the U.S. and the manufacturing downturn, particularly in central Canada, are all having a profound impact on the trucking industry in most parts of the country.

In January 2008, the proportion of manufacturers stating that they would decrease production over the next three months stood at 33%, a nine-point increase from October 2007. This was partially offset by 19% of manufacturers who expected to increase production during this period. Nonetheless, the balance of opinion for production prospects was the most negative since January 2002.

It is in the cross-border market that the Canadian trucking industry is being particularly hard hit. From November 2006 to November 2007, Canada's total exports to the U.S. declined by 3.8% and imports by 1.9%. However, these aggregate figures do not tell the whole story. Trucking specializes in the carriage of relatively lower-weight and higher-value products when compared with other freight modes. In fact, just five commodity groupings of manufactured or partially manufactured goods traditionally represent over three-quarters of total exports by truck to the U.S. A comparison of export statistics for November 2006 and November 2007 shows year-over-year decreases of 4.4% in the industrial goods, 3.7% in machinery and equipment, 5.9% in automotive products, and 9.9% in other consumer goods.

I'll say just a word on the cost pressures on the industry. Diesel fuel represents the second-largest component of the trucking industry's cost base next to labour. Commercial diesel volumes are massive, with over 16 billion litres consumed annually in Canada for road use. On every litre sold, the federal government collects 4¢ in excise tax. As Mr. Barone has mentioned, the federal excise tax on motor fuels, which was introduced in the 1980s ostensibly as a deficit-fighting measure, has since that time clearly outlived its stated purpose. Unlike the GST, the excise tax on commercial diesel fuel is not a flow-through tax and therefore achieves little but to boost the government's general revenues, but in so doing it heaps an additional input cost on the trucking industry. The Canadian Trucking Alliance has long argued that this type of tax is both unjustified and regressive. It should therefore, in our opinion, be overhauled and treated as a flow-through tax similar to the GST or, preferably, be abolished altogether.

The continually rising price of diesel fuel has in recent years created an enormous burden for the trucking industry and its customers. Using retail prices as a reference point, the average price in Canada has risen from 75.9¢ per litre in 2004 to 113.2¢ per litre on January 15, 2008—just about two weeks ago—an increase of 49% over a three-and-a-half-year period, and this is after the 2¢ reduction in the GST during this period.

While motor carriers have been able to pass some of this increase on to their customers through fuel surcharges, current economic conditions in the industry make this increasingly difficult to accomplish.

● (1110)

Competition is fierce, largely as a result of excess capacity—what has been referred to as too many trucks chasing too little freight—in the current economic environment. As a consequence, rates are at best stagnant and in many cases are discounted just to keep trucks on the road.

Industry margins, traditionally thin, are being squeezed even more as many carriers find it increasingly difficult to fully offset the rising cost of diesel fuel by way of fuel surcharges.

I have just a concluding comment on the issue of border security. Truck transportation security programs, particularly at the U.S. border, continue to result in duplication, overlap, and ever-increasing costs. Like the exporters whose goods we carry, the trucking industry is concerned that the cost of moving goods continues to be driven up by security measures that are developed and rolled out in isolation from one another. The big picture, and an appropriate balance between security and trade efficiency based on an assessment of risk, seems to have been lost.

The trucking industry fully understands how the Canada-U.S. trade picture has changed since September 2001. It has, in fact, played a key role in trying to maintain the balance between efficient trade and enhanced security by participating in a wide range of Canadian and U.S. border security programs. However, more than six years after 9/11, it is becoming apparent that Canada and the U.S. have created an array of programs that don't always dovetail with one another. And the situation seems to be getting worse.

Thank you, Mr. Chairman.

● (1115)

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

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

**Mr. Bob Armstrong (President, Supply Chain and Logistics Association Canada):** Good morning, Mr. Chair and members of the committee. Thank you for the invitation for a chance to talk a bit about the supply chain and logistics services sector.

Our association has about 1,000 members across Canada. They're not corporate members; they're individual members who pay their own dues and come to SCL to continue to enhance their own career, learn more about the industry, and get education, and the like, so that they network with their peers.

In Canada, about 1.8 million people are employed in our logistics industry, so it's a very significant industry in this country. As you heard earlier, there are over 400,000 employed as truck drivers alone. There are over 400,000 who work for users. That's people who are in manufacturing, retail, and wholesale who are the logistics side of those. They could be the warehouse operators, jobs like that, but they're in the logistic supply chain side of those companies. But there are also 235,000 who are employed as service providers to the industry, and many of my members, of course, are service providers.

Canada, as a trading nation, requires a global and a national supply chain and logistics network that is efficient and cost effective if we're going to continue to compete in the global market.

I'm going to be very brief this morning, because my colleagues from air transport and trucking have given you a lot of the technical information. I just want to make you aware of a few of the challenges we face in the supply chain and logistics sector in Canada.

The challenges tend to be, first, awareness of logistics as a profession, education, border infrastructure, national infrastructure, reduction of interprovincial trade barriers, the lack of promotion of foreign trade zones in Canada, and more investment that's needed in the Canada Border Services Agency.

From an awareness perspective in general, awareness of the supply chain as a profession and as a large-scale employer is lacking in our country. Service providers have difficulty recruiting enough potential employees into the sector, and this needs to be addressed by both government and relevant departments. Raising awareness at the secondary school level will help to get more students interested in supply chain careers, allowing them to take advantage of the post-secondary education programs and classes that institutions are struggling to fill.

I can tell you that we accredit a lot of colleges across Canada. We do accreditation programs to help them with their supply chain and logistics programs, and what's appalling is that they can't fill them. Just last week, Humber College cancelled their supply chain program because of a lack of students. It's kind of scary.

At present, supply chain could actually be called the default career, not ranking in amongst students' usual choices when graduating from high school. From an educational point of view, attracting our young people to enter a career in logistics is a long-term challenge. New Canadians who are fluent in multiple languages and have foreign degrees or certification need assistance in getting integrated into our industry. Shortages in trucking and international freight could be alleviated by attracting qualified and trained individuals from other countries through government assistance equivalency evaluations. A comprehensive approach to promote the supply chain as a career must be formulated and properly funded in order to maintain a well-staffed and efficient industry.

On the infrastructure side, both personal and commercial travellers are severely dependent upon border infrastructure, particularly on land but also as regards sea and ocean freight. It's vital that the federal government continue working towards support in these areas as there are simply not enough land lanes, for example, to facilitate the process of crossing the border, as you heard from the trucking association.

From a small and medium-sized business enterprise perspective, they need a lot of help. How do they grow their import-export business when they have these complex new security regulations? The cost of compliance has actually become prohibitive for a lot of Canadian companies. There should be an emphasis on the reduction of interprovincial trade barriers and on harmonizing regulations regarding safety standards, driver hours, and the like across our country.

There should be more investment in the Canada Border Services Agency so that we can have a streamlined customs entry and regulation program. The CBSA is understaffed.

● (1120)

In closing, Canada should be promoted as a trade gateway or a North American logistics hub, with thriving foreign trade zones to drive our goods deeper into the heartland. What we really need is a national supply chain and logistics strategy to support logistics skills and development. Ideally, Canada should be *the* gateway for goods moving into and out of North America.

Our manufacturers, plain and simple, don't have the skilled workforce nor the necessary technology to do it on their own. That's why they outsource to third-party logistics service providers. It is imperative we ensure that our supply chain and logistics services sector is the very best it can be.

Thank you.

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

We'll now begin with a six-minute round of questions. We'll start with Mr. McTeague.

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

Thank you, witnesses, for being here. Many of you I know and have worked with in the past.

I'm going to start with you, Mr. Armstrong. You seem to have a lot in common with Mr. Cooper and the trucking industry.

You talked about the need to strengthen the Canada Border Services Agency. You feel it's understaffed. You suggest that there's better need for skilled workers. I'm wondering if the jobs in your industry are going unfilled.

Do you see a better sense of investment in federal infrastructure at borders as being part of the response to the need you've cited? Mr. Cooper, perhaps you could also give us a better illustration of some of the difficulties your members are facing as they try to cross the border. What specifics do you recommend to this committee?

Mr. Armstrong.

**Mr. Bob Armstrong:** From my perspective of serving on a lot of committees—and so does Mr. Lennox—our CBSA is struggling to maintain a service level that's adequate. It's getting scarier because the border is getting stickier.

The reality is that it is understaffed. Now, with all the employees having to take the gun training courses, and failing, our biggest concern, members of the committee, is what's going to happen next summer. Traditionally, the CBSA hires thousands of university students to man the booths in the summer. Well, it can't put them out there as much now because of the gun situation, and it has a lack of employees of its own who are trained.

We're really afraid of what we haven't seen yet. Last summer, as Mr. Lennox and Mr. Cooper can tell you, we had huge lineups at the border, generally going into the United States. But I submit to you that it's going to happen this year in our country.

**Hon. Dan McTeague:** Mr. Cooper, and then Mr. Lennox.

**Mr. Graham Cooper:** Thank you, Mr. McTeague.

I'll just make a very brief general observation, and then I'll ask Mr. Lennox to give you a little bit more detail.

Your question, in terms of physical infrastructure, is certainly one issue, and that is an issue being talked about a great deal, Windsor probably being the best example that we can think of. There's also, if you will, a systems infrastructure and the wide range of programs that I made reference to in my opening statement.

I would like Mr. Lennox to fill in a few of the details for you.

