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Chair

Mr. Dave Van Kesteren

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● (0905)

[*English*]

The Chair (Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC)): I think we should begin.

We have a very interesting group of witnesses, and I welcome them here this morning. This is our sixth meeting on the study of the crisis faced by certain industrial sectors in Canada, such as aerospace, energy, forestry, high-tech, and manufacturing.

We have done some study on the forestry sector, and this morning we are pleased to have with us Michael Burt and Valerie Poulin from the Conference Board of Canada. From the Canadian Manufacturers and Exporters we have Jayson Myers.

Everyone is present and that's very good. I hope everyone had a great two-week break.

We're all very eager and excited to get back to work and hear what you have to tell us this morning. Again, welcome.

Mr. Burt, you may begin.

Mr. Michael Burt (Associate Director, Industrial Outlook, Trade & Investment, Conference Board of Canada): Thank you again for inviting us here.

My name is Michael Burt, and I have my colleague here, Valerie Poulin. We're with the Conference Board of Canada. For anyone who's unaware, we're an independent, non-profit think-tank based here in Ottawa. We do research in a variety of areas, including public policy and economic forecasting and analysis, which is the group we work in. I'm responsible for our Canadian industrial outlook service, and among other things we produce semi-annual reports on 16 of Canada's key sectors, including wood and paper products, aerospace, high-tech, and oil and gas.

I'll first give an overview of what's been going on in the manufacturing sector, and then I'll focus on four key sectors that were mentioned in the invitation we received.

Manufacturing is presently facing a variety of challenges, and as a result we've seen manufacturing's role in the Canadian economy decline in recent years. Some of these challenges have been structural and some have been cyclical.

On the structural side of things, we've had a strong Canadian dollar in recent years. It has affected industries in a variety of ways, most importantly in terms of their input and their output prices. Some industries have benefited from the stronger dollar, and many have had negative consequences as a result. We're also seeing increasing competition from emerging markets. Perhaps most telling has been the emergence of China on the world's stage, as a result of their entering into the WTO in 2001. We're also seeing increasing competition from other markets around the world.

Finally, technological changes have been a major factor affecting the performance of the industry. For example, we're seeing a transition in telecommunications away from wired services toward wireless services. This is leading to the rise of new companies and the demise of some older ones. Another technological change has been the emergence of electronic media. Consumers are increasingly consuming their information by electronic means, and this has meant a decline in demand for paper products.

On the cyclical side, the current global recession is affecting the industry. Autos and housing-related goods have been perhaps most affected. For example, the collapse in auto demand has spread throughout the supply chain and is affecting a variety of industries, everything from plastics to metals to chemicals.

However, I don't want to say that the outlook for manufacturing in Canada is uniformly poor. We expect to see growth in a variety of manufacturing sectors, and they fall primarily into three categories. First are those that are primarily domestically focused. Food manufacturing is a good example of this. It's the largest employer of manufacturing workers in Canada and is often overlooked, but we expect it to have a positive outlook going forward. Another source of growth for the manufacturing sector is industries tied to our primary goods industries, such as machinery and primary metal products. They will benefit from increased commodity prices in the coming years.

Finally, technology-intensive or skill-intensive industries will fare better. They will see less competition from emerging markets than some other industries. A good example of this is aerospace.

As a result of all of these challenges, the character of our manufacturing sector is changing. We're seeing services account for a larger share of the value of what manufacturers are producing. A good example of this is Research in Motion. It is primarily a telecommunications equipment manufacturer, but a large portion of its revenue comes from the service agreements associated with using its devices.

Another big change is that the skill requirements for our manufacturing work force is increasing. We're becoming more skill intensive, and this means manufacturers are increasingly competing with other segments of the economy for workers. Finally, we're seeing the disappearance of low-value-added, labour-intensive industries here in Canada.

I want to focus on the four industries that were highlighted for us. First is forestry, and we divide it into two segments: paper, and wood products. On the paper side, the industry is facing some significant structural challenges. We're seeing increased competition from emerging markets—low-cost producers in South America and Asia. We're also seeing a structural decline in demand for many paper products.

The demand for wood products is primarily determined by North American construction of residential buildings. The collapse of the U.S. housing market, and now a slowdown in housing activity here in Canada, has had negative repercussions for the wood products industry.

● (0910)

We do expect housing residential construction activity to begin to improve next year, but it's going to be a slow recovery. We don't expect demand for wood products to reach its previous peak at any time in the foreseeable future.

Both segments are facing challenges, so we need to start asking whether we are making the best use of our forest resources. Basically, are there other ways we can use the fibre in our forest? Whether it's for energy production or feedstock for the chemicals industry, there are possibilities.

We need to ask whether we are producing what is in demand in new emerging markets. For example, they don't generally build wood-framed housing in China, so rather than two-by-fours, should we be making products that are in demand in that market?

Turning to energy, there are basically two key challenges here, one short-term and one long-term. In the short term, we have had the rapid drop in energy prices in the last year. This has challenged profitability, and it has reduced investment activity in the oil and gas sector.

Longer term, the main problem is decline in productivity in conventional oil and gas wells in Canada. We do expect energy prices to recover fairly quickly over the next few years. In fact oil prices, as many of you are probably aware, are already up significantly from the low they reached earlier this year. This will lead to the resumption of the oil sands projects, in 2010-11, that were delayed recently. But cost pressures and declining conventional production will continue to be an issue for this sector.

Turning to high-tech, the manufacturing component of high-tech is experiencing a significant contraction right now. But the services side, which is much larger, is actually still growing, albeit at a much slower pace.

On manufacturing activity, basically we've seen a large decline in global demand, both from consumers and businesses, for IT-related goods. Our domestic manufacturers have been affected by that. Of course we also have the recent bankruptcy of Nortel, which is complicating the domestic situation for our high-tech manufacturing industry. The one bright spot is in demand for wireless communications equipment; that seems to be holding up a bit better right now.

With respect to IT services like telecommunications and computer services, we do expect them to grow this year but at a much reduced pace as a result of the current recession.

Finally, aerospace was one of the components of the broad manufacturing sector that was doing very well going into the recession. They were probably one of the best performers in manufacturing. They have full order books. In fact the order books for our aerospace manufacturers are backlogged with orders for about two years right now. We're actually seeing production continuing to increase. The most recent data we have is for January. We reached a record level of production in our aerospace manufacturing industry in January of this year.

With that said, we have started to see some layoff announcements in recent weeks. That's been primarily in the business jet portion of the industry. That's because demand for business jets is very sensitive to corporate profitability, which has plummeted as a resulted of the global recession. That's been one of the areas that have been affected first.

The demand for commercial and military jets is holding up a little better. The backlog of orders will help to support the industry through the current recession, although we are seeing some delay of receipt of some of the aircraft that have been ordered.

