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Chair

Mr. Dan Ruimy

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● (1550)

[*English*]

The Chair (Mr. Dan Ruimy (Pitt Meadows—Maple Ridge, Lib.)): It's time, so we're going to start our next meeting.

Good afternoon, everybody, what a fun day we've had so far. Welcome to meeting 15 of the Standing Committee on Industry, Science and Technology.

Today, I thank our guests for waiting for us. We've had a busy day in the House, and we're going to have to jiggle our time a little bit so we can get in some good questions.

Our three guests for today are Iain Christie, executive vice-president of the Aerospace Industries Association of Canada; Joseph Galimberti, president of the Canadian Steel Producers Association; and Paul Lansbergen, vice-president, regulations and partnerships, of Forest Products Association of Canada.

Mr. Christie, would you like to go first?

Mr. Iain Christie (Executive Vice-President, Aerospace Industries Association of Canada): Mr. Chair, thank you. I will attempt to follow good advice that I was once given about attending these things, which is to be bright, be brief, and be gone. I will attempt to do that. Maybe I'll just have to speak a little quickly.

I want to start with two statements, which I'll just put out there for the committee to think about while I'm pursuing the rest of my remarks. The first is that innovation is prosperity from creativity. The second is the statement that both product innovation and process innovation are critical for economic development. With those initial thoughts, I'll take you for a brief jog through the aerospace sector, both domestically and globally, to put the rest of my comments in context.

You have, as material we submitted, the state of the industry report. If you want to know the great and gory numerical details of the sector, feel free to refer to it.

The points I want to make about the aerospace sector are, first, that the Canadian aerospace sector is a very R and D intensive sector, spending five times more on R and D than the Canadian manufacturing average; second, that the sector is first in the OECD in productivity, with productivity growth two to two and a half times the Canadian manufacturing average; and third, that the aerospace sector is highly export-oriented—about 80% of our products leave Canada. Those exports are pretty diverse. Whereas the Canadian average is to send about 80% of our products to the United States, aerospace sends less than 60% to the United States. Also, it may surprise some members to learn that more than 60% of those exports are actually supply-chain oriented. In other words, they're not whole airplanes; they're parts of airplanes.

The net result of all of this is that the aerospace sector is, and must remain, a globally competitive sector. We are connected to the global market, and we cannot possibly be disconnected from it. A few words are in order about the nature of the global market dynamics that Canadian companies operate in.

The good news is that the global sector is enjoying very strong demand. This has led to large long-term backlogs at major manufacturers. Something like 10,000 aircraft are currently on order at major OEMs. However, some particular market dynamics, related to the coincident introduction of competing aircraft designs, have led to a lot of cost pressure, because the major OEMs have all been concerned about retaining market share. This means that those major customers of our supply chain suppliers need efficiency in the supply chain. They have effectively sold every airplane they're going to build for the next five, six, seven years, and they've sold them at prices that are very aggressive. Their trend is to rationalize their supply chains, which means fewer, more efficient suppliers. Suppliers are thus under a lot of pressure to reduce price and add capacity so that the good suppliers can replace the less efficient ones.

This generates an atmosphere that is not for the faint of heart. In this atmosphere, suppliers that are very good at what they do enjoy a great deal of opportunities. It's highly competitive, and just because you're a supplier today doesn't mean you will remain one if someone is better than you are tomorrow. It's in this environment that we need to talk about the question of innovation, and the role it plays in keeping those companies part of the global supply chain of this growing global market.

I want to talk about innovation in terms of three kinds of innovation, which is how I break it up. This is very much based not only on the position I occupy now, but on my history of having been first the director of R and D and then the president and CEO of a small aerospace company. This is a dream that I have lived personally.

The first kind of innovation I would refer to is what I would call entrepreneurial innovation. This is probably the kind of innovation that most of us think of when we think of innovative economies. These are small companies that are driven by investment and are developing a new product offering. This is essentially what we think of as an innovative company. At the other end of the scale—and there are many players like this in aerospace—are the large companies with sophisticated R and D divisions that are constantly developing and refining their products to compete in a global market. This is also product innovation. I would also refer to it as balance sheet innovation, because essentially these companies are capitalizing their R and D, and they're doing it on the strength of their balance sheets. That's why they can spend the kind of money they do.

● (1555)

The third kind of innovation actually occurs in the middle of the industry. These are companies that are far less interested in building better mousetraps and more concerned with building mousetraps better. They do this by adopting new techniques for manufacturing, integrating new manufacturing technology, increasingly exploiting big data applications or the Internet of things to find efficiency, including in their business and management practices. This is why I call this "process" innovation. According to the definition that I said at the beginning, this is still very much innovation. This is good ideas. This is creativity that is being used to generate prosperity, being used to generate higher profits, higher margins, and more competitive businesses, but it may not be the kind of innovation that everybody thinks of when they think of innovation. But because of the market dynamics that I described earlier, this is exactly the kind of innovation that we need to be supportive of in Canada if we're going to have the engine, at least, of our aerospace sector be successful. The companies that need to grow to take advantage of the global demand are companies that are going to have to solve the problem of how to be process innovators.

What does this mean in the context of the question that you're trying to answer? I think the reason that it's important is because the companies that are going to consume the government programs that support process innovation have some fundamental characteristics in common, and I think these are common across many sectors, not just aerospace. The first is that they are cash-flow limited and cash-flow focused. To put it bluntly, these are guys who get out of bed every morning wondering how they're going to pay about a hundred different mortgages this month because that's how many people work for them. They're putting two dozen people through university and a half a dozen kids need braces. That's their concern every month: finding the cash to pay for all of that economic development. They don't have a lot of extra money to invest, they don't typically have strong balance sheets, and they do have a very intimate relationship with their banker, probably. They also have relatively very few staff dedicated to R and D or, in fact, any specialized activity, and the resources they do have who do that are extremely precious to them. They're usually their very high-value individuals. There aren't very many of them, and they know exactly what they're doing every day because they have seven jobs they'd like them to do that they can't be doing. These are also very pragmatic people who are not going to apply those resources where they don't think they're going to have a large amount of effect. Activities that would fall under the category of not having a large amount of effect are activities like preparing applications, reporting; meetings or other non-productive work would definitely fall into the category of not the kind of work you want high-value resources to be doing.

When we design programs that support this kind of innovation, it's not even so much important that they be directed at process innovation. They need to be directed at the kinds of companies that are doing process innovation, which means we need to be very careful of the impact that they have on cash flow. We need to be careful that they do not depend on balance sheet strength in order to be able to qualify. We need to make sure they do not require a large commitment of specialized resources, especially those kinds of tasks that are not going to be seen as productive, including a large amount of reporting to the government or to customers. We also need to understand that everybody in this business is going to need to adapt those programs to their business reality on the ground. The programs need to be flexible and need to take into account that, by and large, the people who will be dealing with this program are extremely successful businessmen. In our industry they wouldn't be in business if they were not. They know how to run their business. They need help staying competitive, but they do know what they're doing running their business. It would be better for us to adapt to their reality than to expect them to adapt to ours.

I started with two statements. The first is that innovation is creating prosperity from creativity, and I think that I've explained that. Creativity without the prosperity is not economic development. True innovation means we have to take those great ideas, which Canadians are, frankly, excellent at generating, and we have to find a way to generate profits and prosperity from them, which, frankly, we're not as good at doing. Our industry, I would say, has been a leader in being able to do that, but we are in a very particular time, in a very competitive global environment, and we need to continue to adapt the way we support companies to allow them to continue to do that.

● (1600)

That brings me to the second point I started, which is that both product innovation and process innovation are important. We have ample examples in aerospace of product innovation and how that is taking on the world, keeping Canadians prosperous, and returning value to the country. It is also important not to forget in your deliberations that process innovation, while not as obvious and maybe not as sexy, is just as important to what I consider to be the economic engine of our industry.

To make this work, we have to ensure that we have a more competitive and innovative aerospace industry that will lead to a more prosperous Canada and more jobs for Canadians. These are questions that we, at the Aerospace Industries Association, are considering very carefully. We are encouraged that you are as well, because they are important.

Finding the right answers will be critical to ensuring that Canada has an economy that is not only dynamic and creative, but also prosperous and innovative.

Thank you.

The Chair: Thank you.

Mr. Galimberti, go ahead.

Mr. Joseph Galimberti (President, Canadian Steel Producers Association): Thank you, honourable members, for the opportunity to present to the committee today on behalf of the Canadian Steel Producers Association. I appreciate the chance to be here.

