



ISSN 1181-6465

**Legislative Assembly
of Ontario**

First Session, 39th Parliament

**Assemblée législative
de l'Ontario**

Première session, 39^e législature

**Official Report
of Debates
(Hansard)**

Wednesday 13 May 2009

**Journal
des débats
(Hansard)**

Mercredi 13 mai 2009

**Standing Committee on
Estimates**

Ministry of Economic
Development

**Comité permanent des
budgets des dépenses**

Ministère du Développement
économique

Chair: Tim Hudak
Clerk: Sylwia Przedziecki

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Room 500, West Wing, Legislative Building
111 Wellesley Street West, Queen's Park
Toronto ON M7A 1A2
Telephone 416-325-7400; fax 416-325-7430
Published by the Legislative Assembly of Ontario



Service du Journal des débats et d'interprétation
Salle 500, aile ouest, Édifice du Parlement
111, rue Wellesley ouest, Queen's Park
Toronto ON M7A 1A2
Téléphone, 416-325-7400; télécopieur, 416-325-7430
Publié par l'Assemblée législative de l'Ontario

LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON
ESTIMATESCOMITÉ PERMANENT DES
BUDGETS DES DÉPENSES

Wednesday 13 May 2009

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The committee met at 1600 in room 151.

MINISTRY OF ECONOMIC DEVELOPMENT

The Vice-Chair (Mr. Garfield Dunlop): Good afternoon, everyone. I'd like to welcome the minister and staff from the ministry back today for the estimates. We're here to resume the consideration of the estimates of the Ministry of Economic Development, vote 901.

There are a total of four hours and 10 minutes remaining. When the committee was adjourned, the official opposition had finished its 20-minute rotation. It is now time for the third party, followed by the government. I see that the third party is not here right now.

A question, just before Mr. Hampton comes back—here he is. Did you have a question, Mr. Chudleigh, that you wanted to raise about the time remaining?

Mr. Ted Chudleigh: I'd like to do that at the conclusion of session today.

The Vice-Chair (Mr. Garfield Dunlop): All right. Mr. Hampton, you have the floor for the next 20 minutes.

Mr. Howard Hampton: Thanks very much. I just wanted to pick up where we left off yesterday. I understand that some of this might be like trying to hit a moving target.

General Motors was provided with \$3 billion of interim financing; \$1 billion of that is from Ontario. Of that \$1 billion, \$750 million has gone out the door.

Mr. Philip Howell: There was a correction at the end yesterday. I think you had just left the room, Mr. Hampton—

Mr. Howard Hampton: Okay. That's why I ask these questions again.

Mr. Philip Howell: Yes. It's actually \$500 million that's gone. Also, I misspoke on the interest rate. It's not a longer-term facility like the eight-year Chrysler, which, you'll recall, has a minimum of 7% interest. This has a minimum of 5%. So it's the Canadian deposit overnight rate plus 300 basis points, with a minimum of 5%. Occasionally, the Canadian deposit overnight rate slips below 2%. I think it's below 2% right now. And it's a three-year term. It's a demand loan.

Mr. Howard Hampton: All right. That's good for now.

The Premier spoke on this issue, I guess, almost simultaneously with our meeting here—I want to be clear on this—indicating that Ontario is probably going to

have to offer up more for General Motors. Is that a fair statement?

Hon. Michael Bryant: It's just unclear. To be really blunt, you mentioned the moving target, and it's a moving target from our perspective as well. In terms of the information that comes in and the analysis that takes place, it's possible, absolutely, as the Premier said. It continues to be the case, as we've said from the beginning, that we need to get a fair deal, a deal that is defensible to the taxpayer. We'll continue to work with all the parties and, as we have something more specific, offer specific updates. My sense is that we will not be in a position to provide that kind of information because we won't be in a position to make a final decision about it probably until the end of the month.

Mr. Howard Hampton: You must have some idea at this point, though.

Hon. Michael Bryant: It has changed. I'm not going to speculate as to what the number might be that the government would be making a decision on, because it has changed. Also, it's obviously going to be something that will depend on what the position of the United States is. I think the Premier was saying that it's a possibility that it's more than expected. It's also a possibility that it ends up being a number that was expected. It's also a possibility that it's not a number that we can defend.

Mr. Howard Hampton: I assume, though, that the Premier must have had some basis to say that it will be larger rather than smaller.

Hon. Michael Bryant: I wasn't in the scrum, so I don't know exactly the nature of the question. But this is obviously information that you and everybody in the Legislature and the citizenry, the residents, of Ontario and Canada need to know, as decisions are faced by the government, as to what the willingness of the provincial and federal governments is in terms of providing financing. I think it would be unwise, for the purposes of the negotiations, to throw a number out there, which is not to say that obviously those kinds of details eventually have to be forthcoming.

Mr. Howard Hampton: I think what you told us yesterday and the deputy confirmed is that \$3 billion was the interim financing for General Motors.

Hon. Michael Bryant: Right.

Mr. Howard Hampton: Are you saying that that's it?

Hon. Michael Bryant: No, I'm not saying that. There are different options as to what happens with the interim

financing. Some would characterize the interim financing as a bridge loan, which is not to say that it can't be converted into something else by way of, not a bridge loan, but a longer-term loan, or in the event of Chapter 11, debt financing, as we discussed. So I'm not saying that's it, but that those dollars have been advanced on the basis of a decision made by the governments to provide that interim financing to allow us to engage in the negotiations that are under way right now.

Mr. Howard Hampton: The media tell us that the problem, if I may put it that way, with the General Motors pension plan is a \$7-billion problem. From the ministry's perspective, is that correct?

Hon. Michael Bryant: I'll let you speak to the specifics.

Mr. Philip Howell: There are a lot of numbers that are being thrown around at the moment in the discussions that are under way. The nature of pension deficiencies and underfunding and solvency deficiencies and so on clearly depend on the time that's chosen. Pension fund assets aren't valued on a daily basis. It's something that's done periodically, as prescribed by legislation. For purposes of discussion and so on, assumptions can be made. There is a large unfunded element to the GM pension plan at the moment.

Mr. Howard Hampton: Are you telling me you're hoping for another big run-up in the stock market?

Hon. Michael Bryant: No.

Mr. Philip Howell: That would be very helpful for the next valuation. That comment actually does underline a very important thing about pension plans: There is always a tendency to look at a deficiency or a solvency status at a point in time. Of course, that deficiency is noted in the context of what would be owed if the plan was to wind up at that point in time. Obviously, keeping GM going as a viable entity longer-term is a critical part of resolving that pension fund deficiency over time, since the longer the company is going, the more chance there is—admittedly, making a decision that the market isn't going to get any worse than it was last fall, but over time, improvement in the stock market will certainly help eliminate some of that deficit.

Mr. Howard Hampton: Is maintenance of the pension fund and pension benefits part of the discussions about General Motors?

Hon. Michael Bryant: Obviously, we're going to do our best to provide the information on the specific discussions. Generally speaking, the Ministry of Finance is going to be in a better position to speak to the applicable legislation and so on. Everything is on the table in terms of the variety of issues. Which ones at any one time become a focus depend on the state of the negotiations. Obviously, as negotiators, we don't want to indicate which ones are priorities for us, other than to say that we want it to continue to be viable. And as the Premier said, the notion of Ontario providing a line item payment to address pension liabilities is not something that the Ontario government's willing to do. Ontario is willing to provide financial assistance as a loan, as described by the

deputy, and obviously the federal government is of the same view.

1610

Mr. Howard Hampton: General Motors has already announced a number of closures in Ontario; for example, the closure of the truck plant in Oshawa, the closure, I believe, of the transmission plant in Windsor, and I think there were a number of layoffs too in the engineering centre in Oshawa. Are there any discussions about employment levels?

Hon. Michael Bryant: The employment levels are obviously something of significant discussion between the CAW and management. The focus of the government has been on production to date, but as you said, there has been, with a drop in demand and a drop in production, either idling or temporary layoffs or otherwise. The industry is going to be smaller than it was in terms of its production. It will be smaller than it was prior to this incredible drop in demand that took place so quickly. Exactly how small is going to depend on demand going forward. But we have to proceed on a set of assumptions as to what the demand might be, and, as I said before, we have been committed to providing assistance on the basis of getting a certain level of production and footprint in Canada. Exactly how that translates in terms of human work hours, manpower, however you wish to put it, is something that is particular to leadership under Ken Lewenza.

Mr. Howard Hampton: Of the remaining General Motors operations, one would be the facility in St. Catharines, one would be, for want of a better word, the shared facility with Suzuki—which is in Ingersoll, I believe.

Hon. Michael Bryant: Yes.

Mr. Howard Hampton: —and then the two car plants, I believe, in Oshawa. So in the discussion of production, do you actually get down to talking about facilities or not?

Hon. Michael Bryant: Well, I have not, but I'll let the deputy speak to this as to the level of execution of the production footprint to date.

