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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)): Welcome, committee members.

We welcome our guests this morning.

We are in the process of studying certain industrial sectors in Canada, such as aerospace, energy, forestry, high-tech, and manufacturing.

This morning we're very pleased to have with us the Canadian Chemical Producers' Association and the Canadian Association of Railway Suppliers.

We're missing a couple of our members. I'm sure they'll come straggling in, but we do need to get going, because I understand you have a lot to tell us.

Our first round of questioning is seven minutes. I generally don't cut you off, but I may give you a warning. If I give you one of these, round it up. If you're in the middle of something, and you need to finish it off, by all means do so. Often we'll allow you to do that. We understand. If you're right in the middle of a thought, we don't want to interrupt that.

Our first round of questioning goes to the Liberal side and we will ask Mr. Garneau to begin that, after we hear from our guests, of course. We're going to hear first from the Canadian Chemical Producers' Association.

Mr. Richard Paton (President and Chief Executive Officer, Canadian Chemical Producers' Association): Thank you, Mr. Chairman.

I also have Fiona Cook with me, who is our senior adviser on business and economics. Because I heard all those great questions you asked Jay yesterday, I realized I was going to need some help here.

Thank you very much for this opportunity to talk to you about the chemical industry and, more broadly, the manufacturing industry.

[*Translation*]

This special subcommittee's discussions are very important for our industry and for all manufacturing sectors and I thank you for having them.

I hope to be able to make you aware of the chemical industry's situation and the unique position it is in because of this crisis.

[*English*]

My presentation will build a little bit on what Jay and the Conference Board were raising yesterday. Some of you were mentioning earlier that we all come and talk about our sectors and how important they are, but I'm actually not going to spend a lot of time on the chemical sector. Really, I'm going to talk more about the economy and perhaps the role of the chemical sector in the economy.

I'll begin with some background comments to set the stage. Then I'll have three main points regarding the need for political leaders of all parties to work together, much as you did with the Rajotte committee and the manufacturing report, to create the conditions for a strong and competitive manufacturing sector in Canada, of which the chemical industry would be an important part, of course, as well as the railway industry. Finally, I'll have one recommendation for the work of the committee.

I'm going to start my presentation in a little bit of a unique way. I'm going to ask a question.

In roughly five years, Canada has seen its manufacturing sectors go from 18.1% of GDP to 14%. We lost about 320,000 jobs between 2004 and 2008. I know you were wrestling with the auto industry recently, so you know what that really means in terms of people, lives, and communities. That's more than one in seven manufacturing jobs that disappeared in that period of four or five years. It's just absolutely amazing. One would have thought people would have been ringing the alarm bells long ago on this issue, but it seems we haven't until this recession came along.

In addition to the men and women who have lost their jobs, there has been a hit to communities across the country, especially in Ontario and Quebec. In the chemical sector, we have lost about twelve plants in the past five years, including two major plants in Montreal and several plants in Ontario.

So my question is this: what is an acceptable number for our manufacturing sector? Would letting this number slide to 12% be okay? How about 10%? What do we want to see in the Canadian economy of the future?

Or perhaps we could think about developing a robust manufacturing strategy that would either maintain or rebuild the core role of manufacturing in the economy.

I'm here today to try to convince you that Canada needs to go a bit beyond just looking at the sectors facing the issues that we've seen—the forestry sector, the auto sector, the aerospace sector—and beyond looking at those sectors on an urgent basis, to look more broadly at the interdependence among these sectors and some of the economic challenges we face as a country.

I have three main points I want to make today.

First, I'd like to just position the chemical sector in this and tell you why we're so interested in a broader economic strategy. I'll talk a little bit about our sector. Secondly, I'll try to illustrate that manufacturing should be an integral part of our economy if we want to maximize our standard of living and also employment for Canadians. Thirdly, and probably most importantly, government policy matters. Government policy is currently affecting the health of the manufacturing sector. Government policy can make it more competitive and improve our chances on the world stage in terms of the global economy.

My first point is that the chemical sector basically depends on a very robust Canadian economy, including a resources and services sector and including rail, as well as a dynamic and growing manufacturing sector. We're a $48-billion industry and the fourth-largest manufacturer in Canada.

Basically what we do—as Mike would realize, coming from Edmonton—is transform resources. We transform oil, gas, salt, and electricity into chemical products. Those products are then used by a wide variety of other industries, which can include pharmaceuticals, aerospace, auto, plastics, lubricants, and petroleum refining. Pretty well anything that is part of the Canadian economy somehow comes from some sort of chemical product base.

In doing that, we add five to twenty times the value to those base resources through this conversion process, thus directly creating wealth for the economy as well as the other sectors we depend on for the supply of those resources. But our industry can't prosper without resources and without people to sell our products to. Therefore, we are interdependent with the total economy and we have a very strong interest in the growth and health of the total economy.

● (0910)

As an example, in the pulp and paper industry, chemicals are one of our major input costs. Chemicals are used to break down the pulp. When the forestry industry is in trouble, we're in trouble. Several of my companies almost exclusively sell their product to the forestry industry, and they usually sell it in train cars. There's the other part of the interdependence.

Every car manufactured in Canada contains about $5,000 worth of chemical products: plastics, rubber, some of the lubricants, even electronic displays, and, increasingly, lithium batteries. So we're an area that's also dependent on all those other manufacturing sectors being competitive.

We're also dependent on services. We depend heavily on computer support. Imagine a chemical plant as heavily computerized for waste services and transportation services.

We prosper as the Canadian economy develops. As with most manufacturing sectors, 87% of our products are exported to the U.S., making us part of the overall North American economy as well.

Since 2006, our association, along with many others, has called attention to the decline in Canadian manufacturing. We've seen the current economic crisis exacerbate the loss of manufacturing jobs and investment. But this is by no means a new problem for us. The manufacturing sector has been facing this problem for five to seven years.

I don't know who said that you should never waste a good crisis, but in the midst of this crisis, there is an opportunity to use it to focus on the economy and what we need to do. My members are concerned about the recession and the huge decline in our production, but we know we'll get through it. We've been up and down before. Our main interest is what happens when we are through it and how we position ourselves for growth in the future.

My second point is that Canada is missing a major opportunity to build an economy that maximizes the value-added potential and resource base of our economy. We're a rich resource-based country. We have a growing service industry.

These two sectors are linked and are highly interdependent with manufacturing. Without the manufacturing sector, we'll be extracting resources and sending them out of the country to be upgraded by the Chinese, the Indians, or somebody else. They will increase the value of these products by five to twenty times and then sell them back to us. I would suggest that this is not a very good recipe for a strong and healthy economy. There's a lot of wealth potential in our economy to be had by thinking about how to maximize the upgrading of our resources.

I have been extremely disappointed that we don't see governments thinking about how to maximize the value of our resources, upgrade them, and make sure there's a strong manufacturing sector linked to the resources and services. Probably the only government that is focused on this is Alberta's. They have a strong view that they should upgrade their resources and diversify their economy. As a country, we should be maximizing the value of these resources for Canadians and we should be doing everything we can to achieve this objective.

This brings me to my third point, which is that government has a role to play in ensuring the growth of a robust, value-added manufacturing sector. Government policy does matter. I remember when Mr. Rajotte did his report on the manufacturing sector and made his 14 recommendations. That was an important step forward, because it pointed out a number of policies that could help the manufacturing sector.

There are many areas of government policy, both federal and provincial, that add costs for industry, make it more difficult to introduce products, and create unnecessary overlap and duplication between the federal and provincial governments where there are significant policy vacuums that lead to counterproductive policies. Energy is a good example.

Each year CCPA produces a competitiveness scorecard for various governments, including the federal government. I think you all have a copy. The scorecards analyze all the business factors that make Canada a competitive jurisdiction in which to invest.

● (0915)

The scorecards look at everything from fiscal monetary policy, inflation, corporate taxation, labour costs, trade policies and our legal system to energy supply, pricing, and transportation. We do this because, as a global industry, our companies are looking at different jurisdictions. They're comparing jurisdictions for that next big investment, the next big chemical plant that will then produce all kinds of opportunities for growth and spinoffs.

They don't look at just one factor; they look at all of these factors. If the energy costs are high, the electricity costs in Ontario are high, the rail service is not what we need, the tax structure is not as competitive, there is a mountain of regulations, and there's uncertainty on climate change policy or whatever, there will be decisions to locate in other places. So it's extremely important that we understand this competitive base.

I don't see governments thinking in these terms about the manufacturing sector. They think about problems or specific sectors, but we have to think about the total environment in which investment decisions are being made.

I note that Mr. Lake is a former Edmonton Oiler man, so I'll use a Stanley Cup analogy. This is a very globally competitive world and to win is like winning the Stanley Cup. Every team is good, and you can see that if you've been watching any games. They're all good—

Mr. Marc Garneau (Westmount—Ville-Marie, Lib.): Except the Montreal Canadiens.