The outlook for aerospace demand is fairly good. One of the key reasons for this is our outlook for stronger energy prices going forward. Fuel accounts for roughly one-quarter to one-third of the operating cost of the average airline, so there's a real incentive when oil prices are high for airlines to try to get a cost savings on their fuel bills.

Thank you.

● (0915)

The Chair: Thank you.

Mr. Myers.

Dr. Jayson Myers (President, Canadian Manufacturers & Exporters): Thank you, Mr. Chair.

Maybe I've been around CME too long. I remember back in the recession of the early 1990s when I was debating with the Fraser Institute about the demise of manufacturing. This was one year before the manufacturing sector in Canada experienced its fastest growth rate ever and doubled in size, of course, in the 1990s.

I think Michael has laid out many of the challenges manufacturers in the particular sectors you are looking at are experiencing today. We should not lose sight of the fact that in this very challenging economic time there are also opportunities that the many companies have. As we emerge from this recession knowing that customers will be wanting different things, and things delivered differently, the nature of manufacturing itself is going to change. We have to spend some time not only looking at the current condition of the sector but also at what the nature of Canadian manufacturing is going to be over the next decade or so as we emerge from the recession.

Nevertheless, the idea of what manufacturing is is extremely important for the Canadian economy. We often think of manufacturing simply as production technology, producing things. In fact, if that's the definition then manufacturing is naturally going to become a smaller and smaller part of the Canadian economy. The money today is not made in production. The money is made in the services, the design, the engineering, the research, the innovation, the logistics, the delivery, and the customer service that goes around the product. Nevertheless, the product is an important anchor. If we lose the product, or part of it, or lose that connection in the value chain, which is a global value chain today—the anchor here in Canada—then we're losing not only all the services, the high-value work that is done around it within companies that produce things, but we're also losing a very large part of the supply chain. One can just see the impact of the automotive challenges today on the advertising industry, the communications industry, and the paper industry, on all of these service sectors that are dependent on manufacturing.

In total, you have not only a good supply chain and a primary resource supply chain, but a very large services supply chain tied to the fact that we produce things and can trade things and can export things from Canada. If there's any one lesson of this global financial crisis and economic downturn, it's that we can't generate economic wealth simply by trading other people's debt and leveraging other people's debt. At some point you have to create real wealth, and that's a job that manufacturing essentially does. It's creating, embodying value in a product.

I've distributed to members of the committee our latest business condition survey. We track, as I'm sure you do, the latest numbers coming out of Statistics Canada, both in manufacturing sales, in production and employment, and in exports and so forth. Keep in mind that these statistics are, number one, two months late. If we're making policy on the basis of these statistics, it's like driving a car looking in a rear-view mirror: it doesn't tell us anything about what's coming up. Secondly, keep in mind that the sales numbers reflect current price changes, but much of the production was based on contracts that were put in place last year or previously. It's those orders that were booked previously that we're seeing production figures on now.

We have to look ahead. The real indicator here of what lies ahead for manufacturing are the orders being received right now and over the next several months, because those are the orders that will lead into future production and those are the orders that will keep people employed or will affect employment in the sector.

We realize that running on Statistics Canada numbers wasn't a very reliable way of actually predicting what was going on in the sector, so in December we started our own business condition survey. We have 700 manufacturing companies and exporters across the country responding to the survey.

I just want to table it. I'll touch the highlights or the lowlights of the survey, because the numbers have not changed dramatically since December.

● (0920)

One of the questions we asked was, given seasonal variations, whether their current order book is higher, lower, or about the same as it was three months ago. The numbers haven't changed very much. About 10% of companies say that their orders are up over the past three months; 20% say they're about the same; and, two-thirds of companies are reporting that their orders are down, with 20% of companies reporting that their orders have fallen by more than 30%. If you look at the Statistics Canada numbers, the value of new orders in the last survey is down by close to 30%. These are orders that, again, lead to future production and future employment.

We asked whether they expect their orders over the next three months to be up, down, or about the same. Just about 50% say they expect further reductions, although not by as much as they've experienced over the last three months. If there's a silver cloud here, maybe it is an indication that we've experienced the worst in the downturn in orders. Nevertheless, when we asked whether they intend to increase, decrease, or keep their employment rates about the same, 40% of companies say that they expect to cut jobs over the next three months. When those orders are booked, that will lead to production, and employment will reflect the production period. We are seeing orders cut in the aerospace sector, but we will see the impact of that on production in 18 months to two years' time. That's how long this takes to come through the system.

Of course, as you will see here, the major sectors and the sectors that were hit first were wood products and building materials, primarily as impacts of the U.S. construction industry. The second was the automotive sector. With regard to the automotive sector, plastics, metal fabricating, steel, and aluminum all took a very large hit. These are the key suppliers to the automotive sector. We are now seeing that this downturn in orders is evident in almost all sectors. It may have started with wood and automotive, but it's clearly being experienced now right across the manufacturing side.

There are a couple of bright spots: agrifood production, food processing. Beverage and tobacco products always do well as the economy turns down. Pharmaceuticals and some aerospace products are still very strong. We're seeing advanced technology and certain parts of the information technology sector still remaining strong. However, we're seeing this downturn in orders pretty much across all sectors.

There are two problems that raises in terms of financing for companies. One is that as orders turn down, as orders drop off, companies actually experience an increase in cashflow, because they're being paid for the product that they sold, but they don't have any cost. At the beginning it looks like things are okay, but companies are looking ahead, of course, and seeing that the order books are emptying, and they're really scrambling to adjust to that. I would think that the demand for work-share has never been higher than it is right now, as companies try to keep many of their employees employed at some level. The second problem arises in the recovery, because that's the time when you book new orders, and there's no money coming in, but there's cost as your production ramps up. That's going to be the second largest area of demand for financing.

In the survey as well, we asked companies if they were experiencing difficulties in obtaining financing. Many are, particularly in areas of asset-backed financing or leasing. Many companies, as you know, lease their equipment. As well, any type of bond market activity or securitization is extremely difficult to obtain right now. Of course venture capital has virtually dried up for many companies, and this is affecting product pipelines, particularly in the biotech, information technology, and pharmaceutical sectors. Many companies, small companies in particular, are experiencing more and more difficulty in extending their lines of credit or obtaining new credit even for expansion purposes.

● (0925)

I'll give you one example. I don't think he would mind my mentioning it. Rick Jamieson of ABS Friction in Guelph, Ontario, produces brake pads for the after-sales market. He exports 85% of what he produces. Everything is insured by EDC. He was told by his bank that it was no longer going to margin his receivables, even though they're fully insured by EDC. And the reason was that he's in the automotive industry. This is a company that grows in a recession. If you're not buying a new car, you're fixing an old one. He was looking for expansion capital, and he was turned down by three banks. So it's very tough. And if your orders are turning down, it's going to get tougher to obtain financing. That's the current condition.