Our association represents 10 primary steel producers and steel product manufacturers in Canada. We have member facilities located in Quebec, Ontario, Manitoba, Saskatchewan, and Alberta. These operations directly employ over 22,000 Canadians, with an additional 100,000 Canadians supported by the indirect economic impact of our operations.

Steel in Canada is a true linchpin industry. Our presence in a given community generates significant economic impact for several reasons. Our operating expenses associated with steelmaking facilities are considerable. Transport of raw material, transport of finished product, development of support technology, service of equipment, and supply and maintenance of the facilities themselves, are all capital- and labour-intensive ongoing activities.

The availability of locally sourced steel in a given community also attracts secondary value-added economic activity, like steel fabrication operations, auto parts manufacturing, and specialized production of steel products. Steel production is a critical link in manufacturing and resource exploitation and construction supply chains from coast to coast to coast, and has the net effect of diversifying the benefits to Canada associated with ongoing economic activity, large-scale commercial developments, and public sector investment in Canada's infrastructure needs.

I think it's important to see steel production in Canada as a value-add activity. Raw materials for production are sourced quite nearby, whether that's iron ore from mining operations in Quebec, Newfoundland or Nunavut, or Canadian scrap metal materials sourced from local scrap and salvage operations. These are refined or recycled in Canada by Canadian employees into the high-quality and increasingly sophisticated products our consumers demand.

Steel production in Canada is also truly an advanced manufacturing process. Our members are technology companies that happen to produce steel. As an excellent example of this, I would highlight a long-standing partnership between one of our members, Rio Tinto, and the National Research Council that developed binder-treated powders, bonding small additive particles to larger iron powder particles. This increases the productivity of compacting presses, part-to-part consistency for use in automotive appliances, electrical tool, and lawn and garden industries. It's quite complex and I understand very little of it, frankly, but it was featured in a National Research Council innovation success story released on May 6 of this year.

I would also note the commitment of another one of our members, ArcelorMittal Dofasco, to the development of a manufacturing policy in Canada through the introduction of and support for the chair of advanced manufacturing policy at McMaster University. The chair, which is a cross appointment between the Department of Economics and the Walter G. Booth School of Engineering Practice, is intended to enhance the profile of manufacturing in Canada, as well as be a strong contributor to the manufacturing public policy dialogue with all levels of government. The goal of the chair is to ensure that Canadian manufacturers are well positioned to improve their competitiveness and boost productivity, and are positioned globally to attract foreign direct investment.

We think this emphasis on global positioning is vital. Our members are in a constant competition to secure investments required to fund capital expenditures and ongoing process modernization and technology implementation. Government should understand and appreciate that Canadian facilities compete globally for investment funds, and the continued direct investment of foreign capital is vital to the maintenance and growth of our competitive position.

With particular regard to steel, we would suggest the Government of Canada consider policy options on two distinct but complementary tracks. The first of these is the fortification of Canada's domestic market against unfairly traded goods, an area in which steel as a commodity is particularly exposed.

Global steel is at present facing an unprecedented overcapacity phenomenon, driven largely by China where demand has declined while state-supported production has increased significantly. This reality has negatively affected price and resulted in increased instances of market-distorting dumping and circumvention, both from China and from a host of other global producers whose home markets have in many cases suffered as a result of Chinese competition.

Left with no choice but to export, these nations begin doing so aggressively, dumping yet more product onto global markets, further degrading global prices. While the CSPA supports trade, we believe with our efficient facilities and innovative workforces we can thrive in a free-trade environment. But we also believe that free trade has to be fair.

In order to preserve a level playing field in steel and respond to increasingly creative acts of circumvention and dumping, we have worked closely with government to develop a series of legislative and regulatory proposals for action on trade-remedy modernization.

● (1605)

We are very encouraged by the inclusion in the Budget Implementation Act of two of these provisions, and we are optimistic about additional legislative changes resulting from the government's current consultation on the Special Import Measures Act. We believe it is in Canada's best interests to ensure that the trade remedy system continues to provide adequate remedies for domestic producers and to operate in a transparent and accessible manner.

Sending a strong signal that the principles of fair market competition will be defended in Canada against unfair trade also signals that investments in Canada will be protected against market distortions and anti-competitive behaviours from other jurisdictions.

Along with trade remedy modernization, we would encourage the continued enforcement of legislative and regulatory provisions related to China's non-market economy status beyond 2016. This is another opportunity to send a critical message regarding the security of investment in Canada.

China's established pattern of non-market behaviour in steel has had significant negative consequences globally. They maintain more than 425 million metric tonnes of surplus production capacity. That is roughly 30 times the totality of the Canadian market. Their state-owned and state-supported steel sector has disrupted global trade patterns and forced more reductions in prices.

Canada's current Special Import Measures Act allows the Canada Border Services Agency to investigate whether certain countries, including China, are operating as non-market economies. The ability to initiate these investigations, which allow for evidence-based determinations of fair and "market-based" dumping margins, is critical to the efficiency of Canada's trade remedy system.

Through changes in 2013, the government strongly endorsed this practice. These addressed policy and business uncertainties for the Canadian steel industry, and maintained a policy balance between us and our NAFTA partners. This facilitated investment in Canada. In our view, the policy approach should continue into the future without compromise.

The second track that I mentioned is the concerted pursuit of economic growth in Canada through the development of a manufacturing policy framework that maximizes our domestic advantages and encourages investment and production in Canada.

In that context, the CSPA welcomes the Government of Canada's budget 2016 commitment of $120 billion over 10 years for infrastructure development. Our members look forward to having the ability to contribute to the needed modernization and rehabilitation of Canada's public infrastructure. We share the government's view of long-term investment in infrastructure as an opportunity for contributions to national economic growth. We believe that our steel producers will play a substantial role in supplying the critical inputs required by projects associated with infrastructure challenges of a national significance.

Similarly, we were encouraged by the budget 2016 extension of the automotive innovation fund through to the end of 2020-21. We believe this type of partnership between the federal government, the Government of Ontario, and the Canadian automotive industry for the purposes of attracting strategic, large-scale research and development projects is an important component of what we hope is a collaborative effort to raise the profile of Canada's strong manufacturing capabilities and to better influence the investment location decisions crucial to the long-term competitiveness of the Canadian automotive sector.

We're also encouraged by commitments to move forward with the development of Canadian energy infrastructure, including addressing access to market challenges. We believe that pipeline development represents the most responsible and sustainable way to deliver Canada's energy products to market, which we feel will in turn encourage greater investment, long-term growth, and job creation associated with that sector.

While we appreciate the need for a fulsome consultation of affected communities and robust environmental assessments, we are also hopeful of a near-term project approval or approvals and optimistic that Canadian steel will play a vital role in associated infrastructure development.

In closing, I would like to take the opportunity again to thank the members of the committee for undertaking this study, and for continuing your important work on the future of Canadian manufacturing industries. As crucial middle-class employers in Canada who hope to strengthen and grow our operations, we appreciate the dialogue your efforts have initiated and we look forward to the outcome of your work. I am happy to take any questions.

● (1610)

The Chair: Thank you very much.

Finally we'll move to Mr. Lansbergen, vice-president, regulations and partnerships, of Forest Products Association of Canada.

Mr. Paul Lansbergen (Vice-President, Regulations and Partnerships, Forest Products Association of Canada): Thank you, Mr. Chair. Thank you for the invitation to appear before the committee as part of this study.

FPAC is the national trade association for the industry. I want to give you three quick messages as part of a narrative. I won't take the full time, because I do want to get into more of a dialogue with your questions and answers.

You're looking at the manufacturing industry as a strategic sector, and certainly the forest products industry is a strategic sector. We operate across the country, coast to coast. We use an abundant natural resource that Canada has and for which Canada is a leader in certification. We're transforming beyond our traditional suite of products into new bioproducts, which I'll explain in a bit.

We've had prosperity for the last 200 years, which the industry has helped to generate. We can do that for another 200 years, but not for just lumber and pulp and paper products.

We also have a great story to tell on climate change. We can do more, and we think that's another reason why you should give good consideration to how the forest products industry fits in your overall study.

I have some quick, simple facts about the industry. As I said, we operate across the country. We sell $65 billion worth of products at home and abroad to 180 different countries around the world. We employ 230,000 Canadians in largely rural and remote areas of the country, but also some in urban areas. They're good, well-paying jobs and certainly above the average.

