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**EVIDENCE**

## Tuesday, February 26, 2008

## Chair

**Mr. James Rajotte**

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● (1110)

[*English*]

**The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)):** Members, we are a few minutes late because the previous committee extended their time.

For the first hour, we have two witnesses who have graciously agreed to come back. We had an hour with them before, but we had so many questions that we asked them to come back. I want to thank them both for making themselves available again on very short notice with respect to the impact of the appreciating value of the strong Canadian dollar on the Canadian economy.

We have before us today two witnesses from the Bank of Canada. We have, first of all, the senior deputy governor, Paul Jenkins. Secondly, we have the deputy governor, Mr. John Murray. Welcome.

My understanding, Mr. Jenkins, is that as you gave an opening statement last time, we will use this hour for questions from members. We will start the first round with six-minute rounds.

We will start with Mr. McTeague, the vice-chair.

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

Mr. Jenkins, Mr. Murray, it's good to see you back. Thank you for being here.

The great opportunity we have is that last week I saw something I had never seen before, and certainly in the past year and a half. We've been known to have the petro loonie, and last week, as the price of crude skyrocketed back through the $100-a-barrel territory, we saw the Canadian dollar lose value. I'm wondering about this, because it costs a lot of currency, and on that particular day I caught off guard the two analysts whom I spoke to about this. But is it conceivable that the value of commodities—petroleum, in particular, which we export—is not necessarily the only factor driving the currency up or down? Really, the question is to what degree this is.

I only have one question, Mr. Chair, and I think Mr. Brison will take the rest from here.

Thank you.

**Mr. Paul Jenkins (Senior Deputy Governor, Bank of Canada):** The short answer to your question is that it is not the only factor. The exchange rate, as I mentioned before the committee the last time, is a relative price, in the sense that it's the price of the Canadian dollar relative to the U.S. dollar, or the Canadian dollar relative to the euro. So there are a number of factors that impact that exchange rate. In the Canadian context, commodity prices have historically proven to be an important explanatory factor for movements in the Canadian dollar over time, but there are other factors that influence the dollar as well.

**Hon. Dan McTeague:** Let me ask you about the hidden cost or impact of M and A, mergers and acquisitions. I'm hearing increasingly, or with greater frequency, that what is really behind much of this is a lot of activity, both in the States and in Canada, the acquisition of large or big cap companies and assets.

I'm wondering to what degree you think that is influencing the current currency picture that we see. That's my final question.

**Mr. Paul Jenkins:** I'll ask John to pitch in here, because he's done quite a bit of research on these issues, but I think the general point is that these foreign exchange markets are very large—in the trillions of dollars. So at times, when you do see a transaction taking place in the market, it can have an impact on movements in exchange rates. You call these M and A flows, but we get these flows going in both directions. We do live in a globalized world, so you have to think about flows coming into Canada and flows going out of Canada. Yes, you can see evidence of these flows having an impact, but over time, given the size of these markets, the underlying economic factors are really what move exchange rates on a sustained basis.

John, you've done some work on this issue of flows versus stocks.

**Mr. John Murray (Deputy Governor, Bank of Canada):** Very briefly, as Paul indicated, the normal daily flow through the Canadian foreign exchange market runs in the billions of dollars. So it takes a very large transaction to have an influence on those, and sometimes a large merger or acquisition could have such an influence. The important thing to note here is that the effect would typically be very temporary; once it passes through the market, it's then gone, as it's a flow. What we're typically more interested in are the continuing fundamental influences on the exchange rate.

**Hon. Dan McTeague:** Thank you, Mr. Chair.

**The Chair:** Take a few minutes, Mr. Brison.

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

I just have a couple of quick questions to follow up on. As commodity prices go, as my colleague indicated, typically the Canadian dollar goes, because of the weighting of our economy on commodities. But there's been a lot of speculation about the decoupling of the emerging economies, like China, India, and others, from the U.S. economy.

First of all, I want your view on decoupling and the notion that some of these emerging economies will in fact continue to grow despite an economic slowdown in the U.S.

Secondly, if that is the case, or at least the possibility, will it have the capacity to effectively propel the Canadian economy forward based on commodities, their demands, and internal growth for commodities, and as such decouple the Canadian economy in some capacity from the American economy?

**Mr. Paul Jenkins:** I personally don't like the word “decoupling” because it's too easy an out, in the following sense. You have quite a few factors at play currently in the global economy. If you look at it from the point of view of the Bank of Canada, our role is to look at all these factors at play and add them up in terms of the overall impact on the Canadian economy.

At the moment, we have reasonably robust growth in Asia, China, and India. The growth we're seeing there has clearly been one factor behind the strength of commodity prices. The high price of commodities is a demand driven story. At the same time, we continue to have close trade links with the U.S. economy. Given the situation in the United States, primarily around the subprime mortgage market, i.e., the residential construction market, which has gone into a very significant and protracted adjustment, we know that exports of windows, doors, and lumber to the United States are going to be affected by that. Indeed, going back to our monetary policy report update, which came out just prior to when we first met, when you look at our projection for the Canadian economy, we have what we call the contribution from net exports being negative, a drag on the Canadian economy. A good part of that is because of these trade links with the United States. We see the impact of that on our exports. At the same time, we are seeing, through higher commodity prices, a positive impact on the Canadian economy coming from that.

To answer your question, decoupling suggests there's only one force out there, or maybe two. What we really need to do is look at all of those. We need to look at the strength of demand in Asia. We need to look at what's happening in the United States and add up all of that in terms of the implications for the Canadian economy. For us, that really is the challenge. Decoupling doesn't quite do it for me. It's a short way of suggesting that growth and age are going to continue. Even there, we know there are going to be spillover effects from a weaker U.S. economy because the U.S. is buying exports from those countries. So you've got to work through all these channels. It can be complicated, but it is important to work through that.

John, do you want to...?

● (1115)

**The Chair:** Just very briefly.

**Mr. John Murray:** It will be brief, just two short things trading on Paul's comments.

First, we do anticipate some easing in the growth of even the Asian economies because we don't think they will be able to completely decouple from the United States. The United States is just too important a trading partner, plus we see some easing as well in Japan and Europe. So all of this is factored in. The bottom line is that we still see fairly steady and strong growth in many of these countries, which will provide some support for commodity prices. From that, of course, it provides support for the Canadian economy, but we have such a close trading relationship with the U.S. economy that we would be even less decoupled than the Asian economies. It's a factor. It provides support. But I don't think you're going to see decoupling in Asia or especially in Canada.

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

We'll go now to Mr. Vincent.

[*Translation*]

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

Good morning, everyone.

Last January 30, the last time you appeared, Ms. Brunelle said that if we were in a recession, the United States was also in one. You answered: “As I mentioned in my presentation, the Canadian economy will grow during the first semester, but according to our reference scenario, there is no recession in the United States.”

Here is what was published in *Le Monde* yesterday:

> [...] the central bank revised its growth forecast for the American economy in 2008 downward by 1.3% and 2%. [...] To avoid the recession, Mr. Bernanke has been lowering the cost of money for the past two months at a rate unprecedented since the 1980s. However, in his desperate attempt to shore up the bank system and the households of the nation, he is taking a risk, if he fails, of being confronted with a catastrophic scenario. After feeding an inflationary spiral [...]

Another article states:

> In its study, the IMF explained that it was unlikely that Canada could dissociate itself from what is happening in the United States, given the fact that the commercial and financial links between both countries are among the strongest in the industrial world. Seventy-five per cent of Canadian imports go to the United States.
>
> The IMF wrote that Canada should be able to face this situation fairly well, but it insisted that there is a great risk of a downturn and that the country could fall into serious recession if the American economy continues to shrink, and if the American dollar plummets along with commodity prices.

In an article in *La Presse Affaires*, the chief economist of Scotia Bank, Warren Jestin, was quoted as saying:

> According to Mr. Jestin, a substantial downturn in production and in job creation may prevail in the economic landscape of the main developed countries during the first semester of 2008, and it will be followed by a long period of convalescence. [...] Given the balance of payments of the United States, nothing seems to indicate that the depreciation of the dollar is drawing to an end [...]