**Mr. Ron Lennox (Vice-President, Trade and Security, Canadian Trucking Alliance):** Thank you.

I'll speak for a minute about cost. That is a really big concern for us.

We have all these new programs that have been rolled out—supply chain, security programs, and advanced manifest programs to submit information electronically to customs authorities, and so forth. We have programs for haz-mat security. We have programs for port security that affect truck drivers servicing those ports.

None of those programs comes without a cost. We have carriers who have spent hundreds of thousands of dollars on programming to submit their manifests to the United States. If they want to use a third-party service provider, there's a cost per manifest. There are costs involved in training staff, training truck drivers, and training office staff.

These costs keep escalating. As the programs keep rolling out, it would appear that, one after another, the costs keep going up. These costs have to be borne by trucking companies, and we do the best we can to pass those on to our customers.

The other comment I'll make has to do with traffic. As Mr. Cooper mentioned, traffic is down at most of the major commercial crossings right now. Certainly, over the last five or six years, traveller traffic has been down sharply as well.

The big concern we have right now is what's going to happen when it goes back up to what I will call “normal” levels. I'm really concerned that we won't be in a position to move freight adequately and quickly across the border, if we get back up to where we were, say, five or six years ago.

Thank you.

● (1125)

**Hon. Dan McTeague:** I am going to raise some of the issues that you've raised with respect to fuel, Mr. Barone and Mr. Cooper, and no, I won't get into gas or taxes.

If I understand it correctly, Mr. Cooper, you have a problem with the level of taxation on diesel, which I understand to be—the federal excise tax I think is 4¢; in my province it's 14.7¢, and obviously I don't want to point fingers here, but much of that 4¢ is remitted if you're a business, and the GST, of course, is every three months. Specifically, I guess, in terms of the price increase, particularly in winter months, it must be very difficult for your members.

This also brings Mr. Barone into the question as well. There seems to be little availability for jet fuel, particularly in western Canada, in our chair's region. New mixtures, new requirements, particularly environmental requirements, create an undue strain I think on both your industries.

Do you have any suggestions in that regard as to how we can help accommodate those changes? Obviously, we have a restriction in the amount of fuel that is made available, and what is made available is at a very high price over and above government impositions of taxations or added cost as a result of what you just mentioned.

**Mr. Sam Barone:** Mr. McTeague, could you just elaborate a little bit more in terms of the...?

**Hon. Dan McTeague:** Jet fuel? I understand the availability of jet fuel in western Canada is far more difficult to come by, particularly in British Columbia and Alberta. Refineries out there are not capable of meeting certain specifications. Much of the jet fuel that your members use in western Canada actually has to be imported from the United States to meet the demand. I see the demand is going up there.

Are there any suggestions you can give this committee, or is it something you may want to come back to the committee on at some point down the road?

**Mr. Sam Barone:** I think in general terms, where we have restricted supply, our first objective is to meet our schedule, and we will ferry fuel and get fuel wherever we can get it. Especially in British Columbia—the jurisdiction there—the excise taxes are a bit punishing. We would always welcome partnering with government on how to open up the supply lines that would get us better access, especially during the winter months. Fuel is approximately 30% of our total cost base. So we would definitely welcome exploring additional opportunities.

**The Chair:** Mr. Cooper, briefly.

**Mr. Graham Cooper:** Thank you.

I have just a couple of brief comments, Mr. McTeague.

As I mentioned in my opening statement, the issue as far as the industry is concerned is that when we compare the federal excise tax on diesel fuel—and indeed gasoline, for that matter—with, for example, the provincial taxes that you've made reference to, one of the differences, of course, is the use to which governments put that money. If you look at the reinvestment rates at the federal level, they're significantly lower than at the provincial level.

As you know, in our conversations and dealings in the past, one of the things the industry is concerned about is the state of Canada's infrastructure. I think it would be, if I might use the term, more palatable to the industry if it felt that 4¢ was doing something worthwhile. As we move into an era of discussion of carbon taxes and those sorts of things—environmental charges and the like—perhaps that 4¢ might be used for those sorts of things, as opposed to general revenue.

**The Chair:** Thank you.

Thank you, Mr. McTeague.

We'll go to Madame Brunelle.

[*Translation*]

**Ms. Paule Brunelle (Trois-Rivières, BQ):** Good day, sirs. Thank you for joining us.

Mr. Cooper, can you tell me what type of motor carriers the Canadian Trucking Alliance represent? Does it represent large fleet owners, or small trucking operations? I ask the question because you said that exports had declined by 3.8%. We all know what impact rising oil prices have had, coupled with the rising dollar that has achieved parity with and even overtaken the US dollar. Are you concerned that some small trucking operations and some of the companies that you represent might go out of business?

[*English*]

**Mr. Graham Cooper:** In answer to the first part of your question, our organization, as I mentioned, regroups over 4,000 motor carriers, large and small. In Canada, about 90% of trucking companies have fewer than five trucks. It is predominantly an industry made up of small companies. There are the big companies, obviously, that you see on the highway, and you know who they are nationally as well as provincially.

I would say that in terms of the hardships the industry is facing, it's evenly spread. There is an old expression, “the bigger they are, the harder they fall”, and we've seen that in the past. I don't think there's any particular disadvantage to smaller companies, other than the fact that perhaps, in an extended period of downturn, they may not have the deep pockets that some of the larger companies have and the access to capital to keep them going and so forth.

However, we found many of these smaller companies have been able to find niche markets because, by virtue of their smaller size, they are perhaps able to be a little quicker on their feet, if I can use that term. For example, you'll find some smaller companies in this area along the St. Lawrence that will have four or five trucks and will specialize only in cross-border transportation. They may employ, as a result of that, a higher proportion of aboriginal Canadians than you would see in other companies because those aboriginal Canadians have more flexibility in terms of operating in the U.S.

The question of business failures, bankruptcies, mergers is always there. As I mentioned in my comments, in the current situation where we have excess capacity and what's colloquially being called too many trucks chasing too little freight, the expectation would be that perhaps there might be some rationalization. Whether that is a large company buying a small company or a small company going out of business, those kinds of risks always exist in terms of this kind of economy.

At this point, I don't perceive an undue risk for the smaller companies. As I mentioned, depending on the region and the size of the association, we will have a large number of smaller companies as our members, some with one, two, and three trucks. We try to look after their interests as well.

● (1130)

[*Translation*]

**Ms. Paule Brunelle:** Thank you.

Mr. Barone, you spoke about your problems and your small profit margin. What percentage of your passengers are leisure travellers and what percentage are business travellers? I ask the question because I have to believe that the fact our Canadian dollar has achieved parity surely has less of an impact on business travellers whose situation may be more stable? Can you give us a breakdown of your passenger segments?

[*English*]

**Mr. Sam Barone:** Thank you, Madame Brunelle, for your question. I very much appreciate it.

In terms of the composition of our passenger segments, if you will, we have different segments in general. Of course, we have business travellers, who travel on business class fares and/or economy fares. We also have another market segment called the visiting friends and relatives. Then we have the leisure class passengers, who travel in terms of general markets stemming from the airline business.

In general, more than 90% of the passengers our member carriers carry around the world are in the leisure class, visiting friends and relatives. They are more of the price-sensitive, price-elastic segments of the air travel market in economic terms.

[*Translation*]

**Ms. Paule Brunelle:** I would have thought that business travellers accounted for a much larger passenger segment, what with globalization. I am surprised by what you are telling me. I would have thought that people who travel a great deal on business, often because parent companies are...Someone may work in Montreal, but the parent company might be located somewhere in the United States. I thought this type of passenger accounted for a much larger percentage of your operations.

● (1135)

[*English*]

**Mr. Sam Barone:** I don't disagree at all, actually. If I understand you correctly, those passengers do give us higher margins in general, because on the type of fares they travel, they usually want the most flexibility in terms of being able to change their ticket or the times of day they travel, and so on. Usually the passengers travelling for leisure and those visiting friends and relatives travel at times that are more convenient—not to themselves, but they do shop around for fares. So there's a trade-off between frequency and fare options in terms of the scheduling.

In general, to your point, there are some markets internationally, such as Geneva, New York, Frankfurt and Düsseldorf, and Paris that are big markets that can sustain all business class services. But in general the market is such that if you're not filled up at the back of the aircraft, it's very difficult to make money.

**The Chair:** Merci, Madame Brunelle.

We'll go to Mr. Van Kesteren, please.

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

Thank you for appearing before us this morning.

It's an incredible, important industry. We all know this, and yet sometimes we forget it.

I want to ask the transportation panel, first of all, what is the potential for growth? Are we seeing a decline in the services needed? What's your long-term forecast?

Mr. Barone, I'm sorry, but I just want to ask the transportation panel, and then please do respond after that.

**Mr. Graham Cooper:** It's a good question. In this economic environment, there's a lot of doom and gloom out there. Moods are bad. You see it in the stock markets and you certainly see it in our business, where people are worried about the immediate future.

I don't have the numbers off the top of my head, but if you look at the forecasts that have been made by the transportation ministers of the NAFTA countries, for example, we are certainly looking at long-term growth, both in terms of economic expansion as well as in replacing the existing drivers and equipment we have on the road today.

So I would have to say that the long-term prospects are good. We know there will always be a trucking industry, and we know the trucking industry is able to do things in the transportation sector that other modes are not able to do. There's a place for the rail industry, absolutely. There's a place for the marine industry. There's a place for air freight. We each have our unique set of skills and the types of commodities we carry.