In terms of our environmental performance, quite admittedly we were not always good stewards, but we've cleaned up our act. In fact, we are now leading the world in third-party certification of sustainable forest management practices.

We have cleaned up our act in terms of air emissions, water emissions, and landfill, and we're very proud of our green credentials. We have a market study that indicates we have the best reputation in the world. We want to maintain that not only for our brand in the marketplace, but also because we operate largely on public forest land, and that social licence to operate is important to us and part of our raison d'être.

I gave you folders; feel free to take a look at them as I'm talking. One of our new initiatives on the environment is on climate change. We have made rather significant reductions in our own emissions, but we think we can do a little more. We think we can store more carbon in the forests, and we think that the products we sell can store more carbon as they're used. There's a brochure in there that talks more about that, and I'm happy to answer questions later.

In terms of the transformation I talked about, we went through a dark period. Necessity is the mother of all invention, and we figured out we can do a lot of new and interesting things with wood fibre beyond lumber, wood panels, pulp and paper, tissue, and packaging.

Essentially, anything you refine petroleum into, you can refine wood into. If you want green power, we can do that by burning bark and pulping liquor. We do that for our own power. We do that for our own heat, but we export to the grid. It could also supply district heating systems, particularly for remote communities.

If we want biofuels, we can be a feedstock provider and help convert the wood biomass into biofuels, whether it be ethanol or biodiesel.

If you want biochemicals, you can get sugar from trees. You can get carbon black for tires from trees and also carbon fibre for high-end bicycles and automotive applications.

We are leading the world in the production of nanocrystalline cellulose, where we break the cellulose down to the nano level. It can be used as a strengthening additive for our traditional products, but we can also use it as a coating for metal alloys to make our planes, trains, and automobiles lighter and more fuel efficient.

● (1615)

Cellulose filaments, which are a slightly larger size, can be used, again, as a strengthening additive for our traditional products, or they can be used to strengthen cement, for concrete-making, to make our buildings and other infrastructure lighter and less carbon-intensive.

Flat-screen TVs could have acetates from wood fibre in the screens. There are paints that could have polymers from wood fibre. There are cosmetics that could have ingredients from wood fibre. Pharmaceuticals have fillers and coatings made from cellulose, either to slow the body's absorption of the medicinal ingredients, or as a coating to make it easier on our tummies.

There are a lot of things we can do with wood fibre, some of which we are doing now and a lot more of which we can do in the future.

Now, not all of these technologies are commercial, so one area that Natural Resources Canada has been very helpful with over the last number of years is helping to de-risk the commercialization of some of these technologies. We would like to see the government continue that.

Besides all the technology, we are also innovating our business models. We are diversifying our geographic markets to expand beyond our heavy reliance on the U.S. industry and U.S. marketplace, so China and India are huge markets and growth opportunities for us. We are expanding into new uses of some of our traditional products. We have been using lumber, wood panels, and engineered wood products in our homes for a long time, but we can build with wood in non-residential buildings, whether it be commercial or industrial, and certainly taller wood buildings.

The other area that some of my colleagues also mentioned is competition globally. We are not alone in this effort to do new things with wood fibre. Our competitors in Scandinavian countries, Brazil, and elsewhere are chasing the same dreams and opportunities. Where we are first in line, we can perhaps get an advantage through being the first mover, so that is important as well.

I think I will leave it at that and perhaps leave more time for questions and answers.

Thank you.

● (1620)

The Chair: Thank you very much.

If we keep on track, we should be able to do a complete round, regular time, all around—at least one round for sure.

We are going to start with Mr. Baylis. You have seven minutes.

Mr. Frank Baylis (Pierrefonds—Dollard, Lib.): I am going to be looking for commonalities among your three different industries, and I am going to keep you guys tightly leashed to one minute per answer, just so I can get through what I want to do.

First of all, productivity.... I noticed that the aerospace and the steel have shown great productivity. I don't know much about the forest industry, whether there has been productivity or not. Maybe you could explain quickly, in 60 seconds, what the main driver for productivity has been in each of your industries.

Mr. Iain Christie: Global competition, because only the companies that manage to figure out a way to do it can compete globally, so being unproductive just isn't an option.

Mr. Frank Baylis: What are they doing to be productive?

Mr. Iain Christie: That is harder to quantify, and it would certainly take more than a minute to answer. It varies, depending on which company you are talking about.

Mr. Frank Baylis: Your company has been exposed to a tremendous amount of global pressure. It is survival of the fittest. Is that it?

Mr. Iain Christie: Basically.

Mr. Joseph Galimberti: Technology and training.

Technology is crucial in terms of process modernization, increased productivity, increasingly sophisticated product, and increasingly complex demands from the customer.

Training—better equipping folks on the floor to undertake those processes—has been critical.

Underlying it all is that all of our members compete within their organizations for foreign investment in Canada. How those organizations individually are demonstrating performance, or a go-forward potential for the industry in Canada, is crucial to both of those things. Without a business case, you are not going to see new technology in Canada, and you are not going to see a new workforce.

Mr. Frank Baylis: Okay.

Mr. Paul Lansbergen: Very similar drivers.... We are largely a commodity business. We are global in nature, so the competition is pretty fierce. We went through a dark decade, and we actually have a great productivity record. We have studies to prove it, and I am happy to share that with you.

How we have done it is largely through technology. A lot of our processes are computerized. You can run a pulp mill with six engineers in a control room doing most of it.

Mr. Frank Baylis: To remain competitive, specifically in something like lumber, which is commoditized to a large degree, you have to get the human part of that equation down as much as possible. You're saying that you can run a mill with six people. Is that it?

Mr. Paul Lansbergen: You need others around for maintenance and other things in case something goes wrong, but if everything goes nice and smoothly, it's all computerized. It's a suite of monitors in front of someone largely sitting at a desk.

Mr. Frank Baylis: Is that the same thing for steel?

Mr. Joseph Galimberti: Certainly, there is increasing technology, no question. Workforces at a steel facility are not what they used to be.

● (1625)

Mr. Frank Baylis: The workforces have shrunk and technology has taken over. Has that kept the labour costs sufficiently low that we can compete with low-cost areas like China?

Mr. Joseph Galimberti: Well, no. To be clear, labour costs in Canada are not ever going to be low enough that they are going to compete with China. The differential is enormous.

Mr. Frank Baylis: I didn't mean per unit labour costs. I meant the number of people doing—

Mr. Joseph Galimberti: No. We're competitive with China. We operate within the North American market. It's an integrated market between ourselves and the United States. A lot of our value chain efficiencies are crucial there and provide a lot of our operational advantage. Frankly, for the high-quality product we put out, on-time delivery, supply chains, and access to market are key. Labour is not a consideration there; it's just a lose-lose proposition.

Mr. Frank Baylis: I'm going to look at another set of questions.

Can government procurement help drive innovation? I know about aerospace and steel; I don't know about lumber. Could you talk about that?

Mr. Iain Christie: Yes.

Mr. Frank Baylis: That's a good answer, now let's expand. You can put more seconds into that.

Mr. Iain Christie: To go farther, it's going to take more than a minute. The short answer is yes.

Mr. Frank Baylis: How does it have an impact in the aerospace industry?

Mr. Iain Christie: You have only to look at the massive innovation engine that the U.S. Department of Defence represents to understand how government can use public procurement spending to generate innovation in an aerospace industry.

The government can use and leverage the money that it spends to encourage innovation in a number of different ways. Again, the long answer is much longer, but the bottom line is that the government spends a lot of money on aerospace products. I believe it has the right and the duty to explain to the industry that it's buying from what its industrial policies are and what its expectations are on the companies it spends that money on and how those companies spend that money in Canada.

I think there are a number of different levers the government can use to encourage those people who are the recipients of government funding to use it in ways that the government wants them to, which includes fostering innovation.

Mr. Joseph Galimberti: Certainly, we think that steel can contribute to public infrastructure projects. I mentioned engineering demands and continual product improvement specifications in Canada. We feel like we meet those needs. Frankly, I have every confidence in our members as the market evolves to meet those needs on a go-forward basis.

The second point is government policies. I'll use the carbon policy. I know the costing mechanisms are provincial, but it's a good example. If you're talking about a $120-billion, 10-year investment in things like green infrastructure, it benefits to source the cleanest, most GHG-efficient inputs possible. Canadian inputs specific to steel, because our supply chain is as tight as it is because there is no transport—

Mr. Frank Baylis: So you would build GHG requirements into the procurement?

