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The Honourable Michael Chong

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● (1830)

[*English*]

The Chair (Hon. Michael Chong (Wellington—Halton Hills, CPC)): Good evening to members of the committee.

Good evening to our three witnesses.

Tonight we have Mr. Thomas LaSorda, vice-chairman and president of the Chrysler Corporation; Mr. Reid Bigland, president and chief executive officer of Chrysler Canada Inc.; and we have Madam Lorraine Shalhoub, the vice-president and general counsel, external affairs and public policy, Chrysler Canada Inc. Welcome, to all three of you.

We are undertaking a study of some of the challenges facing the Canadian auto sector. Your testimony will help us write a report and recommendations that will be submitted to Canada's House of Commons by the end of this month. I thank you very much for appearing.

We'll begin with an opening statement of approximately 10 minutes. You have the floor.

Mr. Reid Bigland (President and Chief Executive Officer, Chrysler Canada Inc.): Thank you very much, Mr. Chairman.

On behalf of Chrysler and Chrysler LLC, it is our privilege and pleasure to be here in front of the committee this evening. We will have 10 to 15 minutes of opening remarks, if that is okay. Mr. LaSorda and I will tag-team these remarks. I will start them off.

There is no question that these are very challenging times, not only for the global economy but also for the automotive industry, and Chrysler Canada in particular. I'd like to provide and start off with an overview of Chrysler Canada's operations and then speak to some of the critical factors affecting our competitiveness in Canada, our future Canadian manufacturing plans, our restructuring and long-term viability, and then speak briefly about our pending alliance with Fiat.

Following our remarks, we will be happy to answer any questions from the committee.

To begin, Chrysler Canada is headquartered in Windsor, Ontario, and we have a significant presence in Canada and a significant impact on the Canadian economy.

Chrysler operates vehicle manufacturing facilities in Windsor and Brampton, Ontario, and a castings plant in Etobicoke. In addition, we operate an award-winning research and development centre in Windsor, in partnership with the University of Windsor. Over the past 20 years, this centre has led and supported many advanced technology development programs, such as propane-fuelled vehicles, natural-gas-powered vehicles, and more recently, electric vehicle technology.

Chrysler Canada also has office and distribution centres in Toronto, Montreal, Calgary and Red Deer. Including our Chrysler Financial operations, the current direct employment by Chrysler is about 9,400 employees.

There are also 451 dealer locations throughout the country, employing close to 26,000 employees, who are exclusively dependent upon the sale and servicing of Chrysler vehicles for their livelihood.

From a supplier standpoint, there are 407 supplier locations providing parts to Chrysler manufacturing facilities. These suppliers employ approximately 50,000. Last year, Chrysler purchased $5.5 billion in goods from these companies.

Last, with 13,000 retirees in total, there are approximately 100,000 Canadians who are directly or indirectly dependent on Chrysler Canada for their well-being.

Chrysler Canada assembles over half a million vehicles a year and sells approximately 230,000 vehicles in Canada each year. In 2007, Chrysler Canada became the second-highest-selling vehicle manufacturer in Canada, and in the same year it gained more market share and incremental sales than any other vehicle seller in the country. With sales revenues of $5 billion and manufacturing revenues of approximately $13 billion, Chrysler Canada is one of the largest companies in our country.

The current lack of credit availability in the Canadian market is having a dramatic impact, not only on Chrysler Canada but also on the Canadian economy in general. In July 2008, prior to the full onslaught of the global credit crisis, Chrysler Canada had experienced 23 consecutive months of year-over-year sales growth—an unprecedented event in the history of our company and unmatched by any of the major vehicle sellers in Canada we compete against.

Today, Chrysler dealers throughout the country have indicated that upwards of 20% of potential new car buyers are unable to secure financing to purchase a new vehicle. Furthermore, lease financing in the Canadian marketplace for many automotive manufacturers is currently not available. During the first six months of 2008, approximately 50% of Chrysler Canada's vehicle sales were leased, whereas today that number is zero.

Credit for our dealer organization is also under extreme pressure. At a time when the current Bank of Canada interest rate is at a historic low, dealers are experiencing unprecedented increases in the costs associated with "flooring" or financing their new vehicle inventory. Further, it is virtually impossible for a prospective Chrysler dealer to secure flooring, which in turn results in a drag on the country's economic activity, and it prevents a new dealer from the having the ability to enter into the business. It is also very difficult for a Chrysler dealer to secure a mortgage to construct a new facility or to finance an amalgamation with another dealer.

● (1835)

The availability of credit is critical for the return of the automotive industry and the Canadian economy to good health. Further, a more stable U.S. economy will also directly impact Chrysler's success. Chrysler Canada's operations are inextricably linked with Chrysler LLC and our United States operations. For example, 85% of the products manufactured by Chrysler Canada are exported to the United States, 60% of the products we sell in Canada are produced in the United States, and approximately 20% to 27% of Chrysler's worldwide production currently occurs in Canada. Therefore, in our opinion, it is unrealistic and, frankly, improper to examine Chrysler Canada's operation without consideration of the larger context in which we function.

With that said, I'd now like to pass this over to the president of Chrysler LLC and our vice-chairman, Mr. Tom LaSorda, who's going to speak to some of the critical factors for our ongoing competitiveness in Canada.

Mr. Thomas LaSorda (Vice Chairman and President, Chrysler LLC): Good evening, everyone.

I'm a fellow Canadian as well. I live in the U.S. and became a U.S. citizen three years ago, but I'm a proud Canadian as well.

I'm here on behalf of Chrysler Corporation and Chrysler LLC, as the president and vice-chairman of the company.

The current success and long-term viability of Chrysler's manufacturing operations in Canada are very much dependent on three critical factors: the transfer pricing clarity that we need from the Canadian government, labour costs in this country, and government assistance. Chrysler LLC cannot afford to manufacture products in a jurisdiction that is uncompetitive relative to other automotive jurisdictions.

Let me turn to the first major area, that of transfer pricing. In the fall of 2007, the Canada Revenue Agency, CRA, issued assessments asserting that for 1996 through 1999, Chrysler Canada should have earned greater profits than were reported in Canada and, correspondingly, should have reported reduced profits in the United States.

I'd like to make a point that's not in the script: Chrysler paid the taxes. The issue is that the CRA is issuing the thinking that more taxes should have been in Canada versus the U.S.—thus the dispute.

When Daimler sold a controlling interest in Chrysler, Daimler agreed to indemnify Chrysler against, among other things, these transfer pricing tax assessments. Under Canadian law, even though Chrysler Canada is duly pursuing challenges to the assessments, the company became obligated to post cash and assets to secure 50% of the assessed amounts.

Daimler has stated that it will not pay the indemnity until the contest over the validity of the assessments has been concluded, leaving Chrysler Canada to post the necessary collateral to the CRA. This obligation to pay or secure these assessments has severely impacted the company's ability to operate at this critical time.

The CRA issue has been referred to a dispute resolution process, which includes both the IRS and the CRA, and it will determine what the proper allocation of value is between Chrysler's U.S. and Canadian operations. However, in order to provide Chrysler with the assurance it needs in order to continue to keep Chrysler's Canadian operations running while this dispute resolution process is under way, Chrysler needs the CRA to provide assurance to Chrysler that during this process CRA will be satisfied with the existing security provided to it by Chrysler Canada—a lien on our Brampton manufacturing assembly plant, valued at $500 million, and over $335 million of cash collateral, GST funds owed to Chrysler and being held back—and that the CRA will not seek additional security until the dispute, which they've agreed to with the IRS, is settled and resolved.

Once the dispute over the transfer pricing assessments has been concluded, the amount found to be due and owing to the CRA will be paid by Daimler, pursuant to its indemnity obligation.

Let me go to issue number two,which is labour costs. Currently Chrysler/CAW's all-in labour rates are not competitive. The CAW has been provided with alternative approaches by us, as well as a detailed proposal for closing the CAW labour cost gap of approximately $20 per hour. The labour cost gap is a measure comparing Chrysler/CAW facilities with the Canadian transplants, such as Honda and Toyota. It also includes Chrysler/UAW manufacturing operations and transplant facilities in the United States. As part of the labour cost gap reduction, a 50% reduction of other post-employment benefits is also required.

In addition to the considerations outlined herein, it is imperative that the CAW labour cost gap is closed in order to preserve Canadian operations by Chrysler.

The third area is government assistance. As a result of an unprecedented downturn in automobile demand brought about by the global financial crisis, Chrysler Canada on December 5, 2008, requested Canadian and Ontario provincial assistance.

● (1840)

Chrysler Canada requests proportionate support from Canada to what our parent company, Chrysler LLC, is seeking in the United States on the basis that our two organizations are highly integrated.

In the December 2, 2008, submission to the U.S. Congress, we requested a $7 billion working capital loan to support our short-term restructuring and long-term viability. This request was based on a 2009 seasonally adjusted annual rate—SAAR, we call it—of sales in the United States of 11.1 million units.

On January 2, 2009, the United States Treasury advanced $4 billion of our requested amount, and it required Chrysler to submit a restructuring plan to achieve our long-term viability.

On February 17, 2009, Chrysler submitted a viability plan to the U.S. Treasury that revised our SAAR projection for 2009 down to 10.1 million units and assumed more gradual growth in the out-years.

As a result of the continued deterioration in the United States market, we requested an additional $2 billion in bridge loans beyond the original $7 billion.

On December 20, 2008, the Canadian and Ontario governments pledged a repayable interest-bearing loan of $1 billion Canadian to Chrysler Canada. The governments, recognizing that we are an integrated company and industry, indicated that they too wanted their support to be parallel in form and conditions and proportionate in amount with the U.S. support. To this end, Chrysler Canada continued to mirror, where applicable, the restructuring and transformation efforts required by the U.S. Treasury.

Failure to satisfactorily resolve these three factors—the labour cost, government assistance, and of course the transfer tax—will place our Canadian manufacturing operations at a significant disadvantage relative to our manufacturing operations in North America and may very well impair our ability to continue to produce in Canada. As a corporation with operations in multiple jurisdictions, we cannot afford to manufacture products in jurisdictions that are not competitive.

I'd like to turn it back to Reid to talk about the Canadian plans and an outline of our viability plan and what we're doing with Fiat. By the way, I'm sure you all know that the chairman and CEO of Fiat is another Canadian.

● (1845)

Mr. Reid Bigland: Thank you, Tom.

As previously indicated, Canada has always been an important manufacturing and sales market for Chrysler. It is significant to note that Canada is the largest vehicle sales market for Chrysler outside of the United States and that no other vehicle manufacturer has a larger portion of its total manufacturing in Canada than Chrysler.

Currently, Chrysler Canada builds the Dodge Grand Caravan, the Chrysler Town and Country, and the Volkswagen Routan at our Windsor assembly plant. As well, we produce the Chrysler 300, Dodge Charger, and Dodge Challenger at our Brampton assembly facility.

Subject to achieving the three critical factors outlined by Tom, Chrysler envisions a bright future for our Canadian operations. Specifically, Chrysler Canada intends to continue with current investments in our Windsor and Brampton assembly plants.

I'll recap some of those investments in Windsor. In 2008, for the 2008 minivan program, we invested close to $1 billion. Also in 2008, we put in a close to $240 million paint facility. For the 2009 model year minivan, we're in the process of investing another $41 million to manufacture minivans for the international marketplace. And for model year 2011, we intend to upgrade our existing minivan portfolio by investing a further $153 million in our Windsor assembly plant.

In Brampton, the investments are even more significant. We intend to continue to move forward with investments for the next generation of Chrysler 300 and Dodge Charger vehicles at our Brampton assembly plant, beginning in the 2010 calendar year. These platforms would also be adapted for international markets, including right-hand drive production. To recap, in 2008 we also invested $332 million in our Brampton assembly plant for our Dodge Challenger; and for the next generation 300 and Charger, we anticipate an investment of slightly over $1 billion.

Quickly, on a restructuring and viability standpoint, since Cerberus acquired our organization from Daimler in August 2007, we've taken immediate steps to redesign our business model, enhance our product portfolio, and create a more competitive cost structure.

From an operational improvement standpoint, we've reduced fixed costs by $3.1 billion; we've eliminated 32,000 employees from our workforce; our manufacturing capacity has been reduced by 1.2 million units, reducing 12 production shifts and eliminating two manufacturing facilities, our St. Louis and Newark manufacturing plants; we've discontinued four vehicle models; we've sold $700 million of non-recurring assets and, closer to home, shut down our Vancouver, Winnipeg, and Moncton parts distribution centres. This was all intended to lower our cost structure.

We've also requested all the key stakeholders that have a vested interest in the long-term viability of Chrysler Canada and Chrysler LLC to step up and make concessions. Concessions have been sought and received from the executives and management of Chrysler LLC and from our dealer organizations, not only in Canada but also in the United States. In Canada alone, our Canadian dealers have stepped up and committed in excess of $30 million of concessions to help the long-term viability of our organizations.

Regarding our unions, as Tom mentioned, we're currently in discussions and negotiations with the CAW. But in the United States, we have been able to move our labour rates to be competitive with transplant labour rates south of the border.

Supplier concessions are also under way.

Second lien holders are requested to convert 100% of their debt into equity, and shareholders are also being requested to convert their debt and obligations into equity in the company.

We're also looking to enhance our restructuring obligations by entering into a strategic partnership with Fiat. We currently have over two dozen joint ventures and alliances, but the proposed Fiat alliance would enhance our restructuring plan, provide Chrysler with substantial cost-saving opportunities, and provide us with distribution capabilities in key growth markets.

The Fiat alliance would also help Chrysler achieve fuel economy improvements, as Chrysler gains access to Fiat's smaller fuel-efficient platforms and power train technologies. Given that the Canadian marketplace is 42% small and compact cars, this would be a disproportionate benefit for Chrysler Canada.

● (1850)

In conclusion, Mr. Chairman, thank you very much for the opportunity to present to this subcommittee and for your patience with our going over the time limit.

We are fully aware that the loan we've requested from the Canadian government and the taxpayers is substantial. However, we feel the investments we intend to make in Canada are also substantial. We strongly believe that the government's fully collateralized loan will also deliver a positive return for the taxpayers.

The Chair: Thank you very much to our witnesses for their opening statements.

[*Translation*]

We use both official languages in this committee.

[*English*]

There will be some questions posed to you in English and some in French.

Without further ado, we'll have about an hour of questions and comments from members of this committee, beginning with Mr. Valeriote.

Mr. Francis Valeriote (Guelph, Lib.): Thank you, Mr. LaSorda, Mr. Bigland, and Ms. Shalhoub, for coming this evening. It's very much appreciated.

I said yesterday that I'm beginning to feel like we're trying to land a plane on the Hudson River right now. We have a huge obligation, as members of Parliament, to make sure we balance the need to preserve hundreds of thousands of jobs in Canada with the fiscal responsibility we have to our taxpayers, and that is to not needlessly or recklessly—being a bank of last resort—invest in something that cannot be collateralized or that may fail. I'm not suggesting that's the case; I'm saying that's what we have to look at.

We have to know that you're viable in both the short term and the long term. We have to know how we might help and if the help we offer will be meaningful and actually do anything.

Speaking of collateral, you indicated that some of your debt was converted into equity. That tells me that if debt becomes equity, you're freeing up a certain degree of collateral that might be offered to secure any loans that might be given to you by Canada.

I'm going to refer to page eight of your submission. You say: "Furthermore, we strongly believe that the government's fully collateralized loan will also deliver a positive return for Canadian taxpayers." I need to know, first of all, how much you are actually asking from the Canadian government in billions of dollars and how you propose to collateralize or secure that loan.

Mr. Reid Bigland: As far as our request to the Canadian government is concerned, we have always requested a proportionate response from the Canadian government to what we are seeking in the United States. Approximately 25% of our current Chrysler manufacturing occurs in Canada, so we are seeking 25% of the amount we're seeking in the United States. We're currently seeking $9 billion from the United States Treasury; therefore, we are seeking approximately $2.3 billion from Canada.

