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RESPONSE OF THE FEDERAL  
GOVERNMENT TO THE  
RECOMMENDATIONS OF THE  
CONSULTATIVE TASK FORCE ON  
**THE CANADIAN FOREST  
PRODUCTS INDUSTRY**



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INTRODUCTION

In February 1978, the first Ministers initiated a process of private sector consultation on measures to improve the performance and the outlook for the manufacturing, construction and services in the Canadian economy. Twenty-three industry task forces were representative of management. In April 1978, the industry community was invited to provide government representatives with participation. By August 1978, each task force has completed a series of meetings and submitted a report reflecting conditions in their industry to the Federal and Provincial Ministers of Industry and to the Director. These reports covered a broad range of issues and the recommendations contained in them are viewed by the Federal government as important elements in the development of future industrial policies.

Following the work of the industry sector task forces, an Advisory Committee was established consisting of five representatives from the Canadian Labour Congress, five from the business community, the academic community and a chairman from the private sector. This committee worked from the task force reports, identified common elements, and developed a series of recommendations in each of the industry sectors. The committee's report is presented in this document.

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RESPONSE OF THE FEDERAL GOVERNMENT  
TO THE RECOMMENDATIONS OF THE  
CONSULTATIVE TASK FORCE  
ON THE  
CANADIAN FOREST PRODUCTS INDUSTRY

In reviewing these reports, and the Government's response, a number of issues emerge which are of particular importance and which might be viewed as providing a framework for the future actions of business and labour as well as the development of the federal government. These include issues of resources to improve industrial competitiveness, especially in building on comparative advantages, the support of regional economic development goals and the enhancement of Government, business and labour cooperation.

While the substance of what has emerged from the task force and Advisory Committee reports is of great importance, it is the view of the Government that the emerging process of Government/private sector consultation is of equal value. In this regard, the Federal government will continue to use the results of these consultations as a significant framework for evaluating existing policies and programs and for developing and implementing new ones.

## INTRODUCTION

In February 1978, the First Ministers initiated a process of private sector consultations on measures to improve the performance of, and the outlook for the manufacturing, construction and tourism sectors in the Canadian economy. Twenty-three industry task forces composed of representatives of management, labour and the academic community were formed. Provincial government representatives also participated. By August 1978, each task force had completed a series of meetings and submitted a report reflecting conditions in their industry to the Federal and Provincial Ministers of Industry and to the public. These reports covered a broad range of themes and the recommendations contained in them are viewed by the federal government as important elements in the development of future industrial policies.

Following the work of the industry sector task forces, an Overview Committee was established consisting of five representatives from the Canadian Labour Congress, five from the business community, one from the academic community and a chairman from the private sector. This group worked from the task force reports, identified common viewpoints, and presented policy recommendations applicable both to the economy generally and to specific industries. The Overview Committee presented its report to Governments in October 1978.

In reviewing the prospects for industrial growth over the next number of years, the reports prepared by the industry task forces and the Overview Committee addressed two objectives in particular. The first, was to improve the competitiveness and productivity of Canadian industry. The second was to create long-term employment.

In assessing these reports, and the Government's responses a number of themes emerge which are of particular importance and which might be viewed as providing a framework for the recommendations of business and labour as well as the responses of the federal government. These themes focus on measures to increase industrial competitiveness, especially by building on comparative advantage, the support of regional economic development goals and the enhancement of Government, business and labour cooperation.

While the substance of what has emerged from the task force and Overview Committee reports is of utmost importance, it is the view of the Government that the emerging process of Government/private sector consultation is of equal value. In this regard, the federal government has come to view the results of these consultations as a significant framework for evaluating existing policies and programs and for designing and implementing new ones.

As part of its commitment to the consultative process, the Government has undertaken to respond to the recommendations of each of the 23 task forces and to those of the Overview Committee. An initial Government response was released in November 1978 entitled "Action for Industrial Growth - A First Response". A specific response to the task force recommendations with respect to taxation measures was included in the Budget Papers of November 16, 1978. This document constitutes one of the 23 detailed federal government responses paralleling the task force reports and should be viewed as part of the ongoing consultative process.

It is recognized that the implementation of policy initiatives indicated in these responses will, in many cases, take some time and that a few other policy issues have yet to be fully addressed. The Government will, therefore, be continuing to respond to the industry task force reports. The Government also believes that continuing consultations between business, labour and Government on specific industry sector problems are a vital part of this further work.

GOVERNMENT RESPONSE TO TASK FORCE RECOMMENDATIONS - AN OVERVIEW

The recommendations of the Consultative Task Force on the Forest Products Industry included measures designed:

"to encourage greater coordination of policy formation amongst federal government departments and between the federal and provincial governments; to bring greater stability to the economic environment for more rational medium and long-term business planning; to create an economic climate favourable to investment and growth; and to strengthen the ability of the forest products industry to compete, in Canada and around the world."