Mr. Joseph Galimberti: I think if the government has commoditized carbon, it should be intellectually consistent in commoditizing carbon when it does its sourcing, right? If you have established a cost and built it into the system in which we are producing, then that product—

Mr. Frank Baylis: Got it.

Paul, you have about five seconds.

Mr. Paul Lansbergen: Actually I was going to build on that. I'll be very quick about carbon first. It's a principle for infrastructure spending procurement to encourage decision-makers to select the least carbon-intensive option when they are making their decisions. I'll send you some more information on that.

The other idea is that I think the build in Canada innovation program that is currently on the books could be strengthened to help the government facilitate, incent, and support more innovation before products get to market.

The Chair: Thank you. Sorry to cut you off.

Could you actually forward that to the clerk?

Mr. Paul Lansbergen: Definitely, yes.

The Chair: And any information that you guys want to send, just send it to the clerk so we can all get it. Thank you very much.

Mr. Albas, you have seven minutes.

Mr. Dan Albas (Central Okanagan—Similkameen—Nicola, CPC): Thank you very much, Mr. Chair.

Thank you to all our witnesses for being here, and for the great representation you do for your different industry groups.

I'd like to start first with the Forestry Products Association of Canada.

There are a number of value-added wood products that are being sold right across the country, right across the world. Some of the names that I know from my riding are Princeton Wood products; Gorman Bros.; Geometrik, which is now actually in Kelowna; FPInnovations, which is working with Westbank First Nation; Structurlam, in Penticton and Okanagan Falls, with cross-laminated timber. These are all great examples of innovation.

You were going to elaborate a little further on how specifically the Canadian government can approach, from a policy perspective, further innovation in your industry. Could you give us a few details on that?

● (1630)

Mr. Paul Lansbergen: One of the most important programs that they've had so far is a program called investments in forest industry transformation. It was a grant program to support transformative investments in the forest industry, and Structurlam was one of their recipients. They received money to expand their production of cross-laminated timber, which is a mass timber-engineered wood product that enables us to build taller with wood. There's an architecture firm in Chicago that has designed a 42-storey, wood/concrete hybrid building. UBC is putting up an 18-storey building that is all wood. It's this CLT product. That program has also supported lignin extraction, which is the glue in the tree. Take it out and we can produce glues from it, we can produce chemicals that can be used in mining and oil and gas applications. There are a whole host of technologies that could be supported that way. Government has also been supporting R and D, whether it be in the academic community, through FPInnovations, or collaboratively with both of those and the companies, and all of that is very important.

Mr. Dan Albas: When we talk about building with wood, particularly CLT, groups like Structurlam are starting to develop and really export. When we talk about those kinds of things there's a committee that actually deals with the Canadian building code. It's a voluntary code, but provinces right across the country can adopt it. Do you know if that has been looked at by that committee?

Mr. Paul Lansbergen: The national model building code is a voluntary one. It is reviewed every five years. Typically, the provinces take a look at the new version and decide whether to accept it as is or accept it with modifications. Some of the provinces have already expanded the use of wood by raising the limit from four storeys to six. The national model code now says six—I'm not sure if some of the provinces have adopted it—but we can go a lot higher. We can go to 10 pretty easily, 12, 20, and demonstration projects that are occurring are showing us the art of the possible.

Mr. Dan Albas: I think architects also need to study it and understand it and start building with that in mind. Both the industry as well as government have to better understand it, and I hope that people who are listening to this conversation take up that idea.

Mr. Paul Lansbergen: I'd like to make one quick comment about that. The Canadian Wood Council is an industry-funded organization that is a collection of engineers who work on the codes and standards, and they're already working on the next set of revisions for the national code.

Mr. Dan Albas: Okay, thank you.

I'd like to move on just to discuss again the Canadian aerospace industry.

Sir, you've mentioned different types of innovation. I do know that in many elements of our transportation sector ownership, as far as foreign ownership, has a lot of stipulations. In regard to the financing, to me that's one of the logical steps. Are many of these tech companies that deal in aerospace innovation also inhibited by very low thresholds for foreign investment?

Mr. Iain Christie: It isn't the subject that comes up very often.

Typically, we as an association don't represent...airlines are representing the manufacturers. Most of the companies that are the targets of what I call the process innovators are by and large privately owned. They tend to be individual businessmen or small partnerships, so foreign ownership is not so much of an issue.

Mr. Dan Albas: I just thought I'd ask the question. Alpine Aerotech is right in west Kelowna.

Mr. Iain Christie: Okay.

Mr. Dan Albas: Actually, a whole cluster of similar businesses have located around them and they serve governments right across the world, they serve businesses right across the world, and they've done some fantastic modifications—

● (1635)

Mr. Iain Christie: Of course, you also have Kelowna Flightcraft, which is the real star in the industry.

Mr. Dan Albas: Well, in my riding Alpine Aerotech is the star.

I appreciate your opinion on that.

How much time do I have, Mr. Chair?

The Chair: You have a minute and 15 seconds.

Mr. Dan Albas: I would like to talk about the Canadian International Trade Tribunal process because, Mr. Galimberti, you mentioned you'd like to see further reforms to it.

I don't know if you're familiar with the case of rebar in British Columbia. This is a case where many of your members took issue with the fact that imports from China, I believe, Turkey, and Korea, were dumping. An investigation was done, a 40% tariff was put in place, the whole tribunal process, intervenors and all that, happened. However, to me at the end of the show, we don't see more Canadian rebar products being used. I don't understand why someone hasn't taken it. In fact, the United States is now selling more rebar into British Columbia. It's a bit of a perverse issue because, yes, we don't want to see dumping. On the other hand, British Columbia consumers, who have some of the highest real estate prices, are paying on average 6% more for their rebar, not to mention what this could mean for the LNG industry.

I understand your desire to tinker with the system or to see further reforms, but what do you say when someone brings those concerns to you?

Mr. Joseph Galimberti: Well—

The Chair: Just so you know, you ran out of time, but I'll let you have some time to answer the question.

Mr. Joseph Galimberti: Okay, I'll be brief.

I was a witness at the public interest inquiry in British Columbia. AltaSteel is a producer of rebar in Edmonton that has increased shipping to northern British Columbia specifically, and demonstrated that at the tribunal. There was a commitment from both ArcelorMittal Long Products in Quebec, and Gerdau here in Whitby, to ship additional rebar. I believe they can demonstrate that they have done that.

We don't have a problem with U.S. imports. They do not distort the market because they are priced fairly and competitively. We have a problem where there is a demonstrated dumping, and subsidy. It's asking Canadian industry to compete with the Chinese government or the Government of Turkey. That is fundamentally unfair.

This is an interesting case and it goes back to what I was saying earlier about carbon. The Government of British Columbia supported that complaint. They want to source lower-priced imports.

Is it in the public's interest to source responsibly produced and environmentally friendly rebar that is in many cases produced by unionized workforces with a fair and safe work practice code, or does the public not care about products that are being sourced from China in ways that aren't necessarily in accordance with Canadian standards?

The Chair: Thank you.

Mr. Masse, you have seven minutes.

Mr. Brian Masse (Windsor West, NDP): Thank you to the witnesses for being here.

First I'll start with steel.

One of the things we have a problem with in my riding that has become international is that one of your members, U.S. Steel, has a facility in Detroit. Since they closed operations in Hamilton, there's been a transboundary noise issue that the previous government spent around $60,000, minimum-based, that identified U.S. Steel as a noise and vibration emanater of what's called the hum. I'm sure you're familiar with that.

What does the Canadian division have to say about this issue with regard to international co-operation and determining how to deal with this issue if you're asking for support from Canadian taxpayers for your industry?

We haven't had any favourable response with regard to this issue from U.S. Steel.

Mr. Joseph Galimberti: To be honest with you, it's not an issue I've had a discussion with U.S. Steel Canada about. They're in the middle of a CCAA sale process, and we're certainly optimistic that the outcome is going to be positive. But they don't have a relationship anymore with the U.S. parent beyond the extension of a couple of different contracts.

I have great sympathy for the problem that is being experienced in Windsor but, frankly, we have no avenue through which we can be advocates.

Mr. Brian Masse: That's their parent company. So maybe we can follow this up later and not spend time on it today. This is a story that's been in the *New York Times* and the*Guardian*. It's become an example of how industry can't work with populations. I know U.S. Steel is significantly represented in your organizational structure.