Some hon. members: Oh, oh!

Mr. Richard Paton: Yes, well, they have injuries, though.

The game is rough and it's fast and to win you need to have a total package. You can't say, “I have one scorer and he's going to win the game”. You need to have the total package.

This scorecard in front of you today is our total package. Without reading the text, just by looking at the pluses and minuses, you can see that there are things where we're ahead and there are things where we're going down. We have to address the areas where we're weak and reinforce the areas where we're strong.

Industries like ours do not favour subsidies, handouts, or even special treatment, but we expect governments to do their part by creating the policy environment required for manufacturers to compete globally and by avoiding the introduction of measures that undermine or reduce competitiveness. We need policies that encourage investment in manufacturing and upgrading resources that stimulate progress toward sustainability objectives, which we believe is integral to that.

Although some progress has been made recently in corporate tax, and we think the harmonization of taxes in Ontario was a big step forward, the fact remains that there are major obstacles to investing in Canada compared to other jurisdictions.

These issues were well documented in the excellent all-party report by Mr. Rajotte, which made 14 recommendations. Some have been addressed, but I think it's fair to say that the response has been relatively tepid and there's still a lot of room for government policy improvement in relation to manufacturing.

To conclude, we are at a critical time. The creation of this subcommittee corresponds to the urgency that has been felt in many sectors of the economy. But as trying as these times are for manufacturing, there's a real opportunity to create some policy direction for the Canadian economy after this recession. There's an opportunity to rethink some of our assumptions about Canadian manufacturing and develop a road map for the future.

I don't know if that's your mandate, but who knows? These days, people can make their own mandates.

I would like to encourage you and your committee to build on the work of the Rajotte committee report, think beyond the problems of particular sectors and even this recession, and address the medium- and long-term requirements for a competitive manufacturing sector as part of a strong Canadian economy.

Thank you.

● (0920)

The Chair: Thank you, Mr. Paton.

It should be pointed out that there were 21 recommendations in the industry committee headed by James Rajotte.

Mr. Richard Paton: Yes. Sorry.

The Chair: I was part of that committee, too, and I believe that the government acted on 20 of those recommendations, directly or indirectly, but you're absolutely right, there's always room for improvement. That's why we're talking to you this morning. We thank you for that.

Mr. Nordenstrom, I believe you're up next, sir.

Mr. Jay Nordenstrom (Executive Director, Canadian Association of Railway Suppliers): Thank you, Mr. Chair.

Esteemed members of the committee, let me preface my presentation, if I may, by echoing complete agreement with Mr. Paton's analysis, which is truly a “forest from the trees” perspective on manufacturing in Canada and what's needed. So I won't spend much time saying similar things here, because we in the Canadian Association of Railway Suppliers agree 100% with the comments made this morning.

First off, what I'd like to do for you is give a brief overview of the association and the membership and a little bit of a scope of the railway supply community in Canada, because I think it's not a story often told. Then I'd like to give a bit of an overview of the presentation, which I believe I submitted in time to Ms. Tittley and which you all have a copy of. I believe it has been translated, so I'd really like to focus on this, if everyone has a copy.

The Canadian Association of Railway Suppliers represents about 400 companies supplying the rail industry. This is without the tier 1 folks, so we don't include steel producers or petrol companies and whatnot. These are people who build and provide software to the railway operators so they can be, of course, the most environmentally friendly mode of transportation in North America.

In the last couple of years, we have had between 50,000 and 60,000 jobs in Canada directly related to the rail industry. Domestically, on average, we do about $4 billion in sales per year, and 80% of those folks in the rail supply community generate about $5 billion in export sales, for a total output of $9 billion, so we are quite important to the economy.

I'll start with the challenge. I'd like to go over the short-term challenge that we're facing here and then go into a solution and a proposed implementation plan for our specific sector. We've even priced it out, too.

On the short-term challenge, we have been hit incredibly hard, as have most manufacturing sectors. A lot of our large OEMs have had to furlough thousands of jobs just to stay competitive. A lot of these folks are now on a part-time basis.

You may ask why that's happening when we're investing in public transit like we've never done before. However, I'd like to preface that argument by saying that transit and freight should be treated separately but in the same sector. The public dollars are going into transit systems with transit authorities in provincial dollars through federal transfer payments, but on the other side of things, on the freight rail, we're seeing a lot of our folks in really very tough shape, some in bankruptcy protection and some out of work.

These aren't small widgets that they're building. At the end of the day, these are large locomotives with some of the most state-of-the-art technology. We're developing hybrid locomotives and environmentally friendly locomotives as well, using chemicals to produce track lubrication. I don't know if you've ever seen these. They deal with friction, where you get little squirts of this non-harmful substance and the beads move across the rails. It's amazing how much efficiency you can create off that chemical.

Just as you were mentioning about the interdependence of sectors, we have developed hybrid locomotives where we're using a lot of battery technology, and dynamic braking technology as well, to regenerate power and use it more efficiently. We're not laggards here. We're environmentally innovative in the realm of transportation technology.

● (0925)

However, the past year has had a very chilling effect. As I mentioned, a lot of companies have been hit very hard, very profoundly, such as National Steel Car in Hamilton, Electro-Motive Diesel in London, RailPower in Brossard, near Montreal, and Brandt, the largest private company in Saskatchewan. We've estimated that we've lost close to $1.2 billion in sales to date in a year over year comparison with 2008 levels. By the time this report was written initially, we knew that on the private side CN and CP had $400 million in reduced capital expenditure plans. Now we're seeing that number growing exponentially.

It's not that they're not investing; it's that they're delaying investment. The money is there to invest, but the problem is that when our shops aren't generating orders, we have to let people go. We're seeing this in a lot of areas. However, rail typically spends about 20% of revenue on infrastructure and rolling stock. This is good news for our sector. The problem, as I said before, is that it gets delayed, so what happens to our shop in the worst-case scenario is that we have to fold and go somewhere else. But we know those orders are coming back,so we have to hold fast. We have to make sure we survive the next two years, or three years, if that's the case.

If I may, I'll talk about the international picture. We've seen an increase in international growth. This is where it's really important, because a lot of governments have nationalized rail systems for freight and transit. That's where the money's being pumped in right now across the globe. Countries like Oman and Qatar, where they have never had rail before, are starting to invest.

Whether it's for a strategic need or part of an economic stimulus, or maybe a bit of both, it doesn't matter. There is business to be had over there. We talk about jurisprudence, but it's not dominated by protectionism. Whether we call it protectionism by this name or another name, we know that when it comes to procurement, there are some markets we can enter as Canadians and some markets we have no shot at. We can bid, but there's no way in town that we are going to be able to do that.

So we really have to go after this strategically. We saw 9% growth between 2006 and 2007 and we have about $116 billion worth worldwide. These figures are from a report that just came out on the future of rail supply. Internationally, we're looking at a 2% or 2.5% annual growth. We need to be a part of this. We can't let this sector slide away from us.

Not only are we trying to help our OEMs, but we know that 55% to 80% of their sub-component suppliers are Canadian. If they're building freight cars, using hopper cars for grain, or building national steel cars and tanker cars for some of the chemical products, not only are we helping OEMs, but we're helping these sub-supplier components and the other 400 companies that are adding to the industry. There is a trickle-down effect.

This is what we're up against. What is the proposed solution? Obviously, I don't think I need to go into figures on how environmentally friendly rail is as a mode of transport. We do 75% revenue tonne kilometres and we do between 3% and 3.5% GHG emissions. That's quite astounding. How were we able to get those numbers? The railway operators will tell this great story to death, and they're right to say this, but it's our technology that has enabled this. That technology has been developed in Canada. We want to see that trend continue.

● (0930)

With the proposed solution, we were hoping to get not only the domestic demand that we see is going to come around, and it will, but.... I'll throw this out. There are 300 locomotives parked right now. They've been taken out of service. There are over 20,000 freight cars out of service right now. If we're ever to upgrade, this is an ideal time to do it. They're out of service so we don't have to take a hit on capacity to make these more environmentally friendly.

A lot of these locomotives and switcher locomotives are in the yards closest to the communities, and oftentimes they're 30 to 40 years old. We have the technology to retrofit these things and make them up to 60% to 70% more efficient. This is the time to do it. By doing so, we would get our production facilities back in line, and we would be able to repatriate a lot of these lost jobs.

How would we do that? To get this program going, we have put together an idea for a railway manufacturing stimulus program. It's envisioned, if you will, as a one-time funding program between Canadian OEMs and the Government of Canada to help to offset the cost of rail equipment made in Canada with a recommended two-year lifespan. The program would increase production activity in Canadian OEM facilities, resulting, obviously, in job retention and creation.

Here's a spinoff effect. I talked to all of my guys and they said if we're able to get up to capacity.... Obviously, they have a lot of union responsibilities, so they'd bring back those folks who have been furloughed or who are part-time, but if they can go above and beyond that and grow—because we know that we have a growth industry here—we can transfer the lost jobs in the auto sector with very little retraining and get them working again in key areas in Quebec, Ontario, and Alberta.