Looking forward, though, we're going to come out of this recession. The nature of manufacturing is changing around the world. It is evident that Canada cannot compete on volume and it cannot compete on low labour costs. The advantage of Canadian companies is going to continue to be in customized product, specialized product, innovative product, the services that go around the product, and fast response. We're very good at producing small batches of things. We're extremely good at that. So it's that agile, specialized type of manufacturing that is going to be the future of manufacturing in this country, and I think there are tremendous opportunities here.

The future of manufacturing depends primarily on our business leadership. It depends on the investments these companies are making in productive assets, new technology, skills, and innovation. That's the type of long-term policy that we need to support manufacturing going forward. In my view, the policy priorities right now are, first, availability of financing, making sure that enough money gets out the door to those those competitive companies that need the financing. Competitive infrastructure, that's a second priority. The third is to provide an investment climate that encourages investment and productive assets. The two-year writeoff for machinery and equipment in manufacturing is an extremely important policy measure. But we could do more to make the R and D tax-credit refundable. We could do more to encourage worker training or retraining.

Regulatory systems that are efficient, low-cost compliant, and fast are more important than ever, with companies scrambling today in this economic climate. I'm extremely concerned about our relationship with the United States—Buy America, border issues, and how we compete with targeted investment. In many industries, we see 100% financing for investment in technology and innovation being subsidized by the U.S. government. That's the kind of competition we're up against.

Finally, how do we coordinate this? I see many departments, many levels of government, all trying to do good things but not necessarily going in the same direction at the same time. We have to do a much better job of developing an advanced manufacturing strategy that focuses on supporting specialized manufacturing in this country. We have to make sure we have all levels of government, all departments, going in the same direction.

Thanks.

● (0930)

The Chair: Thank you, Mr. Myers.

Mr. Garneau.

Mr. Marc Garneau (Westmount—Ville-Marie, Lib.): Thank you.

My first question is for the Conference Board, for Mr. Burt or Madame Poulin. Canada has lagged behind in innovation for a long time, and there's been a great deal written on the subject. I'm asking a more general question. Has the Conference Board identified why we're lagging, and what Canada should be doing at the federal level to make this a more innovative economy?

Mr. Michael Burt: We produce an annual report card on how Canada performs, and innovation is one of the things we measure as part of that. I don't know the exact number, but generally we don't rank very well by most measures. It's a quantitative-based thing, looking at things like patents and the number of people who are graduating with PhDs, these sorts of things.

Basically, our analysis suggests that, first of all, we need to make sure we have adequate training in place in terms of getting the personnel and the skills we need to have innovation take place here. That's not just science-related degrees, it's also in terms of our MBAs, our business training to ensure we have the skills necessary to innovate and go forward.

On the other side of the equation are some of the things Jayson was talking about in terms of ensuring adequate venture capital, ensuring adequate financing for new ideas, so we're able to commercialize the ideas we come up with in our universities and other institutions and turn them into commercial products that can be sold both domestically and globally.

Mr. Marc Garneau: You mentioned venture capital. It's been a subject that's been discussed quite a bit recently. Canada's pool of venture capital has certainly shrunk in the last few years, and although government intervention with providing funding through BDC has partially offset that, there still is a very serious issue. Do you have any ideas about how to increase that venture capital?

Mr. Michael Burt: It's an interesting question. I'm not sure if I have a specific prescription for that problem.

Essentially, it's about our attitude toward risk in terms of our financial institutions and also the maturity of our things like private equity, these sorts of things. I think, at least when we compare ourselves to the United States, we don't have the same level of development in a lot of alternative forms of investment that our neighbours do to the south. I think essentially what we need to do is look at best practices in other jurisdictions that have been successful, not just the U.S. but also places like Finland, and try to assess what they're doing right and learn from their success and apply those successes to our particular situation.

● (0935)

Mr. Marc Garneau: I think from what you've said, it sounds as if we're culturally risk-averse compared to some of our neighbours, but you also mentioned there are best practices. What I'm trying to get at here is whether there is a role for the federal government to implement some of the best practices other countries have implemented.

Mr. Michael Burt: I think so. I think there's certainly a role for our various agencies, whether it's BDC or Industry Canada or other organizations in the federal government, to learn from these best practices and try to apply them to our situation. Essentially, if the private sector to this point has not stepped up to fill that niche or that role, then certainly there's a role for government to fill that niche.

Mr. Marc Garneau: My next question is to both of you, if I have time.

I've just come from a presentation that indicated the percentage of publicly funded research is higher in Canada—the percentage of research here in Canada versus a country like the United States and other countries. I'm talking about through our universities or our government labs. It pointed to the fact that private R and D in this country is lower than in other countries. I'd like to have some idea from you as to why you think we do not, in the private sector, invest as much in R and D as in other countries.

Dr. Jayson Myers: Maybe I could take a first crack at that.

I think one very important reason is that we don't have the global companies and the ownership of the global companies that are doing the R and D. One of the benefits of our relationship with an awful lot of multinational companies is that the knowledge and the technology is transferred into Canada for product development. But in terms of product concept through to initial development prototyping and to spinning it out to commercialization, I think you'd probably find that most of the R and D expenditure done by the private sector around the world is done by large global companies very close to where they're headquartered or very close to where their large pools of capital are.

We're very lucky to have a company like RIM and very lucky to have the private sector R and D that does go on here. I worry when we see the loss of local ownership of companies, because I think it also takes with it the loss of a lot of investment and innovation decisions. Of course, this is generalizing. The pharmaceutical sector and aerospace and IT are certainly doing a lot. Those are the three leading sectors in R and D.

Given that this is the situation, what do we do about it? We have an awful lot of really good research going on in universities and in a lot of small companies and mid-sized companies, in particular, that are trying to do different things. I think we can do a much better job of trying to transfer that knowledge to the companies.

As I said, we put a tremendous amount of money into research and then try to push it into the marketplace. We rarely see innovation as a solution to a business problem. I think we could do a much better job linking up the research if we were actually saying that there is a business with a product or a production or a business problem we think we can help with through our research or an opportunity we think we can provide to that business.

You were asking for best practices. I think one of the very best practices in this area, in terms of technology transfer from colleges and universities to business, is the Ontario Centres of Excellence. And one of the very best practices, in terms of venture capital and where that's going, is the role the Ontario Municipal Employees Retirement System is taking. They're actively supporting OCE. They are working with OCE to provide venture capital to those companies they know, and they have some idea about how those companies are managed.

I think there are new innovative ways of doing this. Innovation is going to be more important than ever to Canadian manufacturing, because it's very clear that the manufacturing product and the process is going to demand rapid change going forward. The challenge is that it's happening right around the world, and here too, and we're competing for that.

● (0940)

The Chair: Thank you, Mr. Myers.

We'll go to Monsieur Bouchard.

[*Translation*]

Mr. Robert Bouchard (Chicoutimi—Le Fjord, BQ): Thank you, Mr. Chair.

I have a question for Mr. Burt regarding the forestry industry. Your statements may lead to the conclusion that the future of the forestry sector is not rosy. You said that the demand for paper has gone down, that the real estate market is going down and that construction sites have bottomed out.