Mr. Philip Howell: Certainly, the discussions that go on focus on production. The assumption that's being made in terms of the discussions that officials are having—the US Treasury, the federal government and Ontario—is that we're assuming that the production we're talking about is going to be undertaken at existing facilities. There's not been any discussions that I've been part of that have been talking about greenfield facilities anywhere as part of either the Chrysler deal or this deal. So the nature of the restructuring exercise is very much one that's built around, in both cases, determining which existing assets are going to be part of the viable company going forward and which assets won't be.

I guess my answer is yes and no. When we're talking about production levels, in the case of Ontario production, we'd be talking about what would come out of Oshawa and what would come out of CAMI in Ingersoll. We're not assuming that the production levels that we

might be talking about would come from a new plant that would be built in Windsor or something like that.

Mr. Howard Hampton: But are you seeking assurances that both the CAMI plant and the two car plants in Oshawa will continue?

Hon. Michael Bryant: Yes, seeking, absolutely. That's exactly what our—

Mr. Howard Hampton: So where are you at?

Hon. Michael Bryant: Well, I do want to try to provide information, but obviously I don't want to compromise the negotiations.

Mr. Howard Hampton: I think most people would have been surprised this morning to hear that Suzuki is essentially shutting down production at CAMI. They're not going to produce any more vehicles there this year, is what I read.

Hon. Michael Bryant: Anywhere in North America?

Mr. Howard Hampton: At CAMI.

Mr. Philip Howell: That is correct, in the sense that just as all car companies have been temporarily idling facilities—Chrysler currently is idled across North America. That was the nature of the Suzuki announcement, I believe, not that they're never going to produce vehicles at Ingersoll again. But they have ceased production.

Mr. Howard Hampton: As I read it, they weren't saying, "We're idling the plant for three weeks" or "We're idling the plant for a month." I think what they said is that there will be no more production at that plant, at least as far as Suzuki is concerned, for this year—this vehicle year.

Mr. Philip Howell: Yes, definitely. There has not been very strong demand for the vehicle that they're producing there, and, yes, they have made that announcement. The nature of the CAMI facility, which is a joint facility, means that the whole plant isn't closing, because GM is actually, by far at the moment, producing the most vehicles out of that plant, even though it's a joint venture. But to be clear, Suzuki is not severing the joint venture with the announcement yesterday.

Mr. Howard Hampton: If I can recite some recent history, one of the big issues when it comes to General Motors is getting a particular vehicle. So the Premier attended an announcement at Oshawa to announce the new Camaro, right? Until the decision was made by General Motors to move the hybrid half-tonne to Mexico, the Premier and at least a couple of ministers told the Legislature, on more than one occasion, that the hybrid half-tonne would be built in Ontario. So I would assume if you're talking about production, you must also be talking about models, because if you don't have a model, you don't have anything, do you?

Hon. Michael Bryant: I just want to confirm what I said before—

The Vice-Chair (Mr. Garfield Dunlop): You're down to a couple of minutes, guys, on this round.

Hon. Michael Bryant: Sure. Suzuki isn't building any more cars anywhere in North America; right?

Mr. Howard Hampton: Yep.

Hon. Michael Bryant: And the company said that the possibility that CAMI would be forced into closure or a production stop is 120% impossible—120% impossible is what the chief executive said.

Mr. Howard Hampton: But I'm right in assessing that they're not going to produce any more this model year?

Hon. Michael Bryant: Well, they said that they're not going to produce any more of this model year anywhere in North America.

Mr. Howard Hampton: Okay, that's fair, which goes to my question about models.

Hon. Michael Bryant: How are the platforms going to be used?

Mr. Howard Hampton: Yep.

Hon. Michael Bryant: Right. Again, I can't say specifically right now how the information has been conveyed, just for the reasons I said before about negotiations. Also, our goal is to get an agreement around production, and obviously it is going to be one that has to make sense in terms of the information that we have, but it is to get that agreement around production. Exactly how that is delivered is obviously something that, more typically, management and labour work out, but obviously we wouldn't be entering into an agreement for a level of production if we didn't have confidence that the plans included something that would be part of the future of that company, which means I think I'm agreeing with you.

1620

The Vice-Chair (Mr. Garfield Dunlop): Okay. That pretty well cleans it up for that 20 minutes for the third party. Now we go over to the government for 20 minutes.

Mr. Yasir Naqvi: Welcome back, Minister. Thank you very much for the responses yesterday. We were talking about accountability and the process involved with various incentive programs that are part of the responsibility of your ministry.

I wanted to get into some of the specifics of the programs and learn a little bit more about how they're being used and the success rate that your ministry and the government must be having with those programs.

Can you or the deputy talk about the Next Generation of Jobs Fund? What's the scope of that particular fund?

Hon. Michael Bryant: Sure. Why don't we continue the discussion that we were having yesterday. I guess it makes sense if Fernando could come on up.

Mr. Philip Howell: We'll ask Fernando Traficante, the director of the funding programs, to come forward. He can specifically address those issues. From the question, I think you're also interested in some of the actual investments that have been made?

Mr. Yasir Naqvi: Let's talk about the scope of the program and what we're trying to achieve with that program, and then I'll get into some specific questions.

Mr. Fernando Traficante: Sure. The program actually has a number of different objectives. I think it's important to recognize that these objectives are not

identical. There are a number of different, what I would call, priority areas for the program.

The first is on the green side. It includes, in terms of our target area, green automotive. That's green automotive production, parts, research; green fuels such as alternative fuels—research, development and production; green energy and environmental technologies, generally. So that's one thrust, which is on the green side.

The second thrust is on the health technology side. There is a part of the fund which is the biopharmaceutical investment program, which is administered through the Ministry of Research and Innovation. That's focused primarily on innovative biopharmaceutical companies, and it supports investments in those areas. The rest of the program also supports advanced health technologies. So, for example, it would be medical devices, generic pharmaceuticals.

In addition to those which I've mentioned, there's also scope for the program to support financial institutions' investments. So it's greenfield investments by financial institutions which have innovative capacity to them, and strategic investments by the province: things which the province might regard as strategic to either a region, a sector or part of the economy as a whole.

Those are the target areas in terms of the sectors and areas that the program supports.

Interjection.

Mr. Yasir Naqvi: Sorry.

Mr. Fernando Traficante: So the program is designed to hit those target areas which I've mentioned to you.

The other part of the program is to support what we would call strategic—so it is not just simply any investment in those particular areas, but investments which have a strategic impact, and we define that in terms of size. It can support investments which are at least \$25 million or that create or retain 100 jobs. It's an "or" criteria. So we can support smaller projects which have a significant job impact or we can support projects which have large investments and a smaller number of jobs. That provides us with some flexibility, but again, the intent is to be strategic in terms of the impact upon the company and the investment that's taking place. So it's not just simply to support what we'd call day-to-day activities of the companies, but it's a development of new products, new technologies, innovations, which will make a change with respect to the company and create capacity in the province.

Mr. Yasir Naqvi: Can you talk about what kind of investment your ministry, the government, has made thus far under this fund?

Mr. Fernando Traficante: Sure. So far, nine projects have been announced by the government, covering a range of sectors and areas. I'll speak about a couple of them, just as examples, and in more detail if you wish.

The first one that was announced under the program is a company called 6N Silicon. That company is actually an interesting example of what we're trying to do with the program. It's a fairly small company, and it de-

veloped a new technology to refine silicon for the purposes of photovoltaic cells. It's essentially using silicon for the purposes of alternative energy in photovoltaic electricity production, and they had developed a brand new technology in order to do that.

This a technology was bench-tested at the University of Waterloo—essentially, in some guy's basement. They applied for and received funding under a different program by the Ministry of Research and Innovation, called the innovation demonstration fund, which pilot tested the innovation. We supported the project, not for the pilot testing, because they had proven that the innovation actually works, but actually for taking it into production.

The investment entails \$53 million. It involves a \$7.9-million grant from the province to create or retain a total of 100 jobs over five years. It's under way; they've actually undertaken a bit of the hiring already. I believe they have actually hired about 70 people already. So they're actually in production.

Mr. Yasir Naqvi: So that's the result of the investment made by the government: 80 jobs were created.

Mr. Fernando Traficante: Exactly. Now, this was the first one we announced under the program, in terms of the jobs and investment part of the program.

Mr. Yasir Naqvi: So this type of investment in 6N Silicon sort of falls under the strategic impact category you're talking about?

Mr. Fernando Traficante: It's under the category of alternative energies.

Mr. Yasir Naqvi: Okay.

Mr. Fernando Traficante: The first one that was actually announced by the Premier was Sanofi Pasteur. Sanofi Pasteur is an innovative vaccine manufacturer that actually goes back historically all the way to its origins with Banting and Best in the 1920s. The investment was for approximately \$100 million—I don't have the exact number in my head—for the development of a new vaccine research and development and manufacturing centre on their campus in north Toronto.