We're saying that such a program would be implemented on a per unit, price preference basis. Procurement order applications would be placed with government authorities by Canadian OEMs with a partner North American railway operator. Such a fund could be managed through Industry Canada, with a framework similar to that of the structured financing facility, SFF, for Canadian built vessels and offshore marine structures program. I won't get into that structure itself, but it's an example of what's already happening.

There's also an example that we're using to cost something. We don't want to just talk about some challenges. You talked about challenges and solutions in the 21 recommendations that you proposed in order to deal with some of these issues and we're asking you to make sure that all of those recommendations are dealt with to benefit all manufacturing sectors.

In this case, I also want to make sure that we propose a solution. The Ontario government's Canadian steel preference policy puts together 10% price preferences with Canadian structural steel products identified in bids. We believe that if we did something similar it would take $120 million and we could get our production facilities up and running. We know it's not a small amount of change, but this would put us back into the game internationally and domestically.

Thank you very much for your time.

The Chair: Mr. Garneau.

Mr. Marc Garneau: Thank you, Mr. Chair, I'll focus my initial questions on the Canadian Chemical Producers' Association.

Richard, if I understood you correctly, it seems that the downsizing that's occurring in what is happening in your industry is not just a cyclical thing, but seems to be a structural downsizing as well. You didn't commit on whether you thought this was just a normal thing or was because of greater efficiencies or less demand for your products.

I'd like to get a sense from you as to whether you think this is something that's going to be permanent. Or do you think better days will be ahead eventually in the long term?

● (0935)

Mr. Richard Paton: There are structural changes happening, absolutely, and one of them, of course, is the emergence of the Chinese and Indian markets. From a chemical point of view, growth of chemicals is roughly 3% a year globally. There is a growth pattern notwithstanding the recession, but the growth in China is something like 12% a year, with huge demands, so therefore there's a tendency for investment to flow from multinational companies to China in order to capture that demand. In terms of scarce capital, that capital is flowing to China and India.

The second structural thing is that the Middle East is now becoming a huge player because feedstock—as you know, it's oil or natural gas—is a huge proportion of the cost of our products, and their feedstock costs are 20% or 30% of ours. They have no trouble figuring out that they need to diversify their economies, so the Middle East is now building huge manufacturing facilities for chemicals. In fact, you may have noticed recently that NOVA was purchased by a Middle Eastern company. As well, Dow was trying to make a deal with a Middle Eastern company. There are definitely some structural shifts happening.

Overall in the longer term, the people who analyze the chemical industry see that more production will come from offshore to North America, which will displace some of the production in North America. However, the U.S. chemical industry is a $600 billion industry. Ours is about $25 billion to $28 billion. We will remain a part of that North American industry, and in some regions and in some areas we are very competitive. Our productivity level, thanks to John Margeson over there at Industry Canada, is about 30% to 50% higher than that of equivalent American plants. We're quite well positioned to capture a large market share of the North American economy, particularly in Alberta, where we have probably some of the most efficient plants in the world.

So the answer is kind of complicated. Yes, there's a structural change. It's going to be very competitive. We're going to get undercut in terms of price by some Middle East production. On the other hand, we can, with the right conditions, still grow the Canadian chemical industry. We would say that we could probably double it in 20 years with the right pipelines, the right feedstock, and the right economic conditions. Also, North America will always be a major consumer of chemicals, so therefore, being right here, there are certainly advantages to supplying that market.

Mr. Marc Garneau: Thank you.

I have a couple quick questions. I think of the petrochemical industry as being part of your sector.

Mr. Richard Paton: Yes.

Mr. Marc Garneau: What about upgraders, where you take bitumen and turn it into synthetic crude oil? Is that in your sector as well or is that a different one?

Mr. Richard Paton: Yes, I would say it's kind of in our sector, but it's a transition. It's between the resource and the chemical production. In fact, we are working with Alberta on this. We are extremely interested in upgraders being developed in Alberta, mostly in Alberta because that's where the feedstock is, and that would then provide a base feedstock for the production of a stronger petrochemical industry.

Mr. Marc Garneau: Okay. You kind of went to my question there, because I wanted to know your views on whether, from your perspective, it's better that we make this transformation into synthetic crude oil in Canada rather than exporting bitumen.

● (0940)

Mr. Richard Paton: That would be a huge yes. Otherwise, we're just sending it in pipelines down to Houston and letting the Houston guys upgrade it and create the value for their economy.

Now, that doesn't mean that all bitumen could be upgraded in Canada. We don't have the railway structure. And here's the interdependence. If we actually managed to produce all that product, we probably couldn't ship it because it would go to Chicago or other places where there is higher demand. But certainly a good portion of it should be upgraded to diversify the Alberta economy and produce more value for the Canadian economy.

Mr. Marc Garneau: That was a theme in your presentation, the business of adding value to raw product; you seem to be encouraging that very much. But do you see that as a role and an initiative for industry? Or are you saying that government also needs to be involved? It seems to me that you were saying that.

Mr. Richard Paton: I think without government involvement, it won't happen. I'll give you an example.

The National Energy Board, in approving pipelines, doesn't think about value-added. If the National Energy Board is going to permit pipelines to be built without thinking about that issue, it's going to be very hard for us to get access to that product and upgrade it. Even the tax structure affects the value in terms of how you reward upgrading. That's partly why we like the harmonized sales tax in Ontario.

So there are a number of factors. We lost several plants in Ontario simply because of electricity costs. If electricity costs are so prohibitively expensive that you can't keep plants in Ontario.... In fact, one of the most productive plants in one of our companies, ERCO, had to close in Ontario. Their most productive plant had to close in Ontario because the electricity costs were so high because they closed a coal-fired plant.

Do you see how all these things are linked?

So yes, government has a very important role in helping to encourage value-added, but I don't see that perspective in government—other than in Alberta.

Fiona has something to add.

The Chair: Ms. Cook.

Ms. Fiona Cook (Director, Business and Economics, Canadian Chemical Producers' Association): Perhaps I can add something with regard to what we see going on right now in terms of the upgraders. They are not eligible for the accelerated capital cost allowance that's now in place federally and provincially. What we're seeing in the U.S. is that their refineries have been given a special accelerated capital cost allowance to convert in order to handle heavy-grade Alberta bitumen. And once that stuff starts flowing in pipelines, it's very hard to reverse it.

So clearly, yes, government policy has a huge impact on the structure of industry and where things get upgraded.

The Chair: Thank you.

Monsieur Bouchard.

[*Translation*]

Mr. Robert Bouchard (Chicoutimi—Le Fjord, BQ): Thank you, Mr. Chair. Thanks also to the witnesses for being here.

My first question goes to Mr. Paton. You spoke about the fact that you lost several thousand jobs well before the current crisis occurred. In finance and in manufacturing, many sectors are affected.

How do you explain the fact that, for several years, we have been losing so many manufacturing jobs in Canada, in Quebec and Ontario, and that little or nothing has been done to correct the situation?

Mr. Richard Paton: That is a good question, sir.

[*English*]

We have asked ourselves the same question. In the midst of what one would have to say was a serious problem, governments were asleep at the switch. What we would get here from governments would be, well yes, the manufacturing sector is losing jobs, but it's a global phenomenon and unemployment is only 6%. We're having surpluses in our budget, governments would say, and we really want to have a service economy anyway, and maybe we're not sure that manufacturing is really critical to the economy anyway. That's the kind of message we would hear from government officials, so you can see they were not that seized with it being a problem.

That's why the recession is kind of important, because now I think we're starting to realize that manufacturing jobs are kind of important, and you can't build your whole economy on the service sector. Take a look at what the U.K. did. The U.K. basically decided that manufacturing wasn't that important and they were going to invest in the banking sector. Now they have the highest rate of unemployment in Europe. It's not a very good strategy to build on just one sector.

But coming back to the second part of your question, it was about why that was happening. Global change, with China, India, and lower manufacturing locations, has meant that manufacturing industries have had to change, modernize, and become more high-tech and more environmentally sensitive, as I think Jay Myers explained so well yesterday.

You heard Jay explain some of that, but in particular during that period, we had two other problems. We had the dollar spike. When the dollar moved from 76¢ to—what was it?—$1.05 or $1.08 at one point, it had a huge impact on those manufacturers. The second problem was energy costs. When we, along with Jay's organization, did a survey of manufacturers, we were finding that energy costs were adding huge costs to our industries. That, plus the dollar, meant that manufacturers had to use all their money just to pay for the energy. Then, when they went to sell their product, they were losing 20% to 30% on the dollar. Essentially what was happening was that they were not making any money, and since they weren't making any money, they weren't investing in technology to increase their productivity.

That's the kind of problem we've had for five or six years. The recession has only made it worse. However, it has reduced energy costs and the dollar's down.