So I would say that over the longer term, yes, there's optimism. We are looking at new types of equipment, cleaner, more environmentally friendly equipment, with lower emissions in terms of pollution and GHGs, and all of those kinds of things. The industry is making tremendous investments in that modern equipment. They wouldn't be doing that if they didn't have some optimism, if I can use that term, about the future.

When is the future going to arrive? We don't know. From the forecasts—and I'm not an economist, and I'm certainly not an expert—and from what I'm reading and from what I'm hearing from our members, this is going to be a tough year, but in the longer term we should be fine.

**Mr. Dave Van Kesteren:** Mr. Barone, I think my colleague is going to direct his question to that of airports, so I'm going to continue to put my line of questioning to transportation.

You spoke quickly about border crossings. I want to ask you about the Windsor-Detroit crossing. We all know how important it is, but can you possibly shed a little bit more light for this committee as to the urgency of the situation, where you see it going, and whether or not you feel we're headed in the right direction?

**Mr. Graham Cooper:** Again, I must preface my comments by saying that I'm not an expert on Windsor. We have people in the organization who are, and I can certainly provide to you and to the committee more details about the Windsor situation.

But let me just say a couple of things. As you probably know, the Detroit–Windsor gateway, specifically the Ambassador Bridge, is the busiest international trade gateway in the world. The infrastructure is bursting at the seams. The deck needs to be replaced and all those kinds of things. There have been binational and trilateral groups looking at this in terms of the Government of Canada, the Government of Ontario, and the governments of Michigan and the United States. There is a level of disappointment I think in terms of the delays the studies are encountering. But the latest study that was supposed to have been issued in 2007 I think is now going to be hitting the streets sometime in 2008.

So there is some concern that perhaps the urgency with which the industry sees this situation in terms of the congestion and the potential for congestion, the fact that the trucks have to go through the city of Windsor residential streets and so on and so forth, is perhaps not being addressed with the kind of immediacy that the industry on both sides of the border would like.

However, as I said in the outset, I'm not as expert in that particular situation as some of our colleagues are, particularly at the Ontario Trucking Association, and I would be delighted to get some information on Windsor specifically, on their views and statements they've made on Windsor, and provide it to the committee.

● (1140)

**Mr. Dave Van Kesteren:** I spoke to you a little earlier. I had an issue with a trucking company in my city of Chatham, so we took a drive to the border crossing and got a pretty good education as to some of the things you go through.

I have to ask you this question about what struck me. Does there exist a vehicle between the government and your industry to convey your issues? Is there an organization?

**Mr. Graham Cooper:** There are vehicles that from time to time take up these issues. We saw the most evident example of that I think after 9/11.

**Mr. Dave Van Kesteren:** I'm sorry to cut you off, but in regard to some of the issues that came up after we were done, I thought, man, this could have been solved so simply if we'd just had a bit more continuity.

**Mr. Graham Cooper:** Yes, I think I see where you're going, and that was perhaps an unnecessary preamble I was making.

If you're asking if there is a champion for the trucking industry in government, there are ministers who have responsibility for trucking in one form or another: the transport minister, the international trade minister, the immigration minister, and so on. Is there one person in the Government of Canada to whom we can go and say, here is our problem, here is our tax problem, here is our international trade problem, here is our infrastructure problem? The answer is no.

This is something for which we have been calling for some time, since 9/11 really. We've asked, do we need a border czar in this country?

**The Chair:** Thank you, Mr. Van Kesteren.

We'll go to Ms. Nash.

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

Good morning to all the witnesses.

The first question I'd like to ask is related to the price of the dollar, the exchange rate. I know the transportation sector is very price-sensitive. You can have very low margins, and when you're faced with rising fuel costs, the travelling public, for example, isn't always as understanding as they might be on that. So you really do get squeezed.

With respect to the dramatic rise of the dollar, I'm wondering what impact that has on all of you. For example, in the airlines or in long-haul trucking, is there a trend sometimes, just like with cross-border shopping, for people to shop across the border for cheaper rates or fares? Whenever I travel—it's mostly just Toronto–Ottawa, since I'm a Toronto MP—the flights are usually full. I'm wondering if there's an overall impact, especially in the long-haul transportation.

That's a question to all of you.

**Mr. Sam Barone:** Thank you, Ms. Nash.

I think you can safely say it's a double-edged sword as far as the airlines are concerned. Whether you're driving or flying to the United States or taking the train or the bus, going southbound we have an advantage, of course, as our currency either is at par with the United States or surpasses the U.S. value of the dollar.

Northbound, I think we've seen a softening of traffic as Americans do not fly as often to Canada, perhaps because of the perceived increase in cost because of currency fluctuations. Most of that traffic comes over by service vehicles rather than air transport. Nevertheless we've seen a softening of weekend travel, as we stated earlier in response to Madame Brunelle's question, the discretionary traveller. Business travellers are a little bit less price-sensitive, to that end.

What I mean by the fact that it's a double-edged sword is that while our fuel is priced in U.S. dollars, our aircraft are also priced in U.S. dollars. At the time we buy our aircraft—we have $12 billion U.S. outstanding right now in aircraft orders with Boeing, for example—that $12 billion is financed at the time of purchase, at different currency fluctuations. So while the U.S. dollar amount is advantageous to us, when it goes up for us, we have a little bit of a price break on aircraft. All our aircraft parts are priced in U.S. dollars, so we were able to buy inventories in the last six months at more advantageous prices. That's the backdrop under which we're looking at currency fluctuations and their impact.

● (1145)

**Ms. Peggy Nash:** Do you lose any of the transcontinental traffic to people saying, “Well, I'll go out of Buffalo or New York, or wherever”, or on some of the Caribbean or European travel?

**Mr. Sam Barone:** Absolutely. I'll give you an example.

Out of the greater Toronto area we have two international airports just on the other side of the border, in Niagara Falls and Buffalo. Just this morning, out of Niagara Falls International, there was a $99 U.S. fare to Myrtle Beach and St. Pete's-Tampa Bay on Direct Air. As well, out of Buffalo, you have Southwest and jetBlue operating, along with Delta, American, Continental, and other U.S. carriers.

I would venture to say, out of just Buffalo alone, of the six million passengers, they're taking in about 1.2 million Canadian passengers. That's why some of our fiscal policy comparisons come to light here, because their fuel is lower, they're subsidized airports, they have lower security costs, and they're able to withstand a $99 fare—which, by the way, we match. That story is the same at Plattsburgh; it's sucking traffic out of Dorval and Longueuil and the south shore of Montreal. That story is also played out in Bellingham, Washington, where $79 fares to Reno and Las Vegas suck traffic out of Vancouver.

**Ms. Peggy Nash:** Okay, thank you.

I'd like to hear from Mr. Cooper as well.

**Mr. Graham Cooper:** Just very briefly, as I mentioned, the trucking industry is a derived-demand industry. So as we see the softening of the U.S. economy and the rise in value of the Canadian dollar and its impact on our exports, that portion of our industry—which is a large portion—that has devoted its investments and its activities to cross-border trade is hurting, there's no question.

But trucks are not cheap. The fleets have trucks. They have drivers. They want to keep the drivers. They want to keep the trucks on the road. So what we're seeing, to some extent, is a shift from north-south traffic to the already congested domestic lanes—for example, Toronto-Montreal—which again exacerbates the competitive situation we have where people start competing on price. Once they start competing purely on price—and Madame Brunelle expressed some concerns over the prospects for companies—when you start, effectively, selling at a loss just so you can keep your equipment moving and your drivers employed, you're really playing with fire. That's the kind of situation we're seeing now, to some extent, particularly in central Canada.

**The Chair:** Mr. Armstrong, did you want to comment?

**Mr. Bob Armstrong:** I just want to add, again, from a service industry perspective, that what we're really seeing happening is U.S. multinationals shutting their distribution centres in Canada or downsizing them dramatically, and of course they use a third-party logistics provider or warehouse operator.

You go around to most of our border towns, or even to a lot of our cities, and you see empty warehouses today or downsized warehouses. What they're doing is going back to the American side and then trucking it over, so it even hurts our trucking industry. I'm talking strictly about us, on the service provider side, losing service provider jobs because the dollar has changed it to where they feel they can do it cost-effectively on their side of the border.

**The Chair:** Everyone else went a little over, Ms. Nash, so you have 10 seconds.

**Ms. Peggy Nash:** Okay.

Can you give us a sense of how much of the logistics sector has been impacted? You said that some facilities have shut down. How many would that be?

**Mr. Bob Armstrong:** We're just beginning some research on that, because we're just starting to hear it from our members. It's just appalling; I have four members on my board who've lost their jobs in the last few weeks running distribution centres. They've been told to downsize. All four were working for subsidiaries of American companies.

So it's worrisome.

**Ms. Peggy Nash:** Thank you.

● (1150)

**The Chair:** Thank you, Ms. Nash.

We'll go to Mr. Brison.

**Hon. Scott Brison (Kings—Hants, Lib.):** Thank you to each of you for being here today. I appreciate the input.

I was just saying to my colleague Mr. McTeague that you are in service, but in many ways you're also part of a global supply chain, as part of manufacturing and the rest of it. When there are cost issues in terms of your business, ultimately that affects manufacturing competitiveness, which ultimately affects consumer pricing and the rest.