**The Chair:** Mr. Vincent, you are speaking too fast for the interpreters.

**Mr. Robert Vincent:** All right, I will try to slow down a little.

**Ms. Paule Brunelle (Trois-Rivières, BQ):** The recession is getting on your nerves.

**Mr. Robert Vincent:** Yes, but above all, we are pressed for time.

Let me continue.

> Mr. Jestin is expecting the Bank of Canada to reduce domestic interest rates by another half a percentage point during the first semester of 2008. In his opinion, the basic underlying economic barometers will probably make the loonie soar to great heights.

On January 30, you said that the Bank of Canada had lowered its interest rates on December 4 last and January 22. Presently, we see that growth in Canada has gone down to 1.8%.

What do you think of the news we heard this week? Do you think that we can expect a further drop in interest rates from you?

● (1120)

**Mr. Paul Jenkins:** First, let me repeat what I said when I last appeared before this committee. As I said then, the latest report on the monetary policy of the Bank of Canada, issued in January, forecasts an annual growth rate of 0.5% for the first semester in the United States, which is very weak. As I also said, we are expecting a reduction in American interest rates that should sustain the American economy in the future.

Our report also mentioned one of the risks involved in our reference scenario, which is a weakening of the American economy. We incorporated this risk in our forecasts. Thus, we are currently analyzing all the recent data and we have set a date, which will be next week. As usual, we are analyzing all the data regarding next week's decision. Once again, as we stated in our January report, we will probably have to step up the degree of monetary easing in our reference scenario soon.

**Mr. Robert Vincent:** Can we expect a drop in the interest rates over the coming months as an attempt to stimulate the economy?

**Mr. Paul Jenkins:** I cannot tell you what the decision will be. I can only emphasize the messages in our report on January's monetary policy.

**Mr. Robert Vincent:** The consumer price index can impact Canada's growth, in percentage terms. Lowering the GST also lowered the consumer prices. Had we left the GST rate at 7% instead of dropping it to 5%, would the slowdown in Canada's economic growth have been much less than 1.8%?

**Mr. Paul Jenkins:** The main factor for the Bank of Canada is the direct impact of the GST on the consumer price index, the CPI. We think that the impact of the drop in the GST on the IPC will be about 0.6%.

The impact on the inflation rate will be the same, but only for one year. After one year, the effect of the price decrease will be eliminated and the inflation rate will be the same as it was before the GST was decreased.

The monetary policy will have to determine the trend of the inflation rate by excluding the GST, because the impact of the GST rate will only be felt for one year. Moreover, this impact is on the prices, and not on the inflation rate.

● (1125)

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

[*English*]

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

**Mr. Colin Carrie (Oshawa, CPC):** Thank you very much, Mr. Chair. I'll be splitting with the member from Chatham.

Coming from Oshawa, I can see firsthand the challenges faced by our manufacturing sector. I'm wondering if you could comment on the suggestion by Canadian Manufacturers and Exporters that the Canadian dollar be around 85¢ or 90¢. Do you have an opinion on that, on how it would affect the manufacturers? Or is it even realistic?

**Mr. Paul Jenkins:** Perhaps I could first mention, Mr. Carrie, that when we were here last time, I think you had posed a question with regard to net migration flows within Canada. We said we would come back on that, and we did provide the clerk with a set of tables. I just wanted to let you know that we did bring back those numbers.

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

**Mr. Paul Jenkins:** In terms of your question, again, the exchange rate is a price that is set in markets. A critical issue in certainly the conduct of monetary policy is to constantly ask, whatever level the Canadian dollar is trading at, why is it trading at that level?

Going back to the very first question, we know that a number of factors can influence the exchange rate—movements in commodity prices, the impact on the Canadian economy of the U.S. economy and the weakness we've seen there—so it truly is a relative price. We don't target any particular level of the exchange rate, but we do need to have a view as to what is moving it around and what would seem to be a reasonable range for the Canadian dollar to trade in based on the relationships we've seen in the past and the factors that can have that more lasting influence on the Canadian dollar.

In terms of our monetary policy report update—and again, I will stress that here I'm going to repeat what we said there—we are just going into our deliberations for next week's policy decision, and as always, we add up all the information that's available. But I do want to answer your question in the context of the monetary policy report update of January. In that report we indicated that we saw a trading range of around 98¢ as not being inconsistent with the factors that we think are fundamental in determining the movement of the Canadian dollar. Indeed, in putting that base case projection together, we assumed a level of 98¢ for the Canadian dollar.

John, did you want to add anything to that in response to the question?

**Mr. John Murray:** I don't have much to add, but I'll add a little.

As Paul indicated, it's hard to know where the exchange rate quote should be, but certainly there are forces that you can identify that can explain the appreciation we've seen, certainly the direction of movement over the last four or five years, and these are fundamental forces that in one way or another are impossible to suppress. If you tried to, they'd just manifest themselves in another way.

I think in our earlier appearance Paul presented a kind of counter-factual...and one of them concerned “what if”. What if the exchange rate, for whatever reason, were lower than it is now? What might some of the other consequences of that be? If it were dramatically lower, there's a possibility that what we'd see is an improved competitive position for manufacturing, and that sounds great, but we'd find an economy that would be operating in very high gear, with resulting inflationary pressures. I guess the only observation I'd make from that is that what you think you might gain through a lower exchange rate you could probably find yourself losing in the form of higher inflation.

So your competitive position, ultimately, in the manufacturing sector would not be much changed.

**Mr. Paul Jenkins:** The flip side of that, of course, is that if the Canadian dollar were viewed as trading above what you thought was reasonable, that would have negative consequences for the Canadian dollar and it would clearly be something we would have to take into consideration in setting monetary policy.

So you come back to the key issue of asking yourself why the Canadian dollar is moving, what are the factors behind it, what are the implications for the Canadian economy, and then factoring all of that into your decision-making.

● (1130)

**Mr. Colin Carrie:** Those are excellent answers. Thank you very much, gentlemen.

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

Thank you again for appearing.

I was reading recently that this generation, our generation, is the first generation that has put its future in way of investment in what are essentially paper assets. We saw what happened this past year as a result of the U.S. housing crisis, where all those assets literally wiped out, for the most part, the gains we experienced last year.

I'm curious, and I know that what happened in the States is not indicative of what's happening in our housing market, and we have a much different banking system.

I want to specifically ask you to address international debt, what effect that has on our economy and our dollar as we service that national debt. Is it something positive, or is it something that we can leave? I'm talking about that $465 billion debt that we have as a nation.

**Mr. Paul Jenkins:** That's another very good question. Let me start by going back to what we experienced in the late 1980s and early 1990s. In this country we had something like 20 years of deficit financing at all levels of government. Our public sector debt levels accumulated to a level that was actually higher than the size of our Canadian economy, and we began to see the implications of that in terms of the performance of the Canadian economy. There is what we call a risk premium; interest rates were higher than they would be in the absence of that amount of borrowing.

We also saw taxes going up to finance the debt servicing. I can't remember the exact numbers, but the percentage of every tax dollar taken in to service the debt was very high. From a macroeconomic perspective, and that's really all we can talk about, we made considerable progress in getting that debt-to-GDP ratio down to levels that are actually lower than you would find amongst the G-7 countries, and from our perspective that's an important contributing factor to broad stable macroeconomic performance. I think from the point of view of preserving that sound macroeconomic framework that we have in place, we need to continue to keep a focus on keeping those debt levels down.

Indeed, my view would be to continue to get debt-to-GDP ratios down further.

**Mr. Dave Van Kesteren:** To what point? I think 60% was the ratio in the 1980s. We're approaching—

**The Chair:** There are 10 seconds left.

**Mr. Paul Jenkins:** I don't think in theory there's any ideal rate of debt-to-GDP ratio. I think the track we're on is a very good track, from that point of view, and it will continue to provide that macro stability that we need.

**The Chair:** Thank you.

Thank you, Mr. Van Kesteren.

Ms. Nash, please.

**Ms. Peggy Nash (Parkdale—High Park, NDP):** Thank you, and good morning to both of you. It's good to see you again.

The issue of the dollar is of course something that's been very problematic for many in the Canadian economy, and of course with a 60% appreciation over five years, that's a very steep increase for any industry or sector, let alone an individual business to adapt to. Certainly we know that the U.S. economy is a factor, but I look at the documents from your last meeting, and there is obviously a very strong relationship between the rise of crude oil prices and the rise of the Canadian dollar. So that's obviously another factor driving our dollar upwards.