Should we expect more closures of pulp and paper mills? During the coming year, should we expect other softwood lumber sawmills to close their doors?

[*English*]

Mr. Michael Burt: In the very short term, I don't think it's unrealistic to say there may be more shutdowns, because the industry is still going through the process of trying to rebalance. On the wood side of things, they're trying to go through the process of balancing production with the level of demand, because, as you say, housing starts in the U.S. are certainly at the lowest they've ever been on record. Here in Canada we've seen a pretty significant drop as well over the last year. So in the short term there's going to be a correction.

For wood products going forward, we do expect housing starts to experience some recovery. We don't expect them to reach the peak level of production we saw in 2005-06, earlier this decade. There will be some recovery going forward once the current recession has gone past.

On the paper side of things, the current situation is more problematic. It's more of a structural decline. The current recession has only aggravated the current decline that this sector has been facing. Newsprint is one of our major products. It's going through a major crisis right now. Newspapers are shutting down around North America and their business model is in jeopardy. Our newsprint producers are subject to that problem. With that said, there are some growth areas. Prior to the current recession we were seeing a demand for our pulp in China because they don't really have a domestic forestry industry there. They produce paper and wood products there, but they don't have the raw materials needed to feed that industry, so they were buying our pulp to produce locally.

There are some growth areas, and that's why I tried to allude to the fact that if we want to see growth in this industry going forward we need to rethink what we're doing with our forests. I think we need to look at new products, new ways of using our resources. That's the only way we're going to see growth because of this structural decline in demand for basic paper products.

[*Translation*]

Mr. Robert Bouchard: My other question is for Mr. Myers. You said that you carried out a poll of Canadian manufacturing companies. I gather that you conclude that the worst problems engendered by the crisis are known.

Could you give me some more arguments or explanations for this conclusion? Have we put those difficulties behind us or are we going through them right now? You seem to be showing some optimism, as you think that the worst is now behind us.

● (0945)

[*English*]

Dr. Jayson Myers: I think the impact on production and employment lies ahead, and I think for the rest of this year it's going to be a very challenging period of time for manufacturing. I hope the worst is behind us in terms of the downturn in orders, but the adjustment to that, which is what affects jobs and decisions about whether to stay open, and financing, all those challenges are being felt right now, but I think they're going to be with us at least until the end of this year.

I've heard many economists say we're looking at indications that economic conditions are improving. I look at sectors like steel and aluminum and chemicals and basic plastics. These products go into everything and they're the ones where we should see demand picking up first. Yet in all those sectors we're seeing orders continue to fall. Companies are working down their inventories. There is the argument that as soon as they work down inventories and demand begins to rise, we'll see a sharp pickup. Well, demand is falling and inventories are continuing to be worked down. I think the impact we're going to see on employment and investment still lies ahead. I hope I'm wrong, but I think it's going to be a very tough year.

If I could, I'd like to say something about the way I usually talk about things and economists generally talk about supply and demand. Looking at opportunity from a business point of view, Canada has at most 2% to 3% of the world market in most manufactured products. That's a big market to expand into, and we're talking on a sector-by-sector basis. But what it really very much boils down to in many cases is how particular companies take advantage of opportunities at particular times. I'm not expecting many companies to grow rapidly, except that we do see some manufacturing companies doing that in Canada right now, but survival may be a really good growth strategy.

I've got members in the automotive industry who are buying up suppliers at a tremendous discount and taking this opportunity to consolidate their business. I have one company that has lost 70% of its production, but has tripled its market share simply because their competitors have gone out of business. So this is changing the economic and competitive landscape, and I think we should assist those companies in taking those opportunities. Just because you're associated with a particular sector doesn't mean you don't have the opportunity and aren't making these adjustments.

On the financing side, though, and I think this is particularly the case with forestry, a part of it is because of the changing nature of demand, the downturn in orders as well as the structural changes companies have to adjust to. What we're seeing for large capital-intensive companies in particular are the financing problems in the market leading to bankruptcy protection decisions or decisions about whether to open or close or keep investment in Canada. If you are highly capital intensive, as most manufacturers are in a large company, and you're a part of a multinational supply chain or a multinational company, you're facing tremendous pressures today to retain and attract investment or at least retain investment in Canada to stay open. Many companies that will go to the bond market to refinance are just finding it impossible to do that and to find securitized financing under these situations.

● (0950)

A part of it is supply and demand, but a very large part of the problem in forestry and in large capital-intensive processing industries, which we have not yet seen because this refinancing is going to be coming up over the coming year, is the inability to access and to refinance debt. Unfortunately, I think that's going to be another shoe that's going to drop over the course of the next year.

The Chair: Thank you, Mr. Myers.

Mr. Lake.

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

Thank you to both of your organizations for coming out.

Today in the news we hear that President Obama's top trade official has confirmed that they have no plans to reopen NAFTA. I think the quote from Ronald Kirk was that “The president has said we will look at all of our options, but I think they can be addressed without having to reopen the agreement”. How important is that, do you think, to our industry here in Canada?

Mr. Michael Burt: Obviously, the U.S. is our largest trading partner, so it's definitely good news, although I would say most of the low-hanging fruit that came as a result of NAFTA has been picked. We haven't really seen a big improvement or big increase in our trading relationship with the United States since the beginning of this decade. Our trade's basically been flat with the U.S. over that period of time. What we're seeing is our manufacturers, our exporters, are looking to new markets, because that's where the growth is, that's where the opportunities are. The U.S. share of our trade has actually shrunk in recent years, and I do expect to see that continuing going forward.

It's important for us to maintain that relationship with our largest trading partner, with somebody who's right next door and is easy for us to work with. It's also important for us to look forward and continue to open up new markets, new opportunities, and to seek these new markets.

Dr. Jayson Myers: I would also say that the NAFTA offers Canadian manufacturers and exporters tremendous opportunity and protection within the North American economy, but it doesn't cover everything here. From the point of view of the threat of opening up NAFTA, whether that would change our level of safeguard within North America, then that news is good. Keep in mind, 50% of what is manufactured in Canada is exported into or through the United States. Everything that manufacturers did over the last 15 years to succeed in the U.S. market is now coming to haunt them because of the economic difficulty in the United States.

There are four areas I am particularly concerned about in our relationship with the United States. The first is Buy American provisions that cover all iron, steel, and all manufactured products and were written into the American Recovery Act. This is only $80 billion of procurement opportunity. Although the Senate amendment has said that the U.S. would meet its international trade obligations, the fact of the matter is that most of that money is spent at state and local levels, in which we do not have any safeguard under the NAFTA. Because we're not signatory to the general procurement agreement, we don't have any safeguard at the state level. Even the Europeans who have signed the GPA and can take advantage of the procurement of 37 states don't have the access into municipal procurement. The federal legislation in the United States Recovery Act really expanded the restriction on Buy American.