With that loan from the Canadian government, we intend to pay a prescribed interest rate, somewhere between 5% and 6%, and to collateralize that loan with unencumbered assets in Canada, such as our Windsor assembly plant and our Etobicoke casting plant.

● (1855)

Mr. Francis Valeriote: Do we have a first priority, or second or third? Who would be in advance of us as far as priority goes?

Mr. Reid Bigland: We would give the Canadian government a first lien on our Windsor assembly plant, a first lien on our Etobicoke assembly plant, and subject to our discussions with the Canada Revenue Agency, we would also be prepared to provide a first lien on our Brampton assembly plant as well.

Mr. Francis Valeriote: Okay, thank you.

While we may invest this money now, Canadians want to know that you will be viable in the long run. I presume you have accountants, analysts, and others plowing over numbers, determining what future growth there may be to assure that you can sustain these loans and sustain your business.

I see, on page four of your submission, that when you made your submission to the American government, you assumed "more gradual growth in the out-years". I am reading from your submission.

On what basis did you make those assumptions, and what were those assumptions? In other words, we have a contracting market in the United States. We don't know when we're going to come out of this. A lot of our success is based on how much we can sell in the American market. Can you tell me on what basis you made the assumptions, and what were the assumptions going into the future?

Mr. Thomas LaSorda: Yes. Let me answer that.

The assumptions for the U.S. industry we had originally submitted were 11.1 million, 12.1 million, and then it went higher. The latest submission we made in February was, if the market was at 10.1 million, we increase by 500,000 units per year thereafter, capping at 13.7 million in 2011-12. We have the lowest forecast of SAAR of any submission to the U.S. government and against all the outside analysts in their forecasts for the SAAR in the U.S.

Mr. Francis Valeriote: Thank you.

You do mention in your submission that not giving the money would severely compromise your ability to continue to do business in Canada. I come from Guelph, which is a parts manufacturing town, and I'm concerned about that.

Should you not continue operations in Canada for any reason, would manufacturing then go down to the United States, and do your plants in the United States have enough capacity to accommodate future growth, so that you might be disinclined to return to Canada in the future? And if that's the case and you do go to the United States, to what degree will our parts manufacturers in Canada still have an opportunity to be in the American market and be protected or preserved?

Mr. Thomas LaSorda: Let me answer that as well.

First of all, we closed a minivan plant in St. Louis, Missouri, that built the same minivan as the Windsor assembly plant. That production could be moved back to St. Louis. I'm just answering your question, what you're asking. Secondly, the products built in Brampton can be built in multiple locations in the U.S., as well as Mexico. So that could be moved as well. The parts manufacturers would have to compete for the business and will likely lose business in Canada.

Mr. Francis Valeriote: Sorry?

Mr. Thomas LaSorda: If that were to happen.

Mr. Francis Valeriote: If that were to happen, okay.

I have another question. You talk about your efforts to...well, you talked about the CAW contract specifically. Can you tell us where you are with your discussions with the CAW?

Mr. Thomas LaSorda: Yes. Relative to the CAW, we met again with them this morning. We continue to meet and tell them where the gap is and work together with the CAW to close this major labour gap, which is roughly, as I said earlier, a gap of $19 to $20, and we have to address every area of active wage benefits, working conditions, and ongoing health care. So we're still negotiating and hope to come to the proper conclusion.

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

[*Translation*]

Mr. Vincent, you have the floor.

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

I don't know whether you read the Canadian Press dispatch, today, concerning Minister Tony Clement's remarks that Canada is not the one helping the auto industry out of the current crisis, but rather the United States is. Do you agree with the minister's comments?

● (1900)

[*English*]

Mr. Reid Bigland: Canada can certainly do its part, and I don't think we can rely exclusively on the United States, but directionally his statements are correct. With 85% of our production being exported to the United States, it is imperative for us that the U.S. market pick up in order for our Canadian manufacturing activities to also increase.

[*Translation*]

Mr. Robert Vincent: Earlier, you said that Canada's rightful share would be 25%. If you're saying that 85% of your sales are in the United States, Canada's share would be 15%.

[*English*]

Mr. Reid Bigland: The real economic engines for the Canadian economy are the manufacturing jobs that are created by a manufacturing facility. So I think the true measure is to base it off the manufacturing percentage we have in Canada relative to the United States.

[*Translation*]

Mr. Robert Vincent: I want to continue along the same lines. We are talking about jobs. First, what percentage of salary or benefits should Chrysler auto workers give up to ensure that the company can remain viable?

Next, when do you think you'll be able to give this money back or bring the hourly wage back up to what it is now? Let's suppose that CAW workers agree with you, in a week or two, so that workers now earning $20 an hour will see their wages go down to $15. Once you climb out of the crisis, will you give back the $5 you took? Otherwise, will it be done in stages, on a yearly basis, so that we restore things to current levels?

[*English*]

Mr. Thomas LaSorda: First of all, the all-in labour cost in Canada is just over $75. We're not talking $15 or $20; the all-in labour cost is $75. What we're saying is that the gap between where we're at and where Toyota and Honda in the United States are at is roughly $20. Over time, as we continue to come out with the viability, we will continue to improve wages in line with what's going on in the marketplace. We have to close the gap first, and then be in line with the competition based on the wage rates and the overall benefits in the company.

[*Translation*]

Mr. Robert Vincent: Other auto manufacturers, such as Ford, GM, Toyota and Honda, have said that auto industry salaries are comparable from company to company. You were talking about $75 an hour while others have talked about approximately $30. There is some disparity. Everyone was saying that the rates were the same, that they were comparable. Outside Canada, in the United States and elsewhere in the world, they were also comparable. What you are telling me is completely different.

[*English*]

Mr. Thomas LaSorda: What they would have said is what was the wage rate per hour, just what they paid as a base wage rate. It's very competitive. All the companies are competitive. However, when we add in retirement, health care, long-term health care obligations, vacations, more time off, more benefits, less break time at Toyota and all those other issues, when you add all that up, fully accounted, that's what our rates are. That's how we have to look at it as a business.

The wage rates are exactly the same, within dollars. But fully accounted, we're much higher than—

[*Translation*]

Mr. Robert Vincent: What is the cost of labour per vehicle? Is it $1,200, $1,300? I am talking about the labour cost per vehicle coming off an assembly line.

[*English*]

Mr. Thomas LaSorda: That would be the current labour rates in that range, but depending on the manufacture and how many retirees you have, it could be higher.

[*Translation*]

Mr. Robert Vincent: Okay.

Let us continue. With regard to the difference in auto sales, I read that Chrysler Canada had sold 11,923 cars in February, compared to 66,040 in the United States.

So, your action plan for the United States, to stimulate auto sales, would be the same as what you are proposing for Canada.

[*English*]

Mr. Reid Bigland: The action plan in the U.S. is very similar to the one in Canada. We had quite a bit of success last month in Canada, and for the first time in our 84-year history we're the number one selling vehicle manufacturer in the country.

You're correct, we sold just slightly over 12,000 vehicles last month in Canada. The U.S. was in the 80,000 to 90,000 range. Clearly the goal in Canada and the U.S. is to sell as many as we can, with particular focus on retail sales versus that of some of the sales to larger fleets and rental car companies.

● (1905)

[*Translation*]

Mr. Robert Vincent: A paragraph on page 4 states: Failure to satisfactorily resolve these three factors will place our Canadian manufacturing operations at a significant disadvantage relative to our manufacturing operations in North America and may very well impair our ability to continue to produce in Canada.

This brings to mind a question. The difference between the exchange rate in Canada and the United States is approximately 20%. It is much more profitable to manufacture cars here, in Canada, given the cost of labour and parts, than to manufacture them in the United States. It is much more profitable to manufacture 66,000 vehicles in Canada if the dollar is 20% lower here than in the United States.

So, you are making a direct 20% profit by manufacturing vehicles here in Canada. Is that correct?

[*English*]

Mr. Reid Bigland: Go ahead, Tom.

Mr. Thomas LaSorda: Let me make sure. In November of last year, the currency was $1.10. So the way I look at business, you never make decisions on currency play, because you can't predict it. Most economists can't predict it either. If they could, I would probably be trading in currency exchanges and not working. We never make decisions on currency. The decision has to be on total cost and where can we get the best total cost.

Canada has been around for a long time. I'm a fourth generation LaSorda working for Chrysler. There's a huge history here. We want to stay here. We're just asking that the three critical issues be addressed, and then we'll be fine.

[*Translation*]

The Chair: Thank you. *Merci.*

Thank you, Mr. Vincent.

[*English*]

Thank you, Mr. LaSorda.

Mr. Lake.

Mr. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC): Thank you, Mr. Chair.

And thank you to the guests for coming today.

I'm going to start, as I've started several meetings now, by setting a bit of a global context and seeing what your thoughts are on it.

There are several international publications that have commented on the situation in Canada.

The Economist, for example, stated that “in a sinking world, Canada is something of a cork. The big worry is the fear that an American recession will drag Canada down with it.”

The Daily Telegraph stated: “If the rest of the world had comported itself with similar modesty and prudence, we might not be in this mess.” They were talking about Canada compared with the other G8 countries.

Newsweek said: “If President Obama is looking for smart government, there is much he, and all of us, could learn from our...neighbor to the north.”

Even the President of the U.S., President Obama, said: “One of the things that I think has been striking about Canada is that in the midst of this enormous economic crisis, I think Canada has shown itself to be a pretty good manager of the financial system in the economy in ways that we haven't always been here in the United States.”

Those are four comments from independent external sources that say there's a global context to this problem.

The slowdown in the States has really impacted the situation in Canada. From my thoughts on the problem, it seems there are two impacts to that. There's a direct U.S. impact, and that's on the manufacturing sector. In other words, when Americans stopped buying cars, it immediately affected our manufacturing sector. And then there's the indirect U.S. impact, where Americans generally stopped buying all things. We manufacture many of those things. Therefore, Canadians' jobs were less certain and we stopped buying cars in Canada. That's the sales impact.

Is that a fair assessment of the situation and the challenges we face?

Mr. Thomas LaSorda: I would say yes, absolutely.

Mr. Mike Lake: In terms of the third part of the equation regarding the government assistance you mentioned, we have the $12 billion secured credit facility to address the sales issue. To address the manufacturing side of things, we have the receivables insurance part of the equation for parts manufacturers. And of course there is the $2.3 billion you're asking for to address the manufacturing side of the equation, to bridge the gap until things get back on track.

In your view, are those important steps to move on as quickly as possible?

Mr. Reid Bigland: I think they're all very important.

From a sales perspective, the Canadian secured credit facility that was pledged is some of the exact medicine the automotive industry in Canada needs in order to get back to health. The issue with the Canadian secured credit facility is that we need that money to start flowing now. Time is of the essence with respect to getting that facility going.

On the EDC insurance for suppliers, again that's very welcome news for the supplier base that feeds into the Canadian manufacturing facilities.

I also agree that liquidity for certain vehicle manufacturers in Canada is also an acute need. It is essential to help some of us weather an unprecedented downturn in new vehicle sales, primarily in the United States. That market was down 41% last month. For the preceding four months, it was down in excess of 35%. It has also now jumped over the border. The Canadian market was down 28% last month, 25% the month before that, and it was down 20% in December, the month before that.

I believe that providing that bridge of liquidity is also an essential ingredient to getting the Canadian automotive industry back on its feet.

● (1910)

Mr. Mike Lake: The second bullet point was labour costs. Of course, contingent on receiving $2.3 billion is Chrysler putting forward a restructuring plan. All stakeholders would have to be involved in that, including labour. I'm curious. With respect to the GM-CAW deal, we're all aware of the nature of bargaining and the concept of pattern bargaining. How does that GM deal affect Chrysler?

Mr. Thomas LaSorda: Well, that's part of the negotiation issues with the CAW. They've always looked at pattern bargaining. But the current agreement with GM is unacceptable to us, and we have to break the pattern.

Mr. Mike Lake: How so? Can you elaborate on that a little more?

Mr. Thomas LaSorda: As we look at the GM pattern, if we take the exact savings that were generated there and relate that to Chrysler, we don't come to even 50% of the gap. Now, GM has a different framework. General Motors has many, many more retirees than we do—we have 13,000—so they've probably looked at retirees and long-term health care issues there. But we have to close the gap. We'll talk to the CAW and negotiate with them, as we always have, and we've always come to finalize the agreements.

Mr. Mike Lake: When we talk about the reason manufacturers choose to manufacture in Canada, one thing that's talked about is the strength, the productivity of our workforce. We have a lot of people in Canada who know how to make good cars and trucks. How important is that to you when you're deciding where to put a factory?

Mr. Thomas LaSorda: We made the tough decision just last year. I had to decide what plant would build minivans, and this was a major factor. One plant had to close, and it turned out to be St. Louis South. Windsor has a history of delivering great quality and good productivity, but the labour costs have to now be aligned with the U. S. rates.

Mr. Mike Lake: I have a couple of clarification questions from your opening statement or your testimony so far.

I believe you're at about 25% of your North American manufacturing in Canada. Is that accurate?

Mr. Thomas LaSorda: Yes.

Mr. Reid Bigland: Currently.

Mr. Mike Lake: So in terms of proportionality when you're asking for the loans—you have $9 billion in the U.S.—the $2.3 billion you referred to, is that $2.3 billion of the $9 billion or is that an additional $2.3 billion?

Mr. Thomas LaSorda: In addition.

Mr. Mike Lake: So the total of $11.3 billion...$2.3 billion isn't close to 25%. Why is that?

Mr. Reid Bigland: Twenty-five percent of $9 billion gets to about $2.3 billion.

Mr. Mike Lake: Yes, if $9 billion was the total, but if the total is actually $11.3 billion...?

Mr. Reid Bigland: I'm sorry, of the total requested of the U.S. Treasury. The total requested of U.S. Treasury is $9 billion, and we're looking for a proportionate amount from the Canadian government, so 25% of $9 billion is how we're looking at it.

The Chair: Thank you very much, Mr. Lake and Mr. Bigland.

Mr. Comartin.

Mr. Joe Comartin (Windsor—Tecumseh, NDP): Thank you, Mr. Chair.

Thank you for being here.

I just want to clear up one point in terms of Mr. Lake's last question. The $2.3 billion, is that in U.S. funds?

Mr. Reid Bigland: We would prefer it to be in U.S. funds.

Mr. Joe Comartin: Is that what the request is?

Mr. Reid Bigland: Our original request was in U.S. funds.

Mr. Joe Comartin: Do you know, with the current rate of exchange, what that would be in Canadian?

Mr. Reid Bigland: I think the current rate of exchange is about 80¢, so 20% deducted off that, give or take one-sixth; and what has been pledged by the Canadian government is $1 billion Canadian, or approximately $800 million U.S.

● (1915)

Mr. Joe Comartin: In terms of your current status in the negotiations with the U.S. government, I know you've been criticized by the minister here for not giving enough detail about the Canadian situation. Have you had a similar criticism in the U.S., that you haven't provided enough information?

Mr. Thomas LaSorda: No, no criticism from the U.S. treasury department.

By the way, in Canada—Reid can talk about it—the request for information is roughly four to five times the amount the U.S. treasury department asked for.

Mr. Reid Bigland: That's correct. Our submission here in Canada was to try to impress upon the Canadian and Ontario governments that we're very much an integrated organization with our U.S. parent. Frankly, without the U.S. operations functioning, Canada wouldn't exist. We do not have a unique Fiat arrangement for Canada; we're very much dependent upon the U.S. market for our production. As I've stated, 85% of our production is exported to the U.S. and 60% of our sales originate from the United States market, of the product we sell here in Canada.

So our plan was very much integrated with our U.S. plan. As to the impact on our Canadian operations and our plans for the Canadian operations in excess of $1.2 billion of investment, we have communicated that to the Canadian government. We have also communicated the unique concessions we've received from Canadian stakeholders, such as the concessions we've received from our dealer organization.

Mr. Joe Comartin: Mr. LaSorda, at the present time, is there any additional information Treasury is asking for in the United States?