I remember last time saying that we were being hammered more than any other country. I was told at the time that other currencies had risen steeply as well. But what I didn't get to ask, and what I'd like to ask now, is whether or not it is true that we are, as an economy, uniquely dependent on the U.S. economy. We're about seven or eight times more dependent than Europe and about 20 times more dependent than Australia. Those were some of the currencies cited. Our dollar is up to a much greater extent versus the U.S. dollar than are currencies in Japan, Korea, Mexico, China, and Taiwan. So we are particularly hammered by the high Canadian dollar.

To my way of thinking, this is a crisis in some sectors. We heard it was a crisis for tourism and manufacturing. I know a number of small businesses are being affected. We already have a $30 billion trade deficit with China, and much of our market share is going to Asia.

We've also been told that the current conditions in the economy will have an impact two to three years down the road. So even though we've lost over 300,000 manufacturing jobs, these job losses will continue to roll out over the years to come. I'd like your views on that.

I just want to pose a question. Given that commodity prices are not the only factor but are certainly a major factor in driving our dollar upward, does it not make sense to channel some of that money into buffering the manufacturing sector, which is being disproportionately affected by commodity prices? Certainly when there is a crisis in the fishery or in the commodity sectors, we use the funds that are generated by taxes, often from Ontario in the manufacturing sector. Would it not make sense when manufacturers are in a crisis to reverse that trend today? I'd appreciate your views on that.

● (1135)

**Mr. Paul Jenkins:** Well let me pick up on that last point and then turn to John.

I think what is important to remember here—I'll use the word "shocks"—is that these developments we are facing as an economy represent the reality of what is going on in the world economy today. You just have to go back over the last 10 to 15 years and realize the extent to which we've had a series of developments. You can go back to the Asian crises, the default in Russia, the collapse of the high-tech bubble, even SARS and BSE. We had one case of mad cow disease that shut the border. We have these developments that in almost every case represent either an international development or a link to some international situation. So the issue is how we can best adapt to these changing circumstances, because we know economies are going to continue to have to face developments of a global nature. Canada is an open economy. We've relied on trade historically to grow and develop.

So the issue here is how we can best adapt to these changing circumstances, the reality of what's going on in the world economy. I believe one of the important aspects of that is to promote policies that encourage and promote flexibility within the Canadian economy and the ability to move resources from one sector to another in response to these global shocks.

**Ms. Peggy Nash:** So you support channelling some resources from the energy sector into buffering the manufacturing sector.

**Mr. Paul Jenkins:** What I'm saying is that I support policies that promote the movement of resources from one sector to another in response to shocks. The more we can do to facilitate flexibility and adaptability, the better the Canadian economy will perform, the higher level of employment we'll have overall, and the stronger rates of growth we'll have. It's this issue of flexibility and adaptability.

We have an extraordinarily well-educated labour force. What we need to do is continue to provide policies that facilitate the movement of those resources across sectors, as required.

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

**Mr. John Murray:** Again, just very briefly, your final question or questions really ventured more into fiscal policy than monetary policy, and we usually don't comment on that. We take that as given.

Our mission in monetary policy, as Paul mentioned at our last meeting, is really twofold, but it amounts to one and the same thing: keep inflation low, stable, and predictable. But the other side of that is to keep the economy operating in balance on an aggregate level.

● (1140)

**Ms. Peggy Nash:** Don't you think our economy is really getting hammered right now because of the dollar?

**Mr. John Murray:** Certain sectors, without a doubt, are having a difficult time, but these are counterbalanced at an aggregate level, at least up to now, by some very strong positives in other regions and in other sectors.

**Ms. Peggy Nash:** Isn't focusing only on commodity prices a very unstable way to run an economy?

**Mr. John Murray:** Well, these are real and persistent forces, it appears, and they do represent—

**Ms. Peggy Nash:** Other countries have tried to counterbalance that. Norway is an example.

**The Chair:** Ms. Nash, let Mr. Murray answer.

**Mr. John Murray:** They do represent something that appears to persist that is a positive for many regions. And given our single policy instrument of interest rates, our mission is to operate at a very aggregate level and see how these negatives and positives balance out as we look ahead. It is with that view that we set interest rates. So even though it may have unfortunate consequences for some sectors if it persists, that's really not in our realm to deal with.

**Ms. Peggy Nash:** Do I have time for one more quick question?

**The Chair:** You have five seconds. We'll have another round, though, Ms. Nash.

**Ms. Peggy Nash:** Will we? I'll save my question for next time.

Thanks very much.

**The Chair:** Thank you.

We'll go to Mr. Simard, please.

**Hon. Raymond Simard (Saint Boniface, Lib.):** Thank you, Mr. Chair. I'll be splitting my time with Mr. McTeague.

If I could, I'd like to ask both my questions and then have you answer, if that's possible.

We talked a lot about the manufacturing sector and the challenges in Quebec and Ontario. I'd like to speak a little bit about western Canada. What I'm hearing from people who are dealing in Alberta, for instance, is that their clients are down 15% right now. The oil industry, obviously, is very strong, but we're hearing that in fact the other industries are starting to feel the slowdown at this point.

First, could you tell me if my analysis is right and if what I'm hearing is right? Do you monitor this kind of thing? It would be very important to monitor it, because you could just assume that since the oil industry is going well, the whole province is doing well.

We're hearing the same thing in Manitoba, by the way. Some people who are in business in Manitoba are telling me that in the last four or five months there was a very definite slowdown. They're capping basements in Edmonton, I am told. They have built these foundations and there are no people to buy them, so they are capping them now for future use.

My second question is on labour productivity. We all know about this 26% gap with the States that is growing. When you're looking at your interest rate decisions, does that have an impact on Canadian productivity? Is this one of the issues you factor into your decisions? Hopefully it is something we will study here at this committee at one point. It is one of the most important factors in our economy, and I would like to dig down a little bit deeper.

Could you maybe answer those two questions?

**Mr. Paul Jenkins:** Let me answer your first question, and I'll turn to John to answer your second question.

We do monitor what goes on across the regions very closely. We have regional offices across Canada. We have offices in Vancouver, Calgary, Halifax, Toronto, and Montreal. We have a group of analysts in each of these offices that each quarter actually goes out to interview companies. We have a survey they conduct that we actually aggregate up and publish. We call it the business outlook survey.

We are out there on the ground talking to businesses on a regular basis in terms of how they see things. This is very valuable information. It's not hard data in the way you might think of the consumer price index or the employment numbers. It's more anecdotal, but it's very timely information, because a lot of the other statistics are for the month behind us or for two months behind us. We do monitor that very closely. Indeed, the sentiment you have expressed with regard to slowing, certainly in terms of housing construction, we do see. I remind you that house price increases in this country are still running at a fairly high rate. They are very close to double-digit. So there is still some demand pressure in the housing market that you see in terms of these price increases. But in terms of activity, you do see signs that there has been some slowing.

Yes, we do pay very close attention to that.

On productivity, the answer is that we pay a lot of attention to that as well.

**Mr. John Murray:** We pay attention to productivity because of course that plays an important determining role in the potential of the economy, how fast we can grow on a sustainable basis. It's also the source of most of the economic progress or material gain that we experience. As we're more productive, we expect our salaries, wages, and profits to go up, so that's the major source of growth and economic well-being. So that's important.

You asked a slightly different question that had kind of a twist on it at the end; that is, whether interest rates as set by the Bank of Canada have an effect on productivity as opposed to whether productivity has an effect on how we set monetary policy. That's a little trickier question. You could think, well, low interest rates would encourage investment and capital deepening and that would be productivity enhancing. As far as the analysis goes, that's okay, but of course that doesn't go far enough. If the suggestion would be to lower interest rates as far as you can to get productivity and investment as high as you can, you can see the potential problem there. To the extent that it led again to inflationary outcomes and higher risk premiums, you'd actually, in the event, wind up driving interest rates higher rather than lower in the end.

Our policy—and we return to this again and again, I know—this low, stable, and predictable inflation, is a key for keeping interest rates down on a sustainable basis and doing what we can, in our way, at the Bank of Canada to promote productivity and growth.