All those problems have been there and we did not see a response by government to those issues, although some of the tax rates did come down, which was helpful.

● (0945)

[*Translation*]

Mr. Robert Bouchard: Thank you very much.

Mr. Paton, you say that we have to reposition ourselves for the future. In their recent budget, the Conservative government announced measures as part of the stimulus plan.

Do you think that they will be satisfactory or clearly inadequate? I would like to know how you see those measures.

[*English*]

Mr. Richard Paton: Well, we did support the measures. We felt that liquidity was—and still is—a huge problem for our companies, so the first big priority was liquidity. We also believed that we needed some demand stimulus, so we did support those aspects of the budget.

The area where we were disappointed, though, was on the accelerated capital cost allowance, which was the number one recommendation of the Rajotte report, a recommendation for an accelerated capital cost allowance for five years—not two, but five. We have been continually disappointed that the government has not responded to that.

As for the reason that is so important, in order to get the capital cost allowance, you need to have the equipment on the ground, ready to be installed, and companies can't make a set of decisions—investment decisions, pre-engineering design, environmental approvals, buying the equipment, and putting it on the ground—in two years. They can't do it, not in big plants—not in big chemical plants, not in big aluminum plants, not in big steel plants, and not in petroleum refiners. So even though we argued that capital cost allowance has to be five years, we keep getting it continuously for two years, and I would call that a tepid response. That is not an appropriate response.

I know that your party and the NDP and others have supported us on that, but for some reason, we don't seem to be able to get the urgency of dealing with that. Fiona mentioned that equivalent issue in terms of upgrading. Feedstock is another example of just not getting it in terms of capital cost investment.

● (0950)

The Chair: If we have a really quick response and a really quick answer, I'll let you continue. I let Monsieur Garneau go over by a minute, so—

[*Translation*]

Mr. Robert Bouchard: Mr. Nordenstrom, I mentioned to you that several countries have nationalized rail transportation. You feel that it is important that a fund managed by Industry Canada be set up. You mentioned that rail transportation had been nationalized in other places.

Does that mean that you are in favour of nationalization? Or would you prefer to get grants or loans?

Mr. Jay Nordenstrom: Thank you very much, Mr. Bouchard. Unfortunately, my French is not very good, so I am going to answer in English.

[*English*]

I'd like to be very clear that by no means am I suggesting we should nationalize the railways again—the short lines and the class 1 railways—because they are one of Canada's great success stories as far as productivity, investment in infrastructure, and innovation in rail are concerned. I want to be very clear on that.

I think they do an amazing job. There are always some trials and tribulations when you are moving so much freight per revenue tonne kilometre. However, I think they've been very responsive in working with Transport Canada and Industry Canada to make sure that productivity and Canadians' interests are at heart.

When referring to nationalized systems, I was recognizing that there are many international nationalized systems out there investing their own public dollars in their systems. I indicated that ,as Canadian railway suppliers, we need to be positioned in an economically viable way to pursue some of those contracts so that we remain an exporting nation.

It must be said that we have an excellent reputation and this is one of our competitive advantages, I guess. We have an excellent reputation internationally for top-quality products and after-market service. On rail, it is hard to skimp on price, because you get what you pay for, and we have excellent technology that we've developed right here in Canada.

The Chair: Thank you, Mr. Nordenstrom.

Mr. Lake.

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

Thank you so much to our guests for being with us today.

I want to start with just a little bit of a global context here, if I may.

It was interesting, Mr. Paton, when you mentioned that 87% of your business is exported to the U.S. Mr. Nordenstrom said it was somewhat less than that for them, but it's still fairly significant in terms of exports. We have commentary from around the world on this.

The Wall Street Journal says that:Canada is connected at the hip to the world's largest market, and collateral damage coming from the housing and financial meltdown in the U.S. can't be ducked. Tax cuts in 2007 softened the blow and kept Canada out of recession.

We have *Newsweek* saying:If President Obama is looking for smart government, there is much he, and all of us, could learn from our quiet—OK, sometimes boring—neighbor to the north.

We have *The Economist* saying:...in a sinking world, Canada is something of a cork. Its well-regulated banks are solid...The big worry is the fear that an American recession will drag Canada down with it.

Mr. Harper says, rightly enough, that his government has taken prudent measures to help Canada weather a storm it cannot duck....

The New York Times states: There is no time to waste. Reconfiguring the American banking structure to look more like the Canadian model would help restore much-needed confidence in a beleaguered financial system. Why not emulate the best in the world, which happens to be right next door?

I could go on. In fact, I will. The *Daily Telegraph* says:Some will regard it as alarming that, in current times, world leadership should rest with Canada. But the Canadian Tories are a model of how to behave during a downturn.

They have kept spending in check and reduced taxes....

....If the rest of the world had comported itself with similar modesty and prudence, we might not be in this mess.

President Obama has said: And, you know, 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.

There is more, but I won't read it for you, as I think you have the idea. Canada is really the envy of the world right now because of our economic situation. That said, we're facing a significant difficulty because we do export a good portion of what we manufacture here, and if Americans in particular and people around the world stop buying our products, it's going to have an impact on Canadians, and Canadians are going to lose their jobs. I think that's a big part of what we're dealing with here.

So I guess the first thing I'd want to talk about is this protectionism. Prime Minister Harper has been recognized worldwide as leading the way in the fight against protectionism. How important to the industries you represent is this fight against worldwide protectionism?

● (0955)

Mr. Richard Paton: I can make a general comment and maybe Fiona can add to it. As a trading nation, I think we're the most dependent on trade of any OECD country, so obviously protectionism doesn't help us.

Our association supported free trade, in 1982, I think it was, so we were way ahead of the curve, on the grounds that you can't build billion-dollar chemical plants for a domestic market of what was probably 28 million people at the time. It's a globally traded commodity. You have to build plants to export and to import. That's basically how the industry works.

So on protectionism, we of course support Mr. Harper's strong comments, and I was very happy to see President Obama kind of shift his view on the NAFTA renegotiation as well. Yes, trade is critical to us. Just to add to that, just so you understand our business, a lot of that trade is intra-company trade, whereby part of a company is sending a product to another part of another plant in the United States to complete a process, which is much like what we've heard with the auto industry and the moving back and forth. It is so highly integrated that the idea of putting up barriers would be just a complete disaster.

Jay made some interesting comments on that yesterday about all the various things that are happening that can create barriers, but I don't think, Fiona, that we've seen those kinds of barriers, because we're producing tank cars of chemicals. It's a little bit different, perhaps, from steel for bridges.

Mr. Mike Lake: Jay, before you answer that, I notice that as part of your proposal you talk about the Canadian steel preference policy, where we give a 10% price preference. If we do 10%, and then the Americans do 12%, and then we do 14%, doesn't it concern you about going in that direction given that we sell a lot more to them than they sell to us?

Mr. Jay Nordenstrom: That's true. First, maybe I should just say that we view this as a North American industry. Obviously we recognize that there's a border there, but for trade, it needs to be an artificial border. We've done a lot of work with government to make sure that we do pre-screening, especially in rail. I think a lot of work has been done and I think there's a lot of work that needs to be done.

I'm not sure everybody knows this, but “buy America”—and what they were talking about in trying to squelch it—has been there for ages. This is nothing new. What they were trying to do is take “buy America” and move it to certain other aspects, but as far as our industry and our sector are concerned, we've been affected by this quite substantially for decades now.

We've actually seen our members set up shop in the U.S. I'll use Bombardier as an example. They're in Plattsburgh so they can access some of the projects in the U.S. that are being federally funded at the state and municipal levels. This has created an actual manufacturing cluster in that area, in a very positive way.

We're saying that there needs to be.... That's why I give it a two-year moratorium and then it should be gone. We need to help Canadian railway suppliers and other manufacturers and this is one way to do it. I'm not suggesting that we emulate "buy America". I think if we had our way we'd get rid of "buy America", but we know that probably is not going to happen, to be honest.

We're saying that we'd like to see some ways in which government can support us and get our production capacity up to levels where we can bring back jobs for the people we've had to lay off or make part time. Also, talking about exports, of our exporters, 90% export to the U.S., so it really does paint the picture that we're a North American industry.

● (1000)

The Chair: I've given everybody about an extra minute, so if you have a comment or something, please wrap it up.

Mr. Mike Lake: I'll just throw out a quick question. One of the major differentiations during the last election campaign was the issue of a carbon tax, with one party advocating for a carbon tax and one party saying that's the wrong way to go. Maybe we could have your comments on how a carbon tax approach would affect your industries.

The Chair: Very quickly, please.

Mr. Mike Lake: I'll start with Jay, maybe, and then hear from Richard.

Mr. Jay Nordenstrom: As an association, we do not have an official policy on ways to mitigate environmental degradation when it comes to industrial transport. However, what we do as an association—and it's probably not the answer you're looking for, but this is our reality—is produce the solution through our members.