There has been an emergence over the last year in particular—with the Canadian Council of Chief Executive Officers, the council of sustainable environment, the World Economic Forum, and others—of a growing global consensus that there's going to be a price put on carbon through cap and trade, through carbon taxes in some cases, and in other cases through carbon tariffs. There are even discussions now that France and California are moving toward a carbon tariff regime so that imported goods will be hit with a carbon tariff. The U.S. Congress at some point is going to discover that they can call it an environmental policy, but in fact it can be a protectionist policy that can add to the price of goods coming in from China, India, and other emerging economies.

What would be the impact on your industry? Or perhaps I should first ask, are you seeing the same movement toward this kind of regime that we as policy-makers are seeing? What impact would there be, and how would you pass on those costs? Whether or not we as policy-makers act in Canada, if other jurisdictions move in this direction, it's going to have an impact on the economic environment here.

**Mr. Sam Barone:** Thank you, Mr. Brison. That's a very timely question, given the debate on climate change and global warming. We, of course, have just as much interest in that issue, especially from the perspective of making sure we have a sustainable environment under which we operate.

First, when considering policies with respect to the environment and whatever measures the government policy-makers take with respect to the environment, be they emissions trading or carbon taxes, you have to take a look at the fact that transportation is a derived demand. So as to your question about what would be the impact on our industry, it's not so much about what would be the impact on our industry but what would be the impact on the Canadian economy from the perspective of us being an input into the process of trade, of people travelling, of tourism, and the other sectors. So that is one aspect.

If you look at it from a sustainability point of view, we would argue and would humbly submit that we absolutely consider balance in approaching these questions—economic sustainability, environmental sustainability, and social sustainability—because we do play a role socially within Canada in terms of remote community service and northern community service. All of those things taken together have an impact.

The other point I'd like to make to your question is the fact that we're already under a very penalizing and rather punishing fiscal regime with respect to our industry that creates a drag on the rest of the economy.

We should also explore ways of using the government policy strategically to look at alternative fuels, for example, and research. It goes without saying that it's in our self-interest as well to have alternative fuels, because fuel represents 30% of our costs. If we could bring that down by looking at such other alternatives as jet biofuel or alternative fuel, we would welcome that. We're working with partners like Boeing, Airbus, General Electric, and Pratt & Whitney to make engines a lot more sustainable, environmentally friendly, and so on.

For the record, the Canadian air transport industry—we just did a study, which we're pleased to share with you today—is responsible for approximately 1.2% of total greenhouse gas emissions in Canada.

That's just to give you the parameters and some statement as to where we stand on that.

● (1155)

**The Chair:** Mr. Cooper, do you want to comment on that?

**Mr. Graham Cooper:** Yes. There are a couple of things, Mr. Brison. There is, of course, the issue of what's being called a carbon tax and the impact that might have. I've talked already about the margins and perhaps the inability of our industry to pass additional taxes and charges along to our customers in this era.

Nonetheless, we're not naive. I did make comments about the 4¢-per-litre excise tax and how in fact that might be, if you will, re-engineered.

There's also the fact that, similar to what Mr. Barone was saying, in terms of the transportation equipment we use, our fuel is now regulated as ultra low-sulphur diesel fuel. Our engines are regulated. There's a growing awareness in the industry that the best way for us to reduce fuel consumption and thereby reduce greenhouse gas emissions is through the use of things like aerodynamics, low-rolling resistance tires, those kinds of things. These come with a fairly significant cost.

If you have a truck today and you say, “I want to have a green fleet”, if you will, you might be looking at an incremental amount of, perhaps, $20,000 to $30,000 per vehicle to make that optimum in terms of its greenhouse gas performance, particulate matter, NOx emissions, and so forth.

The industry is ready to move. We've asked the government to help us a little bit in terms of some incentives to get things out there, like auxiliary power units, for example, to reduce engine idling. It's all there.

If you haven't already seen it, I'd be happy to send you our information on what we call the enviro-truck. We had a launch on the Hill just a couple of months ago. We had some good reaction from parliamentarians. We'll send that to the committee.

**The Chair:** Thank you.

Yes, if you could send it to the clerk, we'll ensure all members get it. If you have it in both official languages, that would be very helpful as well.

Thank you, Mr. Brison.

Lastly, we'll go to Mr. Stanton, please.

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

Thank you to our panel for joining us here this morning—I can say that; we have a few minutes left this morning.

First of all, I'm directing my questions to the air transport community. You talked about some of what you referred to as punitive taxes, measures that were imposed on the air transport industry, if I can call it that. It certainly is an important one.

In your understanding, what has been the logic or rationale for the continuation of things like the fuel levy and the rents? Are there not some offsetting contributions coming back? I'm thinking here in terms of what the government needs to collect, for example, to keep up and support other publicly held resources, air navigation systems, other things that support your industry and are in fact still in the public domain.

**Mr. Sam Barone:** Mr. Stanton, thank you for your question.

Actually, in terms of air navigation services, those were privatized in 1996 through the creation of Nav Canada. It is a fully self-sustaining, privately funded organization. We actually fund those charges through what we pay to Nav Canada. Every flight that overflies Canada in Canadian airspace is charged a levy, according to weight and distance, by Nav Canada. Once it was divested by the crown in 1996, that was fully privatized in terms of the pricing regulation. The safety regulation is still regulated by Transport Canada, as we are.

The rationale for continuing those is basically to protect government and crown revenue. That's the biggest reason we have been given for the perpetuation of many of those fees.

**Mr. Bruce Stanton:** There has been discussion about how to increase Canada's competitiveness. One of the discussions, in terms of the air transport industry, has been about opening up, for example, the industry to foreign ownership. I'd be interested in your thoughts on whether that would be seen as advantageous to the strengthening of the air transport industry here.

**Mr. Sam Barone:** In our view, we have no problem with any of those policies. We already have given our share structure in terms of our publicly held companies, the three largest, of course, being Air Transat or the Transat group, Air Canada, and WestJet. There is a huge proportion of foreign ownership within those companies, in terms of their share capital, so our ability to attract capital is not—pardon the pun—a foreign concept to us; we would welcome it.

We're asking government, in terms of global competitiveness, when we're considering a lot of these policy options, be they foreign ownership limits or other structural changes, to consider us on a reciprocal basis, because these are very complex trade deals. If we're looking at global competitiveness, we're asking that we be globally competitive with other jurisdictions.

● (1200)

**Mr. Bruce Stanton:** Hence, you're going back to the topics around some of these other barriers, these fiscal barriers that you've got.

**Mr. Sam Barone:** Exactly.

**Mr. Bruce Stanton:** Thank you very much.

Do I have any more time?

**The Chair:** Two minutes.

**Mr. Bruce Stanton:** Oh, thank you.

One more thing for Mr. Armstrong, if I can. One of the notions we've been coming across in the course of this study of the service sector is the notion or perception that there's a predominance of low-paying, lower-quality jobs in the service sector. I wonder how, from your association's perspective, you would respond to that kind of notion or that theory that's out there. Typically, this comes from the fact that people are losing jobs—perceptively higher-quality jobs—in the manufacturing sector and having to shift to something that's lower, or worse, in terms of pay and quality. How would you respond to someone who would promote that theory?

**Mr. Bob Armstrong:** I think first, while they're in the supply chain sector itself, yes, there are some lower-paying jobs, but there are also some pretty good-paying jobs. In Alberta, for example, we have people who own and operate warehouses there who are paying something like $28 or $30 an hour and still can't get people. So, funnily enough, we have a shortage in a lot of parts of the country in higher-paying jobs that we can't fill because people don't see it as glamorous, I suppose. Within companies, as you move up to a manager, director, and a VP in the supply chain of logistics, they're good-paying jobs.

**Mr. Bruce Stanton:** There was one other thing that struck me here. On the one hand we heard that we've got a lot of trucks chasing less freight, but on the other hand we're hearing about skill shortages. I wasn't sure we could necessarily square those two: we're short of skills and yet there appears to be an oversupply. Could you comment on that?

**The Chair:** Could I just have one of the panellists address this?

Mr. Cooper, just briefly.

**Mr. Graham Cooper:** You're absolutely right, there is a bit of a dichotomy there. I think what we're dealing with here is a short-term phenomenon versus the long-term need. We have identified—in conjunction with a couple of other groups in our industry and with government as well—that over time the trucking industry is going to need 35,000 to 37,000 new drivers per year. So a couple of years ago, when capacity was tight, there was a real driver shortage. We just didn't have the drivers for the trucks. Now what we're finding is that because there is excess capacity—less freight—that situation is not as acute.

I think you've got to look at it from the standpoint that this is the economy in 2008; it could change around again in 2009 or later this year.

**The Chair:** Thank you, Mr. Stanton. Thank you to all of you for your presentations, questions, and comments here today. It was an excellent session and a very substantive one.

Mr. Cooper, I know you wanted to send something on to the committee, but if any of you have anything further to submit to the committee, please do so through the clerk. We will ensure all members get it.

I want to thank you for your presentations. Members, we will suspend for about two minutes, hopefully, and allow the new witnesses to come to the table and start the second panel.

Thank you.

●

(Pause)

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● (1205)

**The Chair:** We will start our second panel of the 16th meeting of the Standing Committee on Industry, Science and Technology on Canada's service sector.