● (1640)

Mr. Joseph Galimberti: I think it's important to clarify something. Under that CCAA process, there is no corporate relationship between U.S. Steel and U.S. Steel Canada anymore. U.S. Steel Canada is a stand-alone enterprise. They are currently selling themselves. They don't have a relationship with U.S. Steel.

Mr. Brian Masse: They're still technically a subsidiary.

Mr. Joseph Galimberti: Inasmuch as there are some contracts, yes, but there is an entirely different corporate governance structure.

Mr. Brian Masse: There might be a different governance structure, and we can go around on that all we want. The reality is today it's one entity under law.

Mr. Joseph Galimberti: The courts split them.

Mr. Brian Masse: The courts split them in the U.S.

Mr. Joseph Galimberti: Also in Ontario.

Mr. Brian Masse: I followed up with Ontario. They moved operations from Hamilton to Windsor.

Mr. Joseph Galimberti: But anyway....

Mr. Brian Masse: I'd like to spend some time on this because I don't think they've been contacted over here. They might have a better perspective.

Mr. Joseph Galimberti: Sure.

I don't want to come off as obstructionist.

Mr. Brian Masse: You're not at all. You're being quite helpful and open.

I want to move to another issue related to steel. There are two things. With oversupply from China, I'd like a recommendation on dealing with this in the long term. You mentioned a couple of options for the short term with China. There was dumping in the past from the U.S. That claim goes back a few years. But is there something there?

Second, with respect to procurement, we're building a new border in Windsor. The Gordie Howe International Bridge is significant because of the steel used there. Is that something related to a buy Canada act? Ironically, we still don't have a legal opinion on the Buy America Act. It could be Canadian money that finances the U.S. side and this could be subject to the legislation. Do we have the capacity to meet the requirements of building an international bridge with Canadian steel?

Mr. Joseph Galimberti: In general, yes.

Mr. Brian Masse: I mean steel from Ontario, Quebec and other parts of Canada.

Mr. Joseph Galimberti: No question.

Mr. Brian Masse: Excellent.

Then over to forestry.

With regard to some of the innovation you're doing, have you branched out to the universities and colleges? Have you also moved to non-traditional universities and colleges for production and distribution of some of your new products? Some of this stuff is good for the mould-making industry and others. This would include some of the products you have. Has that been taking place, and if so, how as advanced is it?

Mr. Paul Lansbergen: We have been reaching out to many universities and colleges through FPInnovations, our national research institute. They've been working with some of the universities as well. One of the examples I like to use is Lakehead University. Our researcher there is looking at turning lignin into biochemicals that can be used for mining. A surfactant and a dispersant are used in refining mineral ore. In some of the early studies, it looks like this could be more efficient than what the mining companies are now using. Also, it's green.

You can also turn lignin into a flocculant that can be used in tailing ponds to accelerate the sedimentation and the cleaning of the water. This could be used for oil sands tailing ponds as well. We are reaching out to various partners to see where opportunities can be realized.

Mr. Brian Masse: I want to move to aerospace and the skills gap in workforce training. We had a $30-million partnership with a company in Windsor for maintaining aircraft. Unfortunately, there wasn't the skill development there. Instead of drawing from local college and university programs, workers from outside the area had to be brought in. College was supposed to be involved, but there was nothing there.

What do we need to do to fix that? It doesn't seem right to be using public money to take positions from somewhere else into another place in Canada.

● (1645)

Mr. Iain Christie: No, and there are a number of initiatives under way. We need to get the industry connected to the educational institutes and find out what jobs are needed. There was recently a very large labour market information study done, not by us but by the Council for Aviation & Aerospace.

It is something that we're concerned about. Again, there's a range of initiatives and, frankly, because skills and training are not a totally federal responsibility—

Mr. Brian Masse: One hundred per cent.

Mr. Iain Christie: —a lot of them involve a lot of other stakeholders. It's complicated, but it is something that the industry is quite concerned about.

The Chair: Thank you very much.

Mr. Arya, you have seven minutes.

Mr. Chandra Arya (Nepean, Lib.): I thank the witnesses for being here.

Mr. Christie, thanks a lot for the excellent presentation you have given. I was quite interested in your classifications of innovation: the entrepreneurial innovation, the process innovation, and, finally, the product and balance sheet innovation. I think that depicts a sort of frame for the advanced manufacturing that we are interested in.

Are you seeing any trends in entrepreneurial innovation? Are you seeing companies involved in that going up the value chain towards process innovation?

Mr. Iain Christie: This is one of the abiding concerns that we have in our industry. Because of the cycle that we find the global industry in, where we really are in an execution cycle, this makes it very difficult for entrepreneurial innovators in aerospace. Airplanes have been designed and now they need to be built, and we won't be seeing new major designs again for another 15 or 20 years.

Frankly, if I'm at Airbus or Boeing and I'm a supply chain manager, probably my worst “problem children” in my supply chain are the guys who show up one day and say they can do something that nobody else can do, so some engineering vice-president lets them into the supply chain. Then it turns out that not only are they not the only guys in the world who say they can do it, they actually can't, at least not at the quality and at the pace that is required. New entrepreneurial companies that are showing up and trying to use that pitch are having a hard time, frankly, in this environment.

I'm sorry, but I really want to talk about this, because this is the existential problem in our industry. We need to find ways to help companies add scale while retaining the qualities that got them where they are. That means we need to look for inorganic ways. Companies need to be prepared to grow through partnership, consolidation, business combination, and joint venture.

Mr. Chandra Arya: I see that they're actually growing by mergers and acquisitions—

Mr. Iain Christie: Yes.

Mr. Chandra Arya: —which is quite good.

You've said that we all know that we are in the execution stage of industry, but don't you think that is the right time for those companies involved in process innovation to gradually step up their thinking to go towards product and balance sheet innovation?

Mr. Iain Christie: Yes. The problem is that companies that started out as entrepreneurial innovators are run by guys who like to be entrepreneurial innovators. There is a psychological gap that has to be crossed to turn those guys into process innovators. Frankly, I think that's where some of the companies flounder.

It's something that our industry is adapting to. I would say that autos went through a similar transition 10 years ago. It is difficult for some people in our industry. The guys who are getting it right are writing their own cheques.

Mr. Chandra Arya: Mr. Christie, the BDC came out with a study that said the mid-sized manufacturing companies are shrinking, but I guess that is not the case in the aerospace industry.

Mr. Iain Christie: No. There's even a slide in that report that says growth is occurring in the mid-sized....

Mr. Chandra Arya: You also mentioned that for the companies involved in the process innovation, the programs of the government should be flexible to meet their needs. Do you have any specifics? If it is a very long answer, you can always submit it to us in writing.

Mr. Iain Christie: I don't want to appear to avoid the question, but really, I don't know the answer. It is the same question that we are asking ourselves, and we are working very hard on it to come up with coherent answers to help the government. I don't have a short answer for you, no.

Mr. Chandra Arya: In most segments here, people talk about small business. Everybody says small is beautiful, but apparently the companies employing more than 250 people are just 7% of your sector and account for 93% of the sales and 90%-plus of R and D.

Mr. Iain Christie: Yes.

Mr. Chandra Arya: Do you think we need a specific aerospace segment strategy to increase this?

Mr. Iain Christie: We need a strategy that recognizes the business reality on the ground, which is that the engine of growth has to be the mid-sized companies, and the mid-sized companies are under a lot of different kinds of pressures that they need help to manage.

Mr. Chandra Arya: Okay. I may come back to you.

I have a question for the steel industry. There is a global capacity. In respect to what government does to try to help you guys, we cannot work on the global capacity that exists.

The World Steel Association has identified that 75% of the grades of steel that are manufactured today did not exist 20 years back, so it means that the steel industry is also investing quite a bit in innovation.

Mr. Joseph Galimberti: Yes.

Mr. Chandra Arya: I'd like to know whether that is the case with the Canadian companies. Are your members investing or making the capital expenditure that is required for innovation?

● (1650)

Mr. Joseph Galimberti: The short answer is “yes”. The longer answer is “as much as they can”.

I'll go back to the fact all of our members are international corporations that compete with their affiliates in other jurisdictions for investment. When they're looking at a plant to make an investment in, for instance the Gerdau facility in Whitby, which recycles a lot of steel and is making investments there in recycling technology, or the ArcelorMittal facility in Hamilton, where they do a lot of the automotive steel—

Mr. Chandra Arya: Okay. Let me put it bluntly—

Mr. Joseph Galimberti: —they compete globally. In the security of a home market, knowing you can play in a fair ball game is crucial.