The problem now is that we're seeing the very same wording being written into appropriation bills. We understand that congressional leaders have instructed their staff to write this into appropriation bills. We could very well see the same Buy American provisions appearing in the energy act, the housing act, the transportation act, the highways act going forward. This federal money that is being spent at state and local levels is not covered by NAFTA. The clean water technology sector saw the United States as a major market. I was with five companies here in Ottawa last week because they're now being effectively shut out of the U.S. market because the Buy American provisions have been written into the clean water appropriations bill. So Buy American is a big challenge.

The second challenge is export controls, and particularly the ability of Canadian companies to hire Canadian nationals or people with dual nationality here to work on technologies. That's a huge issue. It is another example of protection.

At the border, more and more regulations are slowing the border process. It's not just customs and security regulations, although there's a lot of that too. It's the fact that we administer 137 statutes and the U.S. administers 97 statutes at the border, all with different regulations here. The lack of harmonization is now.... When the United States is focusing on enforcement, this becomes a major source of compliance costs and time delay in moving product across the border.

We're just as bad as the Americans are. CBSA is proposing to have importers declare the source of the product, the tariff code of the product, whether the product is a health and safety risk, whether the product has been fumigated. These are things they're asking importers to declare from a manufacturing exporter. You're asking your customer to declare this information. If they can't declare that information correctly, they face huge fines from CBSA. After trying to convince American border authorities not to do this in the United States, the fact that CBSA is even contemplating this in Canada just frankly sends shivers up the spine of anybody doing business across the border. So we have our own act to get together here on border issues.

● (0955)

The most recent indication of the challenges we'll face in the future is U.S. EPA regulations affecting greenhouse gases. If Canadian companies are expected to report GHG content, or to do a detailed accounting on energy going across the border, this will add another layer of cost and another layer of delay. Frankly, if you are a company looking at putting a production facility in North America, where would you put it, given all the problems in getting into the U. S. market today? It is already beginning to have an impact on where companies locate production and investment. None of these problems falls within the current rules of the NAFTA.

To answer your question, yes, it's good they're not going to reopen the NAFTA, but we have to do a lot more, working with the Americans, to make sure we have a commercial relationship that works well between the two countries.

The Chair: Thank you, Mr. Myers.

Mr. Thibeault.

Mr. Glenn Thibeault (Sudbury, NDP): Thank you.

You mentioned the Buy American plan. What do you think a Buy Canadian plan would do, or should we even have one?

Dr. Jayson Myers: We've been proponents of a Canadian content preferment for procurement—and it would not be possible at the federal level, but at provincial or local levels—to at least afford Canadian suppliers the type of access American suppliers have. Part of that is the transparency of the procurement process; part of it is making sure small companies are told about opportunities and can bid; a part of it would be volume issues too, because moving to higher volume to cut costs in provincial or local procurement has often excluded smaller Canadian companies. So all of that has a part in it. As well, most countries have some form of local procurement in terms of regional benefits. So that preferment is not a bad thing, and we have encouraged that.

What I would not want to see, though, are the same types of restrictions the Americans are putting on their procurement. To say all manufactured products have to be made in the United States, the rule will be substantial transformation of the product. What that's going to do will be to affect American suppliers to Canadian companies that then sell back into the procurement market. Those American suppliers will lose the business as well as the Canadian companies. It will tremendously complicate the procurement process, so if you want money out the door fast, this is not the way to do it.

The other problem Canada runs into far more than the United States is that we simply don't produce a lot of the technologies that are needed. I would say the Americans will find the same thing in particular areas like medical technology, security, environment, or energy as well.

All well and good. When we run into Buy America issues in the United States, they're extremely political. Of course, the argument is, well, we've got American taxpayers' money going into procurement and going into the recovery and the stimulus package, so why wouldn't that money be spent on American product? The irony is, of course, that the Americans borrow heavily from everyone around the world to finance their deficit and finance that procurement.

That's the problem. How do we solve it? I think the one thing that does get everyone's attention in the United States is the threat of retaliation. The Americans have paid a lot of attention to the fact that the Mexicans did targeted tariff increases there. They also paid a lot of attention to the Ontario Green Energy Act, because there is a local preferment policy there. So they're very sensitive to that issue and we should be leveraging that.

I think what we need to do is work on a sector-by-sector basis to find some form of reciprocal waiver that would allow American technologies into Canada and Canadian technologies into the United States based on the fact that federal money is being spent, and this could be a federal-federal agreement. At the heart of this is maybe the threat of some form of reciprocal action, that provincial procurement will remain open to suppliers from all countries as long as Canadian exports can freely flow into those markets.

At the same time—just one other thing—EPA has written guidelines about Buy America. At the very same time, EPA in the United States has just published a document for U.S. environmental technology industries saying look at the procurement opportunities in Canada and how can we help you take advantage of Canadian procurement in the environmental technology area? So there's a lot of commercial advantage to open-market access in both countries. I think that should be the basis for some form of reciprocal sectoral agreement that would waive Buy American restrictions there. It's going to be very difficult to negotiate that, though, given the political circumstances in the United States.

● (1000)

Mr. Glenn Thibeault: Perfect.

One of the things you said in your opening remarks caught my attention, and I'd like you to explain it in a little more detail for me. You were talking about how money is made in the manufacturing sector in services and in a few other areas and that the product is the anchor. Can you clarify that for me?

Dr. Jayson Myers: I will give you an example. One of the great things I do in my job is I get to visit all these manufacturing companies and see what really is going on. If you go out to the Gilbey's distillery in Lethbridge—I also like to visit distilleries and breweries—this is one of the biggest integrated distilleries in North America. They produce Black Velvet whiskey and they produce Smirnoff, so it's a pretty good business. What you see is railcars coming in with grain, and the process then goes from grain handling all the way through to bottling. It's a fully integrated production process.

There are two people who look after production, both of whom have masters degrees in engineering, because they run the computers. It's the same thing in an integrated sawmill. It's the same thing in a pulp and paper company. It's the same thing in food processing, in any process industry, chemical industry or whatever today. You have two people in production.

You need the product. But where is the money made? It's made in the recipe, the R and D, the design, in the marketing, the delivery and logistics that go around it and the service and the warehousing and bottling and quality control. All of those are services functions.

When we deal with statistics in Canada we deal with Statistics Canada, and you would think it would be easy to measure the value of manufacturing production or manufacturing sales. Unfortunately, it is not. Manufacturing sales numbers are the sales of companies with 50% of the value of production in the actual production process as manufacturing, and value is basically labour cost. So as fewer and fewer people are working on the production system and more people are working on quality and innovation, engineering, technology, delivery, and you name it within a company, as manufacturers move into this advanced high-value service-based manufacturing we're actually defining the sector out of business.