As an aside, with reference to the dollar, because this committee is of course talking about the strong dollar, one of the things that we've noted in our monetary policy reports, and that has been noted by others, is that an advantage of a strong currency is the cost of imported machinery and equipment, which is important for this capital deepening process. The price of those does go down, so you can regard that as potentially productivity enhancing.

● (1145)

**The Chair:** Thank you.

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

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

I realize you said you don't normally like to comment on fiscal policy, and I hope I don't tread into that water. For a layperson, it's not always easy to make the distinction, but I think I have a bit of a handle on it. But picking up on this whole discussion, I actually had an occasion last week to have some meetings with manufacturers and producers in my riding, and the whole issue of the strong dollar came up as a real barrier to their continued success.

Going back, you made the comment that keeping this broad, stable, macroeconomic performance was the key target to withstand some of these pressures that we're going to experience. It raised the question for me in the political discussions that have been going on this past week or so about the notion that the government has taken the approach of lowering taxes and trying to create that more stable economic circumstance for the country. Opponents to that approach have suggested that there needs to be more budget surplus by which the government would be in a position to make more robust interventions into backstopping potential economic weakness. From your point of view, which is the better approach?

We have a situation here where government is trying to create a low-tax climate, a business climate that's dynamic, as opposed to the approach that may have been taken in the past, where governments could have a lot of dollars available at their disposal to come and invest in specific interventions in specific sectors.

Could you comment?

**Mr. Paul Jenkins:** I think you have crossed the line in terms of what a prudent central banker would comment on.

It's certainly not our role to comment on specifics of fiscal policy, tax cuts versus expenditures, and so on. Our focus is very much at the macro level. Really, I can only repeat what we've said before, that from our perspective what is important is that we have a very solid, predictable, macroeconomic framework within which decisions can be made. So I'm afraid it would be imprudent to answer your question.

**Mr. Bruce Stanton:** What is not often understood by the people I work with and hear from in my riding—and even in general circles around this place—is the notion that the government of the day has some kind of ability to influence not only the exchange rate but decisions involving the Bank of Canada on interest rates, for example.

Could you comment on just how independent that whole relationship is?

● (1150)

**Mr. Paul Jenkins:** We do have an agreement in place with the government, and it is tied explicitly to our inflation target of 2%. In November 2006, the government and the Bank of Canada issued a joint statement indicating that the inflation target for the bank for the next five years would continue to be 2%, as defined by the consumer price index. It's important that the policy goal of the central bank be in agreement with the government of the day.

We've been operating with that 2% inflation target almost consistently since we moved to inflation targeting in 1991. The first few years we called it inflation reduction targets because we wanted to get inflation down and keep it down. We've been operating with 2% for a number of years, and we have some interesting research under way looking at that.

With that agreement in place, it's very clear when you look at the Bank of Canada Act that the Bank of Canada has the authority to make the interest rate decisions that it deems to be consistent with achieving that 2%. We are obviously then held accountable for achieving that 2% inflation target through the decisions we take.

**The Chair:** You have 10 seconds.

**Mr. Bruce Stanton:** How often is that objective renewed or reviewed?

**Mr. Paul Jenkins:** This one and the one before that were each for a five-year term. So this one extends to 2011.

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

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

We'll go to Madame Brunelle.

[*Translation*]

**Ms. Paule Brunelle:** Good morning, gentlemen. I am glad to see you again.

I am a bit worried about the high price of oil and the rise of the dollar. Sudden fluctuations have brought about a major crisis in the manufacturing and forestry sector. You have a lot to say about stability, as it is your role to ensure it. This is the key word. Are we to expect a period of stability for the dollar?

The manufacturing sector took advantage of the low dollar for years. Have we learned the lesson regarding the rising dollar? Are the companies ready to adapt to sudden fluctuations, either up or down, of the dollar? We hear little about the rising dollar. Just like gasoline, it made headlines. Now, we are hearing less about it. Is this because there is stability or is it because we have gotten used to another inconvenience?

**Mr. Paul Jenkins:** First, the Bank of Canada's objective regarding inflation is to have a stable performance of the macroeconomy and a fairly substantial growth rate in jobs as well as in all the other important factors of economic performance.

In 2008, the economy's growth rate will be weaker than it was last year. In our report on monetary policy, the reference scenario shows a 1.8% growth rate for 2008. In 2007, it was 2.6% and in 2006, it was close to 3%.

There are two main reasons why growth will slow down. First, there will be a period of weak growth in the United States because of the residential crisis there. As I mentioned, net exports will make a negative contribution in 2008 because of the slowdown in the American economy. 2008 will be a year of slower growth, but according to our forecast for January, the growth rate is positive, but not as strong as it was in the past because of the disturbance in the United States as well as the situation on the credit market and on the world financial markets that are also impacting negatively on the Canadian economy.

● (1155)

**Ms. Paule Brunelle:** Therefore, would you say that the Canadian dollar should remain on a par with the American dollar for some time?

**Mr. Paul Jenkins:** We have no objective in mind regarding the dollar. There are always positive and negative factors influencing the dollar. Commodity prices are very high, but at the same time, the slowdown of the American economy is a negative factor for the Canadian economy and, consequently, for the Canadian dollar.

Let me repeat that we aim to adopt a perspective that takes into account all the factors that influence the Canadian economy.

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

[*English*]

Mr. Jenkins and Mr. Murray, we have three more questioners. We'll try to be as brief as we can. I know we're extending past your hour.

**Mr. Paul Jenkins:** We'll be short.

**The Chair:** I apologize for going past the hour, but we did start a little late, so we appreciate you staying here.

I'm going to take the next Conservative spot and ask you to comment on the fact that many people in the Canadian investment community and the financial markets have been critical of the fed in the U.S. and the amount to which they've changed their rates. From a Canadian perspective, the differential in the rate or the changes they make put pressure on the bank with respect to monetary policy.

I know you are very hesitant to be critical, but perhaps you can comment on the rates that were set by the U.S., the extent to which they've made the moves, and the kind of pressure they've put. As guidance for the committee, maybe you can give us some sense of monetary policy as a balancing act.

Inflation is one of the two pillars, along with a flexible currency, but if you look at inflation being a primary determinant, you also look at the strong dollar and its impact on the manufacturing sector. I know you take that into consideration, but then you look at the actions of the U.S. with respect to the spread between Canada's overnight rate and the U.S. federal funds rate.

Can you give us a sense as to how much other factors weigh on your decision—I know you're going to say inflation is a primary one—and if there are any other factors the committee should be aware of?

**Mr. Paul Jenkins:** That's a lot in a short period of time.

**The Chair:** We have three minutes.

**Mr. Paul Jenkins:** I won't comment specifically on the decisions by the U.S. Federal Reserve, but I will remind you—and I said this when we last met—that in our projection for the Canadian economy we have a projection for the U.S. economy, and in that projection for the U.S. economy we had built in a significant degree of easing on the part of the Federal Reserve, a degree of easing beyond what they have done to date. So we see, as does everyone else, the weakness in the U.S. economy, a weakness that is far greater than in our own economy, and we did see the need for the U.S. Federal Reserve to ease policies. From that point of view, there is nothing that has surprised us in terms of the direction or the orders of magnitude. In fact, our base case incorporates some additional reduction beyond what they have done to date.

In terms of other factors that we look at, clearly our focus, and rightly so, is on our 2% inflation target, but we also believe that by keeping that focus on the 2% inflation target we're providing the right stability for good overall economic performance for the Canadian economy. Of course, in targeting on that 2%, we have to assess whether the Canadian economy is weakening or growing more robustly.

What are the interest rate implications of that? We looked at the risks around that. In our report we looked at not only our base-case projection but the risks around that, and we saw both upside and downside risks. One of the downside risks we saw was indeed the possibility of a weaker U.S. economy. We've talked about that, but we also saw some risks on the upside. So the short answer to your question, Mr. Chairman, is that we look at many factors that have a bearing on the Canadian economy, because ultimately it's the performance of the Canadian economy that is going to determine the inflation rate, and we have to respond in either direction in a symmetric way to keep inflation on track and, through that, do what we can to keep the overall performance of the Canadian economy stable and growing.