For the second session, we have two panellists. First of all, from Export Development Canada, we have senior vice-president and chief economist, corporate affairs, Mr. Stephen Poloz. We also have, as our second panellist, from SNC-Lavalin Group Inc., Mr. Robert Blackburn, senior vice-president, government and international development institutions.

Welcome to both of you.

We will start with EDC, and then we'll go to SNC, and then we'll go immediately to questions from members.

Mr. Poloz, we'll begin with you.

**Mr. Stephen Poloz (Senior Vice-President and Chief Economist, Corporate Affairs, Export Development Canada):** Thank you, Chair.

Good afternoon, everyone. Thanks for inviting EDC to appear before this committee. It's the first time EDC has been invited here.

I have had the opportunity to brief certain members of the committee in the past, and I welcome the opportunity to meet everyone at once.

[*Translation*]

Good day everyone. Thank you for inviting me here today. Most of my remarks will be in English, but please feel free to put your questions to me in French. Thank you.

[*English*]

I am also delighted to be sitting here with my good friend Bob Blackburn from SNC-Lavalin. He's a representative of one of EDC's most valued customers and a prime example of a successful Canadian company that exports services.

I do want to congratulate the committee for focusing on the service sector, because I believe it's typically underappreciated, especially in the area of exports.

I'd like to preface my remarks with a very brief overview of EDC's mandate, since we haven't appeared here before. Obviously, EDC is an instrument of public policy for Canada as the crown. Its mandate, though, is to support and develop, whether directly or indirectly, Canada's export trade and Canada's capacity to engage in trade, as well as to respond to international business opportunities for Canadian companies.

Exports, as we know, are the backbone of the Canadian economy, and EDC plays an important supporting role in those activities. Just to illustrate, our 2007 numbers are not yet finalized, but in 2006 EDC served 6,800 companies and investors in Canada. More than 85% of those companies were small to medium-sized enterprises.

We facilitated a business volume on behalf of those companies of over $66 billion in the world, and almost a quarter of that was in the so-called emerging markets—much higher than Canada's percentage of trade that is in emerging markets. We did this without any appropriation from the government. Indeed, this year we paid a dividend of $350 million to the Government of Canada. We do this on a commercial basis. All of our activities are commercially priced and operate in a commercial manner. We provide a variety of instruments to companies such as receivables insurance for their foreign receivables; we do contract bonding insurance and guarantees, political risk insurance, financing for foreign buyers; and we have an equity program for emerging Canadian exporters.

A great deal of what we do is done in partnership with commercial financial institutions: Canadian banks as well as insurance companies, or banks and insurance companies that are in foreign countries.

The committee recently did an extensive study on the manufacturing sector, and I know that during the process of studying that the committee came to understand the emergence of what we at EDC call a new trade paradigm with a strong focus on global supply chains. At EDC we call it integrative trade, because it's not just export trade, but it integrates both importing and exporting, connected by foreign direct investment in a structure that allows the firm to optimize its global operations.

Trade in services is fully embedded in the integrative trade story, so I want to review it very briefly just to underscore the importance of international trade in services, which, as I said before, is widely underappreciated.

At the heart of the matter is the underlying force of globalization. Traditionally, people have seen globalization as companies selling their products and services to all four corners of the globe, and it still is true, but today it's only the smallest part of the story.

Today, globalization is the process by which companies can locate the individual slices or the series of activities they perform in order to get their product or service from concept to the market, to the consumer himself. Each of those activities, then, is located where it makes the most sense, and then of course each of those activities is connected through international trade, and the pieces may have been built through international investments, and then we truly have a global notion of the firm.

We have formed, thereby, a global value chain where the links are connected through international trade. So international trade, then, becomes not just a way to sell our things, but it's a tool that we use to actually produce our things. That is why international trade has become so much more important to global prosperity than it was in past decades.

Integrative trade, though, is not just about goods and their subcomponents. It's about services, because many of those links in that chain are services. I'll offer you an example. We might suppose that we intend to manufacture an airplane in Canada, and we know that requires R and D, designers, engineers, fabricators, marketers, accountants, and of course the chief economist—all those roles that may go into a firm of that sort.

● (1210)

We typically group that entire chain under the rubric of manufacturing, but in fact most of the jobs are actually service sector jobs within the manufacturing firm. If we were to take that manufacturing firm, let's say, and subcontract a company in India to produce one of the components of our airplane, we have built a global supply chain. If that component happens to require the input of an Indian design engineer, we have now done trade in the services of that Indian engineering company.

Later on, when we sell the airplane to a foreign airline, we think of ourselves as exporting a manufactured good, but we're also exporting the R and D services—the engineering and design services, the marketing, etc., all those service jobs—which in theory could be moved into a separate company that we would call "services". Then only the manufacturing part would be purely manufacturing.

In effect, the service sector is fully embedded. We also see, though, that there are areas of the service sector, which are very obvious on their own, that aren't embedded, but they are embedded in someone else's supply chain.

The new globalized economy has seen enormous growth in exports and traded services. We know that services count for two-thirds of the global economy. Trade and services account for about 20% of global trade. It is a very important factor. Almost $3 trillion per year in services is being traded around the world.

In Canada, for example, 13% of our exports are of services—$67 billion in this past year. On top of that we have companies with foreign operations that sell $140 billion worth of services annually.

There are a couple of facts that are worth remembering as we go along. When we export one dollar's worth of services, it generates almost 83¢ worth of income in Canada. When we export one dollar's worth of manufactured goods, it's more like 55¢ worth of value to the Canadian economy because we have imports embedded in those things. Our export of services is much more diversified than our export of goods. There is 50%-odd of our service exports outside the United States, whereas it's much smaller for goods.

The bottom line for me is what role we play in this. In 2006, for example, EDC facilitated over $3 billion worth of exports of engineering and construction services from Canada. A great example is sitting with me today. EDC also facilitated over $4 billion worth of transactions for Canadian financial institutions with their operations abroad. These are just two examples, to give you a sense of how important these things can be.

It is an extremely important sector, and EDC plays a key role in facilitating that.

I look forward to your questions.

● (1215)

**The Chair:** Thank you very much for the presentation.

We'll now go to Mr. Blackburn.

**Mr. Robert Blackburn (Senior Vice-President, Government and International Development Institutions, SNC-Lavalin Group Inc.):** Thank you, Chairman.

I think I've met just about all of the committee people here. I'm happy to be here today too. I haven't appeared before this committee, although I think Jacques Lamarre, our president, did on the last five-year review of EDC. EDC is a very important partner of ours.

I thought in my opening remarks today I would just tell you very briefly a little bit about what SNC-Lavalin is. Quite often people think we make airplanes, because they've heard of Bombardier. Sometimes we work with them, but we don't make airplanes.

The second thing I wanted to focus on specifically is the things the service sector needs, from our point of view, to remain competitive in Canada and internationally. The things we need are a competitive tax system, a reliable and supportive regulatory environment, strategic partnerships in a number of sectors—nuclear would be a good example of that—and outsourcing. And for exports of services, which Steve has talked about, we need positive foreign relations in key markets and supportive export institutions: EDC we've heard about, and Foreign Affairs and International Trade, CIDA—it would be nice to work with CIDA more—and the Canadian Commercial Corporation. Those are the things we need.

Who are we? Well, we're among the top five engineering construction companies in the world. We specialize in public and industrial infrastructure, heavily into power, including nuclear; right now, the huge boom in mining and metals; transportation; chemicals and petroleum; general engineering; pharmaceuticals; and facilities management. We have projects in over 100 countries. We're carrying the Canadian flag to a lot of places it isn't seen very much.

As Steve said, traditionally half of our revenues are from outside North America. In 2006 our revenues were $5.2 billion. We don't have full numbers for 2007 yet, but by the end of the third quarter we were just half a billion below our 2006 numbers. So we'll certainly reach last year's numbers and more.

The interesting thing is we look like a services company, but in fact we mobilize Canadian SMEs wherever we go. I just checked where we're building a 1,200-megawatt power plant in Algeria right now called the Hadjret Ennous. We're taking 24 Canadian suppliers of goods and services with us, some manufacturers, some other service companies. We're building a $2 billion nickel mine in Madagascar for Sherritt. We have 80 Canadian suppliers that we're taking with us. So we're putting together Canadian skills and manufacturers.

Typically, in an aluminum plant—and we build most of the aluminum plants around the world; not all, but most—we take around 30 Canadian suppliers. We're also using the best local supply we can and local labour as well. We have to, to be competitive. But we're constantly taking Canadian companies on the road with us. We do that in Canada too.

We mobilize pension funds. When we put together the group that built the 407, we used Quebec pension funds as part of the financing. We bought most of the transmission system in Alberta and operate it, and we mobilized Ontario teachers' pension funds to do that, along with our own. So we're taking some of the huge pools of pension money and mobilizing them for infrastructure purposes. We are increasingly owning and operating parts of infrastructure. We're going to run the power plant I talked about in Algeria for 30 years, and we own about a quarter of it. We will operate the light rail system, the Canada Line, in Vancouver, and own and operate a good part of it for 30 years. We're providing service to about 65 naval vessels around the country. We manage federal buildings. That's the direction we're going in.

I'll talk about taxation. We say the services sector is one of the key sectors for Canada's future, and it's totally exposed to global competition. It isn't like oil or resources, where we have a strategic advantage because that's where we are. We're totally exposed to competition. So we need a competitive tax rate. In fact, our corporate tax rate is higher than most of our OECD competitors', and that's true even after the phased reductions kick in. So that's a big problem.