The vaccines are twofold: One is the development of a new vaccine around whooping cough, and the second is the development of a new cancer vaccine that they're working on. So that's a research and development project that has a manufacturing component to it.

They had to build a new building, and are in the process of building that building, so it's under way in terms of the investment. The actual jobs associated with it haven't been created yet, because you have to build the physical structure before you can actually manufacture.

Mr. Yasir Naqvi: How many jobs are we anticipating to be created on that one?

Mr. Fernando Traficante: If you give me half a second, I can tell you the exact number. Over five years they will hire 165 people.

Mr. Yasir Naqvi: Okay.

Mr. Fernando Traficante: No, I'm sorry. That's the wrong one. Here you go: This is new and retained jobs: 933. It's a lot, but what we're trying to do is anchor an entire facility. So that's not simply the jobs associated

with the investment but the entire facility. What we're saying is that we support a particular investment, but associated with that investment we're looking for commitments by the company to continue their operations, to expand and anchor their operations in Ontario. That's the objective of the program.

1630

Mr. Yasir Naqvi: Now, a lot of these—maybe you can give some other examples—I assume, are producing products that are both for the domestic market and for export.

Mr. Fernando Traficante: Yes, indeed. 6N Silicon is primarily producing product for the export market, but there's going to be some domestic consumption. Sanofi Pasteur produces for the world.

Mr. Yasir Naqvi: Okay. I'm going to ask my colleague MPP Delaney to ask a question.

Mr. Bob Delaney: I'd like to ask you to talk a little bit about the type of challenge we had, I guess, the privilege of helping out in Mississauga.

In the riding I represent, even in this time when manufacturing industries are under severe pressure, we have one called Cyclone Manufacturing, which has had the best years of its life. It's run by a very talented gentleman, originally from Poland, named Andrew Sochaj. Over the years, he has very carefully built up a wonderful niche market producing parts for aircraft. He has built it up using cutting-edge technology in which he'll take a solid block of aluminum and use computer-aided manufacturing to painstakingly cut out different parts for the wings, the airframe and so on and so forth.

This is the kind of business that the whole world wants to get, and I know from having visited him numerous times, before the Premier and, I believe, the minister came in January to pay a visit to Cyclone, that we were able to play a part in not merely maintaining but expanding a business that does nearly all of its commerce offshore.

I wonder whether or not you would share with me and with the committee some of the thinking not merely behind that project—by the way, he continues to be very successful and has doubled his floor space in the last year—but similar projects of that type that we find throughout Ontario?

Mr. Fernando Traficante: Sure. That's a really interesting one, because what he's doing—he is a parts producer for the aerospace business, which is a challenging business in any event, but what they're trying to do, in terms of their technology development, is develop new materials and composite materials.

The aerospace industry is one that is moving pretty dramatically into the use of composite materials. Boeing has developed the Dreamliner, which is a fully composite aircraft. Ontario, quite honestly, does not have a significant impact or representation in terms of composite manufacturing and composite production. What he's trying to do, in terms of Cyclone's activity, is ways and means to develop composite products and components and to machine those products and components.

It's the machining element that is actually the innovation piece. Typically, a composite is simply adding layers and layers of different materials and glues and so on, and shaping it in a particular fashion. Being able to machine it into shapes and positions and products on the aircraft, particularly what would be called structural components, is a unique attribute and a unique capability that he is trying to build and in doing that, I think, will position both his company and that activity in Ontario in a way that it doesn't exist currently. As I said, we don't have a lot of representation in terms of composite manufacturing for aerospace. He's one of the few, and we're hoping he can build that capability.

Our program supported him to the tune of—it's a \$51-million project overall, and we are providing him with about \$7 million.

Hon. Michael Bryant: No wonder I need glasses. Those are the world's smallest numbers.

Mr. Fernando Traficante: Small numbers, yes.

That's exactly the kind of thing we're trying to do.

I'll give you another example on the plastics side. PM Plastics is a very tiny company in Windsor. This is the smallest project we have supported so far. It's \$3 million, and we're giving them about \$560,000—very tiny. But again, they're doing something that is unique; that is, the extrusion of plastics for the purposes of fuel cells to go into automobiles.

Again, it's a unique technology, a unique application of that technology in terms of where automobile production is going in the future—small guys with real capability who are trying to bring that capability to market and make themselves competitive on a global scale. Those are the objectives of the program, and we're working with companies in order to support them to do that. The challenge is working with companies which have the management capacity, the financial capacity and the innovative capacity to make these projects work.

Mr. Bob Delaney: When you're studying these things in business school, the classic analysis is that somebody will talk about the shotgun approach as opposed to the rifle shot approach in which you're trying to pick your target very narrowly and, in so doing, focus your resources.

In the case of companies like Cyclone—and I'm going to speak about Cyclone, but whatever I say applies to many of the others I visited in Mississauga.

As a province, one of the challenges that any government would face is to ask ourselves, "The kids who are in the elementary school I visited this afternoon—what kind of jobs are they going to get when they graduate from university? What type of commerce will the world be doing then?" What we know from watching the evolution in the era in which we've all grown up is that a lot of the jobs we're doing today simply didn't exist, even as recently as the 1980s. For a lot of us, that's not ancient history.

What the three ministries that deal with what I would call "business development functions" focus on is trying to make the best possible decisions that we can with the

information we have so that as the future unfolds, to the best of our ability to be able to foresee it, those high-value, high-wage jobs will disproportionately be present here in Ontario.

I'm looking at the outcome of some of the selective investments, and in this case, an investment made very close to home for me and the difference it has had in the community. More by way of a comment than a question, I just want to acknowledge that, as people in our community look at this type of investment, they tell me, "This is the kind of thing that we need to see from government." This is the thing that is going to make the companies that the rest of the world wants to have pull up stakes and relocate in our jurisdiction. This means that those jobs that, five, 10, 15 or 20 years from now, kids all want to have when they finish university are actually going to be here at the same time they're looking for them.

I'll turn the microphone back to my colleague Mr. Naqvi.

The Vice-Chair (Mr. Garfield Dunlop): You've just got about a minute left.

Mr. Bob Delaney: I've got about a minute left? All right.

Mr. Yasir Naqvi: Maybe the minister wants to respond.

Mr. Bob Delaney: Why don't I give the minister the last word in the last minute?

Hon. Michael Bryant: I was going to give you the last word, Bob Delaney.

Other than to say that that shotgun analogy—I hope it's registered, number one. Number two, the bad luck that the official announcement of the good news in Cyclone would take place during the one day that you were not in the riding is rotten luck, but that isn't to say that you haven't represented your constituency very well, as other members in other ridings who have attended those announcements have represented their constituency well.

I encourage members to continue to provide the information, as they have in the past, to keep us posted. Of course, the companies themselves follow a process that involves, at least for the Next Generation of Jobs Fund, a secretariat that is well represented beside me right now as I speak.

The Vice-Chair (Mr. Garfield Dunlop): Thank you to the government.

Mr. Hampton can't be here with us and the NDP can't have a representative for the next round. I was wondering if we could have consent from the committee to bank his time until next Tuesday. If we can just continue—

Mr. Ted Chudleigh: If I might propose that I would take his time. So I would do, in this session, 40 minutes, then the Liberals would do 20 minutes and then I would finish with 20 minutes. That would take us through today. Mr. Hampton would take, next Tuesday, the next time we meet, 40 minutes, taking my 20 minutes.

1640

The Vice-Chair (Mr. Garfield Dunlop): You're just exchanging time with—can we have consent to do that?

Mr. Ted Chudleigh: We just swap times between today and Tuesday, if that meets with the—

The Vice-Chair (Mr. Garfield Dunlop): Agreed?

Mr. Yasir Naqvi: That's fine.

The Vice-Chair (Mr. Garfield Dunlop): Okay. Thank you very much. Now we go over to the official opposition.

Mr. Ted Chudleigh: Mr. Hampton—one of his children had a baseball game. I like his priorities. That wasn't a shot at anybody, by the way.

I was interested in Mr. Delaney's comments. I've heard this statistic before, that 50% of the jobs that exist today did not exist in 1980 and that 50% of the jobs in 2030 don't exist today. To conclude the thought, I think that is why—and I feel strongly—the government's job is to create a business environment that businesses can succeed in. We'll leave the opportunity and how that success will be fulfilled to the business minds that the province produces. Ontario has a wonderful record, over many years, due strongly to the educational level that we enjoy in Ontario, one of the highest in the world. If you refer to *The World is Flat*, the Friedman book, he can trace the success of a community, of a jurisdiction, to its level of education. He said that it's easy to predict the success of India and China, with the number of engineers that they have produced over the last 30 years. They have a surplus of engineers in both those countries and a surplus of scientists in both those countries. They found a way, in those countries, under much more difficult circumstances than we enjoy in Ontario, to create opportunity for themselves in those countries.