● (1200)

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

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

**Ms. Peggy Nash:** Thank you, Mr. Chair.

I'd like to ask you whether the Bank of Canada is being too narrow in its focus on interest rates, because the former Bank of Canada governor had indicated a comfort level with the dollar in the mid to high 90s, which the Minister of Finance mistakenly took for a pegging of the dollar at that rate, which of course you don't. The comfort level with the dollar being at that level is extremely damaging to export-oriented industries. We've heard that the head of the CME, Jayson Myers, has said 85¢ is a reasonable rate. Any industry that is price-sensitive, not only in a North American context but in a global context, is going to suffer, not only from the precipitous rise of the dollar but from a dollar that is pegged to an economy with which clearly we do not have the same purchasing power.

This is my question. Is the Bank of Canada's focus only on interest rates not too narrow a focus, which is ultimately damaging, perhaps permanently, our manufacturing sector?

**Mr. Paul Jenkins:** We have one tool at our disposal, which is interest rates, and we use that tool to achieve our objective, which is our 2% inflation target. We believe by doing that we provide the best support for the Canadian economy overall.

**Ms. Peggy Nash:** Could you not be taking into account, though, the exchange rate with our largest trading partner and what that does to other sectors of the economy?

**Mr. Paul Jenkins:** We do. You're absolutely right, the exchange rate is a very critical price in the Canadian economy. There's no question about that, so we do pay very close attention to that, but we do not target the exchange rate. The exchange rate moves around in response to many factors. It moves around in response to commodity prices. When commodity prices were weak following the Asian crisis, the Canadian dollar moved down. We're going through the reverse of that at the moment, but we also have a weak U.S. economy, and that too is playing on the Canadian dollar.

Our role is to provide overall macro stability to the Canadian economy, and we do that by adjusting interest rates in a symmetric fashion, either up or down, to keep inflation on track, and through that, to have good overall economic performance.

There will always be times when one sector is suffering from a shock in a negative way whereas that same shock would be a positive development for other sectors. You've cited the manufacturing sector today and the difficulties that we understand they're going through, absolutely, in some of the smaller communities in Ontario and Quebec in particular.

**Ms. Peggy Nash:** In my own city of Toronto we've lost 125,000 manufacturing jobs.

**Mr. Paul Jenkins:** But at the same time, overall employment has gone up, and it's not just been in the resource sector, in response to your question. We've had big employment gains in construction, in the service sector, and in Toronto the financial services sector is becoming increasingly more important. So overall employment has increased in Ontario because of the growth in these—

● (1205)

**Ms. Peggy Nash:** But the manufacturing impact is still—

**Mr. Paul Jenkins:** Absolutely, manufacturing employment has been down. The reverse happened following the Asian crisis, where the weakness of commodity prices and the weakness of the Canadian dollar at that time led to a massive increase in employment and production in the manufacturing sector. I come back to one of my earlier comments, that these types of developments and shocks are going to take place frequently in going forward.

One of the important roles, I believe, is for us to think about the policies that promote adaptability and flexibility in response to these shocks.

**The Chair:** I'm trying to get in one more questioner. I'm sorry, we're out of time here, Ms. Nash.

Mr. Brison.

**Hon. Scott Brison:** I have a very specific question on CDS, credit default swaps. Just as we're starting to get some handle on the scale of the impact of the subprime mortgage issue, there's the real fear of the depth and breadth of the CDS issue. The total amount of outstanding CDS derivative trades globally is $46 trillion U.S. There's great concern because there's not really a good level of understanding of them within the capital markets, and certainly not within the investment community or the average investor.

So first I'd like you to comment on the potential impact on the U. S. economy; secondly, what the fallout could be on the Canadian capital markets and economy; and thirdly, what we should be doing in terms of our financial regulatory framework to help educate and perhaps insulate investors from these increasingly opaque vehicles that are dominant but relatively invisible and misunderstood.

**Mr. Paul Jenkins:** Again, that's a very good and complicated question, in terms of a response.

Quickly, first of all, on the United States side, what we've seen is a combination of the developments in the subprime mortgage market that you've talked about and a period where the lending through the subprime mortgage market in the United States rose at a dramatic rate. We have seen the consequences of that, but at the same time, in addition to that lending, we saw a lot of these subprime mortgages being packaged as part of these structured products, these CDOs, for example, that you're talking about. So you had a combination of assets in these CDOs that were losing value, and losing value rapidly. You also have the opaqueness of these instruments that you've touched on.

One of the important issues we've talked about at some length is the importance of finding ways to enhance the transparency of these investment products. Investors need to know what's in those products. Certainly there's a considerable focus on that, both domestically and internationally, that the bank is involved in—international organizations such as the Financial Stability Forum—where these exact issues you're raising are being looked at.

**Hon. Scott Brison:** But what is your view of the exposure of Canadian banks as this deepens? This goes beyond what was initially thought to be the initial tranche of the subprime mortgage issue. This goes a lot deeper and broader. First of all, what is the exposure of the U.S. economy to this, in your opinion? What would be the exposure of Canadian financial institutions?

**The Chair:** You have 30 seconds.

**Mr. Paul Jenkins:** I'm afraid I really can't answer that question. I'm loath to comment on individual financial institutions. I think what is important here is that we recognize the size of the losses that are taking place; that financial institutions, whether they're American or otherwise, in recognizing the size of these losses, recapitalize their balance sheets to strengthen them so they can continue to lend on a go-forward basis. So these are the issues that I think are particularly important, that are being looked at both domestically and internationally.

● (1210)

**The Chair:** Thank you.

Thank you, Mr. Brison.

Thank you, Mr. Jenkins and Mr. Murray, for coming in again. As you can tell, there's a lot of interest by members of this committee in monetary policy, interest rates, the dollar, and a lot of these issues. We would certainly appreciate having you back in the future. I think having more information rather than less is certainly helpful for this committee and all parliamentarians. Again, thank you very much for coming here today.

Members, we will suspend for two minutes, and then we will come back and address Ms. Nash's motion.

●

_____________________ (Pause) _____________________

●

**The Chair:** We will start with the motion by Ms. Nash.

Ms. Nash, would you just read the motion and then provide a rationale to the committee for it?

**Ms. Peggy Nash:** Thank you very much, Mr. Chair.

The motion reads:

> That the Standing Committee on Industry, Science and Technology recommend that the Minister of Industry, Jim Prentice, utilise his discretion under the Investment Canada Act to halt the proposed sale of MacDonald, Dettwiler and Associates Ltd. to Alliant Techsystems until such time that a full hearing into the sale is conducted by this Committee.

My rationale for this is that the minister has the ability to okay this sale under the Investment Canada Act. There are many questions that need to be raised about the sale, some of which perhaps the minister can answer, some of which perhaps others should be answering. They are questions related to the investment that Canada has made into the technology that's being sold. We've spent hundreds of millions of Canadian tax dollars in developing a RADARSAT technology.

There are questions about how this is going to be used. Will Canada get the access from this technology that it was intended to get under Bill C-25, passed by a previous government, concerning the operation of remote sensing space systems? There are questions about the company that this technology is being sold to or that the business is being sold to and what that means in terms of our compliance with international treaties, such as the land mine treaty. Are there other international conventions that may be affected by that? We've already been told by other members of this committee that the proceedings of the Investment Canada Act are confidential, for the most part, so we won't necessarily get answers to these questions. We'd like to know about the impact on employment. There are 1,900 employees in this company. What will it mean under ITAR? If this technology, if this process, comes under ITAR, will Canadians be able to work on this technology or will it in fact have to shift to the U.S.?

There are a number of concerns about the sale, the technology, the economic impact, and the time factor. The minister has 30 days once an application has been submitted. I understand the application for sale has been submitted. He may enact an extension, but we don't know if he's going to do that. I'd like to know why the need for a sale when this is technology that was designed primarily to provide surveillance of the land mass of Canada in the Arctic and surrounding maritime areas.

There are many questions that need to be answered. The fundamental rationale is that the minister could very quickly okay this deal and then it's too late for us to ask these questions. If we have concerns or if we believe it's not in the interests of Canadians, it's too late for us to act.

● (1215)

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

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

**Mr. Colin Carrie:** The member mentioned that maybe we won't get answers to this. I would say we wouldn't, because we've had a similar motion in the past. I went over the rationale, the same arguments. I don't think it's necessary that I repeat them now. She's basically asking the minister to do something he can't do. It's illegal for him to do it. It's 45 days, and he could do a 30-day extension, if that's the case.

We have the minister coming before us and he's agreed to address these issues.