We don't have tax treaties with enough countries, so we're sometimes exposed to double taxation, and we pay more, we think, on our foreign earnings than we should.

● (1220)

And finally, for our people working abroad, the personal income tax treatment is always a problem. It's complicated to get authority to be taxed at the out-of-Canada rate, and the treatment of allowances for people who are abroad.... There are all kinds of little tax issues like that that I can go into later, if you want.

Regulation. We need more regulatory certainty and efficiency. Part of the problem is, in the environment area, we need better federal-provincial coordination. There have been improvements there, and we're hoping the new federal Major Projects Management Office that NRCan is funding will help that.

We have no problem with regulation. We cooperate fully with regulators, but we want them to have the resources to do their job in a time that's predictable and in ways that when you're doing a big project, you can see what your track is, so it's not just an open-ended wait.

Strategic partnerships. More and more infrastructure is being built through strategic partnerships, and this has helped create competitive firms internationally. One of the things that made us competitive internationally was the Quebec government insisting that a Canadian company be involved in the James Bay project, so we were loaded onto Bechtel, which otherwise would have done it all by itself. That gave us the experience in managing complex projects, and now we're doing them all over the world.

CIDA. Back in the 60s and 70s, working with CIDA put us into the African market. It wouldn't happen anymore; CIDA doesn't do that anymore. We need a strong federal partnership on CANDU sales internationally. Nuclear sales are highly political. The French president and the American president and the German people, politicians when they travel...they're not doing it for technical reasons, they're doing it to be there with their companies.

When we're looking for export of services, there's not much difference in most markets between the political and the personal and the economic. We need to have all three there. We need networks. We need people on the ground. We need Canadian export support services to be there and coordinated. And it's not the money. We're not going around with our hands out. We want Canada to be there with us. They need to have the Canadian flag on some of the things we're doing internationally.

I'll stop there.

● (1225)

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

I apologize to both of you. I know you have a lot to say.

As it is your first time before the committee.... The clerk has your presentations, but the members do not. If you consent, we would certainly have those translated and distributed to all members of the committee.

We'll now go into questions. We'll start with Mr. Brison for six minutes.

**Hon. Scott Brison:** Thank you very much to both of you for being here. There are great synergies between your organizations. SNC-Lavalin is a Canadian company that's doing a lot of business internationally, and the EDC is a company that can help facilitate that.

My question is about Canada's opportunity with the emerging economies, particularly China. Currently there are seven new cities being designed by the Chinese authorities to house 400 million Chinese. These will be totally green cities being designed by the Arup Group out of London and William McDonough + Partners out of Virginia, state-of-the-art cities.

Of course, there's a lot of negative publicity around the coal-fired plants they're building on an ongoing basis, but at the same time, they have set a target, I think, that 20% of their energy requirements will be provided by alternative energy within 15 years. A massive demand is coming out of China for clean energy. The reason I speak to the issue of energy particularly is that Canada has a tremendous expertise in the area of energy and a capacity to research, develop, commercialize, and export a lot of those technologies to help build these plants. And whether it's China, India, Brazil, or, more recently, the fastest-growing economies—for instance, the prediction of Egypt and Turkey and others—there's a real opportunity for us.

Specifically on China, is SNC-Lavalin doing projects in China currently?

**Mr. Robert Blackburn:** We've been there for a long time. We've done a certain number of projects there. We've worked with them on cleaning up some dirty industries, chemicals and steel, over a 10-year period, actually with a CIDA project.

I don't know about those cities you're talking about, but I will say that the Saudis are talking about six new cities like this, and we're involved in a group that's looking at that. I think we put our bid in yesterday on a similar city like that in Algeria and one in Abu Dhabi.

**Hon. Scott Brison:** Has there been a change over the last year or so in the attitude of the Chinese authorities to doing business with Canadian companies?

**Mr. Robert Blackburn:** I think you would have to admit that the relations between the governments aren't as warm as they have been in the past.

**Hon. Scott Brison:** Has that affected business?

**Mr. Robert Blackburn:** It hasn't affected our business a lot because we haven't been doing a lot of business in China. We've been there for a long time. We would have liked to have done a lot more, but in fact we haven't seen a change in our business there.

**Hon. Scott Brison:** Have you heard other businesses speak?

**Mr. Robert Blackburn:** I've heard the sorts of stories you have, yes.

**Hon. Scott Brison:** In terms of tax structure, you spoke of the need to reform our taxes to be more competitive. Most other industrialized countries have gone through some form of tax reform in the last while. If you look at the three principal forms of taxation, business income taxes and capital on investment taxes, personal income taxes, and consumption taxes, where should we be cutting taxes to be more competitive? Of those three, what would be your top priority to be more competitive and to help your business create more Canadian jobs?

**Mr. Robert Blackburn:** I'm representing a big corporation, so I would have to say the corporate tax. It's something we can see because we're in a competitive market, so we need to be on even ground with our competitors.

**Hon. Scott Brison:** As an economist, Mr. Poloz, from a more broad-based perspective as a representative of EDC, where would you like to see the focus if you were looking at the three principal types of taxation? Should we be focusing on reducing and reforming business taxes, personal taxes, or consumption taxes? Where should the focus be to be more competitive?

You're an economist; I mean speaking as an economist.

● (1230)

**Mr. Stephen Poloz:** As an economist, as opposed to the economist from EDC. It's usually not our mandate to comment on government policy—

**Hon. Scott Brison:** I'm not talking about a Canadian context. I'm just talking in a general sense.

**The Chair:** Mr. Brison, you are stretching the point a bit.

**Hon. Scott Brison:** We're interested in the truth, Mr. Chair. We want to know so we can make good public policy. We have an economist here.

**The Chair:** I'm not sure you can handle the truth, though.

**Voices:** Oh, oh!

**Hon. Scott Brison:** You've been watching too many movies.

**The Chair:** If you are comfortable, answer that, but if you'd rather, speak to EDC's point of view.

**Mr. Stephen Poloz:** I can say something, which is that every economics textbook will tell you that the most efficient way to impose taxation is through consumer taxes. That's the least distortionary, etc., but that's not the only factor that comes into play when you design tax systems.

I agree with Mr. Blackburn that the competitiveness equation is best served by making sure that we have a level playing field. That's important. That's kind of a minimalist approach to things.

There are lots of distortions perhaps in our system and in other systems, but if the level playing field is there, then you can create jobs.

**The Chair:** You have a minute left, Mr. Brison.

**Hon. Scott Brison:** In terms of the evolution toward design, build, and financing of projects, what can we be doing here in Canada in terms of our own infrastructure needs that can help build your competitiveness in terms of the way we design our infrastructure programs, as an example?

**Mr. Robert Blackburn:** It's interesting. Canada has been slow in coming to the public-private infrastructure model. A lot of other countries are far ahead of us. Obviously, it gives us a capability to compete internationally on these projects having some experience at home, because each one is different. There is no cookie-cutter model. So we've been involved in building and operating public-private infrastructure now all around the world. We have a fair number of projects like that in Canada as well, and it's very helpful when you can work in your own country as the base for taking your skills abroad.

**The Chair:** Thank you.

Thank you, Mr. Brison.

We'll go to Madame Brunelle.

[*Translation*]

**Ms. Paule Brunelle:** Good day, gentlemen, and thank you for being here.

Mr. Poloz, you stated that when we sell an airplane, we are also exporting services and expertise at the same time. What I find disturbing about that statement is the realization that increasingly emerging countries will be turning out more university graduates than Canada and that these graduate will have the expertise and will earn lower salaries.

Have you given any thought to what this could me for Canadian university graduates? Do you have an idea of the types of services that will emerge on international markets in the years to come? I would not want us to be facing a problem like the one we have in the manufacturing sector, where we rested on our laurels for too long without investing enough money in R&D, only to see companies ultimately close their doors.

**Mr. Stephen Poloz:** Thank you. Admittedly, emerging countries are turning out more and more graduates who will compete in some respects with our graduates. Obviously, for years, innovation was driven by competition. Competition is not bad for economic growth. In fact, the Canadian economy has always been able to compete and it will also be true in this instance.

Service sector companies such as SNC Lavalin are beginning to recruit, using a global model, to use these resources to promote growth in their global operations. This is not so very different from the manufacturing sector. The Canadian economy has seen major changes in the past 50 years and surely there will be more changes ahead in the next 50 years. Gradual change is positive for our standard of living. Some jobs may be lost here, while new ones may be created elsewhere. The transition is seen as a positive one.

I am not worried about these changes. In fact, change is a sign of development in India and China, and down the road, they will become major buyers of our products, just as Japan is today. The situation was different 30 years ago. Japan was more of a threat to us. Now, it is seen as an important nation.

● (1235)

**Ms. Paule Brunelle:** Am I to understand then that when we export our products, experts will be on site, whether in China or in India. We will not be sending our experts to oversee product development, like SNC Lavalin does. It sends its experts to work with other companies and to oversee development.

**Mr. Stephen Poloz:** That is correct. As I said, this is a form of competition. However, we will always find our niche market that will help sustain our growth. Perhaps this will be achieved through a partnership or through a competitive process, but the focus will always be on having very specialized knowledge. I am sorry, but that is really the only answer that I can give you. That is how is has always been.