That is the direction that I would like to see Ontario move in: Ontario moving towards being a jurisdiction that allows businesses the freedom and the opportunity to take advantage of all those good ideas that were born, in the kernel of conception, in our educational facilities, and amongst people who had the wherewithal and the will to create those opportunities.

With that in mind, I would go back to question period today, Minister—and I know you're waiting for this—when you said that you weren't listening to economists. I would think that if you're not listening to economists, the people of Ontario and certainly myself would be very interested in knowing where you're taking your advice from. We asked you if there was a shining city on a hill or if there was someone who had experienced a state-run economy such as you're suggesting in your reverse Reaganism, über-entrepreneurialism, whatever you're calling it today. If you're not listening to the economists—and we can't find an economist who supports you—who are you getting your advice from?

Hon. Michael Bryant: I think that the short answer is, business. It's businesses. It wasn't governments that would have voluntarily approached businesses and opened up their treasury and said, "Please, take a bite." It was the other way around.

Just this week, I spent a couple of hours with a subsidiary of a Fortune 500 company which has a significant footprint here in Ontario. They were seeking financial

assistance through one of the funds. They were making a case for why they needed those dollars, not only in order to complete the project they wanted to complete but to keep the operations in Ontario as opposed to being moved to another state. They specifically were able to spell out what that was, and I can't get into the details because it's in the early application stage and there's commercially sensitive material.

It may not be something that the Reaganomics school of thought would like, but it was the innovation and ingenuity of business managers with the Lee Iacocca creativity who came forward and said, "Look, we can do this and we can do that. We're going to be more productive, and we're going to enter into partnerships. In addition to that, we want to structure our business in a way that has never been done before, and you, government, we're going to need your assistance. As a result, we're going to leverage even more investment here in this jurisdiction."

I don't know exactly when it started, but in one form or another the provision of economic incentives by way of direct investments is one that has been around for many years, as you said yourself, I think—maybe I misunderstood you, so you can clarify—with respect to the frozen food industry.

So it was, in fact, businesses that came forward to governments in the first place to make the case for economic incentives. It's certainly the case that businesses do now.

In terms of feedback from economists, I think we're very fortunate to have some, as far as I'm concerned, world-leading economists here in Ontario, and I take what they say very seriously. I prefer to get advice from an economist who has actually heard what I've said as opposed to having read a version of it in the newspaper. I always find it curious that people can comment on speeches that they've never heard, but that happens.

We have a particularly fortunate situation, in that we were able to retain the Martin Prosperity Institute and provide funding to get an enormous amount of advice and an economic blueprint from the world-leading economists there. On a very regular basis I consult with Roger Martin and Richard Florida and his team at the Rotman school, as well as the deans and faculty members at other schools, and chief economists, on Bay Street, of the big banks and otherwise.

The punditry war is one thing where people exchange opinions, and it's obviously something that I can always learn from. But it is the case that governments of all stripes have been making these kinds of investments in companies, and if it's a shock to some people and some economists that that has already been taking place, then that's surprising to me. I hope it's not surprising to you that we've making these direct investments, because we've been talking about it in the Legislature for many months and years, and of course, your colleagues like Mr. Klees regularly get up and ask questions like, "Hey, where the heck are the dollars for this company in my riding?"

I obviously listen to and read very closely the advice that economists have. I take seriously the comments that

were made about my remarks, which were intended to provide an accessible look at a very activist, interventionist approach that this government is taking and compare it to what's happening in the rest of the world. All jurisdictions that I'm aware of are also engaging in this interventionist approach. That has become the marketplace, as it were. And why? It's because businesses have, in fact, created a climate where they can demand it and governments respond. If governments don't respond, then the risk is that those businesses will not come here.

Mr. Ted Chudleigh: I would go back to my comments of yesterday that subsidies tend to make up for shortcomings in various jurisdictions, and I think there's indeed some of that in Ontario, as well.

Yesterday you said that the process of providing grants to companies would be open and transparent and that the public would have full knowledge and confidence in the process. I listened to your words; I fervently hoped that would be true. Today you refer to a company that you've talked to that is looking for some money, and you cannot speak about it because there's competition and confidentiality involved, which I understand and which is one of the problems in this whole process: The process cannot be open; it cannot be transparent; it cannot be the way you described it yesterday. Today, your comments are far more realistic, although less satisfactory from a public scrutiny point of view, in who gets the money and how.

1650

Yesterday, we were talking about the possibility of pork-barrelling and the possibility of political pressure that these grants all too often, in all stripes of government, attract. How do you get around that? You get around it with an open and transparent process. Today, you talk about the inability to have that process because of the constraints put on you by those people who react.

You talked about the number of economists you talk to. I suppose that when you talk to them, they talk to you as well, and you listen to what they say. You didn't mention that you listen to what they say, but I assume that you do; I'm giving you that one. I'm glad to hear that you are indeed talking to those economists, and I would encourage you to have more and deeper conversations with them, particularly concerning this somewhat dangerous path you're going down, because all the economists that I have talked to or that I have read concerning your new program are of one mind: that this is very old-time thinking and that it has been unsuccessful in the past. Again, I would say that there's no shining city on the hill.

You talked about Roger Martin and Professor Florida in 2005-06. I think you have a contract with them in which you pay the Rotman School of Management some one million dollars a year or something. I take no issue with that; that would be very strong, good advice from those people. The issue I take is that in 2005-06, and possibly 2007, they gave you what I perceived as some pretty good advice on how Ontario could be competitive, and what industry was looking for in the way of red tape

reduction, what industry was looking at in the way of tax structures, especially around the capital tax issue on equipment and machinery, what industry was looking at in the way of wage rates in Ontario, and what impact productivity would have.

Roger Martin made a very, very interesting and strong case on productivity, in that the average wage in Ontario, I believe, was—and I'm going by memory on this—\$6,500 a year less in Ontario than it was in the United States or in some competitive jurisdictions in the United States. If indeed our average wage in Ontario was equal to that in the United States, in other words \$6,500 higher, the net tax impact on Ontario, in a budget that was I believe about \$87 billion at that time, would be \$29 billion. You would get \$29 billion more in revenue just by simply raising that average wage. This is what he was promoting back in 2005-06, and I believe 2007, for which you paid him a million dollars. That was exceptionally good advice, all of which was ignored by your government.

Hon. Michael Bryant: Well—

Mr. Ted Chudleigh: And then we—

Hon. Michael Bryant: Sorry, go ahead.

Mr. Ted Chudleigh: I'm building up to a long question here.

Then we come along to—and all of that advice was so good and yet ignored—Ontario in the Creative Age, which you referred to in your previous answer, and for which you paid another organization that Roger Martin and Richard Florida worked for. You paid them \$2.2 million for a report which was somewhat roundly criticized.

Hon. Michael Bryant: Mr. Chudleigh, just a literally 10-second intervention: I just want to point out, and I know you wouldn't disagree with this, that Professor Martin and Professor Florida do this work pro bono. The Martin Prosperity Institute does receive funding, but both of them do this work pro bono. They don't get any remuneration directly that they would charge, for example, the private enterprise. Anyway, I know when you said "them," you meant their institutes.

Mr. Ted Chudleigh: Yes. They are paid by the Rotman school, and it all works in that direction.

Hon. Michael Bryant: Right.

Mr. Ted Chudleigh: Can you confirm that Ontario in the Creative Age did cost \$2.2 million?

Hon. Michael Bryant: I'm going to answer that, but, boy, I've got a little bit of ground to cover first before I get there.

Number one, in terms of responding to your comments and to a certain extent your questions, the last budget included the harmonized sales tax, and I understand your views on that. It was something that Roger Martin had been calling for for a very long time and had been quite critical of the government for not doing it and said—again, heeding his advice to a certain degree—that he believed the 2009 budget to be fantastic, brilliant and bold. These are his words, not mine.

We have certainly listened and heeded his advice more than not. He often ends up prevailing, and it's great

advice, and I just want to say I personally think we're very lucky to have him in Canada, let alone in Ontario. The information and details on the latest report, the blueprint that came out in the winter—

Mr. Ted Chudleigh: Ontario in the Creative Age.

Hon. Michael Bryant: Sure. I don't have it at my fingertips, but I will definitely get the answer back to you.

Mr. Ted Chudleigh: Okay. Did you read the report?

Hon. Michael Bryant: Oh, yes. I didn't just read it. I had the opportunity, as he said before, to spend many, many hours actually at their offices on a few Saturday and Sunday afternoons, going through the material, so that I could just get in to see the raw data and see how their thinking worked and so on, and it was a fantastic experience. I wish I could say I made a contribution, but I didn't.

Mr. Ted Chudleigh: I found the report very interesting, but unfortunately, it tends to abandon small-town and rural economies. Do you share the view?