Mr. Thomas LaSorda: We met with them on Monday in Warren, Michigan, with the task force. As of that day, we're totally up to date on all information and all questions have been answered.

Mr. Joe Comartin: Where are we at regarding timelines for a decision from Treasury in the U.S.?

Mr. Thomas LaSorda: I wish I could answer that. We asked that very question. We've told them the end of March is when we'd like the decision, but they have not confirmed the actual day on which they will provide that decision. We've been pushing for March 31 or earlier.

Mr. Joe Comartin: And are we looking at the same timelines on the Canadian side?

Mr. Reid Bigland: It's difficult to predict. We've been in discussions with the Canadian and the Ontario governments since late last fall, and we're continuing to work through a loan agreement that is upwards of 80 pages now on different terms and conditions. We're motivated, and I believe the Canadian and Ontario governments are motivated as well, to align the terms and conditions with the U.S. treasury department loan. Those are a number of things we're working through, and in the meantime we're continuing to provide them with information as to our long-term viability plans.

Mr. Joe Comartin: So is Canada's minister here still looking for more information from you?

Mr. Reid Bigland: We've been providing information solidly since December. There were 10 Canadian government representatives, in essence, camped out at Chrysler Canada and Chrysler U.S. for the better part of six weeks. We are continuing to provide information on an ongoing basis, on a weekly basis, to both the Canadian and the Ontario governments.

Mr. Joe Comartin: Is it your sense then—since that's not a direct answer—that in any way the lack of information would impede meeting the deadline of the end of the month?

Mr. Reid Bigland: I sure hope not, because we feel pretty comfortable in being able to provide all the information they have requested throughout this process. In fairness to them, they're looking out for the best interests of the taxpayers, and obviously you're not going to lend out a billion dollars on the back of a cigarette pack. So in fairness to the Canadian and Ontario governments, it is a complicated process with which to lend the money when the time comes.

But we're motivated to receive the money. It's important, as Tom laid out, that we get our conditions in the Canadian marketplace right or it's going to negate a lot of the benefit of receiving those funds.

Mr. Joe Comartin: Mr. LaSorda, when you're carrying on negotiations with the U.S., the experience Chrysler had in the early 1980s of seeking and receiving very large loan guarantees, is that entering into the picture at all in terms of giving the government on that side of the border any assurances you'll be able to carry through on repayment?

Mr. Bigland, you could answer this as well, about this side of the border.

Mr. Thomas LaSorda: Well, the viability plan we submitted is under the most detailed scrutiny of the U.S. treasury department. They've hired outside consultants, bankers, and everyone is going through all the numbers. We've been continually providing them data. The issue is that we have a viability plan. We've proven it and submitted it for short term and long term. The Fiat transaction just improves that viability as we go forward, and we believe the U.S. treasury department thinks it's a pretty good marriage between the two entities.

So yes, we believe we've submitted a viability plan for the future of our company with the support of Canada. As you probably remember, in the early 1980s the Canadian government was there to support us. We did return the money with a nice interest payment as well.

● (1920)

Mr. Joe Comartin: In terms of the Fiat negotiations, are they ongoing now or are they suspended until we see the outcome?

Mr. Thomas LaSorda: First of all, from our perspective, there's a terms sheet, and the major framework of the deal with Fiat is completed, However, we need to do due diligence. They were with us with 40 to 50 people for a number of weeks doing due diligence on Chrysler. We have a team of about 15 to 20 in Italy today, this week. They arrived on Monday. They'll spend a few weeks doing due diligence on Fiat, and Fiat is in direct discussions with the treasury department. Marchionne met with them on Thursday of last week, and there were further phone calls yesterday and today, so things are progressing. He wants to do the deal. So do we. Hopefully we can meet by the end of the month and see what happens.

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

Thank you very much, Mr. LaSorda.

Madame Hall Findlay.

Ms. Martha Hall Findlay (Willowdale, Lib.): Thank you, Mr. Chair, and thank you very much, all of you, for being with us tonight.

In your submission you said, “We were unable to access credit for our customers and our dealer network last summer”, and we all appreciate the credit facility that has been discussed now at the federal government level. Would that have helped you last summer and in the fall?

Mr. Reid Bigland: It most certainly would have. In fact, July 2008 ended our streak of 23 consecutive months of growth. We were running at approximately 50% lease, and our lease financing dried up. The impact on our Chrysler financial organization has been devastating. Traditionally they finance 90% of our business, and their business has now gone to 8%, resulting in significant layoffs within our Chrysler financial operations. It's really just a case of the seizing up and freezing of the credit markets.

Ms. Martha Hall Findlay: Thank you.

You're asking for a significant amount of money from both the American and Canadian governments. Very quickly, what is the Canadian company's burn rate right now, and how does that relate to the amount you're asking for?

Mr. Reid Bigland: We don't break it out in that level of detail for Canada. We're consolidated into our U.S. operations, and we've provided that to the Canadian government and the U.S. treasury department. It's varying quite a bit right now, but it is a pretty intense burn rate.

Ms. Martha Hall Findlay: Can I be so blunt as to ask how long our $2.3 billion Canadian would go, based on the current burn rate you see?

Mr. Thomas LaSorda: In the viability plan we submitted to the U.S. government, we anticipated the $9 billion.... At the end of this year, we would look at about a $9 billion cash position for the company. If you add the Canadian dollars on top of that, we'd be over $11 billion. In the forecast of the four-year plan we submitted—in fact, we submitted an eight-year plan—the cash situation would hold in that range for the next four to five years. With the market going up, we would start paying back in 2012.

Ms. Martha Hall Findlay: I recognize that we all want to be optimistic about 2012, but we're looking at some rapidly changing forecasts over the last two months, not just for the auto sector but the entire global economy.

Are you confident this money you are asking for will do the trick in Canada? I understand the North American integration piece, but we're responsible to the Canadian taxpayers. Are you confident that will be enough over the next number of months for you to turn it around, given the uncertainty over the forecasts we're seeing now?

Mr. Thomas LaSorda: Assuming the U.S. Treasury provides the funding as well, the answer is an absolute yes.

Ms. Martha Hall Findlay: That actually leads me to my next question.

You've talked a fair bit about the possibility of moving production from one plant to another within North America. If Chrysler LLC went into chapter 11, would Chrysler Canada be able to continue to operate?

● (1925)

Mr. Reid Bigland: No. We would file for Canadian creditor protection in Canada.

Ms. Martha Hall Findlay: Right. So the reverse question would be whether it is possible for Chrysler Canada to do a CCAA even if the U.S. Treasury comes through and keeps Chrysler in the United States going.

Mr. Thomas LaSorda: There would be no intent on our part.... The products produced in this country are very profitable, and they add to the cash revenue for the company. This kind of volume, even in bad times, at 400,000, is very, very instrumental in the cashflow for the U.S.-based company.

We're fully integrated. We would not be able to stake one unit and say it is out and the rest would stay. At this point in time we have no plans to do that. The viability plan proves that with the funding we'll be a viable company for the future.

Ms. Martha Hall Findlay: Recognizing that, but also recognizing that a CCAA restructuring does not mean you stop producing here—it would provide some opportunity to deal with some of your existing costs—would the fact that the operations themselves might be competitive not be a possibility for the Canadian operation, through a restructuring, to continue to sell into the United States?

Mr. Thomas LaSorda: We would never separate and take the Canadian operation into that kind of situation independently. It wouldn't make sense. Our sales would plummet big time in this country, and it would affect production and sales in the U.S. too.

The Chair: Thank you very much, Madam Hall Findlay.

Thank you very much, Mr. LaSorda.

Mr. Carrie, the floor is yours.

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

And I want to thank each of you for being here.

I've had the honour to serve under Maxime Bernier and Minister Prentice. I've really appreciated our relationship in the past. I've seen all the great work you've done with the CAPC report, helping us with our auto action plan and trying to get things implemented.

As we sit here today, I am impressed with your restructuring program and the way you've brought this through. It seems the Detroit three have been going through different ranges of that. I want to ask what the timeframe is with the restructuring you're doing. Are you 50% or 75% through that process? How is it looking? And when we're through this crisis, are you prepared to hit the ground running?

You have some great products. I'm really impressed with what you're putting out the door. What's the status of that restructuring, if you had to put a number to it?

Mr. Thomas LaSorda: Right now the major restructuring has been done on capacity utilization. There's more we have to do, but I would say we're at the 85% range.

When we went through the restructuring that we announced in the viability plan, we talked about concessions with the dealers. That's in place. With our suppliers, we had an April 1 target date. There are some troubled suppliers, and I think the insurance program will certainly help the Canadian suppliers supply not only in Canada but to the U.S.

The only issues we have left are dealing with the banks with regard to what they have to contribute, and the second lien holders, which are the owners. Both Daimler and Cerberus have offered up their second lien, which is $2 billion, and Daimler has offered its equity back to the owner as well.

So we're pretty much done. I think by the end of March it will be closer to 85% or 95%.

Mr. Colin Carrie: That's certainly good news for me. As you know, I come from Oshawa, and sitting here today I'm actually quite excited with the deal the CAW seemed to put together with General Motors. I think both parties appear to be happy with the way things are going.

But we're looking at the long-term viability of the industry. Sitting here as politicians, we're looking at significant Canadian taxpayers' dollars, but on the other side we're looking at jobs and communities. My neighbour in Oshawa works at GM, and I have another neighbour who is a retiree. We're looking at the competitiveness over the long term, the numbers of sales.

I was wondering if you could comment on your Canadian legacy costs. You did mention it, Mr. LaSorda. You talked about the pensions a little bit. With your situation, how is the pension plan and the health care? Do we still have a Canadian advantage with the health care system? I know your company has done good work in the States with the union there on the VEBA, but I was wondering if you could comment on the legacy cost and how that fits into competitiveness.

● (1930)

Mr. Thomas LaSorda: Our OPEB or legacy costs are roughly $1.6 billion, made up of prescription drugs, medical, hospital, and all the other areas. The pension status in Canada, in the past and up through this year, has been over-funded—in 2007 and 2006 at 104%, 105%, 106%. So we're at a pretty good funding status. Of course the market has collapsed, with equities and everything, so I think we're at around 85% or 87% funding status in Canada right now.

The health care advantage is still here in Canada versus the U.S., mainly because of your OHIP here in Ontario. The costs to us here are roughly $80 million to $100 million a year that we're paying over and above. But the labour cost.... As you know, we've transferred the VEBA instrument, that obligation, to the UAW starting in January 2010, and we will have no further legacy obligations in the future.

Mr. Reid Bigland: To build on that, Tom, a matter we're quite proud of here in Chrysler Canada is the status of our pension. As Tom pointed out, we were over-funded in 2006 and 2007, and we were 89% funded as of December 31, 2008, which puts us in one of the top-tier positions in the Canadian marketplace. We've contributed almost $1 billion into our pension plans in Canada over the last five years.

The Chair: Thank you, Mr. Bigland.

Monsieur Vincent.

[*Translation*]

Mr. Robert Vincent: Thank you, Mr. Chair.

I would like to know whether, in your restructuring plan, you thought about the post-crisis period.

You know that, currently, in the United States as in Canada, there have been numerous job losses, and wage cuts. In fact, workers have agreed to these wage cuts to help companies, in all sectors.

You also know that the purchasing power of all these consumers has dropped exponentially. This evening on the news, I saw that, in the United States, 300 people are now living in tents. And it seems that a whole host of others will be doing the same, because they no longer have a place to live or a car; they now have nothing.

In light of all this, will you continue to manufacture the same kinds of cars or will you manufacture a new model, given the economic crisis?

Purchasing power has dropped and the banks or credit unions can no longer lend money as easily for vehicle purchases. Workers' salaries have dropped, and the debt that they have already contracted has reached a saturation point. These banking institutions no longer want to lend money for vehicle or other types of purchases.

Have you, in your plan, decided to manufacture a new kind of car, a smaller, sub-compact, less expensive model in order to try to seduce consumers into believing that they can purchase such a vehicle? If so, sales could be quite high.

There is still a potential market for cars like the Chrysler 300, the Charger or the Challenger, for example. However, I imagine that the purchasing power for cars will drop below $25,000 or $30,000. Have you already thought of this, that is for the post-crisis period?

[*English*]

Mr. Thomas LaSorda: Yes, that's a very good question, because when you look at Chrysler's portfolio, we're at what we call a C-segment and bigger, which is really like a Caliber, a Jeep Compass, or Jeep Patriot.

The deal with Fiat, which is one of the world's best small car producers, is to merge with us where they will take A-segment. The car they have is the Fiat 500, the Cinquecento. It's a very hot seller throughout the world. But it's not built or sold here, and there are other small cars in the B-segment. We will bring them into this region and build them and sell them not only in the United States but Canada as well.

[*Translation*]

Mr. Robert Vincent: Excellent.

We talked about a stimulus package. In the documents that you have provided to us and in various press releases, I read that some gas-guzzling models will be discontinued, such as the Jeep Compass. If I'm not mistaken, you have cut them from the line-up or will do so this year or next year.

Will you bring back other models, other than the Fiat, that you said you would be bringing back? What other ways will you encourage consumers to buy Chrysler products?

● (1935)

[*English*]

Mr. Thomas LaSorda: We have a big electric car program that we launched in the United States over a year ago. We call it ENVI. We launched a new all-electric sports car. We're looking at range-extended electric vehicles that in the first 40 miles would be all electric. We have applications, and they're under testing now in a minivan—a Jeep Wrangler. We're looking at putting that in other products as well. We've talked about that in a Jeep Patriot. Those were shown at the Detroit Auto Show.

The other application we're looking at is whether or not diesel, which is a popular application in Canada, should come here as well.

We have almost a seven-year product portfolio. We're going to launch 24 different models over the next four years, which includes these electric cars as well.

[*Translation*]

Mr. Robert Vincent: Approximately how much will these new vehicles cost?

[*English*]

Mr. Thomas LaSorda: As high as we can to make profit. But I'll turn to Reid to talk about pricing.

Mr. Reid Bigland: To build on Tom's comments a little, we have a number of products right now in the Canadian marketplace that are available for under $20,000. In fact, the Jeep Compass that you mentioned is still a cornerstone of our product portfolio, as well as the Jeep Patriot and Dodge Caliber, all available for around the $15,000 mark, yielding fuel economy of up to 40 miles to the gallon. Our award-winning Dodge Grand Caravan, which so far this year is the second-highest-selling vehicle in Canada out of almost 300 different name plates that it competes against, has an entry-level price of under $20,000, and our Dodge Journey, which is the number one selling cross-over vehicle in Canada, also has an entry-level price at under $20,000.

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

Mr. Wallace.

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

Thank you for coming this evening.

I'm going to focus on the three issues that you have listed here as critical for competitiveness. On the transfer issue for pricing, I'm assuming that's unique to Chrysler. Would that be accurate?

Mr. Thomas LaSorda: Yes. What we're asking for is really simple, from our perspective—and I'll turn it over to Lori, who's our legal public affairs expert in government affairs. We're saying—and thanks to the Canadian government and the IRS—that they've agreed to go to competent authority, which is a bifocused entity where there's a treaty under which they'll meet when there's a tax dispute between the two countries. They've agreed to fast authority. We've asked them for a simple letter that says there will be no more deposits required from Chrysler until they render a final decision.

Mr. Mike Wallace: In a year, two years?

Mr. Thomas LaSorda: The process could be six years. The new one, we hope, is a year or more.

Mr. Mike Wallace: No further cash payments or requirements?

Mr. Thomas LaSorda: Exactly.

Mr. Mike Wallace: All right. I just want to be clear that it was just for Chrysler and what the issue was.

Mr. Thomas LaSorda: That's right.

Mr. Mike Wallace: On the labour costs, you've talked about the $20 gap. Have you shown leadership? I think you mentioned that south of the border the executives took pay cuts or compensation cuts. Is that the same north of the border?