We actually are part of the Ontario Emissions Trading Registry, which has been successful. Railways have been able to apply to that, and they've been able to do so with components like anti-idling devices. At certain temperatures, locomotives really need to get beefed up as far as the engines go so they don't freeze. We now have devices so they don't have to do that, so that when they're stationary they don't need to be running. We produce components like that, so we believe we can be helpful in whatever government policies you put in place.

The Chair: Maybe we'll let them finish up later, Mr. Lake.

Mr. Garneau.

Mr. Marc Garneau: Thank you, Mr. Chair.

I'm going to go back to Richard with some questions. I'd like to get a sense of how much R and D is done by your companies. I guess one of the questions that comes up is how much of it is Canadian-owned; therefore, perhaps, some of that R and D is happening in this country. Fiona can also answer. How much do you value or how much priority do you put on research and development within your industry?

Ms. Fiona Cook: Obviously, we're very, very focused on R and D, given the nature of our product. We need to stay innovative. I know a lot of our companies use the SR and ED tax credit system extensively and are very involved with government officials on how to improve that program and make it more accessible.

The reality in our industry is that because we are so dominated by multinationals, R and D tends to be done near headquarters, so the percentage of total R and D done in Canada is pretty small compared to what gets done by companies, with a lot of done in the U.S., for example.

Mr. Marc Garneau: Can you put a rough figure on that within your sector?

Ms. Fiona Cook: About 2% to 3% of sales is R and D here in Canada.

Mr. Marc Garneau: Of all the R and D done in your sector, what percentage occurs in Canada and what percentage occurs abroad?

Ms. Fiona Cook: I will have to get back to you with exact numbers on that. I don't have them with me today.

Mr. Marc Garneau: But it's mostly done abroad?

Ms. Fiona Cook: Yes.

Mr. Marc Garneau: You mentioned the accelerated capital cost allowance as an area where the federal government could have a role. You talked about the need for government policy.

Could you be a little more specific? If you had a wish list, apart from the capital cost allowance, in what other areas do you see a role for the federal government to support you in a way that respects WTO, NAFTA, and all of that?

Mr. Richard Paton: There are several areas.

We really don't have any energy policies in this country. We are woefully inadequate in regard to energy policy, so you have a lot of energy policy driven by environmental policy, which is not a bad thing except that it has consequences.

Just as an example, if you want to shift to natural gas as a vehicle for producing electricity because it has a lower environmental footprint, that is our feedstock. Natural gas is our feedstock. That shift means the price of natural gas would go up, because an electricity generating facility can consume one heck of a lot of natural gas. So it would be in short supply. Natural gas is the key feedstock for our plants in Alberta.

So we have to think more broadly about electricity policy and energy policy in terms of maximizing the potential for the economy. Nuclear is an example of that. Also, energy policy is an area where you have a lot of balkanization between provinces and the federal government, with federal government playing a small to non-existent role, which is a result of the NEP fiasco, I guess. That's one area.

Secondly, there are regulatory issues. Increasingly, there are major overlaps and duplication between federal and provincial governments. A good example of this is that the Ontario government right now is pursuing a toxic chemicals management program, which is fine—we have to manage these things—but they've designed the program to basically ignore the federal program.

This is going to put our plants and our companies in a situation whereby one province will have one set of rules for managing toxic chemicals and another will have another set of rules. At some point, this adds costs, significant costs. You don't know what the rules are, what the signals are, what the thresholds are, or whatever, so you have tremendous difficulties in regulatory areas.

The climate change area is another one. Right now, B.C. has a carbon tax, Quebec has a carbon tax, others are involved in the western climate initiative, the federal government's doing this, and Ontario thinks it should be ahead of everybody else. We have to harmonize with the U.S., and while I totally agree with Mr. Prentice's direction on that, the fact is that we have a pretty mixed bag right now.

On rail policy, we think improvements can be made. There is rail service review that needs to be done. Rail is critical to our industry. We think there is a need for better competition in rail and better service.

So you can go through a lot of areas, including infrastructure and border issues. I think a lot of progress has been made on the border issues, but the border is so big an issue. With just a little hiccup at the border, our economy suffers hugely. So a lot of work needs to be done on the border. I think the government has done some of that with infrastructure and the speedier movement of goods, but more needs to be done.

There are a lot of policy areas where, if we put all these things together with tax and trade, we could increase the efficiency of our economy quite substantially and improve the possibility of manufacturing being able to compete globally.

● (1005)

The Chair: Mr. Lake.

Mr. Mike Lake: Thank you.

I'm going to focus this round on Mr. Paton and probably stick with that energy and environment conversation. I will go back to the carbon tax question first. You've talked about energy costs and I know that transportation costs are a big deal for your organizations.

I think it's fair to say that a carbon tax is probably going to be an issue again in the next campaign, because it was the cornerstone, of course, of the present Liberal leader's leadership campaign and the cornerstone of the party's campaign during the last campaign. Maybe you can speak to the effects of a carbon tax on your industry.

Mr. Richard Paton: I'm going to give you an answer that may not be as simple as you would like. Generally, the business sectors, including the Canadian Council of Chief Executives, have argued that we need some way to price carbon. That doesn't necessarily mean the carbon tax.

Emissions trading, cap and trade, is a kind of way of pricing carbon. Certainly, Mr. Prentice has talked about how we have to align with the U.S., and the U.S. is moving down towards a kind of cap and trade regime. Although we thought Mr. Dion's scheme was a little complicated and not workable—that would be our view of it—we also think the same is true of most of the various proposals that are out there right now.

Permit me a little thought here. People talk about things like cap and trade as if it's like, "Okay, we'll just do cap and trade". Just think about what it means to do cap and trade. What it means, basically, is that to cap something, you have to make a decision on a number. That means I have 200 plants in this country, and of those 200 plants, maybe 30 or 40 would come into a threshold that would require greenhouse gas mitigation. Somebody has to make a decision as to what the greenhouse gas number should be for those plants.

Who's going to make that decision? A government official? We ourselves can barely understand our plants. Every plant is different, with a different feed stock, a different technology, and different history. Even in Joffrey, which you probably would be familiar with, there were some built in the 1970s, some built in the 1990s, and some built in 2005. They're totally different plants.

The knowledge that you must have to make a decision on the cap is huge. The amount of government bureaucracy you need to make a decision on a cap is huge. Multiply that times the American economy.

So somebody has to make a decision. Then you have to get a differential between the number and the ideal number. Then you have to make that available either for punishing people or for rewarding people. Well, now we're talking about allocating money, serious money. This is going to make the mortgage meltdown look easy. There are going to be a lot of very difficult issues involved in setting caps that will affect industry dramatically.

The amount of intervention you would have in the economy would be huge, and I have a very simple principal policy: do no harm. I'd like to know just how we're going to design this and do no harm.

To conclude, I don't think the issue is carbon tax versus emissions cap and trade; I think the issue is design. That's essentially what the round table report said just recently. You have to design this to get a price on carbon to incent new technology. We agree with all of that. We are totally a sustainable development association, but you have to do it in a way that works. I personally have not seen any indication that anybody knows how to make this work. The European experience is a disaster on this. There's a lot of work that needs to be done.

● (1010)

Mr. Mike Lake: There's a question that follows with that, I guess: how important would it be? Because one of the things the Prime Minister has said right from 2006 until now is on the importance of making sure that there's a global solution on climate change and that everybody needs to be a part of it. Canada can't implement certain restrictions and not have the Americans, the Chinese, or India implement similar restrictions. Would you agree with that concept?

Mr. Richard Paton: I totally and absolutely agree. Well, just think about that. Look at the numbers. The Chinese are going up like this; all our growth's going over there. So essentially if you don't do that.... Because our business is price per pound, and a cent per pound changes where the business goes. If you add a tax, either directly or through cap and trade—because it'll end up being more or less the same thing—and that affects the product by a cent or two or three per pound, production will move, and it'll move to countries that probably have more of a footprint than we do. In fact, in terms of this issue, which is a very unique global issue, you actually make the problem worse.

So yes, I totally agree with the views of the Prime Minister and Mr. Prentice on this. We have to align with the U.S., and China, India, and the Middle East have to be in.

Ms. Fiona Cook: I would just add that there's the issue of getting the price for carbon right, but underlying this is that substitutes have to be available. I would say, too, that we had a good case study on this when we had that rapid increase in energy prices about a year ago. We saw what kind of impact that had. There weren't any substitutes available, so people cut back. Manufacturing operations shut down and moved elsewhere. Places like China and India subsidize their energy costs, so they didn't suffer the same increase.

That was sort of a good study of what putting on a carbon tax would do. In the short term, it wouldn't really do anything. It wouldn't reduce our consumption of carbon to move to more sustainable options, because they're not available. That's why technology really is the key, I think, to moving away from a carbon-dependent economy.

The Chair: Thank you, Ms. Cook.

Monsieur Bouchard.