Hon. Michael Bryant: I don't think they would characterize it that way. Certainly our government would never do anything other than support those communities. In fact, to be fair, the observation that was made was that what we in Ontario and Canada might refer to as "rural communities" are often urban communities in that—well, I think it's self-explanatory.

Mr. Ted Chudleigh: I think of the town of Listowel, for instance, which is a rural community in my mind. By and large, their major industry was the Campbell Soup plant that was there. It was certainly a manufacturing facility, yes, but that manufacturing facility had some of the highest-tech improvisations in the technical way that the line was put together of anywhere in North America. That technology will be lost to Ontario. That company has found that they can produce that product far cheaper in some other community because Ontario has lost some of its competitive edge, and this—

Hon. Michael Bryant: Can I speak to that?

Mr. Ted Chudleigh: Well, this report talks about the intellectual industries of the future. To me, yes, intellectual industries of the future are fine, but there are intellectual industries that are in the manufacturing business in Ontario that should be encouraged with a competitive jurisdiction, and we're missing the bet on that competitive jurisdiction or have been up until your last budget when there were a few concessions made towards looking after some of those industries—too late, in my mind, because the horse is not only well out of the barnyard, he's going down the lane and he's headed for the four-lane highway, and I'd be chasing the horse a little bit if I were you.

You wanted to make some comments?

1700

Hon. Michael Bryant: Firstly, I specifically asked Roger Martin the question about the creative-class jobs in the manufacturing sector and whether or not the two were incompatible. He said, "Of course not"—not just research and development jobs but also jobs typified by, say, the

auto worker in Toyota, typified by the people on the factory floor, perhaps at Campbell Soup, who were able to literally use their experience and analysis to engage in what we might have referred to in the past as management activities.

The creative-class jobs are not intellectual in the sense of belonging to an academy or to arts or to sciences but, rather, intellectual in the sense of being more focused on using your noggin than your muscle. So, to take that example of a company that did leave the jurisdiction, I don't know, but dollars to doughnuts, if it left the jurisdiction to go somewhere else, it went to a jurisdiction that provided it with an economic subsidy that perhaps Ontario was unable to match. That's the point. If we can provide assistance to a company—

Mr. Ted Chudleigh: I'll save you from going down that street. There was no economic bonus. It went to New Jersey.

Hon. Michael Bryant: No, no, no. You don't know that the state of New Jersey didn't provide them with an economic incentive.

Mr. Ted Chudleigh: Yes, I do.

Hon. Michael Bryant: I find that very hard to believe: that they would just up and move to the state of New Jersey without some economic incentive.

Mr. Ted Chudleigh: The president of Campbell Soup Co. Canada told me that there was no economic incentive; it was just uncompetitive in Ontario.

Hon. Michael Bryant: I'm going to bring that information back to this committee as well.

Mr. Ted Chudleigh: That's my business. That's where I came from, so I know that's the case.

I hear what you're saying. It's different than what the report implies. The report implies that the age of manufacturing in Ontario is over. That's what the report implies. Do you agree with that?

Hon. Michael Bryant: The manufacturing—

Mr. Ted Chudleigh: Do you agree that the report implies that? I know you don't agree that the manufacturing sector is over. That would be foolish to—

Hon. Michael Bryant: Yes, and they don't either. They say that the manufacturing—

Mr. Ted Chudleigh: But the report does imply that manufacturing is over.

Hon. Michael Bryant: No, it does not. It says that the manufacturing sector has declined over the past few decades and will continue to decline, and the service sector has increased and will continue to increase, which is not to say that there are not creative-class, high-knowledge jobs in the manufacturing sector; there are. There are also high-knowledge jobs in the service sector. It is a fact that the job numbers in the manufacturing sector have decreased as a result of technology—period. It's not a government policy that created that technology; it's the businesses themselves.

Mr. Ted Chudleigh: I think there's a quorum call.

Hon. Michael Bryant: Adjournment of the House.

Mr. Ted Chudleigh: What does that do to us?

Hon. Michael Bryant: Lucky.

The Vice-Chair (Mr. Garfield Dunlop): Keep going.

Hon. Michael Bryant: Okay, keep going.

Mr. Ted Chudleigh: Damn.

The Vice-Chair (Mr. Garfield Dunlop): We're going to be here till 6.

Mr. Ted Chudleigh: Okay. Where was I? Have you read the Macleans magazine report?

Hon. Michael Bryant: Yes. I know which one you're referring to.

Mr. Ted Chudleigh: It says, "How much would you pay for a map that had all the cities and towns marked, but erased all of the roads and highways that would get you there? I'll go out on a limb and guess that most of us would spend zero dollars. But that is because most of us are not Ontario Premier Dalton McGuinty, whose Liberal government recently dropped 2.2 million taxpayer dollars on a completely useless road map to prosperity." Then it goes on to talk about Ontario in the Creative Age and how everyone can make a whole bunch of money working in the intellectual world, but it doesn't tell us how to get there.

I found the last two paragraphs very interesting.

"In the end, Martin and Florida have done little more than restate Bertrand Russell's witticism about work being of two kinds: 'First, altering the position of matter at or near the earth's surface relative to other such matter; second, telling other people to do so. The first kind is unpleasant and ill paid'—manual labour—the second'—telling people to do manual labour—is pleasant and highly paid.'

"Nothing much has changed since Russell wrote that in 1932; the only difference now is that creative elaborations on that basic insight sell for millions of" taxpayer "dollars." "Taxpayer" was my word.

That's what Macleans said about this report. Although there is some reflection in your last budget of some of the things that existed in that report, I would suggest that there is far too little moving Ontario toward that very competitive jurisdiction—with other jurisdictions that are in the manufacturing business in the Great Lakes basin or indeed in the States with which we're competitive.

Have you had a conversation with Roger about how he feels about those opportunities?

Hon. Michael Bryant: The report indicates that Ontario is actually very competitive and that the investments in post-secondary education and in early childhood learning, in training and training upgrades on the job and in between jobs, are what a government could do to increase a skill set so that someone could transition to a high-knowledge job if they wished—in addition to our government making it a priority that we invest in companies where that is their future. They are in a future business, quite literally, a next-generation business with next-generation jobs, which includes high-tech, clean tech, biotech, nanotechnology but absolutely manufacturing jobs as well.

To be honest, I find the debate around manufacturing versus service sector—there's an empirical debate and then there's almost a cultural, socio-economic debate; a

political debate, I suppose. The notion is that somehow some judgment is being made on the manufacturing sector, which is not the case. It is the case that the manufacturing sector has been yielding fewer and fewer jobs because of the productivity, and it is the case that the jobs that involve providing value-added services have been increasing. That becomes interpreted as a “no,” because I hear it from the Ontario economic council and from representatives of the manufacturing industry. It can be a source of frustration for them that somehow their industry is undervalued. I certainly think that if you look at the investments that the McGuinty government has made in the manufacturing sector, it is the case that we have supported the manufacturing sector to the tune of literally hundreds of millions of dollars and recognized the enormous value, not just for empirical reasons, but because we have members who are representing communities that are exactly where the jobs are—members from Windsor, Hamilton, St. Catharines, Ottawa, across the entire province—where it is a priority, and it will continue to be one for our government.

Mr. Ted Chudleigh: When we talk about manufacturing jobs, I really think that in the next period of time, we’ll have to separate automobile manufacturing from other manufacturing jobs. There’s a certain set of circumstances that are in play to deal with the manufacturing of automobiles which are quite obvious: The Americans are trying to save one of their critical industries, and in so doing, they’re forcing Canada and Ontario to match if we want to stay in the game. That is not true in other manufacturing facilities. To base policy on the same criteria, I think, would be a great mistake, to the detriment of many of those manufacturing sectors.

I go back to the selection of winners and losers in that area. If you support one industry in an area, you’re doing so to the detriment of all the other companies in that area because you’re distorting the marketplace. That can be a great disincentive to companies to remain here. I was going to give you an example of the H.J. Heinz Co., and it slipped my mind as to why, but perhaps I’ll get back to that.

1710

High-paying jobs—the intellectual jobs or the brain jobs, as they’re sometimes referred to—certainly do exist in some communities. When asking for the shining city on the hill, in that context, you can speak to Switzerland, and you can speak to Hong Kong. Those two communities have been extremely successful in attracting very high-paying jobs and ending up with extremely productive economies. Those are very few and far between, and it’s wonderful to aspire to such a position. In fact, Toronto is sitting at a crossroads at this point in time, with one of the strongest financial sectors in the world. With an aggressive approach to this opportunity that is presented to us, Toronto could become one of the financial capitals of the world.

There have been some takeovers, not widely reported. TD Bank has picked off a few of Citibank’s choice subsidiaries. I think that CIBC has picked off a few, as

has the Royal. I’m sure there have been more. But as I say, they have not been widely reported, and if you don’t talk to the banks, you won’t find out about them.