Mr. Reid Bigland: Those same U.S. Treasury requirements of the United States have also come over to Canada, as well as the elimination of merit increases, the elimination of bonuses—

Mr. Mike Wallace: Has that all happened thus far?

Mr. Reid Bigland: That has all happened thus far.

Mr. Mike Wallace: Now, on government assistance, I've questioned others about the credit side in terms of securitizing their lending so that they're able to produce more leases and so on. That's one of your issues, of course, but another issue is that you're one of the companies actually asking for restructuring money, on top of just financial support for credit purposes.

My question to some of your competitors that aren't in the same boat is this. What would they consider fair, if their concern is that you use taxpayers' money to get a competitive advantage? For example, you might turn over the money you got into Chrysler Financial to produce a cheaper lease that makes you more competitive on the financial side or other areas. What would you say to give me, as a member of Parliament, comfort that you will not use whatever that loan...? I'm assuming it will materialize; let's assume it materializes. How is that fair, and are we assured you will not be using it to get a competitive advantage over others, who are producing in Canada but not asking for this kind of loan?

● (1940)

Mr. Reid Bigland: I can mention right now unequivocally that any funds received from the Canadian government will not go to our Chrysler Financial operations in Canada, and the bulk of those funds will go towards the new product investments in our Windsor and Brampton assembly plants and to shore up our overall liquidity challenges right now.

Mr. Mike Wallace: So when you say liquidity challenges, that's for the company itself.

Mr. Reid Bigland: Yes.

Mr. Mike Wallace: Not for your liquidity issues in terms of being able to have money to lend to people to buy your vehicles, to get them off the lots.

Mr. Reid Bigland: Correct.

Mr. Mike Wallace: I appreciate that, because unfortunately I was unable to make it when General Motors was here, but obviously they're asking for similar money for restructuring purposes.

Mr. Reid Bigland: We are hopeful that the Canadian secured credit facility that was pledged by the federal government will help to alleviate a lot of the credit challenges currently in the market.

Mr. Mike Wallace: I'm from Burlington. My riding is Burlington; it's close to Ford. Ford is in Oakville. Ford is in a little bit different position, or so they claim, from the one you guys are in. Even though I have 1,500 Ford workers in my riding, the calls I'm getting are saying, "Be sure we're able to get our money back."

I'm assuming the business plan you're providing has the concept of repaying money to the taxpayer. How long do you foresee that will be? With your plan, based on what you have in front of you now and based on your assumptions with the marketplace, how long will that be in terms of a payback to the taxpayers?

Mr. Reid Bigland: I have a couple of comments.

Chrysler Canada in particular has received government money in the past. We have an unblemished track record of paying back, with interest, all the money we have ever received from either the federal or provincial government in the past, and with the funding we received in the early eighties, a handsome profit on top of it. This loan would be no different. It would be an interest-bearing loan. We're not looking for free money. We're looking to collateralize that loan with Canadian assets, not far-flung assets, and we anticipate again mirroring our U.S. treasury department process with repayments, beginning in 2012, on the principal.

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

Mr. Comartin.

Mr. Joe Comartin: Thank you, Mr. Chair.

I want to go back to the Fiat negotiations. I think this ties in with where we're at with Treasury in the U.S. Is either one—either Fiat or the U.S. government—making it a condition of the continued negotiations and resolution that Fiat gets assured that the U.S. comes forward with the funds, and obviously Canada as well; and is the U.S. government saying the same thing, that they want to deal with Fiat before they'll come forward with their funding?

Mr. Thomas LaSorda: Fiat has made it clear they will not do an alliance with Chrysler without the federal U.S. treasury department providing the loans as we requested.

Mr. Joe Comartin: Are the Canadian loans part of that as well?

Mr. Thomas LaSorda: They have also asked me to make sure I ask for the loans in Canada as well, yes.

Mr. Joe Comartin: This may be obvious. The timelines, then, for resolving whatever outstanding differences you have with Fiat would be along the same timelines as what you're looking for in terms of getting the funding from this government and the U.S. government?

Mr. Thomas LaSorda: I think the way it's going to happen is that it's all going to come into a merge date that will be closer to the end of the month, but you're right, it's all coming together at the same time.

Mr. Joe Comartin: Good. Is that realistic from Fiat's vantage point, and yours, in terms of due diligence?

Mr. Thomas LaSorda: What will happen is that you'll go into doing the major due diligence. Then there'll be an agreement. Then you'll go into a definitive agreement. It usually takes lawyers months to make sure everything is right. It is similar to when Cerberus bought Chrysler. That deal ended on May 14, and the final closing wasn't until August 3. So there will be a bridge period to get the final closing, but the commitment will be made soon after the 31st. That's my expectation.

● (1945)

Mr. Joe Comartin: From what I've seen of the negotiations, Cerberus will be out of the picture, then, completely as far as Chrysler is concerned.

Mr. Thomas LaSorda: That is a hard one to say, and let me explain why. There are first lien holders. They are debt holders. The first lien banks have about $7 billion of debt, and if they convert some of that to equity.... We have to talk to banks. They're first lien holders, and they're secured. So those negotiations are going on. Cerberus is going to get second lien, hopefully, with the Daimler agreement, and that will be converted to debt. They will not be the majority holder of Chrysler any longer. That is what is anticipated once we come out of that. They may still have some equity, but it is to be determined what they will do with it.

Mr. Joe Comartin: On page 6 of your presentation, at the very bottom of the page, you talk about $5 billion from creditor groups. Could you explain what that's about?

Mr. Thomas LaSorda: Sure. There are only three creditor groups left. One is the first lien banks. The second is the UAW VEBA fund, and the third is the U.S. Treasury.

Mr. Joe Comartin: I'm sorry. The U.S. Treasury currently has...?

Mr. Thomas LaSorda: No. Once they give us money—

Mr. Joe Comartin: It is once they give it, okay.

Mr. Thomas LaSorda: —they could decide to give it to us interest free or to forgive it. We don't think so, and we don't believe that the UAW VEBA will give us any more either, so we have to go after the tier one banks. But it's written in a way that says that there are only three creditors left.

The Chair: We'll have Mr. Comartin or Mr. Masse.

Mr. Masse, go ahead.

Mr. Brian Masse (Windsor West, NDP): One of the things that have been presented to the committee has been the concept of a purchase incentive to retire older vehicles. The United States has a program, I believe, of up to $7,000 to encourage a move towards a spectrum of low-emission vehicles. What is your position on that? Second, can you highlight what's being done in the United States on this as well?

Mr. Reid Bigland: Naturally, as the second-highest-selling vehicle manufacturer, and the first last month in Canada, we are in favour of all types of stimulus packages to promote the sale of new vehicles, be it in Canada or in the United States or even around the world, and of economic stimulus in general. I know this has played out in the newspapers quite a bit over the past few days.

We want to be crystal clear, though, that we don't consider it any type of substitute at all for the request for liquidity that we are currently seeking, because in the Canadian marketplace, the biggest benefactors of any kind of automotive stimulus, given the fact that about 85% of the vehicles sold in Canada are produced outside Canada, will be manufacturing operations in the U.S., Mexico, Asia, and Europe, as opposed to the manufacturers in Canada.

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

Our last member for this panel of witnesses is Mr. Lake.

Mr. Mike Lake: Thanks, Mr. Chair, again.

I want to come back to verifying a couple of numbers. You said that you are projecting 10.1 million units for this year. Then I thought you said that you were going to add 500,000 per year in your projections. That's what you project. That's an addition of 500,000 per year, starting with 10.1 million and capping it at 13.7 million in 2012, which is all of three years from now.

How do those numbers add up? That's adding 1.5 million.

Mr. Thomas LaSorda: I would have been mistaken. It might have been longer, but it's 500,000 per year.

Mr. Mike Lake: That's until you hit 13.7 million, whatever year that is.

Mr. Thomas LaSorda: That's correct. I apologize.

Mr. Mike Lake: Okay. Thanks for that.

I want to verify, going back to the proportionality issue, because this is very important, that 25% of your manufacturing in North America is done in Canada. That's right?

Mr. Reid Bigland: Yes.

Mr. Mike Lake: Is the $2.3 billion you're asking for in Canadian dollars?

Mr. Reid Bigland: We would prefer it to be in U.S., but yes.

Mr. Mike Lake: But you're asking for Canadian dollars, which today would translate to $1.77 billion U.S. That $1.77 billion U.S. is on top of $9 billion that you're asking for from the Americans?

Mr. Reid Bigland: Yes.

Mr. Mike Lake: Okay. So the total you're asking for in North America is $10.77 billion U.S.?

Mr. Reid Bigland: Yes, approximately.

Mr. Mike Lake: Okay. The $1.77 billion that you're asking for from us divided by the $10.77 billion U.S. is about 16% of the total that you're asking for from North America. That is just 16.4%.

So what I'm getting at in terms of the proportionality of this is that you're manufacturing 25% in Canada, but you're only asking us for 16.4% of the money. Are we talking about guaranteeing 25% in manufacturing in North America or are we talking about 16.4%?

● (1950)

Mr. Thomas LaSorda: Let me address that, then I'll turn it back to Reid.

Obviously if the exchange rate was even, this would not be much of a discussion. But we did originally ask for it in U.S. funds. As far as production is concerned, our production plans, as we look out for the next six or seven years with the launch of these new cars, would range in the neighbourhood of anywhere from 22% to 27% production in Canada, based on the forecast. Now, if the forecasts go higher, obviously we'll do much better, but these are very conservative forecasts that Chrysler put into this viability plan that was shared with the government.

Mr. Mike Lake: So the 25% manufacturing right now that is in Canada is not subject to an exchange rate. That's 25% of vehicles manufactured in Canada?

Mr. Reid Bigland: Correct.

Mr. Mike Lake: So how confident can we be that we're going to maintain 25% of those vehicles manufactured in Canada?

Mr. Thomas LaSorda: If we meet the terms as we outlined, there would be a high likelihood that it would stay within that range, plus or minus 10%.

Mr. Mike Lake: Plus or minus 2.5 basis points?

Mr. Thomas LaSorda: That's 25% of production in our product plan in the next five to seven years. It's in that range of 23% to 27%, based on our forecast of where the segments are going. If there's a major shift from small to really small cars—from, let's say, minivans—obviously the production is going to be what the market tells us. But our planning has it in that range, which is a great range to have that kind of capacity in this country for the future.

Mr. Mike Lake: What commitments are you making, though? I want to know how firm that commitment is.

Mr. Thomas LaSorda: Well, on the commitment, first of all, let's be very clear. We're committing to spend $1.1 billion on just one plant launching two all new vehicles. That's in Brampton. In Windsor we're committing the right-hand-drive export models of a minivan, which we just launched with VW, which stays there for six years.

I'll go back to Brampton. The new cars launched in 2010 will be on a five- to six-year life cycle, so we're talking to 2016 or so that these products will be in Brampton. So there's long-term viability to keep investing and to keep those products here in this country.

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

Thank you to the members of the committee for your questions and comments.

Thank you, Mr. LaSorda, Mr. Bigland, and Madam Shalhoub, for your testimony today.

We'll suspend for a couple of minutes to allow the panel of witnesses to change and we'll reconvene.

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(Pause)

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● (1955)

The Chair: Good evening, members of the committee.

Good evening to our three witnesses.

For the second panel we have Mr. Peter Frise, who is the chief executive officer and scientific director of Auto21 Inc.; we have Mr. Dennis DesRosiers, who is president of DesRosiers Automotive Consultants Inc.; and we have Mr. Percy Ostroff, who is partner at Doucet McBride LLP. Welcome to all three of you.

We're here to study the challenges facing the Canadian auto industry. Your testimony will help us write a report and recommendations that will be submitted to the House of Commons by the end of March. You'll each have about seven or eight minutes to provide your introductory remarks, and then we'll have questions and comments from members of this committee.

We'll begin with Mr. Percy Ostroff.

Mr. Percy Ostroff (Partner, Doucet McBride LLP): I was asked just this afternoon to come here, so my preparation time has been a bit short. I will give a general overview of the two main statutes that govern restructuring in Canada. It's a little difficult for me to know what level to pitch this at, because I'm not sure what the general knowledge its, but I'll try to make it simple, and if there are questions, you can pepper me with them later.

There are two statutes that really govern insolvency restructuring in Canada. One is the Bankruptcy and Insolvency Act and the other one is the Companies' Creditors Arrangement Act. They are alike in some ways, but very different in some ways. The intention of both is to keep companies operational in an insolvency situation and avoid a bankruptcy. But that doesn't mean you can not liquidate with the statutes. And it's important to know that you can have a proposal under either statute, which ends up just being a liquidation at the end of it. So the idea of keeping on in business is the intention, but it's not a necessary corollary of using one of the two acts.

In the Bankruptcy and Insolvency Act, most of the rules are written in the act itself, so it's easy to follow. And if you can read the act, you know what it is you're allowed to do as a creditor, what you're allowed to do as a debtor, and sort of what the guidelines are. It's not as often used in complicated restructuring as is the CCAA.

The CCAA is more a court-driven process. It starts off with an application to court. You get a court order, and that's now been streamlined so that the court orders are pretty well pro forma at the beginning. The first order lasts 30 days, and then you go back for subsequent orders. And because it's a court-driven process, there is a lot more flexibility in the type of deals or arrangements that can be reached. But it also means you get a lot more time built into it, a lot more appearances to convince a court of the aspects you're trying to sell, and the rules aren't as constrained. It's usually, though, the statute of choice in any large or complicated restructuring, which is probably what would be used in an auto industry restructuring.

The Bankruptcy and Insolvency Act has time limits associated with it. You can keep your creditors at bay, but for a limited period of time. Usually that is six months and no greater; whereas under the CCAA, the stays can apply much, much longer.

Both statutes require creditors to vote on whatever it is you're arranging, and after the creditors approve the plan, a court has a second chance to approve it. So it's sort of a two-step process.

Secured creditors are treated a little bit differently in the arrangements than unsecured creditors, and that's also important to know. If secured creditors don't vote in favour of the plan, there's no necessary bankruptcy, but it just means they're not stayed and however they were being kept at bay ends, and they can basically take their collateral and walk away with it.

The plans are approved basically by the unsecured classes of creditors. Those are the ones that count for the vote. But the secured creditors still have to be satisfied or else they take their goods back.

In a nutshell, those are probably the differences between the two. I'm not sure how much more detail you want or if there are particular questions about the operations that you want to get into.

The Chair: Thank you, Mr. Ostroff.

We'll have Mr. DesRosiers and then Mr. Frise give their opening statements, and then we'll open the floor to questions and comments from individual members, and I'm sure they'll have questions for you.

Mr. DesRosiers.

● (2000)

Mr. Dennis DesRosiers (President, DesRosiers Automotive Consultants Inc.): Thank you very much for the opportunity to speak to everybody on the committee.

I wrote my first paper on this industry in November 1969. That's 39-plus years of experience and about 5,000 studies later. That first paper built a mathematical model of this industry and came up with this phrase that you hear to this day and is true to this day, that one in seven jobs in Canada is dependent directly or indirectly on the auto industry.

I am the responsible person, and I wanted to bring that up first, because you're dealing with a pretty serious issue here. That number is very, very real. There are 800,000 direct jobs in our industry, and if you look at the permutations through what I call the butcher, the baker, and the candlestick maker jobs, you're looking at millions of additional ones. Keep that as a broad framework.

I've submitted a comprehensive deck. You'll be glad I'm not going to go through it. I tried to dumb it down as best I could, because I knew Jeff was here.

Some Hon. Members: Oh, oh

Mr. Dennis DesRosiers: So I'll let you read it on your own.

Mr. Jeff Watson (Essex, CPC): I'm moving the knife as I speak.

Mr. Dennis DesRosiers: I have followed your committee fairly carefully, and you've been hearing a lot of testimony on what I call the “here now” issues and the cyclical issues. I cover off some of those in my deck, and I'm going to avoid those today. I'll gladly answer questions on them. I have some opinions, but I think it would take too long. I would like to focus more on the structural issues in the sector, where the industry is heading in the next dozen or so years, Canada's position in the industry, the future, and the framework we need for government policy in our industry.