We have a lot of companies like RIM, for instance, that don't make their money in production here. They still produce things, but they aren't necessarily counted within manufacturing statistics. But you need that product in order to anchor all of the other services within a company or within the supply chain around it. We have great design and engineering, technicians, IT, services, and everything else in the country, but those jobs disappear very quickly if there isn't a product, and they will migrate to the place where there is a product. RIM is an excellent example. They need to manufacture their newest BlackBerries in Canada because they need to be close to the product in order to re-engineer and redesign and develop new technologies around that. The more customized you are, the closer your supply chain has to be.

That's what I mean by that anchor of activity.

● (1005)

The Chair: Thank you, Mr. Myers.

Mr. Lake.

Mr. Mike Lake: Is it me? I thought it was Mr. Garneau.

The Chair: Mr. Garneau.

Mr. Marc Garneau: Mr. Myers, you spoke during your first presentation about investment tax credits for R and D, and you even mentioned the word “refundable”, I think. I'd like to hear you talk a little bit more about what your views are on that and how you see the government's role in that.

Dr. Jayson Myers: We do have some of the most lucrative tax credits for industrial research and development and business research and development, but I think one of the shortcomings of the system we have is the fact that these tax credits are not refundable. That means if you're making investments in R and D, you don't get the tax credit necessarily, or the credit is credited against profitability—and there's a good reason for that: you want to show that the R and D is being commercialized well. The problem is that in innovative companies, particularly in economic times like this, they're investing far ahead of their profits and are unable, at the time they need the money, to take advantage of that tax credit. In fact, in some cases they build up vast resources of these tax credits—billions of dollars of tax credits in the case of some companies—that they can't exercise, but it makes the company extremely attractive as a takeover bid.

Also, there are companies that do a lot of research in Canada but don't take advantage of this tax credit because they are U.S.-owned companies. With the consolidated reporting for tax purposes in the United States, unless the tax credit is refundable, it is no incentive for an American-based company to exercise those tax credits in Canada. We're talking about one of the differences in industrial R and D. The tax credit should be encouraging innovation on the part of all companies here, but a very large segment of our industry is owned by U.S. interests, and those tax credits are meaningless for a number of those companies.

So refundability is an issue. We've been pushing for that for many years, as have most of the 43 associations in our manufacturing coalition. What we run up against is not so much the argument that this is too expensive. In fact, analysis by the Department of Finance shows that there's actually a payback to the tax credit. Frankly, I think the real argument, apart from the fact that the finance department never wants to change anything, is that the tax credit is set up to ensure that product will be commercialized; therefore, it's a credit against profit, rather than given on a refundable basis. But I think there are very compelling reasons for that being done, particularly when companies that are making these investments today need cash, which is exactly what the problem is today.

● (1010)

Mr. Marc Garneau: Thank you.

Innovation we've talked about. Productivity is that other thing that Canada doesn't seem to have a stellar report card on. I'd like to hear your views on why it is that Canada is not up there at the top in terms of productivity. This is a modern country. What is it that makes the difference?

I'd also like to hear from the Conference Board on that, please.

Dr. Jayson Myers: When you look at sector-by-sector productivity numbers, the differences really stand out in two areas—machinery and equipment and information technology. We lag behind in those two areas as well as in some areas of pharmaceuticals.

In auto, in metals, in plastics, in paper and wood products, and in our resource-processing sectors, our levels of productivity are better than America's, but it's these areas of more advanced technologies in which we tend to lag behind.

I think a large part of that is because of the scale of companies, the fact that we're dealing with a lot of small or mid-sized companies, which therefore have more people and less scale. I think a part of it is that we have, in many cases, a very specialized production, so we do small batches of product. I think in the future the value is going to be in that level of customization or specialization, for the company that can produce what is called the competitive batch of one. Doing that is pretty labour-intensive. You can't do that. There's an advantage to making it labour-intensive. If you look at a company like RIM or many other companies in Canada, and you look at where labour is, it's not on the shop floor. It's not in production. It's in the R and D, in the engineering.

All I'm saying is that maybe we'd better be careful how we talk about productivity, particularly from the point of view that you can achieve infinite productivity the day that, as is the case in many companies today, you turn the lights out and you sell off the inventory. There are no people employed, and there's a value for a product, but that's not necessarily where you want to go. What we should be looking at is how you produce more with more, not more with less. You do that, I think, by going to a higher value, more innovative, more specialized type of manufacturing that will also bring with it people here too.

I have to add one other point on productivity.

The Chair: We're running over time. I just want to put this for the committee's consideration. The answers are going, but I think they're important, so is it the committee's wish that we abide by our time? We're in a five-minute round, and you're doing an excellent job, but do we want to have our witnesses finish, or do you want me to cut them off?

Mr. Marc Garneau: I'd kind of like to hear the end.

Mr. Mike Lake: With the start of my time, why don't I pass the floor to Mr. Burt and let him finish the answer, because I want to hear what he has to say too.

The Chair: If you could wrap up, Mr. Myers, then we'll have Mr. Lake ask his question.

Dr. Jayson Myers: Right now we're seeing productivity increase in manufacturing simply because we're seeing less competitive companies disappear. So overall we're seeing an increase in productivity in the sector, but when you look at operational process measures like work in progress as a percentage of sales or inventories as a percentage of sales, the things that make sense to business—productivity numbers really don't make too much sense as a business indicator—productivity may be going up, but those numbers may be going the other way. So you can have a more productive manufacturing sector, but at the same time it can be less competitive.

All I'm saying is that we have to be really careful how we use these economic indicators and be very clear about what we're trying to do in order to boost productivity, which is to invest in those productive assets that generate high value going forward, I think.

● (1015)

The Chair: Mr. Burt.

Mr. Michael Burt: A few years ago we went through the exercise of going through Canada's industries, industry by industry, comparing our productivity with that of the U.S., and, as Jayson said, in a number of industries we were actually more productive than were our peers in the United States.

The biggest thing to us is industry mix. The mix of industries in the U.S. is not identical to what it is here, so you're seeing that some very highly productive industries, such as financial services and IT, have a much larger footprint in the U.S. So that helps to skew their productivity picture to be higher than what we have here. But when you get to individual industries and you see where we're lagging behind the U.S., a couple of things stand out. First is openness. Industries that we tend to produce tend to underperform on productivity measures because they're not facing the same competitive pressures that other open industries are facing.

The other place where we saw Canada lagging was in industries that benefit from certain economies of scale or concentrations. A big one that we lagged in was, for example, retail trade. Our retail trade industry is much less competitive than is the one in the United States, and it's simply because we have a much smaller population spread over a much wider area. It's a lot harder to get the economies of scale in terms of logistics and warehousing, and to get products to our customers quickly at the lowest possible cost.

So those are the two big issues that stood out for us.

Mr. Mike Lake: I have a question about the oil sands. I think it's safe to say we're talking about a cyclical issue versus a structural issue. In the long term, most commentators would say there's a positive outlook.

Mr. Myers, could you talk a bit about the opportunities? You were talking about opportunities for manufacturing that aren't necessarily directly related—in the production of autos. Could you expand on that for the oil sands industry?