I wonder if, in typical Canadian fashion—one that I don’t take exception to—the banks are being a little cautious, and if there isn’t some opportunity to become the next shining city on the hill if the government were to provide the opportunity of a competitive marketplace for these banks to operate in.

Hon. Michael Bryant: I agree with you. I think you give good advice. We’ve had organizations rate the Canadian banking system at present as the leading financial services sector in the world. The caution of the system, in fact, and the regulatory state of the system are perhaps what explain the current success and the avoidance of much of the subprime mess. While it does sit within the top five in the world in the rankings, as a financial capital, I agree with you that the ambitions of that sector ought to be, and I hope will be, to either surpass New York—or why not London?—as a financial sector and as a financial capital. There’s a role for the federal government to play, it’s true, as the regulator, and the extent to which there’s a role by the province—

Mr. Ted Chudleigh: Are you doing anything about this opportunity, Mr. Minister?

Hon. Michael Bryant: We certainly want to, and want to work with the banks in order to do that. One of the ways—perhaps a modest way, but nonetheless one of the ways—that we do so is to market the success of the banks. So advertisements were taken out in international publications—the Economist, I think, but other publications as well—to show off the success of the banking system. The corporate tax reductions in the budget, I believe, support the sector.

Actually, I should turn to the deputy, who has served in both finance and economic development, among others, to talk about ways the province can assist the sector, because I think it’s a very good question.

Mr. Philip Howell: Thanks, Minister. Certainly, not just the moves in this most recent budget, but the moves taken in earlier budgets and actually accelerated in this budget, in terms of removing the capital tax, are both very significant moves that support banks maintaining and expanding their head office activity here.

Of course, the regulatory structure of the banking system is determined by the federal government, so there is less of a role for the province to directly affect that, and there is certainly no ability to legislate it. But there is very close coordination and co-operation between financial services regulators in the province and federal regulators, to ensure consistency of approach in that regard.

Mr. Ted Chudleigh: As a jurisdiction, are we competitive, tax-wise? The banks make profits; their head offices are in Toronto; they pay taxes to Ontario. Are Ontario tax levels competitive with other financial jurisdictions around the world?

Mr. Philip Howell: Yes, and when the moves that were announced in this budget are fully in effect, which will be in 2011, the marginal effective tax rates for busi-

ness in Ontario will be the most competitive among jurisdictions in the world. That is something you may want to pursue further with the Ministry of Finance when they appear.

Mr. Ted Chudleigh: Yes, I suppose that's a Ministry of Finance thing, isn't it?

The Vice-Chair (Mr. Garfield Dunlop): You're down to just a little under three minutes, Mr. Chudleigh.

Mr. Ted Chudleigh: Okay.

The Vice-Chair (Mr. Garfield Dunlop): You've done a good job, both of you. It's been 40 minutes straight.

Mr. Ted Chudleigh: Has it?

The deficit recovery period situation: This borders on finance as well, Minister, but I think it impacts your ministry more than a little bit. In the 2009-10 budget, Minister Duncan announced that an interim deficit of \$3.9 billion was projected, and a deficit of \$14.1 billion in 2009-10, as well as medium-term projected deficits of \$12.2 billion in 2010-11 and \$9.7 billion in 2011-12, for a total of \$36 billion in deficits over the next three years. Do you agree with these numbers?

Hon. Michael Bryant: Well, whatever the finance minister's numbers are, I agree with them. I voted for them.

Mr. Ted Chudleigh: I understand that. The budget came out in March; this is May. This economy is moving extremely quickly. The Bank of Canada made an announcement in late April that the overnight rate would stay at a quarter of 1% until July 2010. Personally, I can't remember the Bank of Canada projecting interest rates that long out. When they did that, they said this recession was a lot worse than they ever imagined. The economy will have a tremendous impact on these deficit numbers.

I guess what I'm asking is whether you think the \$18 billion over this year and next, which the minister projected back then—are we going to stick with those numbers? Seeing the number of job losses, which are continuing to rise, and the number of companies that continue to slow down, and the number of bankruptcies, which continue to rise, do you think we're operating on realistic numbers in the projection? Do you think we're really going to move into 2.3% growth in 2010? Do you see that in our economy?

Hon. Michael Bryant: Well, I—

1720

The Vice-Chair (Mr. Garfield Dunlop): Just a few seconds left, Minister. We'll need to start on the next round.

Hon. Michael Bryant: I guess what I'd say is that I not only have a lot of confidence in the finance minister and those projections, but I do agree with him.

Mr. Ted Chudleigh: I'm not criticizing the Minister of Finance. I think that at the time and place, his projection was realistic.

The Vice-Chair (Mr. Garfield Dunlop): I think we'll cut it off there, guys. We can get back to this.

Mr. Ted Chudleigh: You saved him.

Hon. Michael Bryant: That's right.

The Vice-Chair (Mr. Garfield Dunlop): No, you've got 20 minutes after the government, so you can continue on then.

To the government members.

Mr. Khalil Ramal: I know that our government and also your ministry have been visiting many different sites across the province of Ontario, many different companies, to examine those companies and give them some kind of financial support in many different conditions. You came to London-Fanshawe, my riding, and you gave support to a company called Hanwha to produce countertops and to assist them to expand and hire more people and maintain their presence in the province of Ontario.

Are you going to continue your efforts to make sure that those companies in small cities like London and the regions that have suffered a lot from the loss of manufacturing jobs continue to exist and prosper?

Hon. Michael Bryant: Yes. It is the case that, by and large, it is business- and industry-led in terms of the companies that work with the government, save and apart from the work that Minister Papatello does with respect to investors outside of Canada, but there is an effort—and it ends up being more of a partnership, I think it's fair to say, between mayors and members of provincial Parliament and the government, local economic development councils and other economic development organizations to try to partner up in particular regions so as to allow a bottom-up local strategy to be supported in some fashion by the provincial government.

There are going to be areas where the provincial government is seeking to lead the economy, but in most cases the leadership is already being provided by the businesses and the local economies. In that sense, the government is playing a supportive role or it's augmenting the efforts. To Mr. Chudleigh's point: We want to give businesses the room to grow and innovate, and I couldn't agree more. The government is not engaged in a prescriptive economy strategy but rather a supportive partnership—and leadership in certain areas: the green economy.

We found that every region has particularly innovative business leaders and workers. The company you speak of is very much an example of that. Other businesses in London and in your riding in particular are regularly working with either the Ministry of Economic Development or the Ministries of Research and Innovation, Small Business, Energy or Finance to try to find ways in which the provincial government can play a supportive role, as the federal government in some areas and in some cases can play a supportive role as well, and as other economic development vehicles can play a role.

I believe that the future is bright amidst these tough times in London, given that we do have a lot of tools at our disposal in Ontario to assist those businesses that other jurisdictions don't have.

Mr. Khalil Ramal: Thank you, Minister.

Mr. Yasir Naqvi: Minister, I want to pursue a bit of the line of questioning which Mr. Chudleigh was doing

with you about the competitiveness of Ontario. You were talking about the manufacturing sector and that fault lines are starting to appear in the way that manufacturing had traditionally existed in Ontario. I want you to explain to us what the government is doing through its budget, in terms of the tax reform package, to enhance the competitiveness of manufacturing in Ontario.

Hon. Michael Bryant: On the taxation front, the specific corporate tax rate cuts and the general corporate tax rate cuts, but the specific ones for manufacturing, when added to the acceleration of the capital tax elimination and the economic incentives provided through the advanced manufacturing strategy, you see a recognition of the government's support of a manufacturing sector that, sure, looks different than it did 25 years ago in that it includes companies like Research in Motion and Celestica and a vast array of high-tech and, hopefully, increasingly green tech and solar and wind companies, energy companies, here in Ontario.

The incentives provided through the Ministry of Energy, and the policy incentives provided there as well, are directed in part at the manufacturing sector. Obviously, the Minister of Energy is in a better position to speak to this. But within the green economy, the goal is to create a cluster from end to end, from emerging technology commercialization through to the manufacturing of it. That is one sector of the manufacturing industry.

There are more traditional examples that could be given around food processing. The food processing plant that provides all the chicken to McDonald's in all of Canada is in southwestern Ontario. The technology is there, but there are a lot of workers engaging in what you might consider to be traditional manufacturing activity. So we're always going to have this mix of innovated manufacturing industries and otherwise.

I'm also convinced that with the convergence of the service industry and manufacturing industry, what for one person is high-tech is perhaps manufacturing for another person. We'll always muddy those waters. The point is that we have a diversified economy. It is not the case that this provincial government has put all of our eggs into a particular basket. But at the same time, one needs to be strategic. Part of our strategic priorities includes the manufacturing sector.

The single sales tax will save businesses half a billion dollars in administrative costs alone. The manufacturers will see a 17% tax cut in July 2010. Other businesses will see a 14% tax cut in the first year and an additional 17% by 2013. Small businesses will see an 18% tax cut on top of the elimination of the capital tax, and the business education tax cuts.