Let me tell you categorically that this industry is going to survive its current crisis, absolutely 100%, there's no doubt about it. Vehicles are ingrained into our lifestyle. Vehicles wear out. Did you know that 240 million people in North America this morning got up and drove to work and drove home tonight, and they're ultimately going to have to replace those vehicles? We will have demand. This industry is going to get through this.

At the same time, the level of demand—which you got into a discussion on with Chrysler—and the growth of demand over the next few decades is definitely going to be lower. Americans have been buying vehicles at a ridiculous rate; it is not sustainable in any way, shape, or form. It's not a Canadian problem; we have been very responsible. It's an American problem.

A couple of things reinforce this. We measure vehicles per driving age population: in America it's 101%; in Canada it's closer to 70%. We get along quite well with 70% vehicle ownership. How is it that the Americans need 101%?

I could use many, many examples. The best second example I will throw out is that somewhere between two million and three million Americans a year, every year for the last decade, took out a second 35-year mortgage on their house and used that money to buy a vehicle with, a vehicle that will have largely depreciated within 10 years. How do you sustain that?

So there's been a lot of debate in this committee about demand levels. You can count on, even in the best case scenario, demand likely being at two to three million units for the next 12 years approximately, every year, and there's no way around that. Chrysler's actual forecast in their submission is the most conservative and the most realistic. I back what they were saying.

I could get into other examples, but I won't.

If ownership levels in the United States were to drop down to Canadian levels, that's when you get into these nightmare scenarios that you see out of the CIBC, for instance, of eight million or nine million units of demand, and things like that. It won't happen. Technically, since we overbought by 15 million to 20 million vehicles, we could buy zero next year and survive quite nicely... [*Inaudible—Editor*] It's not going to happen. There's going to be a base level of demand that Chrysler is probably in the ballpark about.

I fully believe that despite this current crisis, we have an unprecedented opportunity in Canada for growth and to sustain this industry. We're potentially facing the best decade in the history of our industry, looking out to 2020. I wanted to make six points on that.

Peter can talk to you more about this than I can. The product that we will drive over the next 10 to 12 years has to be completely reinvented, top to bottom. We won't recognize it by 2020. We have an American government saying that we have to be at 35 miles per gallon. We can't meet that unless we reinvent our product. Right now, we're investing $30-plus billion a year in North America on innovation—in research, design, development, and testing. That's going to escalate. The fastest growing aspect of the Canadian auto industry today is the intellectual jobs and the many developments happening with them. Again, Peter could document a dozen, or two dozen, of these, where Canada is way up in the value chain and doing a very good job on it. I honestly believe that every single blue-collar job that we lose in our industry in this current crisis can be replaced over the next four or five years—and maybe it might take 10 years—with a higher-paying intellectual job. The potential is there. So I'm very positive.

Yves Landry was my mentor. He left this world more than 10 years ago, and I quote him from 15 years ago when he said that the future of the Canadian auto industry is the six inches between our ears. He was right then. He would be more right today. It just shows you how great a man he was to be thinking 15 years ahead of the curve.

Secondly, this industry has become global and will become more global. There is absolutely nothing Canada or the Americans can do about this. So Canada is going to have to compete and to find a way to compete in a global footprint. We have no choice, top to bottom, and there's no way around that. You cannot protect yourself from it. You can't run. You can't hide. This is a global industry. That's the baseline.

● (2005)

My third point is that auto policy in Canada has been very protectionist in the past. There are dozens of protectionist policies that have helped this industry through the last 20 or 30 years—I'm the expert on it. In fact, I drafted some of them—led by the Auto Pact. Those tools are not available to us. Most of those tools are, indeed, illegal. You can't go back to that era.

This is our real challenge. For the first time in the history of the Canadian auto industry, we have to find a way to secure investments based on our competitive position, pure and simple—not on protection, not on all of the policies and crutches we had in the past.

I believe that is doable with the right kind of policy framework. I sense more of a lack of confidence, and maybe that's the Canadian thing—that “Oh boy, we need this, we need....” Well, you're not going to have it anymore. It's a confidence issue in many respects, not just a policy issue. Don't forget that.

Fourth—and I'll be very quick here—government needs to focus its policy on promoting efficiency in every possible way. That's investment promotion to get the latest and greatest technologies into this country, infrastructure investments, tax, regulatory regimes, human resources, etc. Everything has to be focused on efficiency. To be able to compete in a global framework, you have no choice but to be efficient and take advantage of the opportunity.

My fifth point is to be very careful with regulation and taxation of our industry. Quite frankly, our governments—and it's not just the Canadian government, it's also the Ontario government, the U.S. government—have used tax, used the auto sector as their piggy bank. They have taxed and taxed and taxed—and I could go through them in Canada—air conditioning to fuel-efficiency tax, luxury tax, tire tax, GST, PST, etc., and always under the guise that, oh well, the auto industry is big and can support and pay these taxes; it has to pay its fair share.

As we've come to find out, we can't. Many politicians—and it's not specific to your government or previous federal governments, it's across—have used the auto sector to demonstrate to the electorate that they're on top of other issues, the environment being the best example, saying “We're environmentally sound, we're making the auto industry do X, Y, and Z”, with very little regard for the cost of that. And as we've also come to find out through the hard reality of the last six months, that wasn't sustainable or affordable.

So if you want to take advantage of this opportunity, you have to be very cautious on the taxation and regulatory front.

The sixth point—and I'll wrap up with this—goes right back to what Chrysler was saying. The first level of comfort you have to get as you move forward comes down to three words: product, product, and product—all aspects of product programs. If you become comfortable with Chrysler, Ford, General Motors, or any other company that comes to you with where they're heading with product.... Companies, every time, 100% of the time throughout the history of this industry, get themselves into trouble with product and they get themselves out of trouble with product. That is the first step. Without the product, you have nothing.

There has been a lot of discussion and the conclusion that Canada needs some sort of all-encompassing Canadian automotive policy. It's impossible. You will never get it. It doesn't exist.

Every single ministry in your government touches this auto industry in some way, positively or negatively. Your policy is an accumulation of putting every minister together with this industry and finding out what can be done to take away barriers, what can be done to help—and that's Environment, Agriculture, Industry—every one—putting them together, and perhaps in a patchwork fashion. If you go through all of those, government is really critical. But you're not going to get an automotive policy in Canada.

Thank you very much.

● (2010)

The Chair: Thank you, Mr. DesRosiers.

Mr. Frise.

Dr. Peter Frise (Chief Executive Officer and Scientific Director, AUTO21 Network of Centres of Excellence, Auto21 Inc.): I'm not going to speak extensively about the current market difficulties of the auto industry except to say that without any doubt, as others have said, the problems being faced by our auto sector are being played out around the world in every auto-making nation and region, from Asia to Europe and, of course, here in North America. This is not unique to us at all.

I think one of the key points—and I suspect others have made it too, so I won't belabour it—is that this crisis happened at the same time as the industry was making big efforts to create future vehicles that are cleaner, safer, and more efficient. Those efforts can only be financed by the cashflow generated by strong sales, which were taking place in the 1990s and up until early last year or the middle of last year. When those sales dried up, the availability of funds to create new products became very scarce.

The key thing to understand—and it is probably a bit surprising that I would say this—is that R and D is not going to fix this problem right now. This is a short-term consumer credit issue. But R and D, research and development and innovation, is vital for positioning Canada's automotive companies to be viable in the future, to be there when the economy recovers and when sales recover, so that we have great products that people will want to buy and that will keep our citizens working. And that's what I want to talk about today.

I would say that the investments being made today—and they are being made today—are really important for positioning Canada's automotive industry for the future. Each day, a dedicated community of Canadian researchers is helping automotive companies take advantage of the opportunities presented by the present challenges, and the ones coming forward in the future, to which our sector has to respond.

The other key thing to understand about the innovation efforts of Canada's auto industry, and the public sector organizations that work with it, is that the young Canadians who are in school today—my kids and your kids—will need jobs in the future. And those jobs are going to be high technology jobs, as Dennis has very correctly said. We need to make sure we have prepared our young people for those high technology jobs so that not only are the companies positioned with great technologies but we have the people who can go in there and take those jobs and help our country progress in the future. That's why again, I think, even during this period of difficulty, it's important to continue to invest in innovation, because a good part of our innovation efforts are actually training activities for young people.

Through AUTO21's industry-driven, industry-supported research program and our dedicated, award-winning student development program, which, incidentally, won the Yves Landry Foundation award for program of the year in 2006, we've already trained more than 1,200 young engineers for the automotive sector and for other great careers in the idea end of the business, which is really where the business is headed, as Dennis has said. Our present and future programs will help to train thousands more people. This will be a vital contribution during the time when jobs are scarce and our best and brightest have to contribute and have to get on with their lives in any way they can.

So we are providing a place where our best and brightest young people can keep the pot boiling during this very difficult time. I think that's not to be undersold.

When the market returns to more normal levels, the companies that have remained viable and that have retained their key technical staff members and have developed new products, processes, and methods will be well positioned for success, thanks to the new technologies and knowledge developed in partnership with Canadian research experts.

AUTO21 is Canada's national automotive research program, stretching from coast to coast and encompassing 44 universities and research institutes. We support the work of over 300 researchers across Canada. Over 500 graduate students get their living stipends from AUTO21. And more than 240 private and public sector partners support our research programs—I mean financially—and receive the knowledge we create. I think that's a core aspect of AUTO21 that really has to be borne in mind. It's a program that pays its way, because we create knowledge that companies commercialize and use to improve their product lines in the future. And that keeps people going.

● (2015)

In my little brief—there are some copies available here—there are four or five success stories that will illustrate the kinds of benefits that have come from AUTO21 research over the years. I won't read all of them. I just want to feature one of them, really, and these are just representative of the more than 90 patents and licences that have been generated from AUTO21 research, in partnership with our industry supporters.

The one I wanted to feature was just an example of how we work. We were the first Canadian research organization to support a large-scale effort in automotive biomaterials, and that was back in 2001, before biomaterials were really on the scene. At that point they were somewhat of an academic curiosity, but there was industrial interest in them and so we made an investment in this research.

The project has been led by a University of Toronto forestry professor, and it involves a multi-disciplinary team of researchers at a number of schools across the country, in collaboration with the Ontario Centres of Excellence. This has resulted in a spin-off company called GreenCore Composites, which was named one of Canada's top 10 Cleantech companies last year, and it has resulted in a number of new product innovations that are just entering the market now, albeit at a slow pace because of the sales, but they're there. The Woodbridge Group has a new product out called BioFoam, which is going to be used in the headliner of the car, which is the overhead part, inside the roof of the car. Decoma International, a division of Magna, is involved in this research program, as well as Canadian General-Tower, and so on.

So on these research projects, it's not a bunch of professors doing curiosity-driven work. It's real work that is generating real outcomes for Canada's economy and, in the process, creating training opportunities for, at this point, over 1,200 young Canadians who are now becoming experts in these new technologies. And as I say, there are other success stories in the back of the brief.

This is what we call a knowledge-pull model. We don't start a research program until we have a knowledge receptor company that is interested in the work, making an in-kind financial commitment to the work and a commitment to receive the knowledge and to commercialize it in Canada first. Over 160 private sector companies have participated in our research projects, and that number has grown significantly over time.

Other countries are recognizing this model and are adopting it, and I have a lot of contacts around the world, as does Dennis and other auto industry people, because as Mr. LaSorda said, it is a global industry. The German and American models are terrific, but they're very large countries, operating on a scale that is difficult for us in Canada to replicate. But I think one of the best models I've seen on a scale that's commensurate with Canada is called the AutoCRC, or the Cooperative Research Centre, which is in Australia.

Now, Australia's auto industry is literally about a tenth of the size of ours. The AutoCRC was founded in 2005, which is four years after AUTO21. They actually have a larger budget than we do, but they have adopted a very good model. It was actually founded on the layout of AUTO21, but they've done some really interesting things there that have been very good. I just participated in a review of that program in its third year of operation. It was very good, very well done.

I'll just conclude, because I know we're short of time, by saying that government investment plays a key supporting role in innovation by providing specialized people and facilities that industry simply doesn't need all the time and really can't afford to maintain, especially Canadian companies that are generally of a scale that doesn't support large in-house R and D efforts.

Those facilities and people are often at universities, and so organizations like AUTO21, which can broker the relationships and help buy down the risk of doing innovation work in Canada, really can make the business case very attractive to do it here, and that will help our companies to be viable and competitive in the future.

I look forward to your questions.

Thank you.

● (2020)

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

Before we begin, there'll be about 45 minutes for questions and comments from members of this committee.

For those witnesses who may not know it, we use both official languages on this committee.

[*Translation*]

Members will be asking questions in French and English.

[*English*]

Without further ado, we'll begin with Mr. Valeriote.

Mr. Francis Valeriote: Thank you, gentlemen, all of you, for appearing tonight on short notice. We very much appreciate it.

You know the crisis we're in essentially and what were're trying to address. We're trying to address the balance between investing taxpayers' money, should the government decide to loan the money, with the expectation that as a bank of last resort we're going to get it back, and the need to preserve jobs right now.

I'm comforted by the fact, Mr. DesRosiers, that you say this industry is going to survive. I agree. Cars aren't to go away. They'll transform, but they're not going to go away. And in essence I agree with this idea that we'll be thinking our way to prosperity in the future.

Having said that it's going to survive, though, we have to think about the short term here.

You're the expert. Given the 5,000 submissions you said you've made and that you are considered the expert in the industry, I would be remiss of I didn't ask you something quite bluntly. You've no doubt looked at the Chrysler proposal. You've looked at the General Motors proposal. Do we support it, or do we not support it?

Take your time to discuss all the reasons why or why not—the deficiencies as well as the strengths.

Mr. Dennis DesRosiers: I will try to be very tight with my answer.

Canada is incredibly important in this equation, but the future of GM, Ford, and Chrysler resides in only one person's hand globally. That's it. That is Mr. Obama, period. If he does not play, then GM, Ford, and Chrysler do not survive. There is not a scenario that anybody, not just me but anybody, can come up with where GM and Chrysler survive and probably Ford would fall in at some point—longer term, mind you, as they are in much better shape—without the U.S. federal government or the U.S. treasury.

The amount of money currently being asked for is probably light. If you look at it all-in—GM and Chrysler money, supplier requests, and Ford asking for money to help convert to fuel-efficient vehicles—it's already at close to $150 billion and growing. It's a very significant commitment. In order for them to make that commitment, they have some pretty critical issues they have to get their heads around.

It comes down to, first, that they have to decide whether they want part of the North American industry to be American-owned, because it's the American-owned companies that are in trouble, not the import name plate companies. That is a big decision, and also whether they want one or two or three to survive. That is one level.

Then you come into two other very important things that have to be determined. What will indeed happen to the market? I've touched on some of that. We will, quite definitively, see probably two million to three million fewer units of demand every year for the next 12 years, minimum. As you get into worse and worse case scenarios all the way down to the nightmare scenario, on a North American basis, on a U.S. basis, it could go down to 15 million, 14 million, 13 million, 12 million—stop me. That is the second one. You have to get comfortable with that, and that really is hard to do because it is making a prediction on the culture of cars in America.

Most of us are optimistic that this culture is not going to disappear. It may just come down to sustainable levels, and thus we're calling for two million to three million units. That's what Chrysler is at. I looked at and I have studied in depth General Motor's submission—Ford hasn't made one—and I thought it was much too optimistic and unrealistic. Chrysler's is more realistic, even though Chrysler itself is a little on the high side, but still manageable.

That is the second one. Do you want an American-owned company? Will the demand ultimately be there to support it? On the level of demand, can you support the industry at the level of demand we are going to get to?

The third is that no amount of help to these companies will allow them to succeed unless at some point they turn around their market share losses. It wasn't that long ago they had a 90% market share in North America. They're now down into the mid-40% level. They've lost almost 50 points of market share, and since September, every month over the previous year's month they have lost seven or eight points more. So they had been losing two or three points a year; now they are at seven or eight points, and if they cannot find a way to turn around their market share losses, they can't survive, period. That is a very big if.