If the Liberals and Bloc want to give a message to the business community that they're okay with this motion, that's fine. I just want to let everyone know we will be voting against this motion.

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

I have Mr. McTeague.

**Hon. Dan McTeague:** Mr. Chair, my question is for the researchers.

If indeed the minister has a mandate to stop the proposed sale, as recommended in the motion by Ms. Nash, I'm wondering about a full study being undertaken and the time lines. With the time lines, the researchers are going to say that it's entirely up to the committee, but I suspect it will go well beyond the period of time the minister can stop, halt, freeze, at least temporarily, the proposed sale.

Is there a question of impingement here? Perhaps the researchers could give us some clarity here.

**Mr. Dan Shaw (Committee Researcher):** The minister has full discretion in approving or not approving this proposed merger, and he has timelines. I think Mr. Carrie has explained them. He could further ask the permission of the purchaser in this transaction for a further timeline, but the way this motion is laid out is vague in terms of how long a committee would take, and I do not know even if this would fit into the committee's agenda. That would have to be determined before it would fall within the guidelines of what the minister could say okay to or not.

● (1220)

**Hon. Dan McTeague:** Are we absolutely certain, Chair, in terms of the time, that the minister has received the formal notice?

Do we know what date that was, Colin?

**The Chair:** I don't have that information.

**Hon. Dan McTeague:** I think we heard in the House of Commons—

**The Chair:** I don't have that information.

**Hon. Dan McTeague:** We heard February 7. The minister said he had not, at that point, received this, but I'm just trying to figure out in my mind how much time has elapsed. If, for instance, it was on the 9th, then we've already used up some 12 to 14 days. I think it's very critical because the clock may already be ticking.

**Mr. Colin Carrie:** I can't give you the specific date when it was received, but it was just before the break.

**Hon. Dan McTeague:** So it was about ten days. Thank you.

Thank you, Chair.

**The Chair:** I have Mr. Eyking on the list and then Mr. Brison.

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

Ms. Nash, on this motion we're talking about Alliance Tech Systems, and this week is a week of commemorating land mines and land mining. Does this company produce land mines and cluster bombs? Am I correct?

**Ms. Peggy Nash:** Yes, it does.

**Hon. Mark Eyking:** And that's one of the main reasons that we really want to look into selling to this company, correct?

**Ms. Peggy Nash:** It's the largest ammunition producer in the United States, and amongst its products are land mines, cluster bombs, and other weapons. I forget all of the array of weapons, but it is a huge weapons manufacturer.

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

I have Mr. Brison next on my list, followed by Madame Brunelle and Mr. Simard.

**Hon. Scott Brison:** I think there are some real questions raised about whether or not the committee actually has the mandate to do this. I think what would be more constructive, and the parliamentary secretary could help us with this.... There has been one request already for the minister to appear before the committee on this.

I think we have to go back to the minister and get him to appear before committee immediately to discuss this. This is a time-sensitive issue. I understand the nature of the request in this motion to halt the proposed sale until there's been a full hearing into the sale by this committee. I don't want to create a precedent where the industry committee is used for every transaction or whereby that becomes a part within the merger and acquisition business, that people can assume that the industry committee is going to become engaged in every one of these questions.

But I would like to have the minister and public servants involved in the Investment Canada Act to appear before committee so that we have a better understanding of it. Frankly, I don't think we have, as members, enough understanding of the Investment Canada Act and its applicability in these cases and the power and capacity of the minister to act. I'd really like to have a better understanding of that, but I'm saying that based on the assumption and constructive hope or desire that the minister can appear quickly on this. I don't want this to be delayed beyond a potential transaction.

I really think this is a case—an important case—where we can learn more about the Investment Canada Act, how it works, and the minister's capacity to act in this case, while it's absolutely relevant.

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

I would just point out, as chair, that the minister is appearing on March 13 pursuant to a motion by Ms. Nash. He will be asked to discuss this sale, as well as, I believe, three other issues.

Also, we have a fairly full schedule. We have Dr. Carty coming on March 6 pursuant to a motion that you put forward to the committee. I don't know if you are aware of that timeline or not.

**Hon. Scott Brison:** Carty is on what day?

**The Chair:** He is on March 6, and Minister Prentice is here on March 13. That may address your question, I don't know.

● (1225)

**Hon. Scott Brison:** Surely, on the scheduling issue, we can accommodate the minister earlier. We can adjust our schedules if the minister is available earlier. Recognizing the time sensitivity in this case, I think it's absolutely reasonable that he....

The choice here is a motion that is quite prohibitive in nature without us having all the facts or the minister appearing at a reasonable time so that we can actually receive and garner greater information.

**The Chair:** That may be what the committee will want to do, but I just want to point out to the committee that the motion to request the minister was made by Ms. Nash. It was amended. It was passed. The minister is appearing on March 13.

This motion is different. It may be on the same subject matter to an extent, but this is not a request for the minister to appear. It's a request recommending that the minister do something. Whether or not the member wants to propose an amendment, I don't know; it's at their discretion.

Let's go on to Madame Brunelle.

[*Translation*]

**Ms. Paule Brunelle:** I would like to have some more details about this motion. I understand that the minister will have to wait for the committee to finish debating this issue before making a decision. Does this committee really have the power to keep the minister waiting? I do not really understand the meaning of this. The motion says "[...] until such time that a full hearing into the sale is conducted by this committee." It is as if the committee had some power over the minister. I would like Ms. Nash to explain this to me.

[*English*]

**Ms. Peggy Nash:** Thank you, Madame Brunelle.

The concern about the minister appearing is that, first of all, by the time he appears, it might be too late to be able to have any impact on this sale. Second, we've already been told that he can come here, but he's not going to be able to answer any questions, or many questions.

Whether we can or can't compel him, I don't know, but I believe our responsibility as the industry committee is to ask the questions about whether or not this sale is in the best interests of Canadians. If the sale is a done deal, or pretty much a done deal, by the time the minister gets here, and our questions can have no impact, then it will be like trying to close the barn door after the horse is long gone.

I believe we have a responsibility to at least understand what this sale means. What does it mean to Canada's role in the space mission, for example? The Canadarm was Canada's contribution. That bought us the brownie points in the space mission that got our astronauts in space. What will this mean for future Canadian participation in the space mission? What will this mean for Canadian compliance in international treaties?

I don't expect that the minister can answer all these questions, but goodness gracious, somebody can. I don't think we need months of hearings, but we do need to understand and be in touch.

**The Chair:** Ms. Nash, I think Madame Brunelle's questions are of a different nature. What she's asking is whether the committee can in fact halt the process.

We can get the researchers to comment, but to my understanding—I don't think we have a copy of the act here—if an application is made...and I think the parliamentary secretary indicated it was made before the break week, so some time has elapsed. The minister has a 45-day period and may ask for an extension of 30 days. The minister looks at it basically in terms of a net economic benefit test. As we discussed during your previous motion, the minister is very limited in what he can say with respect to an application he is considering.

So that's the information I can add with respect to the process. Dan might want to add something as well.

I don't know whether that answers your question, Madame Brunelle.

● (1230)

[*Translation*]

**Ms. Paule Brunelle:** Yes.

[*English*]

**The Chair:** Good.

You're on the list, Ms. Nash, but I'll go to Mr. Simard first.

**Hon. Raymond Simard:** Thanks, Mr. Chair.

I was actually thinking exactly as Mr. Brison was. It seems to me, first of all, that it would be nice to have one meeting with the minister. I'm not sure it should be March 13, if we're to be discussing a whole bunch of issues then that might dilute this. But if that's the option we have, we have to get an assurance that the deal won't be done by that date, as we're obviously not going to do this after the fact.

I think the minister can benefit from this, as the industry committee is a sounding board. Although maybe he can't answer a lot of questions, he can surely listen to our questions and get some ideas of our concerns from our questions. So I think it would be a positive thing.

My first reaction when I heard about this deal was the technology transfer. This is one of our champions—and we don't have a lot of them. It seems to me that we should be able to express our opinions to the minister and that he should be willing to come to listen to what our concerns are. I think one meeting of two hours, or whatever, would do it. I don't think you want to do an elaborate study, as I don't think we have the time. I agree with Scott; I don't think it's our role to provide reports every time a decision like this has to be made. But I do think he should listen to us.