Mr. Chandra Arya: Pardon my lack of knowledge. My question is, a lot of Canadian companies are quite worried. So can they compete with the steel plants that have been set up during the last five or 10 years in other parts of the world?

Mr. Joseph Galimberti: From a physical facility standpoint?

Mr. Chandra Arya: Yes.

Mr. Joseph Galimberti: Yes, absolutely.

I will go back to ArcelorMittal. It's an absolutely top-grade, best-in-the-world, automotive steel plant that supplies the automotive industry in southwestern Ontario and exports across the border. They are, no question, world-class.

Mr. Chandra Arya: ArcelorMittal is a global company, and I think that for their international trade they choose a way they can produce cheaply. Am I right?

Mr. Joseph Galimberti: They choose where they can produce efficiently and sell in that market, yes, but all of our members are the same way. EVRAZ, that now owns IPSCO in Regina—they're pipe and tube resource folks, predominantly—is a Russian company. They can invest wherever. Gerdau is a South American company from Brazil. They can invest wherever.

Mr. Chandra Arya: Finally, on the forest, I don't have any forest companies here. I'm from Ottawa. I do understand you are investing heavily in innovation. Is there anything specific you can tell me in the next 10 or 20 seconds?

Mr. Paul Lansbergen: We look forward to discussing with the minister his forest sector innovation strategy that was mentioned in the budget. In fact, he'll be meeting our board of directors Thursday morning.

The Chair: Excellent.

Thank you very much.

Mr. Dreeshen, you have five minutes.

Mr. Earl Dreeshen (Red Deer—Mountain View, CPC): Welcome to the witnesses today. It's certainly an interesting discussion we're having this afternoon.

Let me first draw your attention to the forest products industry. There's a positive outlook, as you've spoken about new bioproducts and being able to reduce greenhouse gases by building permanent products from wood.

You've also talked about management practices. That's where I want to go, to take a look at what you've been able to do in order to clean up the environment, so your concerns about air, water, and land have been taken into account.

You mentioned that in Canada we have regulations that ensure this is going to be the case. We have similar types of regulations in oil and gas, as well. We are a world leader in those areas.

I'm trying to pull together an opportunity for us to talk about how they can work together. You've indicated some of your research has allowed you to go into tailing ponds and help with the efficiencies of the reclamation or the changes that are needed there. Of course, we've seen how they have shrunk dramatically in the last number of years. We've yet to be able to get the message of what we have done out to the rest of the world. We always seem to be having some sort of conflict there.

Can you tell me how it is you're able to take the things you are doing to tie that into the oil and gas industry, and how the oil and gas industry, and the things they do, are able to work with your industry members, as well?

Mr. Paul Lansbergen: Maybe I can make just a quick comment about the green credentials and the importance of how governments build into that.

As you know, we operate in public forest lands owned by the provinces. They have regulations on how we manage the forest. We've commissioned studies that have looked at the regulatory regime in Canada versus competing nations. Studies have found that we have among the most stringent regulatory regimes in the world. On top of that, we have the voluntary certification. When we're trying to sell our products around the world, the Canada brand is very important. It doesn't get a premium, but in a price tie, it might win us the day. That's important.

In terms of working with other sectors, we're trying, but we're also reaching out past our comfort zone into new markets. That's very challenging in its own right. All the companies have corporate strategies they're looking at on where to go. The breadth of opportunities is almost overwhelming. With some of the other natural resource sectors, like mining, not doing great at the moment, their willingness or capacity to try new things on a big scale might be quite challenging. I mentioned the lignin study at Lakehead. Goldcorp and another mining company, which I can't remember off the top of my head, are partnering in that research. Some of the R and D is happening.

With oil and gas, obviously they are going through very tough times. Some of our researchers have talked to COSIA. We're making some efforts. Whenever you get different sectors talking to each other, it just complicates things, and things take longer. It's still early days.

● (1655)

Mr. Earl Dreeshen: One of the other programs you've been involved with is investments in the forest industry transformation program, as well as the forest products innovations program. I wonder if you could speak to the advantages you've seen through your engagement in those two programs.

Mr. Paul Lansbergen: Quite simply, they have resulted in some new first-in-Canada and first-in-the-world technologies being adopted by some forest companies, whether they be smaller ones or larger, putting Canada in that first-mover-advantage space. The NCC, the cellulose filaments, the Structurlam-type products, the new OSB products, the new wood siding products—those are giving us a bit of an advantage in the global marketplace. We need to keep the momentum going.

The Chair: Thank you.

Mr. Jowhari.

Mr. Majid Jowhari (Richmond Hill, Lib.): Thank you, Mr. Chair.

Thank you to the panel. I'd like to start with aerospace today.

I'm a bit confused. My confusion comes from the fact that in your presentation, and also on your website, you indicate that the aerospace industry has dedicated about $1.7 billion into R and D, and most of that are coming from the private sector. From what I heard, or from what I kind of internalize, the focus is more on adding scale and growth to the medium-sized companies.

What specifically is that $1.7 billion in R and D being spent on, and how is it helping us position Canada's aerospace in a much broader sense rather than just the planes globally?

Mr. Iain Christie: Most of that money is being spent at the top end of the industry, on what I would have referred to as balance sheet innovation. That's where most of the private.... The business investment into R and D, as was noted previously, is clearly at the top end. A lot of that would have been Bombardier's research into CSeries and other new aircraft, Pratt & Whitney's research into the geared turbofan, and CAE's research into flight simulators and new novel ways of blending reality.

Not as much of it is spent by the process innovators. This is why I refer to it as the existential problem. To remain competitive, we need to drive the innovation down the product chain. We need to make sure we are encouraging our supply chain to be innovative, to adopt process innovation, and to stay globally competitive, because that's the way we'll retain the position we have in the current market.

● (1700)

Mr. Majid Jowhari: In your opinion, where does the composite work that we are doing, especially in the Montreal area, fit into R and D and aerospace?

Mr. Iain Christie: That's a good example because a lot of the composite work starts out as product innovation. It starts out as figuring out how to make new products from composites that you couldn't make before. But eventually it needs to become process innovation because Bell Helicopters or the large manufacturers may do a lot of that, but in the end, they don't necessarily want to be the ones manufacturing the parts, so they need people to adopt the new methodologies and technologies that have been developed down the supply chain. So, this is exactly the point. How do we take all of that R and D investment that's happened at the top end and move it down through the supply chain? Those are the guys who are going to be the ones, really, where the business growth is going to come from.

Mr. Majid Jowhari: That's where we should be focusing on.

Mr. Iain Christie: In conjunction with government, that's the problem we're trying to solve. I don't have an answer for it but I know it's the thing that I would like to find a solution to.

Mr. Majid Jowhari: Okay, let me jump quickly to steel. With the capacity concern that we talked about, how does international trade and...? Well, where are you focusing on the innovation, and how does it fit into our ability to play a key role in international trade?

Mr. Joseph Galimberti: Our trade from the industry is sort of NAFTA-focused. We tend to be very close to market. In our process innovations, continual improvement of efficiency is a crucial component. Frankly, our customers are demanding better product. The automotive industry wants lighter steel for higher efficiency vehicles. The oil and gas industry wants further exploration for more efficient well casings, that kind of thing. A lot of it is customer driven through the demand cycle. The point about the number of new steels is very fair. The chemical composition is constantly changing: lighter, higher strength, more efficient to produce, and easier to ship.

Mr. Majid Jowhari: I have a quick question to forestry. You talked a lot about innovation. How can we help? How can the government help to expedite the commercialization and the trade, getting back into the international trade?

Mr. Paul Lansbergen: On the commercialization, again, continuing to help de-risk the commercialization through a granting program has been very successful. I'm happy to talk more about that going forward. Government has been helping to develop markets in China for building materials or elsewhere; keep doing it.

Mr. Majid Jowhari: Give us an example of what you mean by de-risking.

Mr. Paul Lansbergen: Well, when we're trying to adopt a brand new, unproven technology, in taking it from demo scale to commercial scale, there's a lot of risk of failure involved, and financiers don't like that. They charge a huge premium if they're even willing to touch it, so government financial support can certainly give a lot of confidence to the other financiers to get their project off the ground.

Mr. Majid Jowhari: Thank you.

The Chair: Mr. Lobb, you have five minutes.

Mr. Ben Lobb (Huron—Bruce, CPC): Thanks very much.

The one question I wanted to ask Iain was in regards to the maintenance repairs and the overhaul market. Where is that trending? Is that trending? I know it's probably been a hot commodity for you in another committee, but that's trending downward, right?