Words of support have come forth from the manufacturing sector. At the last Ontario economic council meeting, the council agreed to provide a letter of, I'll say, support for the budget. I should credit the Ontario economic council and the representatives of the manufacturing sector that were there in terms of their advocacy and input, which certainly played a role in both the fiscal and the real economic incentives that you find here for

the manufacturing sector, and continued support of the real successes that are brought to bear by the leaders in management and the leaders in labour.

Mr. Yasir Naqvi: You talked about the harmonization and the administrative cost, a reduction that will result by creating a single sales tax by combining the GST and PST, which will be a tremendous cost savings for the manufacturing sector because of just—there's the paperwork involved and then there's the whole flow-through aspect of it, getting the input tax credit. Right now, as goods are being produced and various little pieces are going through the value chain, as we know, the PST portion of it gets added on and on. So, at the end of the day, when goods are produced, the cost is higher because of the PST portion of it, which is not returned back or credited back to the manufacturer.

1730

Yesterday, we were having conversation about exports and how exports are extremely important for Ontario. Probably the majority of the manufacturing that's taking place is for export purposes. We are the engine when it comes to the economy in Canada, and given the globalized world we live in—NAFTA and the tremendous impact that has had for the Ontario economy, and WTO agreements etc.—can you speak to the impact that combining the two sales taxes would have on the export side of the manufacturing, the ledger we have in this province, and what that really means for our manufacturers that are primarily export-dependent? How does that benefit them?

Hon. Michael Bryant: Really, this, as you know, was a major reason, if not the major reason, for the decision to harmonize the sales tax, because the best advice that we received was that in fact that was the single thing that we could do that would best enhance economic growth within Ontario, in particular within the export sector—the goal being that we want to be exporting products, not exporting the wealth. We want to be able to expand our value-added services so we're not doing things like exporting products to other jurisdictions, which then get a value-add that's then exported back into Canada and consumed here.

Ideally, we are more and more increasing the export-oriented economy. So how do you enhance that? There are different ways. You do it by way of economic incentives, but you also do it by way of tax incentives. Looking at the competitive nature and being more competitive in terms of our tax regime, the harmonization meant that we would be that much more competitive, as compared to those jurisdictions that had a harmonized sales tax.

But it's important—and I want to not just give my version of it, but someone who's been in this business a lot longer, and just maybe ask Deputy Minister Howell to talk a little bit more generally about the export economy and the harmonized sales tax.

Mr. Philip Howell: At the risk of slipping into some former roles in my public service career, I think that the most significant thing of the harmonization for our exporters is the fact—and this, by the way, is not just for

manufacturers, because the provincial sales tax, and it's not often fully appreciated, applied considerably to business inputs. In fact, a significant amount of the revenue that was raised from the provincial sales tax was actually tax that was charged on inputs into business processes, both manufacturing and in the production of services as well; it doesn't really matter. This was a competitive disadvantage that Ontario companies faced compared to other jurisdictions that didn't have it. It was, frankly, almost a—I wouldn't call it a penalty on our businesses, but it was a cost that was imposed on them that was not imposed in many other jurisdictions. That, far and away, from the business perspective, will be the biggest advantage coming out of the harmonized sales tax, and the value of that speaks to the numbers the minister was talking about earlier. So it certainly will enhance business competitiveness once it's fully implemented.

Mr. Yasir Naqvi: Minister—and I know the deputy may not be able to answer this question, given he's the deputy—when we're talking about enhancing the competitiveness of Ontario manufacturers, in my mind—I'm a simple person—we're talking about enhancing or stabilizing the number of jobs that are being created in the province of Ontario. Is that the way you see it?

Hon. Michael Bryant: More. It's not just surviving to thrive, which is part of it within the current recession, but it's also expansion. You're seeing companies expanding, Research in Motion being the most obvious example in terms of growth. There are other companies where expansion is taking place, and we want to find ways to lever maximum expansion, so scale as much as we can, and go beyond matching, but rather establishing a jurisdiction that is supremely attractive to business. I think in that sense it's ambitious, and it's ambitious in part because other jurisdictions are engaging in similar conduct, but also we're doing it at the behest of a lot of leadership within the business community itself.

Mr. Yasir Naqvi: The question which is often asked is, why now?

Hon. Michael Bryant: This is certainly an example of there never being a perfect time. I have little doubt that the previous government contemplated harmonization of the sales tax. I have no doubt that other jurisdictions—most jurisdictions in the world have a harmonized sales tax, and certainly throughout Europe it's just a given. But within Canada as well, I'm sure it's being contemplated.

Is there ever a perfect time to do it? Well, now is the time that people are demanding bold and not low-risk decisions being made by governments. That's what this is. There is an attempt to mitigate the aspects of this which have an impact on consumers that ideally would be avoided. That's done through a variety of methods, the Ministry of Finance being in the best position to speak to it. As well, tax cuts exist for individuals within Ontario. That is found in the budget, and the finance minister often remarks that there's a lot of discussion about the change to the harmonized sales tax and there's a lot of discussion about the lowering of business tax, which is great, but there are also very, very significant individual

tax cuts in there as well, which are particularly beneficial for the least wealthy in our economy, but it's a middle-class tax cut as well.

The Vice-Chair (Mr. Garfield Dunlop): You have about two minutes here, guys.

Mr. Yasir Naqvi: So with all the tax measures you talked about—the combining of GST and PST, and we talked about the benefits of that both for current manufacturing and for export-related activities; you talked about the reduction of corporate taxes—can you share with the committee what impact that would have in terms of tax rates on new investment moving forward, once all these tax changes are implemented in Ontario?

Hon. Michael Bryant: This is great. See, the more you ask these questions and the more I answer them, the more the Minister of Finance is going to wax poetic on the Ministry of Economic Development, so I'd better be careful here.

The goal was to have, on the marginal rate, a big impact, and not an around-the-edges impact. That's what this does. It immediately makes—the cut in the marginal tax rate by a certain stage is around 50%. It is a very significant cut. It is a blast of a jump-start to the economy, and obviously it's phased in over time. But on the impact specifically, I'm going to, for reasons of fiscal and other preservation, defer to the finance minister. It's enough to say that it's going to have a very positive impact.

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Mr. Yasir Naqvi: So—

The Vice-Chair (Mr. Garfield Dunlop): That cleans up your time anyhow. You can come back to it on Tuesday morning. We've got 20 minutes left.

Mr. Chudleigh, you get the last 20 minutes today. Thank you very much to the government party.

Mr. Ted Chudleigh: The HST—I didn't realize that was coming out of your ministry. The only comment I would make is that we have supported it, but not at this time. We would like to see it as a revenue-neutral thing. Certainly by the time the implementation rolls around on July 1, 2010, it would be our recommendation that the rate be reduced to about 6.5% from 8%. As near as I can figure, that would make it almost revenue-neutral. The way it sits today, it's going to be a large hardship on an economy that is struggling to recover.

Going back to where we left off, I wasn't trying to set a trap for you, Minister—

Hon. Michael Bryant: No, no, I would never accuse you of that. Others, yes.

Mr. Ted Chudleigh: Oh, I would.

Hon. Michael Bryant: Occasionally I would, but not in estimates.

Mr. Ted Chudleigh: I would if I thought I could get away with it.

However, I think it's dangerous to operate on incorrect assumptions. I think we both recognize that in this environment, in this economy, the goalposts are moving at warp speed. It wasn't too long ago that we were hopeful that the recession would begin to climb out of the hole

that we're in in the third quarter of 2009, and the Bank of Canada, in what I think was a monumental move, freezing the overnight rates to the middle of 2010. Certainly the GDP is going to be negative for a while into the future. All of those things create economic conditions that we would really rather not deal with, not the least of which is the deficit.

Personally, I believe that we'll have a great deal of difficulty holding the deficit at—what was it?—the 2009-10 deficit is estimated to \$14.1 billion. Personally, I believe we'll have a lot of difficulty holding that below \$16 billion—it could go to \$18 billion. In so doing, those have implications to the businesses in Ontario and the difficulties that those businesses are going to find themselves in. Reduced levels of taxation would help. Of course, taxation is based on profit, and the profitability of these companies is going to be reduced.

Given your access to economic indicators, how confident do you feel about the future and the current projections of the government?

Hon. Michael Bryant: I'm happy to talk about the policies and purposes behind policies that are about the domain of finance and economics. The finance minister has to be careful enough in what he says in terms of the impact that he can have. The last thing he needs is another minister having an impact.

I'll just say good questions, no question about it, Mr. Chudleigh. I think that they are best directed to the Minister of Finance. I'm certainly here to say that I have every confidence that the information that he has provided is exactly as he should have provided it.