Mr. Burt, you might want to add your thoughts regarding the long-term outlook for the industry.

Dr. Jayson Myers: Last year, when projects were going ahead in the oil sands and investments were being made, the outlook was that in the next ten years we were going to see $150 billion in investment, generating over $1 trillion in economic opportunity. Most of that would be open for manufacturers across Canada, and around the world, to take part in. Now, with the slowdown, we're still looking at a combination of investment in new projects and maintenance that wasn't included in the other number. Still, $30 billion will be spent this year in the oil sands, generating opportunity for suppliers—primarily in machining, metals, steel fabricating, pressure vessels, environmental technology, and process technology.

I know this because we've been running a program over the last three years trying to connect manufacturers with those opportunities and partnering them with Alberta companies. It's showing some of the problems of what it takes to go from an automotive parts supplier to supplying the oil sands. It isn't easy, because you're going from high-volume, high-precision, small-scale production to large-scale, one-off project work. So there's a challenge here. In fact, many companies from Quebec, northern Ontario, and the Atlantic provinces have a better opportunity because they're used to dealing with project work.

The oil sands offer a tremendous economic benefit for manufacturers right across the country. It is a major opportunity for companies that are trying to diversify their market. It would take, at current trends, 137 years for Canadian manufacturers to realize the same opportunity in China as they will in Alberta over the next decade. This is a major opportunity, not only to supply but to provide the new technologies that we need in the oil sands. That's some idea of the scale.

There are some good examples. A company called Promation in Mississauga has gone from an auto producer to producing exclusively for oil sands and nuclear energy. The same companies that supply oil sands also supply nuclear, refinery developments, and alternative energy projects. The opportunity here is not just to supply Alberta, but to take the knowledge and technology in Alberta and convert it into a resource that supplies the global energy industry. I think that's where the ultimate gain has to be.

● (1020)

The Chair: Mr. Burt

Mr. Michael Burt: Our view is that it's essentially a short-term phenomenon. Oil prices will rise from their current levels. The fundamentally tight global supply-and-demand conditions that existed prior to the current global recession will return. We may not see $150 oil again any time soon, but oil prices will definitely rise, making a lot of the projects that have been delayed viable again in another year or two.

Certainly we will see renewed investment in oil sands, which already accounts for a majority of our oil production here in Canada. It will continue to account for a growing share of our oil production. I think our manufacturers will definitely benefit from this. Even before the current recession, we saw machinery producers and a number of other industries benefiting from the high degree of investment in oil sands. I think this benefit will return once oil prices begin to improve.

The real risk in the oil and gas sector is on the conventional side. We're seeing declining productivity and increasing costs per well. It's becoming more and more difficult for our conventional producers to maintain production at current levels. That's going to play a shrinking role in our oil and gas production going forward.

The Chair: Thank you, Mr. Burt.

Monsieur Bouchard.

[*Translation*]

Mr. Robert Bouchard: Mr. Myers, let me come back to the question that Mr. Garneau put regarding tax credits for research and development.

Currently, the federal government is issuing so-called non-refundable tax credits, which means that a company has to be making a profit in order to benefit from them. Now I understand that you are proposing to make these credits refundable. Thus, a company would not have to be making a profit. Even if it is taking a loss, if it is carrying on research and development, given that the credits would be refundable, it would be compensated right away. Have I correctly interpreted your statements?

Mr. Jayson Myers Yes, you are right.

[*English*]

One of the benefits of the Quebec tax credit is that it is refundable, and I think you see the benefit of that system by the amount of R and D that is done in Quebec.

Maybe as an economist I can say this. When I deal with economists at the Department of Finance there's this idea that sooner or later, in the long run, everything evens out anyway, so it doesn't make any difference if you pay the money now or pay the money at some point in the future. Well, in the long run we're all dead, as Keynes said, and that long run may not be so long for many businesses today. So the ability to get the money as quickly as possible is what maximizes return on investment immediately, and that's what drives the investment, both in R and D and in overall investment, in a business today.

That, I think, is the same argument I would make for the two-year CCA: the faster you can write off your equipment, the higher the rate of return will be. The Department of Finance will say we shouldn't be treating manufacturing differently from anybody else, and I agree with that, but you have assets that create wealth. They should be given preference, number one. Number two, we should structure a tax system so that you have the least impact on changing investment decisions. But if we assumed a world where we didn't tax companies, they would make, on average, in manufacturing, a return on investment in about two and a half years on capital investment. So now if we're going to put in a depreciation system, it seems to me that instead of the current system, where you try to look at how long you can spin off a useful life of an asset—in some cases 40 years—wouldn't it be better if you put in a depreciation system that actually mirrored the rate of return that companies would be making if there were no taxes? To me, that's a much more compelling way to structure a tax system.

It's the same thing on the R and D side. You want to make sure that the treatment of these investments gives an immediate return. That's what spurs the investment, then, in R and D, as well as in business investment, in general.

● (1025)

[*Translation*]

Mr. Robert Bouchard: Thank you.

You said that 50% of manufacturing production was exported to the United States and that it is difficult to do business with the Americans. Canada has some 97 pieces of legislation for regulating various aspects of trade, and the Americans have almost as many of them. Moreover, there is a lack of harmonization.

Would harmonization be of benefit to the United States or to Canada? Which of these countries should take the initiative with regard to harmonization?

[*English*]

Dr. Jayson Myers: Deodorant that has already been inspected in the United States is inspected again when it comes into Canada. Why? I would think that's a good example. American and Canadian underarms aren't all that different. Why do we need a double inspection system?

I'm not saying we should harmonize all regulations, but we should look at those areas of regulation where it makes sense to adopt the same standard. Some sectors do it very well. Pesticide controls do it very well here. In general, we tend to think we need to have our own regulatory systems, and even when we're developing new ones, as in product safety recently, we tend to do it ourselves. We reinvent the wheel, even though the Americans are doing it differently. When it comes to border issues, product safety issues, and food product safety issues, we could be working together to develop new regulations at least, to make sure we have consistency—the same objectives but a consistent interpretation of those objectives, and mutual recognition of standards going forward.

It's a very complex issue, and I don't think it's an issue where you say we're going to harmonize everything. It takes departments to say we're going to do this and work together. I think the onus has to come from the Canadian side to do that. I think we can change a lot. A lot of the regulatory problems and inconsistencies we have are of our own making.

The Chair: Thank you, Mr. Myers.

Mr. Lake.

Mr. Mike Lake: I didn't intend to ask a lot of questions on oil and gas specifically, but I'm interested in what you're saying, Mr. Myers, about the impact of the oil sands on other parts of the country.

One of the real joys I've had as an MP has come from talking to colleagues and people from across the country and learning a little about their parts of the world, the industries and things that are a big part of their lives, and how different they are from what's happening in Alberta and the world I live in there. For example, Mr. Thibeault comes from Sudbury. They're having a tough time there in some areas, and I think it's incumbent on us to look for opportunities that might exist.