Mr. Iain Christie: It really depends on where you are. In western Canada it's strongly up. In the Montreal area, not so much.

Mr. Ben Lobb: That would be the WestJet connection on that, or is it smaller?

Mr. Iain Christie: It's even smaller. In the MRO section of our industry, the average size of a company is nine people. It really is a very small industry because the thing with MROs is that you can service business jets anywhere that somebody can fly them in.

Mr. Ben Lobb: That gets to a question I want to ask after I get to my next question.

The trend that we've seen, though, is obviously more work being done in countries like Singapore, in areas like Hong Kong, and maybe even Ireland or in the United States in some areas, Nashville, Tennessee, perhaps, or Buffalo, New York. When we're looking at this, each company has a standard to be certified to maintain a Boeing aircraft, or Airbus, or Embraer. I mean, you don't just build a shop and roll them in. It's an exhaustive process. Does it basically come down to exchange rates, or is it labour rates? I'm guessing a person in Singapore is going to be as qualified as a person in the United States. What are the decisions that corporations are making today?

● (1705)

Mr. Iain Christie: I am not sure that I know or have a good answer.

It is also critical mass. It is also knowing that you can find staff, so if you have peaks and valleys in your demand, you can service those. Certainly labour rates play a role. It is a complicated business.

It is true that MRO tends to be more labour-intensive than manufacturing. That has to be part of it, but it is not the whole story.

We go back to technology and training. If you have a more efficient organization.... We can still compete with low labour rate countries, but we have to be competitive. The issue is that in our business there is no point in encouraging business that can't be globally competitive. There isn't enough domestic market to provide a demand for it. There is no hiding from global competition in the aerospace sector.

Mr. Ben Lobb: Does a company such as American Airlines service any of its airplanes in this country?

Mr. Iain Christie: I doubt it, but I don't know that they don't service them outside of the United States. I honestly don't know.

Mr. Ben Lobb: Would Lufthansa service any of its airplanes in Canada?

Mr. Iain Christie: I doubt it, but maybe parts of Lufthansa aircraft, because MTU in British Columbia is owned by a subsidiary of Lufthansa. It is not that cut and dried.

Mr. Ben Lobb: Is there an international airline that services any of its planes...where you could say, "Yes, Qantas is doing business in Canada because it makes good sense for them"?

Mr. Iain Christie: I don't know of any that are, but I don't know for sure that they are not.

Mr. Ben Lobb: All right.

The thing I have been curious about is this. We have a company in my riding called New United Goderich, formerly Goderich Aircraft. As they have grown, they have serviced different levels and sizes of airplanes. I know they are certified to service some Boeing, and maybe some Embraer and others, but the time and the cost to do that are ungodly, really, for a small company that is financing itself from cash flow.

Is there a better way? Is there something the government should be looking at?

They are in a rural area, where the costs are small. There is a world-class airport right there, and they own it. They should be as competitive as anybody.

I am wondering if there is something we should be looking at down the road, where the government and industry leaders look at it and say, "Should we be encouraging a diversification with these MROs so that we have a better diversification and help them become certified, as long as they can meet the standards?"

Mr. Iain Christie: Assistance in certification is something that would probably be helpful.

The other thing is that, for operations like that, I think the issue is going to be a question of scale. Size is very much a proxy in our industry for readiness to be in the supply chain.

Finding ways to combine operations amongst a bunch of.... Even if your operation ends up being distributed amongst a bunch of different locations, if you can represent yourself as a single entity with the scale to service a large customer, that may be something that would be helpful. There may be ways for the government to encourage that kind of behaviour.

Mr. Ben Lobb: With their operation—

The Chair: Thank you.

Mr. Iain Christie: I am really interested, and I would love to take that up off-line if there is an opportunity to do that.

The Chair: Thank you very much.

Mr. Longfield, you have five minutes.

Mr. Lloyd Longfield (Guelph, Lib.): Thank you.

Thanks for what I knew was going to be a great conversation.

Before we started, I said that you guys must represent a lot of our GDP. Just checking the Library of Parliament, you are four of the top ten sectors in manufacturing. You represent $37 billion of our economy among you, so the conversation we are having is really critical, as we try to build our manufacturing study, looking at strengths, weaknesses, opportunities, and threats.

I am going to ask if you could—not right now—provide the clerk...the strengths, weaknesses, opportunities, and threats within your industries. Frankly, if you don't do well, the country doesn't do well. It is so important that you do well.

I want to build on a little bit of what Mr. Dreeshen was leading into, in terms of sharing information between sectors. I am really interested in the wood industry and what you could do to help the mining industry. When you talk about flocculants.... There are people in Guelph who are actually working on flocculants and water recovery systems in mining, or replacing petrochemicals in mining applications.

You mentioned an association that you have, or a cluster of some sort. Would there be a similar cluster, let's say, in Sudbury, where they have an advanced mining section, so that your cluster could talk to the mining cluster?

● (1710)

Mr. Paul Lansbergen: Yes. FPInnovations, which I referred to, is our research institute.

There's the Canadian Mining Innovation Council, which is not exactly the counterpart of FPInnovations, but I know that they have been talking to each other. So those association or cluster level dialogues and discussions are happening, but they also need to happen company to company. And certainly our companies in Alberta that work right next door to the oil and gas companies share the land base. They're talking with each other all the time.

Mr. Lloyd Longfield: So there could be a role that our study or the federal government could play in convening some of those conversations?

Mr. Paul Lansbergen: Probably in the innovation agenda that was mentioned in the budget—

Mr. Lloyd Longfield: Right, that's it.

Mr. Paul Lansbergen: —and how it is geared to support networks and clusters. There are also geographic clusters: the Bio-Mile in Drayton Valley, Alberta, or the biochemical cluster in Sarnia-Lambton, those types of things.

Mr. Lloyd Longfield: If you could feed on that idea, the others I'd encourage as well because we are trying to develop the strategy of clusters, sharing of ideas.

A business in Guelph has been supplying parts into the oil fields. Their business is off by 75%. They're pivoting their business to supply parts to advanced manufacturing in aerospace and trying to get into that supply chain. They've got brand new CNC machines, they've got process. The guy is a process guy. He's an entrepreneur but unfortunately he's not a salesperson as much as he is a process person.

Does your association help with some type of mentorship or bringing people into the supply chain that might be off the mark because of a change in the sectors?

Mr. Iain Christie: Yes. We certainly encourage a lot of networking and the whole point of the association is that we want the community to get together and talk. We've had a partnership at our annual event to try to get more auto companies that may want to make the pivot to aerospace and have conversations with them about what's required.

There are a lot of barriers to doing it. It's a very particular kind of industry.

Mr. Lloyd Longfield: Totally.

Mr. Iain Christie: So it's not for the faint of heart. But, yes, we would be happy to be helping people like that.

Mr. Lloyd Longfield: That's something we'll take off-line.

Mr. Iain Christie: Yes, absolutely.

Mr. Lloyd Longfield: I heard you have a sector, but I hadn't heard whether the steel industry has some type of a cluster that might share information and maybe share networks with the universities and colleges.

Mr. Joseph Galimberti: I mentioned the relationship Arcelor-Mittal has with McMaster. That's ongoing. The advanced manufacturing chair there and some of our other members maintain scholarship programs. There's a lot of recruitment and training for the workforce out of technical colleges, and that kind of thing.

Mr. Lloyd Longfield: But let's say between the steel mills in Manitoba and the steel mills in Quebec or Ontario?

Mr. Joseph Galimberti: Generally because our members are international, it's more between, for instance, the mill in Hamilton and the mill in ArcelorMittal's other facility in Luxembourg, Tenaris's other facility in Argentina, or EVRAZ's in the United States.

Mr. Lloyd Longfield: It's more global.

Mr. Joseph Galimberti: It's corporate sharing.

Mr. Lloyd Longfield: That's very good.

But there are material opportunities possibly with some of the universities in the development of material.

Mr. Joseph Galimberti: Yes, absolutely, material in process. And although it's not a university, the National Research Council work that is going on in Sorel-Tracy outside Quebec with Rio Tinto is a great example of that as well.

● (1715)

The Chair: Thank you very much.

Mr. Masse, you've got two minutes.

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

I want to finish with the aerospace industry. The cargo hub that was developed in Windsor is a $20-million investment via the federal government, $2 million from the city, and there is other investment as well. They've had a difficult time attracting additional business and that's where, for example, a lot of the workforce came in from out of town because there weren't the training opportunities or they weren't in the forefront. How much of a struggle is cargo repair and maintenance in Canada versus other jurisdictions, similar to the discussion with Mr. Lobb with regard to the aerospace industry in general?