The solution to that and the answer to that comes down to those three magic words: product, product, and product. People like me—and I could put you in contact outside of the committee with four or five other experts in the U.S. who study their products to death—for the most part, we are optimistic that the product programs are coming together well. The issue they have is that it's all there on the drawing board, but they have had to cut back billions of dollars out of their product programs today to survive.

Lee Iacocca, who saved Chrysler in the early 1980s, had a very famous statement that is being violated today. He said, when Chrysler was in its dire, centimetre-from-bankruptcy stage in the early 1980s, that he would sell the furniture before cutting a product program, and he did, but he never cut his product programs and thus Chrysler survived. GM, Ford, and Chrysler today, because of their financial condition, are cutting product programs. It is there on paper and there are all the good intentions, but what was going to come out in 2010 is now in 2011 or 2012 or 2013.

● (2025)

So I'm worried. That is a lot of ifs. But ultimately that is the U.S . Department of the Treasury. I'm assuming they've got very good analysts who go through this—I know some of them working on this and they're incredibly bright people—and they will say, maybe for political purposes more than economic purposes, we will support this industry with the kind of money it needs for the next one or two or three years, then you can come in under that.

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

Monsieur Vincent.

[*Translation*]

Mr. Robert Vincent: Thank you, Mr. Chair.

Welcome. I listened to your testimony earlier, and you were in the room when I was asking the Chrysler representatives my questions. Unless I'm mistaken, you are saying pretty much the same thing that I am.

Also, car manufacturers will have to adjust to today's consumers, particularly given the wage cuts, and so forth. We cannot keep $25,000 or $30,000 vehicles, or even $15,000 vehicles.

Given the plant closures that I referred to earlier, the job losses, the wage cuts, manufacturers will have to open their eyes wider and think of new ways of doing things and of manufacturing new models with a $6,000 or $7,000 price tag, so that people can afford to buy them.

Do you think it would be possible for manufacturers to make cars for that price?

[*English*]

Mr. Dennis DesRosiers: No, I don't think they'll have to be in those price ranges. I want to pull back just a little bit from what you're saying and use some facts. Last year in Canada, 60% of Canadians bought a small, fuel-efficient vehicle, believe it or not—one of these A, B, and C cars that he talked about. In America it was 28%. So if there are no fuel-efficient vehicles in the marketplace, then how is it that 60% of Canadians found one and bought one, and only 28% of Americans?

Much of the size of vehicle and the fuel-efficiency environmental debate comes down to American consumers disciplining themselves to buy products in the marketplace. Americans bought four million units of gas-guzzling SUVs last year, which GM, Ford, and Chrysler sold them. If they hadn't sold these to them, somebody else would have. If American consumers went to GM, Ford, and Chrysler and said, “We want to buy four million fuel-efficient vehicles”, GM, Ford, and Chrysler would have produced four million fuel-efficient vehicles.

● (2030)

[*Translation*]

Mr. Robert Vincent: You will recognize as I have that if they continued to purchase such vehicles, it's because gas cost less in the United States than in Canada. Since it costs us $1.50 per litre of gas, we quickly learned that we weren't getting our money's worth with big cars. So, it's preferable to purchase a smaller car and to be able to fill it up with gas, rather than buying a big car and having to leave it parked in our driveways.

[*English*]

Mr. Dennis DesRosiers: That certainly was part of it. The gas prices in America went from $1 to $4, and their fuel efficiency acquisition rate went from 25% to 28%. It's like, duh, where are you?

I also bring you back to my very first statement in terms of the future of the Canadian auto industry. We have to reinvent our product over the next 10 or 12 years, not just because of government regulation in the United States and ultimately in Canada, but because of the social norms and economic norms. Much of that reinvented product will be doing the kinds of things that you were talking about, provided the market supports it.

[*Translation*]

Mr. Robert Vincent: Mr. Frise, I would like to hear your comments on this subject. I understand that there are new products and new technologies, but they are not affordable at present. Let's take the example of new combustion batteries or any new hybrid vehicle. There are no hybrid cars selling for less than $20,000—$20,000 minimum. We are not yet at the point where we have such cheap cars that any old consumer working for minimum wage could go out and buy one tomorrow.

According to your research, is there any breakthrough that would allow us to sell a car at a much more affordable price than we see now?

Dr. Peter Frise: Thank you for your question.

[*English*]

I think I'll continue in English, because it's late and I'm slow.

AUTO21 has a number of key goals that we work on. All of our projects are measured against one or more of these goals. One is the enhanced environmental performance of the car and the manufacturing process that makes the car. The next one is the enhanced health and safety performance of the car and the manufacturing processes. The third one is the enhanced economic performance of the companies whom we partner with. So all of our projects are directed at one or more of those kinds of activities. We are always trying to help the companies to develop new processes and materials that will result in better quality cars at lower cost.

Again, I would have to agree with Dennis. I don't think that a $6,000 or $7,000 car is really achievable in North America while, at the same time, being compatible with North American safety standards and environmental performance standards. But I think a lot of our projects are certainly directed at containing costs while enhancing vehicle performance, as measured by safety and environmental performance.

I would have to say as well—and I don't work for the car companies, but work with them—that a modern car is actually a pretty remarkable device, when you measure its performance in environmental and safety terms, as well as its on-road performance, against the performance of a vehicle from the seventies, and then at its cost. It's actually remarkable what you can get nowadays from even the most modest cars on the market.

I'm not sure if I've totally answered your question. We're doing our best on all of those issues—costs, safety, environmental performance—but I don't think anybody really wants to compromise on safety standards and environmental performance, and there is a certain cost below which you really can't go, I think.

[*Translation*]

Mr. Robert Vincent: Mr. DesRosiers, had you forecast that car sales would be as disastrous in 2009 and 2010?

[*English*]

Mr. Dennis DesRosiers: We track 16 auto forecasts globally, including our own. For the last five years, I have been laughed at by my brethren for being the most negative SOB in our industry. And I still was about 1.5 million to 2 million units high. I have been ultra, ultra negative.

I just want to make one point for our Quebec member. The Province of Quebec actually has one of the smartest automotive policies in Canada today. What they did, after perhaps swallowing hard, was to say that our future is not going to be with the big, fancy assembly plants; we experimented with General Motors and Hyundai, and that's not Quebec's future. Peter can talk to you further about this, because he's part of this program, where they identified four or five critical core competencies within the Quebec parts sector and have poured money and resources and policies into going after that small niche, most of it through the innovation window. They actually have a small auto sector. It's probably only 3,000 to 5,000 workers, but it's one of the most vibrant parts of our auto sector. And other than for the cyclical issues, it will survive.

● (2035)

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

Mr. Lake.

Mr. Mike Lake: Thank you, Mr. Chair, and thank you to our guests for coming.

I'll start with Mr. Frise, and then Mr. DesRosiers. I haven't asked this question of the auto companies, because I think the answer, probably understandably, would turn into a bit of a marketing exercise and probably be met with rolls of the eyes by the people watching at home. But I think it's an important question to ask.

There's an argument being made that before we got into this cyclical downturn, a true global financial crisis, companies were already innovating and restructuring, that they were doing it anyway. And I think each of the companies who are asking for money would make that argument. How relevant is this argument?

Dr. Peter Frise: I think it's highly relevant. First of all, it's factual. They were. We work with all the companies that have appeared before you, both the North American-based and the foreign-based manufacturers and their parts supply chains. And I think it's also important to understand that about 60% or 70% of the parts of a modern car are made by parts supply companies. They're not made by the automakers themselves; they're put together by the automakers.

So the innovation chain, if you like, really spreads from the automakers right through the entire parts and supply chain right to the materials companies that make the steel, the aluminum, magnesium, and the polymers that go into a modern car. A modern car has 5,000 to 8,000 parts and, I'm guessing, several hundred different kinds of materials. So each of the companies who specializes in those multifarious parts and materials supply chains is innovating all the time. These companies have been working for years on lighter, cleaner, safer, and that is absolutely correct.

I am not an expert on this global financial crisis, but it's very clear to me—and my contacts in the innovation sector around the world have confirmed that the same thing is happening in their countries—that this has really derailed a lot of those activities or slowed them down. So that's a very valid point.

Mr. Mike Lake: Okay.

Mr. Dennis DesRosiers: And I'll add to that.

Late last year I published a paper called *The 30-Year Problem in Our Industry* about how it takes 30 years to truly solve most—not all—of the flaws in a business model. For the first 15 years, interestingly, there is denial, and then it takes legitimately three to four product cycles, with some exceptions, to actually solve the problem.

They are way out of the denial stage. These companies have got it. They don't have incompetent management. They have got it, and they have got it very big time. Some of these inferior business model elements are largely solved, and it took 15 years. Quality today has been the mantra for the last 15 years. The quality today is solved. The structure of their supply base is very competitive. There's very little low-hanging fruit in the supply base. They're largely through that. Some of these elements they're just beginning to do.

One of the best examples is restructuring their dealer body, for instance. They're in the earliest stages of that. Their compensation structure, which we're seeing day to day in the media, is not going to be a 15-year problem because they can't live with that, but they legitimately are $20 to $25 behind a competitive compensation structure within the North American framework. They have to address that very seriously.

And when they address their compensation structure, they've got a new paradigm. It used to be that companies like GM or Ford or Chrysler could sit down privately with their unions and work out agreements, and we had the economic capability of paying for that. They've come to you guys, the government, and they've gone to the consumers, and they've gone to the media, and they've opened themselves up and said, “We need your help.” You don't ratify an agreement with the CAW anymore; you ratify it with your workers, with the politicians, who have to vote on it, with the consumers with their pocketbooks, day in and day out, and the hundreds of media articles. That's what they haven't got yet. They think they can sit down with their unions and negotiate new contracts and that's it. That's not the case. That was GM's big problem with this current problem.

● (2040)

Mr. Mike Lake: And maybe we'll come back to the CAW in a few minutes, but I think this is important.

You differentiated when you listed off the items in that list; you categorized the CAW and workers in separate categories there. I would like to touch on workers for a second, the skills of Canadian workers. We hear often about the really highly skilled Canadian workforce when it comes to the auto industry. How much of a competitive advantage do we have here in Canada because of the skill set of our workers?

Mr. Dennis DesRosiers: It's very hard to quantify, but it's very real.

Mr. Mike Lake: It is real.

Mr. Dennis DesRosiers: Absolutely.

Mr. Mike Lake: And is it real across the world? Is it real across North America? Is it real compared to the Americans?

Mr. Dennis DesRosiers: How can we have a $20 to $25 wage differential and still be able to maintain, for every year in the last decade, 16% to 17% of North American production? It's not wages.

Mr. Mike Lake: In terms of the productivity question, is there a difference in productivity between the companies in Canada? I'm talking not just the big three or the Detroit three, but also Toyota and Honda. Is there a true difference?

Mr. Dennis DesRosiers: It comes down to the age of the engineering of the plant. If you take the new Ford Flex plant in Oakville, it is probably pretty close to the new Toyota plant in Woodstock. If you take the new plant that General Motors is putting into place in Oshawa, it will be competitive. If you take a plant like the Bramalea plant, which they have yet to invest in—it's seven or eight years old—it would have significantly fewer competitive attributes in quality, cost per vehicle, hours per vehicle, and so on, than the modern plants.

Mr. Mike Lake: Go ahead, Mr. Frise.

Dr. Peter Frise: I'll just give you a little fact. Four of the top ten plants in North America, from the standpoint of productivity and quality, are in Canada. This isn't an accident. Some of them are older plants, and some of them are newer plants. The common ingredient is the Canadian worker. They are really top notch. There are lots of examples of that around the world. It doesn't mean we can't do more, and we certainly have to, but we are very good.

The Chair: Thank you, Mr. Frise.

Mr. Dennis DesRosiers: The Canadian worker is really important, but don't discount capital. Because of the problems we've had long-term with our workforce, these companies have poured capital into their plants at an unprecedented level to substitute for labour.

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

We'll go to Mr. Masse.

Mr. Brian Masse: Thank you, Mr. Chair.

Thanks for being here, gentlemen.

Dr. Frise, one of the reasons I suggested you as a witness was that there are a lot of value-added elements with regard to the automotive sector that don't often get noted. Can you talk a little bit about some of the additional spin-offs from changes in technology that can be applied to products other than automotive? There are products that support the auto industry in general, but there are those outside also. That needs to be talked about, because it goes beyond the investment that has been made in the research and development you're doing to transferrable elements that benefit other types of innovation and products in the market.

Dr. Peter Frise: Okay. There are a number of spin-offs from the technology we have helped to create. Canada's abilities in light metal casting and in metal forming are top-notch. Those, of course, have applications in the aerospace sector, in the general manufacturing sector—for appliances and what have you—in sporting goods, and so on. The example I mentioned in the brief was a new company called GreenCore Composites, which we participated in founding. It's a spin-off company for biomaterials. That brings together Canada's forest industry and Canada's agriculture industry, which provides the feedstock for biomaterials. It goes into the manufacturing sector, which then creates high-value products. Some of those products are automotive; some of them will be in the form of furniture, sporting goods, construction materials, and so on. There are lots of spin-offs.

In our health and safety work, we have done, as you may know, some of the best work in the world on vehicle safety for children. But that has also applied to general safety for children outside of vehicles. There are new seating education programs to help parents make better safety choices for children, and so on. This is just another little fact. The cost for health care over the lifetime of a child who is wheelchair-bound at a young age is well in excess of $5 million. That is totally aside from the pain and suffering and the human tragedy of it all. Basically, if AUTO21, over its 14-year life span, saves 14 or 15 young people from becoming wheelchair-bound, that's the whole bill paid right there.

Our social science work has actually been credited by the Manitoba Attorney General with cutting auto theft in Winnipeg, which had North America's worst per capita auto theft problem, by over 60%.

● (2045)

Mr. Brian Masse: If we were to lose our automotive footprint, and it became a much more modest element of our economy, how would you characterize the effect on other parts of the Canadian economy? Would it be significant or not significant?

Dr. Peter Frise: I would say that it would be disastrous—devastating. The auto industry is the foundation of petrochemicals. It's the foundation of our transportation industry and our mining and metallurgical industry. I have a patent right here, which was just awarded the other day, for an AUTO21 development. It is a metallurgical analysis piece of equipment, which is unique in the world, for creating high-quality aluminum castings. That is the foundation of the light materials research industry in Quebec. It's really a foundation of Canada's economy, from the resource end right through to the product end and trade.

Mr. Brian Masse: Thank you.

Mr. DesRosiers, I went through your deck, and you did note that you didn't feel the overseas market coming in was significant to cause the problems. The deck shows how a few years ago we had approximately 90% of the share and now it's down to about 80%. Would you say 10% is not significant in the industry? What I'm worried about is, if it goes from 80% to 70%, what that would do.

Mr. Dennis DesRosiers: First of all, the 90% was about a decade ago. The move from 90% down to 80% was the exchange rate. It's been stabilized at that 80% level about six, seven, or eight years now.

Mr. Brian Masse: That's correct.

Mr. Dennis DesRosiers: This does not appear to be a serious offshore problem. We've attracted 28 assembly plants from the overseas investors.

Mr. Brian Masse: But if we recapture that 10%, that would help?

Mr. Dennis DesRosiers: It would help.

Mr. Brian Masse: This hasn't been touched on before—

Mr. Dennis DesRosiers: But you can't recapture it through protection. You have to recapture it through competitiveness.

Mr. Brian Masse: I just want to make the point about recapturing the market. There is a bigger debate on how to do that. But I do want to get to a subject I haven't had a chance to ask anyone.

I had a chance to be in New Zealand briefly for a couple of days, and they bring in a lot of their used autos from Japan. What type of percentage do Canadians and North Americans get from overseas used vehicles coming into our markets out of Asia and Europe? How many used vehicles from North America end up in Japan? I think Japan even has a restriction that after seven years they're supposed to take a vehicle off the road, and then they export it.