**The Chair:** Okay, just on the timeline—and I'm doing this as a rough sketch—if the application were made even in the break week, we're looking at perhaps seven or eight days going by. So there are about 35 or 37 days left. The minister will be here within that time period, on March 13, which will be within the 37-day period. Plus he could ask for the extension of another 30 days. I say this just for the benefit of members in terms of the timeline. We can endeavour to get the exact dates from the minister's office.

Thank you, Mr. Simard.

We'll go to Ms. Nash.

**Ms. Peggy Nash:** First of all, I just want to answer the question about what ATK produces. The description I was given is that it's a U.S. advanced weapons and space systems company. It's the largest ammunition producer in the U.S. and the world's leading manufacturer of solid rocket motor systems, including for Minuteman and Trident nuclear missiles. Other notable products include land mines, which are banned under international law—and which the U.S. has not signed—and depleted uranium shells and cluster bombs. So I think it's a reasonable question to ask, is this where our tax dollars are going, because this technology was only tested late last year? This technology was invested in and tested, and then immediately it's on the chopping block. That's the first thing.

The second thing is if you read the motion, the motion doesn't command the minister to do anything; it is recommending that the minister halt the proposed sale. In terms of whom we would bring here, yes, I would like to hear from the minister, but we've already been told that the minister is severely restricted in what he can say to this committee. So my question would be, what does someone who's familiar with our space program—

**An hon. member:** Marc Garneau.

**Ms. Peggy Nash:** Yes, what does Marc Garneau think about the sale of this technology? What will this mean for Canada's role in the space mission, of which we've been so proud every time a Canadian astronaut goes into space? We're enormously proud when that happens. What will this mean for the future of Canada's involvement in the space mission? What will it mean in terms of treaty compliance? What will it mean for the hundreds of millions of dollars that we've invested in this technology? Maybe the minister can answer some of these questions, but maybe a couple of other experts could supplement the information, so that we have a fuller understanding of what exactly is happening here. This doesn't mean that every time a widget plant gets sold to another company there would be these kinds of hearings. But goodness gracious, we're about to do a study on science and technology, and surely there's nothing more cutting-edge in terms of science and technology than space technology.

So my argument is that we've allotted this time for a study on science and technology, and we have this proposed sale, which is very significant. Canadians have an interest, not just because of the technology but also because we paid for the technology. Surely to goodness, we have the right to find out what exactly is happening here before it's already happened.

● (1235)

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

We'll go to Mr. McTeague, and then Monsieur Vincent, and then Mr. Brison.

**Hon. Dan McTeague:** Chair, I think we need a little bit more about the deal in terms of what this would have meant had there not been the merger or the acquisition and whether or not those jobs would actually have continued.

But the more specific question is perhaps to Mr. Carrie. I'm hoping that the minister will be here for more than one hour. It would seem that with one hour or one round of questions, there is usually very little time to explore any issue other than one or two. So I would ask Mr. Carrie to persuade his minister to be here for two hours, so that we could, at the very least, hear the minister give ample response, where he can, to the proposals and this particular issue.

I personally think that pending the minister's comments or what he has to say on this, the motion should wait here at least another week and a half or so. We've already proceeded with the first motion.

Thank you.

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

We'll go to Monsieur Vincent.

[*Translation*]

**Mr. Robert Vincent:** Thank you, Mr. Chairman.

I agree with Mr. McTeague. On the other hand, I would like you to tell me if in the context of the North American Free Trade Agreement, the minister or the government could oppose the purchase of a private Canadian company by a private American company. Does the government have any power to intervene in such purchases or sales? Could our analysts answer this question?

As far as I am concerned, if I owned a company and if an American company wanted to purchase it, I would not be pleased if the Canadian government could decide whether I could go ahead with that or not.

[*English*]

**Mr. Dan Shaw:** I can't remember exactly the term in the WTO agreement or the NAFTA agreement, but basically the minister can stop a proposed sale. He has the power, and it will not violate NAFTA or our WTO agreements. I was prepared for this about two months ago and I remembered the exact term, but essentially he is free to stop this if he so chooses.

**The Chair:** Does that answer your question?

[*Translation*]

**Mr. Robert Vincent:** Yes.

[*English*]

**The Chair:** *Merci , monsieur Vincent.*

Mr. Brison, please.

**Hon. Scott Brison:** I want to have greater clarity on the timeline. The minister has until what date?

**Mr. Colin Carrie:** He has 45 days, and then he can have an extension for another 30 days.

**Hon. Scott Brison:** But 45 days ends on what date?

**Mr. Colin Carrie:** I can't give you the exact dates, but he was notified just before the break, which would be eight or ten days ago. So we're probably looking at around 35 days from today.

**Hon. Scott Brison:** So he has 45 days, but he can act at any time within that. He can actually say “Go ahead” anytime.

**Mr. Colin Carrie:** As the chair said, there's a net benefit to that test, but again, I don't think he'll be able to comment on what's going on anyway.

**Hon. Scott Brison:** I think there's a way we can amend this, Ms. Nash. I share the desire that he appear before committee before this deal is approved, but instead of saying “to halt the proposed sale”, we could say that he “appear before the Standing Committee on Industry....”

Is it all right, Ms. Nash, if I propose a constructive amendment?

**Ms. Peggy Nash:** Sure. Let's hear it.

**The Chair:** As a member of the committee, you can propose an amendment.

Do you have one ready?

**Hon. Scott Brison:** It would be:

> That the Standing Committee on Industry, Science and Technology recommend that the Minister of Industry appear before the committee to discuss the proposed sale of MacDonald, Dettwiler and Associates prior to his decision to approve the proposed sale under the Investment Canada Act.

I think that might allay some of—

● (1240)

**The Chair:** Again, my first reaction as the chair is that it is quite close to the motion that was proposed by Ms. Nash and adopted previously by the committee, which is why he's appearing on March 13.

Ms. Nash may want to comment, but there's a fundamental difference between her having the committee recommend halting the proposed sale until a thorough hearing is done versus having the minister appear.

**Hon. Scott Brison:** Did her last motion on his appearance actually ask him to appear prior to a decision being made? That's materially different, because in asking him to appear to discuss this without actually saying “prior to the sale”, he could appear two weeks after he said yes.

**The Chair:** The motion said “appear”, and I believe there was a time period—within four to six weeks—so we—

**Hon. Scott Brison:** Yes, but the point is that 45 days is the period within which he has the right to exercise his decision to say yes or no.

**The Chair:** That's correct.

**Hon. Scott Brison:** He could invoke a decision at any time during that period, so he could do it prior to appearing before the committee. It would be a motion requesting that he appear before committee before he makes that decision—not one that's calling on him to halt the sale until the study, but to ask him to appear before the committee to discuss this. Then I, or one of us, can propose a separate motion that we study this issue in the interim. For instance, having people like Barry Appleton on the trade side or Marc Garneau on the aerospace and competitiveness side would be a separate motion, but the key is to get him here before he has made a decision.

The wording I just proposed is less protectionist in tone and may have less capacity to make Canada look like a globophobic socialist Luddite banana republic. That's just my constructive—

**The Chair:** Is that intended to win over Ms. Nash to your point of view?

**Hon. Scott Brison:** Well, of course.

**The Chair:** Let me ask Ms. Nash to respond, but just to make sure I understand what you're doing, Mr. Brison, your motion is:

> That the Standing Committee on Industry, Science and Technology request that the Minister of Industry, the Honourable Jim Prentice, appear before the committee to discuss the proposed sale of MacDonald, Dettwiler and Associates Ltd. to Alliant Techsystems prior to an approval given under the Investment Canada Act.

Is that it? I am advised that the amendment is on the table; Mr. Brison has made the amendment.

Ms. Nash, do you want to respond to the amendment? Mr. Carrie will follow.

**Ms. Peggy Nash:** Yes. One of the key goals was of course to have the minister come here prior to his making a decision. As you know, I had proposed that he come within two weeks; that was amended to four to six weeks, so part of my concern is that a decision might be made prior to his coming here.

The second part of my concern is with the Investment Canada Act, restrictive as it is in terms of what the minister can actually say. I do believe it would be helpful for us to include in this motion.... I'm not looking for three months of hearings, but I do believe we ought to consult with a few people about the impact of this sale in a way that the minister may not at all be prepared to answer. What will it mean to our space program? What will it mean for jobs under the U.S. security regulations? What will it mean for our tax dollars under a bill passed by the previous government that had certain requirements on this business to return a benefit to Canadians?