Mr. Iain Christie: You have me at a loss because of course we don't represent airlines, so I don't represent anybody who's in the cargo business except KF Aerospace a little. It's not an area that I know much about.

On the maintenance repair and overhaul side, it's the same discussion. The way the whole aerospace industry is going it's all about scale. You have to be big enough for people to take you seriously, and so places that are already big are growing and it's very hard to get started from the ground up to be an MRO facility for large operations.

Mr. Brian Masse: Right. They basically had one secure contract, and that was probably a difficult thing to build from in terms of where you're at now.

Mr. Iain Christie: Yes, and as I said, in aerospace these days, there's no such thing as a secure contract. There really isn't.

Mr. Brian Masse: Fair enough.

I'll just conclude with this though. There's been a remarkable turnaround in the mould-making industry in Windsor for aerospace, and the diversity in the steel and forest...it's amazing. The innovation aspect of our manufacturing base is right here on a revolution that is significant.

Mr. Iain Christie: It is. It's the only thing that's keeping us in the game.

Mr. Brian Masse: Absolutely, and I appreciate your testimony here today.

The Chair: Thank you very much.

Guess what? You guys have been really good, so you each get three more minutes.

Mr. Baylis, you have three.

Mr. Frank Baylis: With SR and ED, scientific research and experimental development, I have a quick question. How useful is it to each of your industries, on a scale of one to 10?

Mr. Iain Christie: Seven or eight.

Mr. Joseph Galimberti: The SR and ED credit? I'm unaware of a member who has accessed it. There might be one, but I'm not sure.

Mr. Frank Baylis: Interesting.

Mr. Paul Lansbergen: Eight.

Mr. Frank Baylis: Could you then submit to us in writing how it could be made better? If your industries are using it, how do they use it, and how could it be made better?

Mr. Iain Christie: Can I have a couple months, because I was just talking about the committee that we're forming to answer that question?

Mr. Frank Baylis: Yes, it's an issue of SWOT, and even to add to what Mr. Longfield asked on SWOT, could you also add suggestions on how the federal government could help in each one of those areas that you're going to look at: strengths, weaknesses, opportunities, and threads?

Mr. Iain Christie: Sure.

Mr. Frank Baylis: You might put a line about how the federal government could help out, and you could also give us a report specifically on the SR and EDs.

Mr. Iain Christie: I'm sorry, I don't want to take up too much of your time, but the whole point on SR and EDs, and I just came from this discussion, is that our members find SR and ED incredibly useful, but it doesn't necessarily generate the behaviour in them the government wants. It's not just a question of whether it helps them. It's a question of whether or not it helps you.

Mr. Frank Baylis: Put that in the report, and we'll look at it. Now I'll pass it over to René, who has a question.

Mr. René Arseneault (Madawaska—Restigouche, Lib.): Mr. Lansbergen, I come from a rural community in northern New Brunswick where our wood industry was hit very badly in 2007-08.

Like me, I'm sure you're aware that pulp and paper mills are a very greedy industry for raw materials and for little margins of profit compared to transformed wood products. I'm fully aware of certain miracles we're doing right now in technology with wood fibres. As you said, I've seen diesel extracted from a tree. I couldn't believe my eyes. They'll smell of maple syrup.

Voices: Oh, oh!

Mr. René Arseneault: That fibre...it's too long to explain, but how open is your association? You're representing wood, pulp, and paper producers that use a lot of raw materials. How open is your association to new technology, new development, or new openings for the wood industry for wood products, and specifically transformed wood products outside of wood, pulp, and paper?

● (1720)

Mr. Paul Lansbergen: I'm not sure if I understand. Our companies are working quite aggressively to try and expand and diversify their product suites to produce—

Mr. René Arseneault: Still in the pulp and paper market?

Mr. Paul Lansbergen: Well, no, it's all about what we can do beyond the traditional products.

Can we produce more dissolving pulp? There are two mills in New Brunswick involved in the production of rayon to compete with cotton. There's that type of thing. There are bolt-on technologies to extract lignin or to create sugars that can be converted further into acids and other industrial chemicals for bioplastics, to put those into cars to make them lighter. This is happening to a small degree already. That's completely what we're working on, to expand our suite of products, so we're not relying on newsprint mills that are not going to be prosperous going into the future.

The Chair: Thank you very much.

Does anybody believe the $100 bill doesn't smell like maple syrup?

Mr. Albas, you have three minutes.

Mr. Dan Albas: Thank you, Chair. If you want to give me a $100 bill, I'll let you know.

I'll just roll it over to the forest products again. One of the things I always try to do is go to as many different mills and operations in my area, and I've noticed that they rely heavily on equipment that is manufactured outside of Canada, often European-made. They are very technology driven. It has really lowered costs. In fact, one of the members opposite was talking about the effect on labour. One of the operations in my riding has tripled its production while reducing its workforce somewhat. Again, technology is driving your sector quite a bit.

One of the things I have seen, though, is that there seem to be a lot more Canadian software firms providing new algorithms and programs to make those manufacturing processes faster. They're taking things that are built outside Canada, but they're actually improving efficiency. Is this something that you've seen in other areas? Is there a way for the government, through digital strategies, etc., to help promote this?

Mr. Paul Lansbergen: Yes, it's true that a lot of the more traditional heavy equipment suppliers are no longer in Canada. Twenty years ago we used to be leaders in that space, but we lost that edge. A lot of the equipment does come from boilers from the U.S. or other equipment from Scandinavian countries, for example.

Mr. Dan Albas: Why is that?

Mr. Paul Lansbergen: I think that's a long story. Quite honestly, I don't have a full answer for you today.

Going forward on some of the new opportunities, there is a lot of activity happening in Canada with technology developers that might use some equipment that's produced elsewhere, but some of it is in Canada. Certainly, some of the computerization that we've seen, where they have optical scanners for the logs as they go into the sawmill so that they can maximize the value from every tree harvested, is indeed happening in Canada, and that's a great story. At the same time, for us to be competitive, we have to look globally for wherever the best technology and equipment suppliers are. It would be nice if they were in Canada, for sure.

Mr. Dan Albas: There are 650-odd wineries across Canada now. Going back to the steel industry, one of the major concerns I have often heard from vintners is cooperage, the steel containers that they use to make wine. Oftentimes they come from China. Obviously, there are a number of wineries on the east side of Canada. Is this an area that the steel industry is pursuing? To me, every time I go and talk to a vintner, they often talk about orders from China. Maybe it's just feedback for your industry to consider, because that's a great Canadian option.

Mr. Joseph Galimberti: To be honest, this is the first time I've had a discussion about that product line. I'm sure if there's a commercial opportunity, our guys will seek it out. I give every credit to buyers who stick with Canadian products.

As president of the Canadian Steel Producers Association, I get six or seven solicitations weekly to buy Chinese steel. If there's an opportunity, we'll look into it.

● (1725)

The Chair: Thank you very much.

Finally, it always ends up with Mr. Masse; you're taking us home. You have three minutes.

Mr. Brian Masse: I'll actually let our delegation do that really briefly.

I've always believed that manufacturing, the ingenuity behind it, is part of our national security for this country. It's not just the hard product at the end of the day.

Take 30 seconds each to convince Canadians why manufacturing has a future, if you believe so. I'm assuming you believe so. I'll throw it out to Mr. Christie first. This is your moment. Convince Canadians that you believe that manufacturing and your industry have a future for Canada.

Mr. Iain Christie: Because Canadian industry is winning and is competing globally and is generating prosperity from our creativity today.

Mr. Joseph Galimberti: I'll give you a specific-to-steel answer. It makes too much sense to produce steel in Canada. We have iron ore at our disposal, we have renewable energy sources galore in this country, we produce in a very environmentally responsible way. There's a tremendous benefit associated with localization from an environmental perspective. It makes too much sense to build wind turbines with Canadian steel as opposed to Chinese steel.

Mr. Paul Lansbergen: We are a large industry. We've been very competitive and ingenious throughout our history. We have abundant natural forest resources in Canada. As my colleague said, it would be a lost opportunity if we weren't maximizing the economic value, as well as all the other social values we get from the forest.

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

The Chair: I'd like to extend a sincere thank to our guests. It was extremely interesting.

Thank you everybody for a very productive session.

I call this meeting to an end.