Mr. Dennis DesRosiers: The amount of used vehicle trade internationally among Canada-U.S.-Mexico and overseas is so small you can't calculate it by two or three percentage points. It's thousands of units. It just doesn't happen on used.

Where the Japan used vehicle trade comes in is that it goes into all those ASEAN countries. It is the direct result of their scrappage program. There are no vehicles on the roads in Japan over eight years old. Most Canadians would love to have an eight-year-old Camry. So that vehicle is still valid. They inspect it off the road in Japan, which keeps the demand going and the environment clean, and they export it to Australia, New Zealand, and the ASEAN countries. That's where it comes from.

Mr. Brian Masse: I know it's not a huge number, but does it make sense in terms of a policy to allow used vehicles into our market that are environmentally more significant than a new vehicle in North America, wherever it's built? And there are safety issues as well. We're not putting used vehicles into the Japanese market. Does it make sense to continue that policy?

Mr. Dennis DesRosiers: I would cut that off in a heartbeat through a rigorous inspection program.

Mr. Brian Masse: Okay.

● (2050)

Mr. Dennis DesRosiers: A vehicle has to meet the regulatory criteria of today or you wouldn't get it in.

Mr. Brian Masse: Could you provide the committee with some numbers in the future about how many used vehicles are trading around the world? I haven't seen too much work done on this.

Mr. Dennis DesRosiers: There is very little work done on it globally. You can go into the Statistics Canada used vehicle statistics; they do track it. The last time I looked, it was fewer than 20,000 units.

The Chair: Thank you very much, Mr. DesRosiers and Mr. Masse.

Ms. Hall Findlay.

Ms. Martha Hall Findlay: Thank you, Mr. Chair.

We keep hearing two streams in this conversation, most of it dealing with the auto sector and what is needed. We've heard this for the last few sessions. Mr. DesRosiers has been talking about the ultimate health of the auto sector with a very positive long-term outlook. But what seems to be missing to a great extent, and one of the main reasons we're here, is this: is it right for the government to be helping two specific companies?

If we accept that Canadians and Americans will continue to buy cars, which sounds right but perhaps in reduced quantities, if we keep hearing about the need for competitiveness and productivity.... I will note the interesting challenge when you talk about whether we want U.S.-owned companies. Mr. Frise asked if we wanted North American or foreign. We're in Canada, and I will note that the companies are foreign-owned because they are American-owned. The global auto sector has been evolving, and from a Canadian perspective we understand the need and opportunities to help the auto sector, but the fundamental question is—and I would really like to ask Mr. Ostroff for some commentary on this too—is it appropriate? Should the government at this point be providing a significant amount of money to two companies as opposed to looking at the auto sector as a whole?

Mr. DesRosiers, perhaps you could comment on that please.

Mr. Dennis DesRosiers: If you want GM and Chrysler in Canada, you have no choice.

Ms. Martha Hall Findlay: But with respect, that's not my question. You can have all sorts of reasons for wanting GM and Chrysler, but if we pull back from the names and identities of those companies in terms of demand, in terms of jobs, in terms of assembly jobs as opposed to parts jobs, is it appropriate to choose because you happen to want those two companies? Or is the government's job to encourage the auto sector as a whole?

Mr. Dennis DesRosiers: If you go into my paper, you'll see that I actually paint both of those scenarios. You can build a very strong case for why you would want to help these two companies. But you also have a lot of complicating factors. Most of those complicating factors are very difficult to get your head around and to actually become comfortable with.

Is it fair? That's a subjective view. I could work that on both sides. I have supported aid. I think at some point you need to get a trade lawyer involved, and maybe we have to help here, because there are likely WTO challenges coming in Europe, with their assistance. All of this may be a huge spanner in the works, because it all may be illegal. We don't know, but it all could be illegal.

Ms. Martha Hall Findlay: Right, and that's going a little bit off my question. I really want to know, given the circumstance, given your questions about whether all of these different factors...I mean, you're pretty negative about a lot of the factors. I guess the question is, from your perspective and your knowledge of the industry, if Chrysler and GM came to you right now and asked you for a combined $10 billion, given their burn rates, given their market share, all of that, would you actually give it to them?

I know it's putting you on the spot, but that's the question our government is having to ask itself.

Mr. Dennis DesRosiers: Your government and the U.S. government are forcing them to go through a very vigorous evaluation process. If they answer those questions and can prove proper answers to those questions, absolutely I would do it.

● (2055)

Ms. Martha Hall Findlay: Okay.

Just so that I have the opportunity, I'd like to ask Mr. Ostroff a question.

There has been a lot of talk in all of this about either the two companies' being bailed out or our losing 500,000 jobs. People talk about dealers, people talk about the supply chain. Can you just talk briefly about what happens to things in a restructuring, in a CCAA? I'm not asking this specifically with regard to the auto sector, so I'm not putting you on the spot, but just in general terms. In a CCAA, what happens with supply contracts, assets, in an environment where there are competitors?

Mr. Percy Ostroff: I'll try to answer you in as general a way as I can.

What effectively happens is that certain contracts can be abolished or terminated in a CCAA restructuring and certain of them can't. It largely depends on the circumstances and what types of contracts you're talking about. Some contracts are more sacrosanct than others, among them collective bargaining agreements. Things like commercial leases of property tend to be easier to disclaim or terminate in a restructuring. It very much depends on the type of contract.

From a broader perspective, though, what happens in a CCAA, or what's intended to happen in a pristine restructuring, is that the company—in a streamlined version, but the same company with the same employment force—goes forward having shed some debt that it couldn't deal with. Of course, the exception is always the rule. What you get as you try to do the restructuring is an attempt at cherry-picking the contracts that will work and the contracts that won't. Sometimes contracts even get put on the table that maybe the company didn't like to begin with, five years before, but there wasn't an opportunity until now. Now they do, because the restructuring opens everything up to negotiation.

But in its pure form, the company should go forward with as much of the workforce as possible. What happens in the real world, though, is that that's a business choice, and the due diligence people, when they're doing the lending and when they're doing the restructuring, will sharpen their pencils and say, “This is where we have to cut.” And you never know where the cuts are going to be without looking at the individual cases—on the workforce side or on the debt side.

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

I believe Mr. Frise had a brief comment, and then we'll go to Mr. Watson.

Dr. Peter Frise: I just want to make sure that we're clear, Ms. Hall Findlay, that when I talked about the Canadian companies we work with, I wasn't speaking about the automakers and making any differentiation between one group and the other. I was talking about the parts companies. In the main, the parts companies with which we work certainly all have Canadian operations, but they are also Canadian-headquartered, Canadian-owned companies.

Ms. Martha Hall Findlay: I appreciate the clarification. Thank you.

The Chair: Thank you, Madam Hall Findlay.

Thank you, Mr. Frise.

Mr. Watson.

Mr. Jeff Watson: Thank you very much, Mr. Chair.

Mr. DesRosiers, thank you for dumbing down your presentation so I can understand it. I'm still trying to remove the knife from my back.

Thank you to all of our panellists, obviously, for being here tonight. It's always a pleasure.

I do want to direct some questions at Mr. DesRosiers.

You talk about a long-term trend with respect to the Detroit three's declining market share in North America. I'm going to ask a very obvious question, one I have my own opinions about. Were the Detroit three companies late to restructure?

Mr. Dennis DesRosiers: Yes, I talked about the 15-year-old denial.

Mr. Jeff Watson: In your opinion, when was it realistic for them to know that they should have started restructuring sooner?

Mr. Dennis DesRosiers: I believe it was in 2002. Rick Wagoner stood up at a podium and he became really serious. That, in my mind, was the defining moment. I would have liked to see that perhaps a decade earlier. He would have known; he should have known.

Mr. Jeff Watson: That was right after all of the zero percent and cash-back financing—

Mr. Dennis DesRosiers: That was in 2002. But if you go back to the early nineties, our market had collapsed because of energy issues and the Middle East wars. We had the same kinds of things: high gasoline prices, products upside down, and quality issues. The Japanese came in 1965, and we knew by 1966 that their quality was superior to ours.

So they could have reacted. As I say, I broadened it out to 15 years earlier than they did.

Mr. Jeff Watson: Let me ask a question from a different perspective here. These are just some questions for the record. There are others who will be listening in or reading from this later.

Did the Detroit three build any compact or subcompact cars in Canada?

Mr. Dennis DesRosiers: It's been a while. I can't remember the last compact or subcompact car in Canada.

Canada actually benefited significantly because the Auto Pact rules—I won't get into the technical nature of those—forced them to put high-value-added products into Canada. We ended up with a whole pile of big, expensive products, such as light trucks, etc. Then it happened all through the seventies and eighties that those products exploded. We were sitting there because of the Auto Pact, and we won big—really big.

It's hard to be critical of them for having the product in Canada that employed 150,000 Canadians for a decade and a half.

● (2100)

Mr. Jeff Watson: Do the new domestic companies produce any compact or subcompact parts in Canada?

Mr. Dennis DesRosiers: Absolutely. Both Toyota and Honda do, and so does CAMI.

Mr. Jeff Watson: Why do they and the Detroit three not?

Mr. Dennis DesRosiers: Cost structures, the efficiencies of their plants.... They came in from scratch with greenfield operations. Those options weren't available to GM, Ford, and Chrysler.

Mr. Jeff Watson: What are your comments on the 2008 round of bargaining, then, with the Detroit three here in Canada and the CAW, on the results versus what they probably should have gotten?

Mr. Dennis DesRosiers: What General Motors did was go after very significant long-term gains. They went after their legacy cost issues, which is the biggest one for them, rather than—

Mr. Jeff Watson: In 2008, not 2009.

Mr. Dennis DesRosiers: Most of those gains were going to come in 2010, 2011, 2012, 2013, and 2014. Ford and Chrysler needs them today, so there's a real upside down in terms of their structure that way.

I personally thought General Motors could have gone a lot further, that they missed a lot of low-hanging fruit. They had everything going in their way. You gave them political cover. You had a market in disarray; you had so many things. What did they do? They left spa days on the table; they left penny funds on the table. They didn't go after the pensions. I just shook my head. I don't understand, to this moment, why they left that untouched—I really don't.

Mr. Jeff Watson: Mr. Frise, I have one of your clek booster seats. Could you talk about the health and safety that you work on, about some of those commercialization projects resulting in something like this?

Dr. Peter Frise: We started the work in vehicle health and safety. We looked carefully at what kind of work was being done around the world and we wanted to make sure that we made a contribution.

As with most things in Canada, we carved out a niche in vehicle safety for children and vehicle safety for the elderly, as well as health and safety for workers. We specialize in what is called musculoskeletal injuries, such as back injuries and things like that. In each of those areas we have done leading-edge work that is being recognized around the world as some of the top work.

About four years ago our work in vehicle safety for children resulted in Magna starting a new division of the company, which brought out a product called the clek booster seat, which you can buy in Canadian Tire stores and in other retail outlets now. I think that product is now coming to the end of its product life and a new generation of products is coming out that is further based on our research. This is just another example of how research can really make a difference in the market and make a difference to the quality of life of people. I think it's really worth doing that.

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

Originally we were going to go in camera at 9 p.m. to discuss committee business. But I've had indications from some members that they wish to ask some more questions. So is it the wish of the committee to continue a little while longer to allow some more members of the committee to ask questions, and then we'll go in camera?

Some hon. members: Agreed.

The Chair: We will then have five more members question the witnesses. That will bring us to the end of round two, and at that point we'll go in camera.

We'll begin with Monsieur Vincent.

[*Translation*]

Mr. Robert Vincent: Thank you, Mr. Chair.

Mr. Ostroff, let's get down to brass tacks. I understand your situation. I know the work that you are doing. If these two companies asked you what the best solution would be, what would you say? Would it be to declare bankruptcy, to get money from the United States or Canada? In addition to asking for wage cuts and imposing working conditions on workers... Money is now being taken from workers, the U.S. government and the Canadian government. What else can be done? Should they declare bankruptcy and start up under a new name? What do you suggest these companies do?

[*English*]

Mr. Percy Ostroff: That's a very difficult question to answer without knowing more about what the goals were of the companies asking the question. It's always easier to have a bankruptcy, to close the doors and give up trying. The question is, if you've got an obligation to continue the work or if you feel you have an obligation to your shareholders and your employees, it's a different answer, but that's not a legal answer necessarily.

If somebody came to me and asked if they should close their doors or try to continue, there is the business answer and there is the practical answer. If you want to continue the business without throwing up your hands and saying that's the end of the history, it's easy to do the bankruptcy, but that's really a business decision and a political decision more than a legal one.

● (2105)

[*Translation*]

Mr. Robert Vincent: It wouldn't be the first time that a company went and got money from both sides, so as to get as much as possible, and then closed down, repurchased and went on. Collective agreements and debts have been eliminated, the facilities have been purchased for next to nothing and then it's business as usual.

[*English*]

Mr. Percy Ostroff: The fundamental question is this. If you think there's a possibility that coming out streamlined through the process in five, ten, or fifteen years it would be reasonable to continue, then you'd do it for the same reason as you start a business to begin with. It's an entrepreneur seeing an opportunity and taking advantage of it. The additional factor is that it's a business that you know, with a workforce that you know, and a debt that you know. If you can compromise it properly and you're reading the tea leaves as to the marketplace, you want to stay in that business for the same reason you entered it in the first place.

But again, as a counsel, I can only say, “Here is the structure to let you go forward.” The business people have to be satisfied that in five, ten, or fifteen years the market will support the restructuring, because at the end of the day it's an entrepreneur's decision to go forward to make money instead of shutting the door and saying, “I want to go fishing instead.”

[*Translation*]

Mr. Robert Vincent: Mr. DesRosiers, in your opinion, who will the long-term winner be, Canadian workers, Canadian taxpayers, or the manufacturer?

[*English*]

Mr. Dennis DesRosiers: The jury is out on all three of those. I have a 39-year history of looking at this industry, and usually the taxpayer comes in last—sorry. Whether it's the workers or the companies is often a toss-up, so, sorry.

[*Translation*]

Mr. Robert Vincent: I took a look at your website. It talks about the future of the North American auto industry, and it states that, in 2008, you believed that the industry would be back on track by 2009 and that we would exceed current sales in 2010. We are far from those forecasts.

[*English*]

Mr. Dennis DesRosiers: And remember, I was the most pessimistic person at the time and I was still two million units over. That's a very good point. The world has changed as a result of this financial meltdown in the United States, there's no doubt about that. And the prospects are much dimmer for all of these companies.

[*Translation*]

Mr. Robert Vincent: Thank you.

Mr. Frise, would you like to add anything?

[*English*]

Dr. Peter Frise: Yes, I would.

I'm not an economist, but I travel a lot and I look at the auto industry all around the world. As I said at the outset, this is happening everywhere. Virtually every major industrial nation is assisting its auto industry, with a view to helping them survive this very difficult period.

Let's set that aside for a minute and look at the economic life of a family. What are the two biggest things you buy in your life? They're a house and a car. When you buy a house, most of the money you spend on the house stays where the house is. The building material is pretty local; all the labour that built the house is local; the lot and the land are local, and so on. So buying a house is an investment in your community.

When you buy a car, a lot of the money you pay for the car winds up back in the locale where the car and its parts were built.

By the way, you can't really separate the parts industry from the assembly industry; it's really not practical to think of having a parts industry without having an assembly industry. The parts industry will go where the assembly plants are. If we let that go, as a Canadian, I would have to ask, are we really happy with exporting that much of our wealth to other countries on an ongoing basis?

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

● (2110)

[*Translation*]

Mr. Robert Vincent: Are you beneficiaries—

The Chair: Thank you, Mr. Vincent.

[*English*]

Mr. Carrie, you have the floor.

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

I must say that I am somewhat pumped up today because of my history with the auto industry. As the former parliamentary secretary to the industry minister, I've seen the work the government has done with our auto action plan, trying to get the CAPC recommendations implemented. Recently, with this downturn, we've been working very hard with the American government. We know how important the integration of this market is. Just today, and the last several weeks, the CAW have come to the table. I must say how pleased I am that we're working together. I feel very optimistic.