[*Translation*]

Mr. Robert Bouchard: Mr. Paton, you referred to the Rajotte report and its recommendations. You also said that there is an urgent need for action. One of your priority solutions seems to be the accelerated capital cost allowance on investments.

I would like to hear your opinion on loan guarantees in manufacturing. Do you think that loan guarantees should become a priority? I would also like to hear your opinion on any other priorities that you would like to see.

● (1015)

[*English*]

Mr. Richard Paton: Our industry has never advocated loan guarantees. The chemical industry has never asked for a loan guarantee, and it probably never will.

However, one has to recognize that the situation faced by some sectors, like the auto sector, is, although partly their own doing, also partly the result of a crisis brought to us through other sectors—the mortgage sector, the financial sector, etc. I don't have any specific concerns about loan guarantees for industries. I'm just happy that they're loan guarantees and not grants.

Given the situation, a repayable loan is not an inappropriate response to the situation, given the effect on jobs, communities, and industry.

[*Translation*]

Mr. Robert Bouchard: Fine.

You said that some sectors are in difficulty and that involvement is needed to help them. Are you able to identify the sectors that are in a worse position than others? Manufacturing or forestry, perhaps?

[*English*]

Mr. Richard Paton: I'm not sure I can do that for you. I think all sectors are affected. Obviously, some are more visible than others, like auto and forestry. But forestry, like us, has had continuing issues, particularly related to the softwood lumber issue with the U. S. It's hard to distinguish between sectors. I think all sectors are faced with issues because liquidity demand is affecting all parts of the economy, but only some sectors are managing to do well.

[*Translation*]

Mr. Robert Bouchard: Thank you.

Mr. Nordenstrom, you said that, as orders dwindle in the railway industry, people have to be laid off and let go, meaning that jobs are lost. You even said that those employees would be called back to work eventually. We know that this situation could last several months, maybe years.

Do you see a problem with workforce renewal? If so, have you given any thought to measures that the government could take to make sure that, when the recovery comes along, your workforce will be able to respond to the needs of the railway industry?

Mr. Jay Nordenstrom: Thank you very much for your question.

[*English*]

The industry in our sector is very aware of and understands the need for succession, especially with the changing workforce and folks coming to retirement age.

But also we're seeing some challenges in getting the folks coming out of colleges, universities, and trade programs into our sector. We're very technology driven; however, we also have mechanical and plant production areas and need to fill those capabilities.

If we position ourselves with the support of government, we believe we can grow our businesses. We believe we have a bright future, should we come out of this not completely economically crippled or, in some cases, not having gone elsewhere or not just selling our technology, our IP, to another competitive company elsewhere, out of Canada.

I believe the government again has a role to play in encouraging young people and maybe people outside of work with new skills development. As I said, we have an opportunity not only to repatriate some of our lost jobs, but to help absorb the lost jobs from the automotive and the steel sectors, because they're not completely out of line with our capabilities and our needs within our production plants.

But we certainly could use some support from government to make sure that rail is a priority, that rail is a growth sector. There are a lot of technologies being developed out of our sector; it's not just aerospace doing it. We see a lot of engineers coming out of universities and wanting to go into aerospace. They have their own issues and I believe you're going to hear from them later on in the committee hearings, but we want to make sure that government recognizes rail as a sustainable mode of transport and a growth industry in Canada.

● (1020)

The Chair: Thank you, Mr. Nordenstrom.

Mr. Lake.

Mr. Mike Lake: I want to chat a little bit here about value added, if I may.

Mr. Paton, you mentioned value added. You mentioned Alberta specifically. This is a big deal in Alberta; there's a lot of conversation around it, as you mentioned. You mentioned that the Alberta government is doing a good job.

One of the challenges, though, that we've had in Alberta isn't necessarily that government policy directly hurts value added; it's the simple demographics. It's the fact that up to this point the labour market has been incredibly tight in Alberta. If you want to set up operations to add value to bitumen, or whatever it might be that you want to add value to in Alberta, you'd have a hard time finding the workers, up to this point, to do it. I think most people are projecting that, once we come through this recession, this will be the case as well.

How have your members dealt with that labour situation? And how are they anticipating dealing with it as we move forward?

Mr. Richard Paton: Well, it definitely is an issue. We're faced with the same demographic issues that Jay is faced with. Fortunately, Alberta is a good place to work. Our plants are in places such as Prentiss and Joffrey, where our labour force is extremely stable. They're attractive communities to live in; they're relatively low-cost communities.

We don't employ huge numbers of people. A plant is a pretty high-tech affair, with engineers and operators who are very highly educated and very highly paid. As far as the skills problem is concerned, I know a lot of industries face an issue, but our members have not asked us to be involved in the skills problem. They think they can solve it without the need of an association.

Now, if you add the upgrader issue, that does add—

Mr. Mike Lake: That was what I was getting at, actually.

Mr. Richard Paton: —a new set of pressures. We haven't felt that the skills issue would be the main determinant of whether upgraders happened; it would be more the tax things that Fiona mentioned, and simply the fact that the Alberta government does face quite a challenge in this area, because the incentive is just to take the bitumen, put it in a pipeline, and send it out of the country. Especially if the tax structure is the way it's been designed, then there's not much incentive to build upgraders.

I think that's the problem Alberta is facing. Even though they have their “bitumen in kind” policy, they need a bit of a breakthrough to get a couple of upgraders established. I know they're thinking about that issue, and they understand the constraints they're dealing with, but they are really thinking about how to deal with it.

● (1025)

Ms. Fiona Cook: I don't think labour is.... It plays a key role. Just remember that a year ago eight upgraders were on the books and that was at the height of a time when the economy was still going strong, and the labour supply issue was still tight. They were on the books then, but now we've seen them cancelled with the drop-off in energy prices.

Mr. Mike Lake: Right, but those energy prices will rebound, although maybe not to where they were. Surely those companies are aware of that and will have plans to move forward once energy prices move forward, or even before that in preparation.

What we saw prior to this global slowdown were situations where we talked about tens of thousands of people moving into the Edmonton area to start working on these upgraders; they would have had nowhere to live. House prices went up so dramatically. I think it would be fair to say there were probably some projects, although maybe not the specific upgraders you're talking about, that didn't happen when things were good and these were projects that would be serving us very well right now. They didn't happen simply because the bodies weren't there; the people weren't there to work at them.

Again, moving forward, I'm not talking about what's happening in Joffrey and in the existing operations. I'm thinking more about if we're talking about a real downside in terms of missed opportunities for value added, naturally if we were to create those opportunities, through whatever government policies, we would need people to actually be working in those positions, and that would still be a challenge in Alberta. That is what I'm asking about. Looking forward, is there a plan to address that?

One of the things we talked about in the previous meeting with the Conference Board and the manufacturers' association was, for example, adding value, not necessarily in Alberta. We talked about situations where, to add the value, we could move product to where more people are out of work and there's a labour force that could do the work, and then transfer it from there.

Maybe you could speak to this, and maybe Jay could add something to this, coming from the rail side of things. That would be a big part of the solution. What steps might you and your members be looking at to facilitate that?

Mr. Richard Paton: Right now, we're not looking at that, but I must tell you it's very interesting that you add this insight. There are communities—Jay Myers is right—such as Sarnia and Varennes, Quebec, where considerable skill capacity essentially has had to leave the industry because of plant closures. I think there is some flex in our industry for those kinds of relationships.

Mr. Mike Lake: Mr. Chair, could we go to Jay for a second?

The Chair: You're over time, but we'll go ahead.

Mr. Jay Nordenstrom: The simple answer is yes. Absolutely. We have that capacity and we have a commitment by some of our OEMs, our original equipment manufacturers, to go and do just that. Right now, you can hear the crickets in our plants. That's our reality. We need to change that and we need to change that quickly. We know the demand is there. The railways want to do this. I'm not talking just about the CNs and CPs of the world; I'm talking about CSX and UP, these guys in the U.S., too. They're still investing, but a lot of these things have been delayed, and we're getting hurt right now.

We need to make sure we're in a healthy position. We know absolutely that the growth in demand is going to be there, so when that happens, we have a commitment from our OEMs that they're going to bring these folks in. They want to deal with those demands and orders, so they will look to other sectors that have been hit in those communities, where they can at least drive out there or, better yet, take the train, get to those plants, and work, so we can beef up those plants and, hopefully, grow.

The Chair: Thank you, Mr. Nordenstrom.

Mr. Garneau.

Mr. Marc Garneau: Thank you, Mr. Chair.

Jay, in your presentation you talked about a temporary railway stimulus package from government to help your industry, and I want to make sure I understood you correctly. As I understood you, it involved the fact that you have a lot of rail stock that's old and on the sidelines at this point, and this would be a good opportunity to renew some of that.

The only thing that came up as a question in my mind was whether this would not be viewed, in this world where we have NAFTA, as something that would be unfair to our U.S. or Mexican competition. Or is there something that I missed there?