I believe these are concerns that should be asked about and that we should know. If we're asking these questions after someone says it's too late and the decision is already made, then it's a futile exercise. That would be my concern. I'm not opposed to amending the wording, but it loses the additional information that I'm seeking.

● (1245)

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

We'll go to Mr. Carrie.

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

We will be voting against this as well because it does set a precedent.

I just wanted to mention that Monsieur Vincent brought up a very important point. This is about a business transaction. If you have a private company and they want to sell that private company, can you imagine if we set a precedent that every time that occurs your company has to go in front of a committee and all the facts have to come out about this transaction before it goes through? Maybe the committee will say they don't like it or will start interfering with it. The government will start interfering with it. I just think this sets a really bad precedent, and we will be voting against it.

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

We'll have Monsieur Vincent.

[*Translation*]

**Mr. Robert Vincent:** Mr. Carrie, I raised this issue, but I do not think that we should investigate every case. This case is really special, given the fact that it has to do with RADARSAT-2. I think that it is significant. In fact, this technology could let the Americans learn more of our secrets than we know about theirs and than we know about other persons. That being the case, it is really important to know what they want to do with this company. If this concerned a sock manufacturer, we would not raise any questions. However, we are dealing with high technology in this case. It could lead to some fallout.

As Ms. Nash said, this is a big issue. We invest substantial sums in a company, and as soon as it becomes viable and functional, we sell it. In other words, all the cutting-edge industries in which the government invests money could be sold to foreign countries as soon as they become viable. Canadian taxpayers, who paid for this, would be shortchanged. We must also look into that.

[*English*]

**The Chair:** *Merci, Monsieur Vincent.*

We'll go to Ms. Nash, please.

**Ms. Peggy Nash:** I just wanted to read something that was published on December 14. “Today the Conservative Government strengthened its ability to protect our North by launching a new high-tech satellite”. It goes on to say:

> The satellite also sends a clear message to other nations of the world that, after thirteen years of Liberal neglect, Canada is once again serious about protecting our Arctic sovereignty.
>
> Prime Minister Stephen Harper is determined to protect Canada's sovereignty in the North. Investing in this innovative and powerful space technology is another way the Conservative Government is strengthening Canada's place as a leader on the world stage.

That was the Conservative press release about the launch of RADARSAT-2, this high-tech satellite that Canadians pay for. This satellite was commissioned to patrol the north; it was to protect our northern sovereignty. Surely the U.S. interests in the north are not completely coincident with Canada's interests in the north. And after trumpeting the launch of this technology, do we lose this? Do we get nothing from it? Does this now go to those who, maybe, perhaps, we were protecting our sovereignty from? These are all legitimate questions. I'm not sure the minister, with all due respect, is the expert in determining this.

I would like to know if others agree that the Conservative government is protecting our arctic sovereignty in light of the sale of this technology.

● (1250)

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

We'll go to Mr. Van Kesteren.

**Mr. Dave Van Kesteren:** We're missing the point. We're assuming that the minister is going to approve this sale. Ultimately, it is his decision. The point, and that's what Mr. Carrie is pointing out, is that we set a very dangerous precedent if anytime there is a proposal for one of our Canadian companies to be sold abroad, we, as a committee, would have the power to scrutinize and determine what the minister should do. That's the point.

Again, as I said, we don't know what the minister is going to do. Ultimately, it is his decision. So this is a very dangerous precedent, and I would urge members opposite—I don't know if I can convince you, Ms. Nash—and impress on the members opposite to vote this proposal down. I don't think it's wise.

Mr. Vincent, I don't think this is a good idea.

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

I'm going to ask that we go to the amendment. To be clear, I will read the amendment by Mr. Brison:

> That the Standing Committee on Industry, Science and Technology request that the Minister of Industry, the Honourable Jim Prentice, appear before this committee to discuss the proposed sale of MacDonald, Dettwiler and Associates Ltd. to Alliant Techsystems prior to an approval of this proposed sale under the Investment Canada Act.

Ms. Nash.

**Ms. Peggy Nash:** Could I suggest an amendment to the amendment? If we take the wording that Mr. Brison has offered, in addition, can we take one day, as early as possible, maybe the first day under the space and technology study, to bring in witnesses who can discuss the impact of the sale of MDA?

**The Chair:** Well, as we discussed this morning, we have a plan on the S and T study, which we're asking members to give input on. Certainly space policy in Canada will be studied under the S and T study. If you want that moved to the front...I don't know whether other members would object to that.

If we're doing a general S and T study, though, I wouldn't want to limit the discussion of space policy simply to the proposed sale. I'd want members to be able to ask questions about general broader space policy as well.

Ms. Nash.

**Ms. Peggy Nash:** If I remember, there was a proposal around the national space agency. There are other witnesses we would want to have later on. But since we're already doing a science and technology study, could we not take the first day to examine this particular issue? This is not the entire space policy, but it is a relevant piece, and the impact of the sale is something we should be aware of.

**The Chair:** We've sent proposed subject areas to all members with respect to the study of science and technology. Based on recommendations from the researcher, our view was to start with general science policy and people like Dr. Alper and Peter Nicholson, who can give an overall framework approach to the committee. I would hesitate, as chair, to start with something very specific on a general study. I don't think that's the way to approach it. I would say that MDA could certainly be discussed under space policy, which can be discussed under science policy, but I would rather have the bigger framework people at the beginning to give us an overview and then narrow it down from there.

**Ms. Peggy Nash:** Excuse me, Chair, I know it's not productive to have a two-person back and forth, but would it be possible to delay our science and technology study by one day and amend Mr. Brison's proposal to include “and that on”, whatever that first day is, “witnesses be brought to the committee to comment on the proposed sale of MDA”?

● (1255)

**The Chair:** Well, you can propose an amendment. Mr. Brison's amendment is on the floor. It has been accepted. What was your amendment to his?

**Ms. Peggy Nash:** My amendment is that we specify the date to invite relevant witnesses to comment on the proposed MDA sale.

**The Chair:** We'll have the clerk read the subamendment.

**The Clerk of the Committee (Ms. Michelle Tittley):** Forgive me, Ms. Nash, but there were two versions that you gave, so I'll go with the second one.

Following the amendment of Mr. Brison, which would end “prior to an approval given under the Investment Canada Act”, your subamendment would read, “and that the committee invite relevant witnesses to provide comments on the proposed sale”.

**Ms. Peggy Nash:** On whatever that first day is. The date is important, though—obviously sooner rather than later.

**The Clerk:** I can read that again, except we don't have the specific dates.

It's that the committee invite relevant witnesses to provide comments on the proposed sale on such and such a date.

**Ms. Peggy Nash:** I would like it to be fairly soon, obviously.

**The Chair:** The challenge with the date, Ms. Nash.... You proposed that we invite the mayor of Toronto and other municipal witnesses on March 4, and they all said they could not come on that date. So as you know from this morning, we were going to invite them for March 11. The committee should not be changing what the subcommittee has decided, especially since it was done an hour previously.

So on March 11 we're going to invite your witnesses, Mayor Miller and the two other mayors. We have March 6 booked with Dr. Carty. We have the minister on March 13.

**Ms. Peggy Nash:** What about March 4?

**The Chair:** We already agreed this morning to do a review of Canada's service sector—the draft report of the service sector, which we were supposed to be doing today and we won't be doing.

To put a date on this is very difficult.

**Ms. Peggy Nash:** It only works if there's a date.

**The Chair:** You could propose a Wednesday, then.

**Ms. Peggy Nash:** Well, why don't we do a Wednesday, then?

**The Chair:** Okay, then, March 5?

Let's get the votes done, members. We're going past time now.

We're voting on Ms. Nash's subamendment.

(Subamendment agreed to: yeas 7; nays 3)

**The Chair:** On the amendment by Mr. Brison, as amended by the subamendment.

(Amendment agreed to: yeas 7; nays 3)

**The Chair:** The motion is basically gone because of the amendment.

We'll still need a vote on the main motion.

(Motion as amended agreed to: yeas 7; nays 3)

**The Chair:** We will hopefully get to the service sector at the next meeting.

The meeting is adjourned.

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