I was wondering if we could get some comments from you—if the CAW ratify the deal. We heard Chrysler's comments regarding costs, that they want to be competitive with the U.S. to ensure their long-term viability. How big a deal are the labour costs to viability? I've heard they're only 7%.

Would you be able to comment on that?

Mr. Dennis DesRosiers: Let me tell you about this exactly. If you actually look at the manufacturer's wage at the assembly plant, it's about 7% of the price of a vehicle. That excludes all the wages built into the parts sector, all the wages built through the distribution channels, and car dealer wages, and white collar wages, and all of the compensation, etc. When you actually take a look at the labour content of the vehicle, it's somewhere between 40% and 45%.

All of that is benchmarked off the 7% union assembly worker wage. The union worker gets the approximately $75 an hour all-in wage. The parts worker then is benchmarked at a number below that, but still much higher than what the other ones get. Then the car dealer benchmarks off that.

So relative to sustainable compensation, there probably is $2,000 to $5,000 too much in labour costs per vehicle today, on average. It's a wide margin. I respect that.

Mr. Colin Carrie: Now, with the new deals, are we on the right track here?

I just talked to our union leaders and complimented them and thanked them for coming to the table, finally, after the last few months. We all have to work together here. Are we on the right track here?

Mr. Dennis DesRosiers: Do the math, Colin. They got $6.85 and there's 20 hours of labour on a vehicle. So what's 20 times $7? It's $140.

They need it to get into the $2,000 to $5,000 range. They're a little bit short.

Mr. Colin Carrie: So what Chrysler said today, is that...?

Mr. Dennis DesRosiers: It gets you into the low end; it gets you closer to $2,000, which is where we need to be.

That assumes it flows through the whole system. Chrysler is the first step. They get their $20, and then all of the Chrysler suppliers then have to go in and do theirs, and it filters through the whole system. You ultimately get, at the Chrysler basis point, $2,000 to $3,000, and maybe $4,000.

Starting with the GM one, you don't get to that number through the whole system. You get more than $400 or $500, but you don't get to the number you need.

Mr. Colin Carrie: If the company and the union, though, have come to an agreement—not to be hard on you, Dennis—why do we take your opinion over theirs?

Mr. Dennis DesRosiers: I have no bias.

Mr. Colin Carrie: Would we be able to get a comment from you on the value of maintaining those assembly jobs, as far as the importance of the research and development is concerned? I know that in Oshawa GM has invested significantly in electrification of cars, and they're working on fuel cells. What is the relationship with, or importance of, maintaining those assembly jobs here, and how does this relate to research?

I was wondering if Dr. Frise could comment on this as well.

Dr. Peter Frise: I'm really not as equipped to talk to the specifics of the numbers as Dennis is.

But again, these are some of the best jobs in our society in terms of technology, the high-value-added engineering jobs and R and D jobs that are associated with vehicle design and also.... And again, Ms. Hall Findlay, a lot of the R and D is not done by the automakers; it's done by the parts companies. The car companies, essentially, buy the technology from the parts companies.

Those high-value-added engineering jobs are spread throughout the value chain, up and down the highway from Windsor to Quebec City and elsewhere in the country in specialized locations. Those are critical jobs in each of those communities. Those are the people who buy homes and send their kids to universities, and so on. Those high-paying, high-value jobs are what every other jurisdiction is really keen to protect.

● (2115)

The Chair: Thank you very much, Mr. Frise and Mr. Carrie, for your questions.

Mr. Masse.

Mr. Brian Masse: Thank you, Mr. Chair.

Mr. DesRosiers, the wage issue is of concern. I think it's also a distraction, to some degree, given that it was the financial markets that caused a lot of the issues that affected American consumers significantly, everything from the subprime mortgage to other greed in investments that has really hurt many consumers out there in our North American sphere right now.

Do you expect, though, that even if vehicle labour costs were reduced that much, consumers would see that benefit? Is that saving going to be passed on to the consumers?

Mr. Dennis DesRosiers: In an economic system it would be a producer surplus, consumer surplus analysis. The level of the competition would determine how much would be passed to the consumer. In a highly competitive industry like the automotive, most of the benefit ends up in the consumers' hands.

In an oligopoly situation, which we had with GM, Ford, and Chrysler for the first 90 years of our industry, most of it ended up at GM, Ford, and Chrysler. We're out of that era. But it really would depend on an analysis of that.

You also identified that there are a lot of culprits here. Labour is an easy target. They make themselves an easy target, unfortunately. But they're only one of the targets—and they may not even be the most important target. I would put bond holders ahead of labour.

Mr. Brian Masse: I think the commentary has been irresponsible, because it's not going to lead to the solution necessary for our communities. If in Windsor the solution is to lower the cost of the worker, in terms of this situation, we're going to lose on significant economic stimuli required to see ourselves through this. In fact, our footprint will be significantly altered for the future—everything from paying off mortgages to making other investments, all of those things.

I do want to touch on a point I've been raising that is important. This is in regard to the banks, and I'd like your commentary on it.

Right now the banks' borrowing rates for vehicles are significantly higher than the actual cost of borrowing money. From some of the discussions I've had with those in the car loan business, for the dealers there's been everything up to 30% requested of some creditors to get loans from the banks right now.

Do you believe there is a role for us—and if so, what would it be—to ensure that the banks aren't the only ones making money from cars right now, through their loan programs?

Mr. Dennis DesRosiers: That's a very good question.

I want to finish one thing on the worker. We hope to be able to get a competitive labour agreement without touching wages, and I think that's doable. So that helps Windsor.

On the banker front—and I've actually done a lot of work on this—if you look at the historical bank involvement with auto loans, they are more pricey today by probably 200 to as much as 1,500 basis points because of the risk factors that are out there. But they're not outrageous historically.

The issue is that the vehicle companies had the capability of significantly subsidizing their consumers' financing through the lease portal. Now that is shut off because the subprime market and housing market have cut off asset-backed lending. The consumer goes from a lease portal into the bank portal, and that is three to six percentage points higher than the lease portal. So it costs them, literally, without any competitive factors, $150 to $200 a month for the identical vehicle to have a loan versus a lease. Yet higher loan rates bring it up into—who knows?—$200 to $250. But it's not any worse than it was historically.

Mr. Brian Masse: But isn't that part of a solution? Why is it that we have so much of the percentage of financing, especially given the fact that the United States and Canada have put up so much public equity to get the banks back on some type of stability, supposedly? They've increased their fees and all these different things. Wouldn't it be better public policy to say they've got their share, they didn't even have to give anything; and second, to get the real economy going, we should make sure they're going to be a player and a partner in this. We've asked auto workers and everybody else to take a cut on this, including the executives and so forth, and why is it that we wouldn't do something public policy-wise to try to move vehicle sales out there and shrink the banks' gouging? I would say it is gouging. You're right, historically it might be lower, but at the same time, our prime rate has never been any lower than it is in the United States and Canada right now in terms of the interest rate.

● (2120)

Mr. Dennis DesRosiers: There are three points. Supply and demand are going to determine the rates, and there's a shortage of supply, and that's why they're higher today. Secondly, one of the reasons we have such a strong banking sector in this country, which is going to help save this country's economic system, is how conservative the banks are, which comes back to this core issue.

Mr. Brian Masse: They tried to deregulate that here a few years ago.

Mr. Dennis DesRosiers: Bear with me for one second. I think you're focusing exclusively on consumer lending with the banks and I think that is the lesser of the two bank problems in our industry. The banks will not touch a car dealer.

The ordinary Joe Blow car dealers—I know of half a dozen members of Parliament who come from the car dealer body—have $7 million of debt in their own name in their community from one end of Canada to the other, and that debt is being cut off by the banks. No bank today will touch a car dealer, and if you don't support the car dealer with floor plan capital financing lines of credit, you don't sell cars, you don't make cars. That's where you should be trying to influence the banks—to go out and support the car dealers.

Mr. Brian Masse: I agree, but I think there should be a wider role too.

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

Thank you very much, Mr. DesRosiers.

Good questions.

Mr. Lake.

Mr. Mike Lake: Thank you, Mr. Chair.

I want to start by responding to a couple of things Mr. Masse was saying. He mentioned that we're not doing anything to do with moving vehicles. I found that pretty astounding, because we do have a $12 billion secured credit facility, which witness after witness has identified as the most important thing to move forward on, and he voted against it in the budget. We need to get that budget passed in the Senate so we can start flowing that money.

On the other side of things, regarding the jobs, I would remind the member that of course the reason we're going through this whole process, the reason we're even having these discussions, the whole purpose is to protect jobs. That's the whole purpose, because we can all relate to what it's like to have families and payments and things like that, and we're here to protect jobs. So I just want to clarify those things. That's what this is all about.

I'll give some context here. We talked about this the other day. We're talking about lending as much as $8 billion and possibly more. When you break down those numbers, you're looking at about just under $250 per Canadian man, woman, and child. For a family of four, it's $1,000 we're talking about.

I asked this question of one of the witnesses yesterday, but I'll ask it of Mr. DesRosiers.

I know you're in favour of our going forward and lending this money. What do you say to that family of four from whom we're asking for $1,000 of their money in terms of the loan? What do you say in terms of why they should agree to it, and will they see their money back?

Mr. Dennis DesRosiers: First, only lend it if they meet the conditions that very capable people are putting in front of them. Your taxpayer needs to understand that this has gone through a very rigorous due diligence process.

What you have to tell that taxpayer or try to explain to him is that it's all this indirect stuff. Without exception, there's a car dealer, at least one, in every single community in Canada with 5,000 people or more, and every one of those car dealers employs 50 to 75 people in that community. They sponsor the soccer team, the baseball team; they're the biggest contributor to the local charities, the hospitals; and that's one of the reasons you want to support this industry: because you're helping the communities in middle-of-nowhere Canada, not just southern Ontario, through the dealer body, through the automotive aftermarket, fixing vehicles, financing vehicles. There's a lot in this value train, and it really is, without any exaggeration, one in seven jobs directly and indirectly.

Mr. Mike Lake: In terms of some of the testimony we've had, we've asked the question to some of the companies not asking for loans at this point—Ford, Toyota, Honda. How long before you have to ask? If things don't get better, if we continue on the path we're on right now, how long before they have to ask? Do you have any ideas of what that would be in terms of the analysis you've done?

Mr. Dennis DesRosiers: We used to talk about Toyota being a bank, the Bank of Toyota. I can't imagine a scenario in which some of the other big players, like Honda and Toyota, would come forward unless we were into a nightmare scenario three or fours years out, and I don't envision that. So the answer is never.

I do think that if we end up at the levels of demand we're heading towards, Ford could be coming in a year's time or two years' time. They're next on the docket. There are minor import name plate companies that could be in serious trouble, but they would be very difficult to support. They are some of the small tier two companies. I don't want to name any, because I don't want to get myself into trouble. What I'm saying is that it's not just a GM, Ford, and Chrysler problem. You're looking at the longer term.

● (2125)

Mr. Mike Lake: This will be the last question I ask in the entire discussion.

You've had a chance to hear other testimony, I'm sure, from the other meetings. And this goes to anybody at the table. Is there any testimony you've heard that you thought was not giving us the full story or where there may have been more to add, from your standpoint?

Mr. Dennis DesRosiers: Do you want me to be blunt?

Mr. Mike Lake: Yes, please.

Mr. Dennis DesRosiers: Every one.

Mr. Mike Lake: Can you elaborate on this?

Mr. Dennis DesRosiers: I don't want to get into naming names, but I read about two or three hours of your meetings, and there was question after question that I.... With all due respect, none of you have 40 years of experience—Peter has 20 or 30 years' experience—so the subtleties of this industry you haven't really covered off.

But I also commend you, because I've been involved in many of these committees, and I've generally said no recently, because I find that there is too much partisanship back and forth, and that's not my world. You're asking some really good questions today and prior to today. You're getting at a lot of the nub. As a person who understands this industry cold, I would have headed into so many other areas and put them much more on the hot seat.

Mr. Mike Lake: Thank you, Mr. DesRosiers.

The Chair: Go ahead, Mr. Valeriote.

Mr. Francis Valeriote: Mr. DesRosiers, all that being said and done, I opened with our need to protect Canadian jobs, and I'd like to pursue that, because those jobs have to be protected in the short term and in the long term.

What I'm hoping you might offer us are some recommendations to ensure a viable, strong Canadian auto industry in the long term and in the short term. While I know that you said there can't be a national policy, I know there might be some framework or some initiatives we can undertake as a government to help the industry structurally. I'm wondering if you can offer some of those in terms, possibly, of these areas or others that you might have thought about: investment and innovation; infrastructure; taxes; regulations, whether it be harmonizing them with American regulations or not; human resources; or anything else you may offer.

Mr. Dennis DesRosiers: This is not the kind of environment to get into this sort of detail. We don't have the time. I could get back to you with some suggestions.

But I will tell you one thing. I suppose I had my first head-to-head involvement with your Industry Canada and Department of Finance people at the federal level probably about 30 years ago. I am deeply involved with them today and have been over these 30 years at various levels. I have never worked with a more competent group of civil servants on automotive issues, federally, than today. I can't say that in Ontario. You have a dynamite team, especially in Industry Canada. You go through Dicerni, you go through Maloney, and you go through Alison Tait; these people and the team under them are an A-team. You need to have a little broader perspective on some of your team in places like Environment Canada and Natural Resources. They have some shortcomings. But they're still very good. That gives me comfort

To go into identifying specific policies in detail I leave up to your A-team. I honestly think you have it. They're doing things that just amaze me. Never in my wildest imagination did I think they would get into these areas and work on these areas and be productively coming up with good solutions. And that's apolitical. This team started under previous politicians, and it's in place today. Keep it up.

Mr. Francis Valeriote: I have another question.

It strikes me, given the integration of our industry, American and Canadian, and the existence of the Auto Pact, that there isn't a bilateral structure somewhere—and maybe there is, so correct me if I'm wrong—that allows federal, provincial, and state governments and industry parts assemblers to come together and talk about the issues, on a daily basis, that are affecting each of our countries and the industries in each of our countries. While you said that there can't be a national auto policy, should there be some international forum that meets regularly to talk about these issues going forward so that we can harmonize more issues, such as regulations?

Can you comment on that?

● (2130)

Mr. Dennis DesRosiers: That's a very good idea, by the way. We actually had formally written into NAFTA a study period of about a year and a half for the Canada-U.S.-Mexico group to formally look at a number of the issues related to this auto-sector-specific NAFTA task force, and it was very effective dealing with them. Once they dealt with the specific issues, it was disbanded. I would argue that you need that kind of thing. But there probably is a European one separate from a North American one, separate from an Asian one, and that's a very good idea.

Mr. Francis Valeriote: Mr. Frise.

Dr. Peter Frise: There actually is a Canadian body that serves that function, and that's the Canadian Automotive Partnership Council, CAPC. In fact, that model has been envied around the world. I hear about it all the time when I travel. It includes the major automakers. Reid Bigland is a member of CAPC, as is the federal Minister of Industry, key parts company presidents, the president of the CAW, and the president of the University of Windsor, because that's the host institution for AUTO21. There are working groups on human resources, innovation, trade and infrastructure, fiscal policy, and sustainability. That's a very active organization that has really done some great work. The Quebec and Ontario ministers of industry or economic development are also members.

Mr. Dennis DesRosiers: It's just within Canada.

Dr. Peter Frise: It's just within Canada, but that is the kind of structure, I think, that you're talking about and it does exist. It's been very successful at exchanging views and bringing forward good policy recommendations.

The Chair: Thank you, Mr. Frise.

That will be all for this evening. Mr. Ostroff, Mr. DesRosiers, and Mr. Frise, thank you very much for your direct and frank testimony. It's much appreciated.

[*Translation*]

We will now take a 10-minute recess.

[*English*]

[*Proceedings continue in camera*]

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