● (1030)

Mr. Jay Nordenstrom: This, in essence, is a job creation program for a growth market. We're not saying that.... If government would work with us to do this, we actually would love to make sure that the UPs, the CSXs, and the rail lines from Mexico could apply to this and could help buy Canadian technology to help them with what they need to meet their environmental and transportation needs. We're also hoping that the domestic market as well would invest because of that incentive, so we don't see it as a protectionist policy.

Mr. Marc Garneau: No, I didn't mean that it was protectionist. I was just wondering about it, because my sense was that if government is actually providing money to your industry so you can build new stock, it might be contested by your competition.

Mr. Jay Nordenstrom: We know now that it is not anti-NAFTA. We're not arguing tit-for-tat with the U.S., because the U.S. has a similar model.

Mind you, if you're going to get federal funds to compete in these RFPs or procurement processes, 60% needs to be made in the U.S. When you're assembling it, as an OEM would, 100% needs to be done. You can have different components, but 60% needs to be American made, and 100% needs to be done in the U.S. That's outside of the NAFTA purview and it's perfectly legal for that treaty. And that's a permanent thing. We're arguing that in the same vein, for the next two years, to make sure we're going to survive this, we implement a program right away so that we're not closing up shop and can continue to feed into these growth markets. We don't see that as protectionist.

Sure, we'd like to go through legal, just to make sure, obviously, but we see this in the same vein, except that we see it as a short-term measure. Then we would stop it. because we, as an association, as an industry, do not believe in that. We don't believe in protectionist policies either, but, like the government and most political parties, we do believe there's a place and time when you do have to stimulate. You do have to put some money into the economy to make sure things just don't stop on a dime and collapse in such a way that you'll never see a resurgence.

Mr. Marc Garneau: I'm going to ask you a question that I really should be asking the railway companies, but I want your opinion. This is based a little bit on my ignorance. People talk about a bright future for the railways, and you mentioned some of the reasons. Environment is certainly an important factor there. Is there enough railbed in this country to deal with the increase in railway traffic that might occur in brighter times ahead, or is expansion of the railway also dependent on creating new lines to take that traffic? It's off the topic a bit, but I'd like to know.

Mr. Jay Nordenstrom: I'm happy to give you my views.

We know that the railways are heavily capital intensive, with 20% of the revenues going back into the system, meaning the equipment, track, and rolling stock. A lot of it, to be honest with you, is going into positive train control right now. We're seeing legislation happening in California to deal with this in the U.S. by 2015. They're going to have to make sure that components are talking with each other electronically to make sure it's as safe as possible for people and dangerous goods.

We'll probably see something similar to that investment happening in Canada. However, the railways are always expanding. As soon as they were deregulated and were able to invest on their own, we saw a huge expansion in rail lines. We saw increased capacity.

Working with government, with all the gateways, has been a phenomenal success. I'm talking about Halifax, Montreal, Prince Rupert, Vancouver, and others. There's always going to be that large, heavy investment in infrastructure. We have to make sure that we're working closely with government for the level crossings and the rights-of-way. If we get faster and faster and more efficient at this, there are going to be some implications for more investments for dark territory or cold weather hazards to make sure that we can calculate as best we can.

We produce the software. We produce this technology to help the railways. The suppliers that do this get to tell their message about how good they are in this area, but at the end of the day we're working with them to produce this technology. We don't see a decline in that investment. If anything, we see that if we do rebound, we need to position ourselves to capture a lot of that market, because we're saving a lot of time from the port in Los Angeles. We know it's just a disaster down there, and we can offer a competitive advantage.

● (1035)

The Chair: Thank you, Mr. Nordenstrom.

Mr. Lake.

Mr. Mike Lake: I may continue on that a little bit, because the gateway strategy is something we're talking about from probably both sides.

Mr. Paton, perhaps you could talk a little bit about the importance of the investments in gateway infrastructure to moving your product to market.

If you want to add anything, Jay, feel free.

Mr. Richard Paton: Most of our rail traffic is going north-south. It's not going through the ports right now. That's not to say that gateways aren't extremely important to us. We have some companies.... I think Dow has a facility in the Vancouver port that has been very important and has been affected by various labour issues over the years, and we think Prince Rupert is an excellent initiative.

We're more concerned with the gateways in Ontario and Quebec across the board. Those are our main issues: bridges and the time it takes to truck things across the border. We're pleased with how the government has addressed those kinds of infrastructure issues, even though they are always very complicated.

Mr. Mike Lake: If you want to add anything, Jay, feel free. Maybe you've said what you wanted to say on this issue.

Mr. Jay Nordenstrom: Let me add that what is good for the goose is good for the gander. We're seeing rail investments going down, on the bed, in locomotives, and in new information technology systems—“smart yards”, to use the term they're coining now—for more efficient movement of goods. That's good for our industry and for the suppliers who are developing this technology and working with the railways to provide this development.

Obviously, we see the bigger picture, the competitive advantage, for investments in our gateway strategies, and we're 100% supportive. We will go wherever you want and we'll talk about the greatness of these things. We just have to make sure we're involved with these investments as well.

There is another part of that investment in the infrastructure, in the technology and the equipment, and the Canadian rail manufacturers and suppliers need to be a part of that equation. They need to be feeding into that system, because at the end of the day we represent more jobs than all the railway operators out there. We're the ones who are making these things. I just put it to this committee that this is part of that concept; we're a part of that equation for growth.

Mr. Mike Lake: Changing direction a little bit, I think one of you mentioned the work-sharing program, or maybe you said something that made me think of the work-sharing program operated through EI, which enables us to weather the storm a little bit by using the EI system to keep people in their jobs, by reducing the amount of time they work but having EI top it up a little bit.

Are you familiar with the program? Could you speak to how your companies are using it? I think it's a very important program as we look at companies that need to come through this, that need to cut back on their costs to weather the storm but need to come through it with a labour force that's still there when we come out so that they're not scrambling to catch up.

Ms. Fiona Cook: The last budget increased the duration of that program, I think it increased from 36 to 52 weeks. It is very positive. In fact, we've had one member company contact us for information on it. They've used it in previous downturns as well.

Again, because our sector requires such highly skilled people, you don't want to let them go. This program allows you to come to some kind of agreement to reduce their work week and use the program to supplement their hours. It's very positive.

● (1040)

Mr. Mike Lake: Jay, do you have any thoughts on this?

Mr. Jay Nordenstrom: The concept is absolutely positive, as is the principle behind it. I just cannot speak knowledgeably about members who have accessed this program. I just don't know.

Mr. Mike Lake: That's fair enough.

Mr. Jay Nordenstrom: What I usually hear about are not the good news stories; I get phone calls telling me they are in bankruptcy protection and have to furlough half of their employees and asking how I can help them or channel the government to help out.

Mr. Mike Lake: Maybe you can pass on the word that instead of laying off half their employees, they can lay off a lot fewer and come out a little stronger by using the work-sharing program.

Mr. Jay Nordenstrom: Absolutely. That's a great point.

Mr. Mike Lake: How much time do I have, Mr. Chair?

The Chair: You have a minute and a half.

Mr. Mike Lake: I'm going to move quickly to R and D with Mr. Paton.

Your report card gives a fairly good mark to science and technology. I think you would probably agree that one of the challenges we have in Canada is in taking science and technology to commercialization. Could you speak a little bit to some of the challenges we have there and maybe to some of the things your organization's members are doing to facilitate commercialization?

Mr. Richard Paton: As Fiona was saying, the R and D tax credit is very useful to us. We have a number of companies that benefit from it. That probably is the reason they're able to do the amount of R and D they do in the country, notwithstanding the fact that R and D generally flows to the headquarters organizations.

The issue we have may be a bit of a different way of looking at this. In policy terms, what I see is that we tend to think that if you do the R and D here, then you will develop products here and you will produce them here. That's this linear model of thinking on R and D and that's not our experience in industry. If you don't have a viable manufacturer here, that manufacturer will not demand R and D to improve its product or adapt or change its product. They will have no position within the headquarters company to generate R and D.

Also, a lot of the R and D in our case is “D”: developing and modifying the product, making it more flexible, changing its nature. If you think of a pulp plant, it might be a certain type of paper or a certain type of water quality. You modify your product or your process to deal with that specific aspect. You invent a new way of dealing with it.

It's not a simple question of moving it from R and D to commercialization. In our view, you also need to have a very strong manufacturing sector with a very strong value-added type of dynamic. That will also help attract R and D, because that will be specific to our country. If we do carbon capture and storage in your province, Alberta, we will probably be the world leaders. Guess what we'll be doing then? We'll be doing what Jay's doing and selling that externally.

So when R and D are related, or the “D” is related, to the unique characteristics of our industry or our country, we have a much better chance to do the research and development and then commercialize it, because it is part of the fabric of who we are. You see that in some cases in the agricultural business. In certain areas of agriculture, we're leaders in the world because we have certain climates and certain types of grains and so on that enable us to be leaders.