Maybe you could elaborate a little on the opportunities that might exist for companies, industries, workers, and families in Sudbury in an industry like the oil sands. It's still relatively strong compared to most industries, but moving forward it will be an area of tremendous opportunity.

● (1030)

Dr. Jayson Myers: I'd be pleased to do that.

We often see the oil sands as an Alberta resource or a western Canadian resource, and we forget about the commercial opportunities. We also tend to forget that 60% of the taxes raised as a result of oil sands development are paid to other jurisdictions across the country, other than the Alberta government. So there are huge economic and social benefits from this too.

With particular reference to opportunities in Sudbury, every year we run a buyer-seller forum for oil sands companies, the engineering procurement companies, and their suppliers in Alberta, with the idea of partnering Canadian manufacturers and companies with them. In March 2008, 1,200 companies attended this forum in Edmonton. This year we didn't have as many—maybe about 600—but they were there for business and to understand changes in the oil sands supply chain.

The economic development group in Sudbury took a delegation from Sudbury to Edmonton. Companies in Sudbury that are used to supplying mining developments are in an extremely good position because they do the process and environmental technologies, and the types of products—pressure vessels, machining, and maintenance equipment—are particularly suited to oil sands.

I think there's tremendous opportunity across northern Ontario and the Sudbury region. As the mining activity slows down, energy development is a source. I know of a number of companies in the Sudbury region that have benefited from the oil sands development.

Mr. Mike Lake: In some parts of the country, there's also a sensitivity to the idea of.... There are a lot of people who moved across the country to work in Fort McMurray, but for some families that's difficult to consider, because there are a lot of ties back home.

What you're talking about here actually doesn't require anybody to move. They can work in the industries they're in in the town they're from, in a sense. Is that right?

Dr. Jayson Myers: That's right. That was really the reason we developed it. This was a project we began with Industry Canada and with the Alberta government and the Quebec and Ontario governments. They're all still very active partners in this.

Companies in Alberta were experiencing many problems and time delays because they couldn't get the people to install or work on product. You could expand capacity in Alberta. Alberta companies at that time couldn't keep up with demand. The idea was to build on that expansion capacity and relieve some of the labour pressure by partnering with companies across the country. There was tremendous opportunity—there still is, because there are still labour shortages—except that what we found was a good example of some of the problems in interprovincial trade. The problems, particularly with the compulsory certification of trades, meant that if you were a company in Quebec trying to install equipment in oil sands development, you were caught in the same labour crunch, because you couldn't use your welders in Quebec. They had to be certified in Quebec to install the equipment. But that just gave some room. We sort of said that what we need are modular manufacturers. You don't have to install it. Just put it in place. It spurred, I think, a lot of innovative thinking about the type of products, as well.

We know that we've developed about $1.5 billion in business as a result of this last buyer-seller forum in terms of the type of opportunity available there and the matching companies. It was a tremendous amount of opportunity.

It isn't easy. And some companies might as well go to China as go to Alberta. It's the lack of knowledge, as you said, about what's going on and coming to the market and not knowing who the companies are, not knowing who the players are, and not knowing the pricing. But that just takes education. Good companies will be in the market. They'll figure out what the problem is, and they'll come back with a solution to the problem. That's where the opportunity for doing business lies.

● (1035)

The Chair: Thank you, Mr. Myers.

We'll go to Mr. Thibeault, please. This is our final round of questioning, and then we'll have to do some committee business.

Mr. Glenn Thibeault: That's perfect. Thank you, Mr. Chair.

I also want to thank Mr. Lake for bringing up Sudbury, of course. I always like talking about my hometown. I had the opportunity to visit Penguin Automated Systems. I don't know if you're aware of Dr. Greg Baiden, but the stuff he's designing is also going to be used for mining companies and also in the oil sands.

As you mentioned earlier, when we're talking about Canadian manufacturing companies, companies like this have to look to other markets besides the U.S. We've seen many SMIs—small and medium-sized enterprises—become a growing force in Canada as an export-based economy. While many of them have been successful—and Dr. Baiden is one of them we can talk about—others have tried and failed. Maybe you can talk a little bit about how SMIs are doing in global markets—I'll offer this question to both of you—and about the particular challenges they face in this current economic climate.

Mr. Michael Burt: Certainly SMIs don't have the same infrastructure internally to help them in terms of identifying markets and companies in these foreign markets. You see in the SMI data that they're much less trade-intensive than average, and I think that's a key reason for it. They tend to work domestically, first, before they venture into foreign markets.

That said, there are certainly organizations, such as EDC, to help SMIs enter foreign markets, whether it's through consulting services to help them get a foothold in the market or through financing for their exports and these sorts of things. Given that many of the growth opportunities in the world today are in external markets, that's certainly something we'd like to see encouraged. As of this point in time, SMIs play a smaller role in foreign markets than average.

Dr. Jayson Myers: I would say that one of the big problems with small companies is that they're small and that we're expecting them to be experts in trade, experts in regulatory affairs, experts in HR, experts in product, experts in everything, and they just don't have the resources to do that.

My experience is that, especially in the manufacturing and technology companies, you have innovators or owners of a company who really know their product and really know their technology, but they're not necessarily the experts on selling that technology or that product around the world. Some clearly are, but I think there is an issue, particularly as companies transition from an economy where, let's face it, it was really easy to do business in the United States. It was really easy when you were part of a supply chain and pretty much all you had to do was produce to specification.

Now companies are expected to develop new products for new markets. That requires not only good marketing, experience in international sales, and financing, of course, but you also have to realize that you don't just take a product that you sell here in Canada and easily export it to other countries, or take a product that you produce in Sudbury and think that the oil sands majors are going to find that product useful. A large part of it has to do with understanding what those customers want and making sure you can redesign and develop the product that meets those specific needs. And it's always a question there.

We don't really measure our trade very well because Canadian small companies have made use of trading houses around the world. Those trading houses have traditionally been the large multinational companies that are their customers, and they take their product everywhere around the world. Then you have a small group of companies that have their own particular product and their own technology that are developing and doing extremely well in international markets.

But it's a major problem, and it is financing, it is export support, and it's finding the opportunity there. I think a very large part of it is making sure that the people in the companies think their business isn't getting product out the door; their business is providing a solution for customers. So you have to understand what customers around the world want and how your product or technology can work into that market opportunity, and then do that better than anybody else in the world.

● (1040)

The Chair: Thank you, Mr. Myers.

Colleagues, that wraps up our time.

We could listen to you for much longer. We do have to suspend for a few minutes to give you a chance to leave. That's sounds like an unflattering way to end this session, but I do want to thank you. I repeat, this has been most informative. There were excellent presentations by both groups, and I know this is exactly the sort of information we're all looking for so that we can move forward with this report. So again, we thank you very much.

We will suspend for a few minutes, colleagues, and we will resume in camera.

[*Proceedings continue in camera*]

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