**Ms. Paule Brunelle:** Thank you.

You have made a number of interesting comments, Mr. Blackburn, in particular your comment about a strategic partnership. You said that the Government of Quebec had forged strategic partnerships for development and so forth. Can you tell me a little more about these partnerships and explain to me how, in your opinion, the federal government could get involved more specifically in initiatives? What steps could it take to help businesses such as yours that operate internationally?

**Mr. Robert Blackburn:** If I could just add to what Steve said, in my view, in order to ensure the most efficient supply chain, it is important to be able to look either within and outside the country in order to optimize business practices. At present, we have a contract to manage all federal and Government of Ontario buildings. This contract was negotiated with the previous administration. We had to compete to win the contract.

It is cheaper for governments to contract out this service and it allows us to gain some experience. We can handle procurement responsibilities more cost-effectively than the government. Furthermore, we demand a certain level of service. In the process, we acquire all the experience we need to do business with the government and to make our procurement processes more efficient. This experience also stands us in good stead when we carry out private projects.

Consider the case of Canada Line in Vancouver. We put together the funding, working with the BC government, the federal government and the local government. I believe we contributed 25% of the funding. We are constructing the Canada Line and we will manage it for 30 years. Subsequently, we will be able to export the knowledge and experience acquired.

According to the latest figures, I believe we are either the world's leading, or second-ranked, engineering firm in terms of service exports. Therefore, it is important to be able to work in your own market, at home, in order to gain credibility abroad. That is why we work with EDC and with Foreign Affairs. This collaborative effort is important.

Personally, I would like to work a little more closely with our trade officers in the case of supply chains abroad. It is not a matter of substituting Canadian jobs, but rather of preserving and protecting them and ensuring that they remain competitive. Otherwise, if we cannot stay competitive, both here in Canada—because there are increasingly fewer tariff barriers—and abroad, we will lose our industries. Therefore, we are working with the people of India and China to create Canadian jobs...

● (1240)

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

Thank you, Ms. Brunelle.

[*English*]

Now we'll go to Mr. Carrie, please.

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

I just wanted to put on the record that I come from a government that believes in lowering all kinds of taxes, but we should make exceptions for any MP who wants to pay more. I think we should allow that.

**A voice:** [*Inaudible—Editor*]

**Mr. Colin Carrie:** Canada depends heavily on the United States for its export market. With the economic slowdown in the United States, have we changed our strategy at all?

**Mr. Stephen Poloz:** The short answer is no, we haven't changed our strategy. Our strategy has always been to put most of our emphasis on the markets that are difficult to break into, and the United States isn't usually one of them. It's true that EDC's programs—perhaps half of what we do is in the U.S. market on behalf of Canadian companies, so bear in mind that most of these companies are small and the U.S. is just as scary as another place. In fact, the U.S. is the riskiest market on earth, considering how many companies go bankrupt each year and are created each year. Statistically, it is a very risky place to do business.

We spend most of our resources in the emerging world. You can see that Canada's trade performance is dramatically reflective of that. For example, in 2007, exports to developing markets rose by approximately 24% for Canada, whereas exports to the industrialized countries rose by 2.7%.

The slowdown we see coming, which has been in our forecast for some time, is obviously led by the United States and will be concentrated in the major economies. Even if, say, Europe slows by 1% to 2%, it's still small, positive growth. If China slows by 1% or 2%, it gets all the way down to 9%, so it's still a major demander of our products.

Importantly, infrastructure projects that are concentrated in the emerging world continue. This is a really major opportunity for Canadian exporting companies, both through services and the agglomerations Mr. Blackburn was referring to.

EDC has two people in China, and we're putting someone in Abu Dhabi to take advantage of what's going on in the gulf, and we have people in South America. They're out there, facilitating companies' exploits. When they show up in town, we're there to take them on appointments and help them find their way through the red tape and all those kinds of things, and of course get the financing in place.

**Mr. Colin Carrie:** How is Canada doing with the diversification of its export markets now as compared with 10 years ago? How much have we grown in terms of diversification?

**Mr. Stephen Poloz:** The United States remains a very big destination for us, and always will be. It's the biggest, most dynamic economy on earth.

When we talk about small companies engaging in global supply chains, what we mean is that they find a link in some bigger company's global supply chain and earn that business. Often that would be in a U.S. multinational. So you may end up exporting to the United States, but that component ends up being in something that gets exported all around the world. So the diversification is probably much bigger than it looks, but right now it's still the case that over 80% of our goods exports go to the United States and only about 7% go to the emerging markets.

Exports to the U.S. last year went up by 1% and to emerging economies by 24%. So the race is not even close to being even. We know that the diversification will be an automatic process through time, but even after 20 years of this, we'll still be 60% dependent on the United States.

**Mr. Colin Carrie:** Mr. Blackburn, you did mention nuclear energy, which has certain challenges. Could you describe the challenges your company faces with nuclear energy in Canada?

**Mr. Robert Blackburn:** I spoke before about the need to have a reliable regulatory structure and strong government support for AECL, which has developed CANDU technology and employs over 20,000 Canadians. Without strong government support and commitment from the provincial and federal governments, and regulatory support, that technology probably won't survive.

The other technologies that CANDU competes with internationally, and in Canada, are strongly supported by their governments, politically as well as economically, and in every other way. We need to have that commitment from the Canadian government and all of its agencies. AECL is a crown corporation; CNSC is a regulatory agency; and the federal fisc have supported AECL for years. So that all needs to come together.

The other question, I suppose, is provincial government attitudes. Is Alberta going to want a nuclear reactor in the tar sands, which would cut down carbon emissions heavily? New Brunswick is talking about a new advanced CANDU at Point Lepreau.

Things have to come together here and all the pieces need to be there. It's an industry that for the first time in many years, not just in Canada but also around the world, is talking about building new nuclear reactors, and that's particularly vital for Ontario. So we need to get on with it; you don't build these things overnight.

If I could just make a point about your question on the U.S., we do 4% of our business in the United States. We did 13%, or $650 million, in Africa last year. We did twice as much in Europe as in the United States. We did more in the Middle East than in the United States. As Steve was saying earlier, probably at least 50% of our services exports go outside North America, and that's certainly true for us.

● (1245)

**Mr. Colin Carrie:** Why is that? Why are you not really in the States?

**Mr. Robert Blackburn:** If you look at Africa, I must say the EDC is getting more and more helpful in higher-risk markets there. The returns are best. They need us there; we've been the number one engineering company in Africa for many years because they need us.

In the United States they have lots of engineering companies. So when we go there it's for specialized things, such as gold mining. We build gold mines. So we've built gold mines for Barrick in the United States.

**The Chair:** Sorry, Mr. Blackburn, we have to move on.

Thank you, Mr. Carrie.

We'll go to Ms. Nash please.

**Ms. Peggy Nash:** Thank you.

Hello to the witnesses. You've made very interesting presentations.

I'd like to understand a little more about our exports to the U.S. You have just said, Mr. Poloz, that 80% of our goods are exported to the U.S. Is that our total amount of exports to the U.S.? Does that include services, commodities, manufactured products? Or is it just manufactured products?

**Mr. Stephen Poloz:** What I was referring to was goods, and a much, much lower percentage of our services exports go to the United States. So it allows me to kind of answer two questions at once. Our integration with the U.S. is so deep and complete on trade that our numbers of goods going back and forth across the border are in a sense exaggerating the lack of diversification. For example, 25% or so of our goods exports are cars. Well, with the car thing, the pieces are going back and forth several times before the car is complete, so you have a lot of trade generated by one car. That sort of thing skews those numbers.

**Ms. Peggy Nash:** So 80% is goods, and out of those goods, 25% of that would be autos, which is, as you said, a very integrated industry.

**Mr. Stephen Poloz:** Very integrated. It's as if there's no border whatsoever in that fundamental production sense. So it wouldn't be a fair comparison to look at that—Canada's relationship with the United States—and then ask, well, how come we're so much more dependent on the United States than, let's say, Italy is dependent on France, or something like that, because they don't have that same kind of degree of integration.

That's all to say that services are more diverse, and that's just by the nature of the business. They don't cost anything to move. Often you have to be in place to deliver. Often services are delivered by investing in a foreign country. SNC-Lavalin is located all around the world. It's not just showing up in a suitcase.

● (1250)

**Ms. Peggy Nash:** I know we're mostly talking about services and goods, but what would the percentage of our total trade to the U.S. be if you include raw materials? What does that look like?

**Mr. Stephen Poloz:** If we include services in the full bucket, then our share of trade going to the United States is a few percentage points lower. It's seventy-something—

**Ms. Peggy Nash:** So when you say “goods”, that would include wood, fish, metals—

**Mr. Stephen Poloz:** Yes, all material things.

**A voice:** Anything you can drop on your foot.

**Mr. Stephen Poloz:** Yes, anything you can drop on your foot.

**Ms. Peggy Nash:** Okay. I'm just trying to get a sense—in recognizing your point about the integration of auto, and there are probably other sectors like that, what is, in your view, the impact right now of the slowdown in the U.S. and the rise of the Canadian dollar? What are you hearing from the member companies you represent?

**Mr. Stephen Poloz:** That effect is quite significant. We can see it in the numbers already this year. The slowdown in the U.S. has been under way for some time. It affected the forestry sector, first of all, because of the housing impact, but that has spread to consumer goods sectors supplying other things for homes—doors, windows, furniture, and that sort of thing. So those sectors have been labouring for about a year now.