I think it's a more complex issue than doing a whole bunch of R and D and assuming industry will come. I've seen this in Britain. I've visited places in Oxford where they're doing a huge amount of R and D. Notwithstanding the fact they did it and notwithstanding the fact they patented the materials, the reality is that because they didn't have the environment to support manufacturing, the Japanese or the Chinese came in, bought the stuff, moved it all offshore, and produced it somewhere else.

Having the R and D doesn't necessarily generate growth. You need to have the other conditions to benefit from it.

● (1045)

The Chair: Thank you, Mr. Paton.

Monsieur Bouchard.

[*Translation*]

Mr. Robert Bouchard: Mr. Paton, you said that the research and development tax credit is needed and important. At the moment, in order to take advantage of non-refundable tax credits for research and development, a company has to make a profit. As many manufacturing companies are losing money, they cannot take advantage of the opportunity at the moment.

Would it be better to have refundable tax credits? A company doing research and development would be able to claim refundable tax credits even if it was losing money. That would be useful.

Mrs. Fiona Cook: We support that idea. However, there would have to be a maximum time in which those credits could be claimed. A company that has not made a profit in ten years perhaps should not be in business. We support the position in the present situation because a lot of companies are not making money.

Mr. Robert Bouchard: Thank you.

[*English*]

Mr. Richard Paton: I note that this was one of the Rajotte recommendations.

[*Translation*]

Mr. Robert Bouchard: Mr. Paton, since you are discussing recommendations, I gather that you see the accelerated allowance as a priority. There can be other priorities; if you had to choose another one, which priority would you support?

[*English*]

Mr. Richard Paton: In terms of the Rajotte report, that is number one for us.

Just to give you an example, I was listening on the web when Jay mentioned yesterday that there's a coalition of 43 companies and associations in the manufacturing area. You work in Parliament and you know how hard it is to get consensus among various views—

Some hon. members: Oh, oh!

Mr. Richard Paton: —so you can imagine the amount of diversity we have. There are R and D companies, service companies, and rail companies.

We agreed that the number one ask of the government was this, by far. Number two, by the way, was the refundable tax issue on that R and D credit. This is absolutely the most critical, because without investment, all of the other things don't matter very much. You have to stimulate that investment. That was the number one ask that we had for the government on the budget and we got kind of a quarter of a loaf with the two-year extension.

[*Translation*]

Mr. Robert Bouchard: For the railways, I thought I understood that you were asking for a grant program to be set up. I heard the word “grant“.

Are you just asking for a government assistance program for the railways? Do you want grants or do you have other priorities such as the accelerated allowance and refundable tax credits? I would like to hear your opinion about that.

[*English*]

Mr. Jay Nordenstrom: *Merci beaucoup, monsieur Bouchard, pour votre question.*

I have to apologize to my colleague, Mr. Paton, as he's been bearing the weight of the manufacturers' coalition and the issues by himself. I owe him some support here. We are a proud member of this coalition and are one of the beginners on board, as is Mr. Paton. We believe we need to speak with one voice. I came here with a proposal that's very specific to our sector, and that I thought would be of interest to this committee, to make sure we survive this economic crisis and come out in a positive way.

However, I have to say that we endorse 100% all the recommendations in the letter we've written to the Right Honourable Prime Minister, as well as the top issues that Mr. Paton has talked about. Mr. Paton has taken a forest-from-the-trees outlook on what is needed for the manufacturing community in Canada and we endorse that 100%. Those priorities are exactly in line with ours.

● (1050)

The Chair: Mr. Lake, you may have a short round, and then we're done.

Mr. Mike Lake: I'll start by saying you needn't apologize, Jay. The approach we're taking in this committee is that it's important to hear about the big picture—and of course, we're very interested in the big picture—but that it's also very interesting to hear specific proposals that relate to industry. I think we have a good balance and I think we have had some fantastic feedback today from both of your organizations.

I think it would be appropriate, if I may, to close on opportunities. One thing we've talked about here and that we hear a lot about is the problems and challenges we're facing as Canadians—I guess because they're so much in our face right now—because of this global slowdown. One thing that is important is to look to where the opportunities are in addressing these things. As governments, rather than just throwing money at problems, we need to carefully consider where there are real opportunities, both in the short term, to address the labour issues, and in the long term, to ensure that when we come out, we come out stronger than ever.

Jay, you have mentioned some really interesting things to do with rail that I never knew about, such as products to grease the rails and things like that, specific products that I imagine have a chemical component to them.

Maybe each of you could speak to areas within your industries in which you see tremendous potential, areas in which, as we come out, there will be an environmental technology impact that's going to be in demand around the world and in which we have Canadian expertise in researching and developing and turning this into something that will drive our economy to be even stronger in the future, both in the short term and in the long term.

Mr. Jay Nordenstrom: Thank you for that question.

That's exactly where we want to position ourselves coming out of this, in a positive, sustainable way, whereby Canada can be very proud of its manufacturing sectors and specifically where we try to position ourselves, when domestic and international sales.... The domestic market has been hit very hard on the freight side. On the transit side, we're seeing investments. We need to make sure that these investments are happening today and are not delayed until tomorrow.

Internationally, the opportunity for Canada is to really be business diplomats in countries where we haven't been before. We have a presence in places such as Sudan, in building their infrastructure, and in Nigeria, and in the Middle East. We've had success in Iraq and now we're pursuing successes again in Iraq.

Our competitive advantage is in our turnkey solutions. We can go in and do a preliminary feasibility study, put the specs together, lay the ballast, lay the track, and get locomotives in there, and we can do it at a competitive price, with on-time delivery, excellent training capabilities to make sure you have the local workers who understand how to maintain the equipment, and after-market service. We can do the complete package. As an association, we have to do a better job of telling that story, because on these trade missions, we need to put our best foot forward.

In this case, when it comes to transportation, we're seeing these countries that have nationalized systems, such as Russia, which is looking at their 2014 Winter Olympics and asking for Canadian input into how to design their Sochi line, because they see our successes, and not only in Vancouver. With their harsh weather, they have similar needs. They don't have the technology that we have. As far as population is concerned, we don't compare, yet we've been able to build on our strengths. We can't compete with some of the other folks out there, but we know where we are successful. We need to go after that market and make sure we have a good chunk of that piece of the pie.

We'll continue to do this and we do need to make sure we have government support in staying the course and ensuring that we don't close up shop. I'm not here to use scare tactics, but that's certainly the reality I'm hearing from my members. The fact that one of our larger members is now under bankruptcy protection is a testament to that reality.

● (1055)

Mr. Richard Paton: The way we look at this, Mr. Lake, is that chemistry is part of the solution to a lot of issues. It could be food production. It could be the safety of your food. One company, for example, is developing the chemistry to take greenhouse gases out of stacks. Also, there are lighter products and rail that has less friction. The opportunity, given that these are world problems—everything from water quality and air quality to security issues and Kevlar vests or whatever—is that chemistry can provide a solution.

But the one area where perhaps Canada is really trying to focus on is an area for which one of my company leaders coined a phrase, which is that we want to be the best value-added upgraders in the world, economically and environmentally. That is our sustainability.

As part of our responsible care program, we've integrated sustainability principles. We're now working with all our plants to develop codes and ways to look at the footprint of each plant. Out of that, innovation is generated, because you start asking how we can reduce water consumption or how we can help a community with water consumption. You can actually improve the water quality in a community if you do it right. Or, how can you use less feedstock and produce better products that can reduce your emissions? How can you improve your systems, much as Jay is talking about, and design your systems for less transportation or less movement or whatever?

In there is a lot of innovation, and out of there, we hope that not only will we be leaders in selling our products, but we will be leaders in our practices. Much like your point on the banking system, Canada is a leader in these kinds of practices. It's sometimes hard to generate money out of it, but that's something we're aiming for in the future.

The Chair: Thank you, Mr. Paton.

That concludes our meeting.

For the record, we want to state that the report referred to as the Rajotte report.... We don't want to take anything away from James Rajotte, who is the hardest-working MP, and I would concur that James did an excellent job. The actual report, for the record, is called “Manufacturing: Moving Forward—Rising to the Challenge”.

The other note that I—

Mr. Mike Lake: The Rajotte and Van Kesteren report.

Voices: Oh, oh!

The Chair: I think there were actually only two left on the committee.

The other thing that's necessary to note is that the reason we are undertaking this study is that we, as an industry committee, recognize that the preface to that report was the high dollar, the energy costs, and emerging China, and I think there was one other as well. The circumstances have changed. We recognize that we are in a situation that needed to be studied, and thus we've now.... I only hope that it would be a small fraction of the lustre that was attained by the Rajotte report; however, that's what we're endeavouring to do now.

We thank you, Ms. Cook, Mr. Paton, and Mr. Nordenstrom, for your witness. We thank you for your contribution. We know that what you have told us today will certainly help us with this study.

With that, we conclude this meeting.

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