Mr. Ted Chudleigh: I guess I'm trying to provide advice in the way of asking questions—

Hon. Michael Bryant: That I would like. Please. You don't have to ask questions; give me advice—

Mr. Ted Chudleigh: My only advice would be, in these uncertain times, that you remain, and the ministry remain, as flexible as you possibly can remain.

I see also that the budget projects some job growth in 2010-11 of 0.8% and 1.6% respectively in those two years. Where do you see this job growth occurring? What sector?

Hon. Michael Bryant: Make no mistake about it; I'm not suggesting for a moment that, as I said before, every piece of our manufacturing industry or other industries aren't going to get very hurt; they are, obviously. We're in a recession. We're seeing significant job losses. We're seeing massive drops in demand and therefore massive drops in supply. We're seeing consolidation wars taking place, with an increasingly shrinking marketplace—businesses fighting for that marketplace and subsidiaries fighting within the global marketplace within their global companies.

I'm not great at predicting the future and I'm not going to do that in terms of specific areas of growth, but I can say that the government's emphasis through the green economy policies and legislation and investments that are being made will see growth in that sector. You have already seen growth in some of the high-tech sectors, particularly around communications, which I've

referred to before, and the disrupters of next week that will have an impact, some of which perhaps we can see now, some which we won't.

I anticipate that we're going to see the expected growth of those sectors like aeronautics and digital media. Many of the sectors that are found within the Ministry of Research and Innovation will see growth, and we will see some surprises as well, again thanks to their leadership and the innovation that will climb out of this, particularly during this crisis.

Mr. Ted Chudleigh: You didn't mention the commodity groups. With Ontario's wealth in commodities, whether it be food, forestry or minerals—

Hon. Michael Bryant: I should have.

Mr. Ted Chudleigh:—any comment on any of those three? Forestry has been particularly hard hit.

Hon. Michael Bryant: I should have. I'm not sure if I mentioned it here, but for this I thank the Martin Prosperity Institute for producing some information that showed that we are one of only two jurisdictions in the world—Canada, that is, and Ontario in particular—that are extremely rich in both natural resources and human resources. You have developing nations that are rich in natural resources that don't have the level of talent, education and experience and human capital that we have here in Ontario, and obviously you have jurisdictions like the United Kingdom and the United States where there's significant human capital but not the same level of natural resource wealth. So we do have that. Our ability to not only see growth and competitiveness in those sectors but to have the value-added businesses grow around them as well is a significant part of the Ontario economy. It will continue to be supported by the various funds, by the various incentives and also by trying to work with those businesses and partnerships to address any ways in which we can assist on the regulatory side in addressing issues like compliance, approvals and so on as we continue to try to, with all hands on deck, create the environment that's most competitive for those businesses but also support those businesses directly and indirectly, however we can.

Mr. Ted Chudleigh: I guess I'd get down to the pulp and paper business in Ontario. It is an industry that is pulled apart by a number of different ministries. The Ministry of Natural Resources, the Ministry of Economic Development and the ministry of northern affairs all seem to have their finger in the pot.

The industry has tremendous potential in that we have the ability to produce some of the highest-quality paper in the world, particularly newsprint. It's interesting that when you're not in Ontario, quite often you pick up a newspaper, and it feels different. It feels heavier; it feels thicker. Apparently, that thickness costs a tremendous amount to ship, and it's made with a different fibre or material. Ontario's newsprint is so strong that it can be manufactured as very, very thin newsprint.

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There are a number of statistics that say the average plant in Ontario is relatively very small. Finland has at least two plants, maybe three, that would produce

everything that we produce in Ontario, in 15 or 20 mills or plants—I get confused between those. Some plants have eight or 10 mills within them; others have one or two. So I get confused on that. I always have.

But the opportunity for Ontario's pulp and paper industry to restructure itself on a global level has been there for some time. Is there any stimulant for the Ministry of Economic Development to take hold of that project, act as a lead industry within the Ontario government and do a practical—I don't want to use the word "study," because studies tend to be more esoteric—but do a very practical look at the industry in order to look at how it might emerge from this economic downturn, which might be an opportunity. It's in times like these that sometimes things happen and big things result, whereas they wouldn't happen in good times.

Hon. Michael Bryant: Generally speaking, I completely agree, that you see an acceleration of restructuring and reformation of industries during times such as these. It can be pretty painful sometimes.

The lead ministry, as you said, is the Ministry of Natural Resources.

Mr. Ted Chudleigh: They won't do anything, by the way.

Hon. Michael Bryant: Well, I disagree. The reason for that is both administrative, in terms of taking advantage of the experience and talent within that ministry itself and the people who are there and who work literally with the people working in that industry, but also to ensure that the industry gets not only the attention it deserves but the coordinated policy, of course, between support of the industry from an economic development perspective, and trying to marry that, or, I guess, coordinate it, on the regulatory side. As you know, that's why natural resources has the lead there.

But I certainly will undertake to see where and how the Ministry of Economic Development does participate in the kind of support ventures that you speak of.

Mr. Ted Chudleigh: I throw it out because the Ministry of Natural Resources is more of a regulatory ministry than a market development ministry. There are no market development priorities in their mandate. They grow the trees and they distribute the trees to the users of the trees. But it's been my experience that they fall in love with the trees, and they would prefer to leave them in the ground rather than use their economic potential. So they are not farming the forest as much as they are preserving the forest.

From an environmental point of view, some of the finest forestry practices in the world take place in Ontario. I give you the Madawaska highlands, the Madawaska forest in eastern Ontario. It's one of the finest forests that you'll find anywhere in the world. It's been selectively cut for 80 to 120 years. It's an absolutely marvellous piece of work. But it yields tremendous amounts of wood each and every year, and will do so forever.

That is something that can exist, but that's not what the pulp and paper industry needs. The pulp and paper industry needs large tracts of land that they can harvest in the same way that we harvest corn. They just do it over a

15- or 20-year period, whereas corn harvesting takes place on a yearly basis.

The Ministry of Natural Resources, as much as I respect the talent of the people who are there, will not be the initiator of the restructuring of the pulp and paper business in Ontario. I think that has to fall in the lap of economic development and trade, and I would encourage you to take that trip.

The Vice-Chair (Mr. Garfield Dunlop): Down to about four minutes, Mr. Chudleigh.

Mr. Ted Chudleigh: That's about what I have left here, I think.

We're going back to jobs—

Hon. Michael Bryant: How's the apple industry? Tell us about the apple industry.

Mr. Ted Chudleigh: That would take much longer than four minutes.

Hon. Michael Bryant: Well, that's the goal, but—

Mr. Ted Chudleigh: I would ask you: Most of the revenue loss this year and in future years will come from declining corporate income tax revenue and declining personal tax revenue. Unfortunately, this is not because of grossly lower tax rates, it's because Ontario businesses—there are fewer of them and they're making less income.

Business productivity and innovation is where Ontario's creative future lies with the Martin and Richard Florida report. I would be interested in your comments as to how you see your ministry boosting business productivity and innovation in Ontario industries. How do you create that environment where business and industry feel concerned about that?

Interjection.

Mr. Ted Chudleigh: In three minutes.

Hon. Michael Bryant: Sure, or probably even less. Look, the innovation percolates out of the businesses themselves, and so does the productivity. Where government can play a role is try to provide support there. One of the ways in which we do it is to provide financial assistance and incentives in order to increase capital investments, in particular around technology, to allow for that productivity to increase.

It also has to take place through the concerted efforts of a ministry literally devoted to innovation: the Ministry of Research and Innovation. Believe me, you could ask Minister Wilkinson this question, and if you could get him to answer it within the three minutes that I have left, I'd be very impressed, because he has much to say about what this government has done on that front. The crux of it is to learn from the innovators, to learn from the incubators of the innovators and to provide the support there, ranging from the assistance around early technology development, through venture capital, the pro-commercialization policies, the tax incentives that exist there, the support of the industry through the investments made through his ministry and this one, all of which is to make that great word "innovation" a reality in Ontario. But I'm going to give you the last word here, Mr. Chudleigh.

Mr. Ted Chudleigh: I would refer you to a report that I wrote for the Ministry of Economic Development and

Trade on angel investing. I wrote that report in 2001, I believe, on what the angel investors in this province wanted from the government in the jurisdiction in which they could maximize their opportunities and therefore maximize Ontario's future. And I'll leave my editorial comment unsaid.

Hon. Michael Bryant: At www.tedchudleigh.com, you can access the Chudleigh angel investors report, and if not, through the Ministry of Economic Development. Is it still timely?

Mr. Ted Chudleigh: I think so.

Hon. Michael Bryant: I think so too.

The Vice-Chair (Mr. Garfield Dunlop): Thank you very much to everyone for today. We'll be back here at 9 o'clock on Tuesday, May 26 for a one-hour session. We'll be starting with the third party.

I'd like to thank the minister and the minister's staff for being here. Have a great long weekend, everybody.

The committee adjourned at 1800.

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