Our most recent survey of exporter confidence was just released about a week ago, and it has been crushed in the last six months. It's gone to a level that's lower than it was in the aftermath of 9/11, when there was almost a global recession at that time. So exporters are saying their outlook for the next 12 months is quite poor. There still are a healthy number who believe their exports will be the same next year, or grow a little, but in terms of the readings, these are the worst we've seen. We expect that the world will be fairly resilient to this, that we won't have a global recession, but the U.S. is dragging everybody down to a degree, so we expect our exports overall to go down during 2008—not to grow, but to actually go down modestly.

**Ms. Peggy Nash:** I think that's a fair predictor, given the situation right now with the dollar and oil prices and the slowdown in the U.S. We are, as you say, more dependent on the U.S. Partly it's an economy of scale, where they're much bigger than us. We're right next door; France and Italy are dependent on each other.

Is there anything that the companies you're representing are calling for to help buffer the impact over the next few months? Hopefully, it's a short-term situation. Is there anything you're hearing that would help them just get through this period and hopefully see a brighter future after that?

**Mr. Stephen Poloz:** The stress has been accumulating for some time. As you know, the dollar has been high for quite a while now, so the story is just getting another layer, another icing on the cake, if you like, now that the U.S. slowdown has become so tangible.

We are seeing companies respond by putting increased emphasis on those other markets where growth, even if it slows, will remain rapid. So it's why we can see such good numbers on our export growth in places like China, India, South America, emerging Europe, and Africa. There are very big numbers in Africa. So it is working as a strategy. When you spend another dollar marketing this year, you won't spend it in the United States because it's going to be in a recession or the next best thing; you'll spend it somewhere else.

**Ms. Peggy Nash:** Do you find companies investing more in machinery, equipment?

**Mr. Stephen Poloz:** They're investing more. That's correct.

**The Chair:** Just briefly.

**Mr. Stephen Poloz:** And they're investing more, not just domestically but abroad, in order to get their foot in the door in these markets that are growing rapidly. So that combination is improving their competitiveness in key areas.

**The Chair:** Thank you.

Thank you, Ms. Nash.

Mr. McTeague, please.

● (1255)

**Hon. Dan McTeague:** Gentlemen, thank you for being here today. I just wanted to take up where my colleague, Mr. Brison, left off.

Mr. Blackburn and Mr. Poloz, these are very interesting comments you made here, and very helpful. I wanted to let you know.

One of the things you mentioned was the positive relations with key nations. I'm going to wear my Foreign Affairs hat, where I was for a few years. One of the engagements in the previous government and the government prior to that, with previous prime ministers, was always to lead with our prime minister at the very top. So whether it was Mr. Martin with countries like Libya that were once considered nations that were less favoured, for obvious reasons, or China with Mr. Chrétien, we always recognized that the issue of human rights, the issue of concern, could always be engaged face to face and very publicly if necessary, at the end of all this, recognizing, of course, that Canadian companies will from time to time go to nations that are having difficulty. I think it's not lost on many of us that, with many of those cases, if we don't do it other countries will certainly do it.

When you're talking about positive relations with key nations, Mr. Blackburn, are you referring to the potential political conflicts that Canada may have with changes in government? I'm referring, of course, for instance, to China, where on the issue of human rights we've taken certainly a public position that has been very different from the past. How does this affect industry in its continual relationship with countries like China, with which we've had a dialogue, arguably as a pioneer, since the early 1970s?

**Mr. Robert Blackburn:** Mr. McTeague, I would return to my generality, which is to say that basically outside North America or the OECD countries, it's very hard to distinguish the political from the economic and from the good personal networks. That's why it's very important for us to have a Canadian government presence in these key markets.

For instance, Foreign Affairs and Trade have been cut and cut again over the last 10 or 12 years. Their resources are so slim that they've had to pull a lot of people back from growing markets where we really need them. Yesterday, I was at a seminar on the Middle East. We need much stronger relations in the Middle East, and we do need ministerial, prime-ministerial, senatorial, and MP visits. These are really important. They may not seem so important. You say, gee, what's the substance of this? What it does is show respect for people. One of the Arab ambassadors yesterday was saying, “Don't just keep talking about us as a market. We're people. We have a culture and we have a history. We don't just want to be seen as a market.”

That's a tendency. Maybe in Canada we think we just buy stuff over the Internet and it doesn't matter who we're dealing with. In the developing world it's very important to have good relationships and to be showing respect and to be there—not just to be coming in, in a suitcase, but to have an ambassador on the spot. To have a prime minister or a minister visit, or to have a parliamentary delegation, makes all the difference.

**Hon. Dan McTeague:** That is music to the ears of some of us who have actually tried that, Mr. Blackburn, and I think it's good instruction for this committee to recognize its connection with trade as well.

**Mr. Robert Blackburn:** And the resources of Foreign Affairs.

**Hon. Dan McTeague:** Yes. Well, I cited the example of Libya because I know that your company, for instance, has done very well in terms of building, or being a partner in building, a very large aqueduct where Libya found literally billions of litres of fresh water that they can now bring to the north. One of the companies involved in the development of that project was yours, but what was critical was the engagement at the highest levels between leaders of that country and leaders of our country. I also know, from the perspective of Canadians abroad, that diplomats could talk all they wanted about it, but the reality was that in order to engage, respect meant elected officials meeting with elected officials.

That brings me to other companies. You mentioned Sherritt, which of course has been in Cuba for some time. There has obviously been some controversy by some as to its presence there.

I'm wondering, in order to diversify Canada's impacts around the world in the service sector in particular, do you think Canada can and should be doing more, to the extent we can—for instance, using and upgrading its Foreign Affairs and International Trade departments in those countries—to bring a greater presence, a more amenable presence, to the relationships to which you were referring?

● (1300)

**The Chair:** Just very briefly, Mr. Blackburn. We're running against time.

**Mr. Robert Blackburn:** I think we do need strong representation and relations in countries where there are strong growth markets. As Steve mentioned, in Africa and Asia their growth rates are much higher than anything we've seen in Canada or the OECD for many years.

So we need to be there. That's where the future is.

**Hon. Dan McTeague:** Thank you.

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

I'm just going to finish up, as the chair, with three questions. I appreciated your presentations very much.

Mr. Blackburn, I want to pose three questions for you to address. The first one concerns regulatory certainty and efficiency. I agree with you 1,000% on that. I've been hearing from all sorts of industries on that with respect to federal-provincial environmental regulations. My question, which you may want to answer later, is how do you do this? I welcome, actually, industry pressure at both levels of government to get together and harmonize regulations, but it is a big challenge to first of all get the provinces together, and then to get the provinces on the same page as the federal government.

My second question is with respect to labour challenges. Perhaps you would give us a sense of labour challenges going forward, or even just a figure from your company's perspective.

The third question is with respect to corporate tax. You mentioned that we need a competitive tax system. In the fiscal update, we're going down to a 15% corporate tax rate federally by 2012. Should that be accelerated? Is that enough? Is that not enough? If it's not enough, how far would you go?

**Mr. Robert Blackburn:** On coordination, it is complex, but it is in the interests of both sides, federal and provincial, to have a structure that promotes investment. So there's an interest there, and usually if there is an interest you can find a way.

One of my concerns is that we don't resist regulation at all, but often the federal departments that have the responsibility don't have the resources to be efficient. Environmental regulations are a good example. The departments that get tasked with regulating a particular project need the resources to do it. We'll get asked for information and we'll provide it overnight and then it takes three weeks to get feedback on it. So regulate, but resource.

Second, on labour challenges, particularly in Alberta and B.C. right now, the labour market is of course really tight. Wages and competition are both so high for professionals. It's a real challenge finding and keeping skills. But it's not just in western Canada, it's around the world.

In the businesses we're in—resources and infrastructure, oil and gas—the expertise squeeze is formidable wherever we go. I don't have a number for that, but we have about 18,000 employees around the world and two or three times that number working on projects on contract. It's a challenge to find the resources, these days, every time.

Third, with regard to corporate tax, even after full phasing in we are still going to be higher than the competition. We've looked at that. OECD countries right now range from 12.5% to 34%. Even with all the phasing in, we're still going to be higher, with federal and provincial put together, than a lot of our competition.

**The Chair:** I have just one final question, then.

If we do the 15% federal and the provinces follow suit and do the 10% provincial, won't the 25% then be competitive on an OECD level?

**Mr. Robert Blackburn:** Yes, but they're moving as well.

We'll be better off all right. And of course one of the problems always is that the feds are worried that if they make room, the provinces will just move into it. It's been my experience—and I was in the industry department for years—that if you go and tell what you're going to do, sit down with the provinces and say, look, here's how this works, if you're trying to locate investment, you can get cooperation sometimes from the most unusual places.

The main point is it's something we need to keep addressing. We need to be competitive here.

**The Chair:** I welcome pressure on that angle. And I thank you very much for representing one of Canada's flagship companies.

I should mention as well, Mr. Poloz, with respect to EDC that certainly during the manufacturing study—for those of us who were here—EDC was uniformly recognized and praised in terms of its work within the manufacturing sector. I wanted to mention that as well.

Thank you both for being here. If you have anything further to submit to the committee, please do so through the clerk.

Members, I'm going to suspend for one minute, and we're going to go in camera just for a five- to seven-minute session, hopefully. I have two witnesses the members want to bring forward.

[*Proceedings continue in camera*]

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