The federal government is fully aware of the importance of a strong and viable forest industry to the achievement of Canada's social and economic development goals and has taken substantive action in addressing the recommendations of the task force. The primary focus has been on Government initiatives that contribute to a climate of confidence and stability and which provide a framework for sound forest industry development.

The coordination and duplication of programs are of great concern to the federal and provincial governments. In November the First Ministers made a reduction in the duplication of services a priority measure. Currently, the federal and provincial governments are identifying areas where duplication could be eliminated. The federal government is prepared to work closely with the provinces to ensure proper coordination of effort and to reduce the cost burden of Government imposed on industry. Specific action is already underway in the field of environmental protection and where agreement can be reached, the responsibility for the enforcement of environmental regulations will be transferred to the provincial governments. In addition, the measures adopted to enhance the forest resource base and to enable modernization will be conducted through federal/provincial agreements. At the federal level, the Board of Economic Development Ministers has been created to coordinate the activities of the various federal departments.

The capital requirements of the forest products industry are substantial. A significant increase in capital expenditures over current levels is required to modernize and upgrade existing operations, to meet environmental and energy conservation targets and for new capacity. The tax incentives (extension and enrichment of the tax credit for investment and R & D and extension of the two-year write-off for pollution control equipment) included in the recent budget provide an attractive environment in which to undertake modernization and expansion within the framework of existing capital markets and reduce the uncertainty associated with long-term investment

planning. In addition, the Board of Economic Development Ministers has recently announced a major program aimed at improving the facilities in the forest industries. Federal funds will be made available over the next five to seven years in a federal/provincial cost-shared program of incentive grants to the pulp and paper industry. These grants will be available for cost-reducing modernization expenditures including those that result in pollution abatement. Modernization assistance will continue to be made available to other forest product sectors in areas currently designated under the Regional Development Incentives Act. The federal government will initiate discussions with the Province of British Columbia to consider possible extension of this assistance to the forest industry in British Columbia.

The forest resource development component of this new program is to be built on existing joint federal-provincial cost-shared agreements with five provinces and an offer to develop appropriate agreements in British Columbia and other provinces where forest management is a development priority. Existing forest development subsidiary agreements in Newfoundland, Nova Scotia, New Brunswick, Quebec and Ontario result in roughly \$43 million per year being expended by the federal government. In provinces interested in the new program, federal-provincial discussions will review the orientation and terms of each agreement as required to support the modernization investments which will be undertaken. A related agreement with Ontario was signed in December, 1978 and initial discussions on extended agreements have already taken place with Newfoundland and Quebec. It is hoped that the necessary dialogue can occur with the Province of British Columbia in the near future.

The development and widespread application of new technology can play a key role in any strategy designed to improve competitiveness and productivity in the forest products sector. In addition to providing direct financial assistance to joint Government/industry research efforts such as the Forest Engineering Research Institute of Canada and through programs such as the Enterprise Development Program, the tax incentives for R & D included in recent budgets provide a stimulus for increased industrial R & D spending.

The forest industry is highly dependent on export markets for its livelihood. The Government plans to increase its export promotional efforts including a continued commitment to specialized programs such as the Co-operative Overseas Market Development Program for lumber and plywood produced in British Columbia. The offshore export interest and capability of the wood products industry in Central and Eastern Canada is currently being assessed in order to determine the feasibility of a joint Government/industry market diversification effort in these regions. The Enterprise Development Program has been expanded to provide financial assistance for industry restructuring and adjustment to the new competitive environment anticipated for the 1980s. Assistance for those sectors facing unusually complex adjustment problems will be considered within the context of specific sector policy reviews.

In the material which follows, Government responses have been provided for each of the individual recommendations of the task force. This detailed response is consistent with the first recommendation of the task force, namely, that "a formal audit or assessment should be made of progress and of measures actually taken in response to the recommendations of the Sector Task Force ..... to ensure that the momentum generated by this new approach to consultation is maintained".

DETAILED RESPONSE TO TASK FORCE RECOMMENDATIONS

INVESTMENT, MODERNIZATION AND TAXATION

1. Recommendation

The investment tax credit of five per cent (higher in certain slow growth areas) on qualified assets really works out to two and one half per cent net of the offset against capital cost allowances. This compares to a rate of 10 per cent, which may go as high as 12 per cent, in the U.S., our major competitor. Further, in Canada a limitation in the carry-forward period often erases much of the benefit, considering the lengthy construction period and cyclical nature of earnings which are characteristic of the forest products industry. Our recommendation is that the U.S. system of investment tax credit rates and time span be implemented, with suitable regional differences, and that logging equipment be included in the category of qualified assets.

Government Response (Agree in part)

The recent budget enriched and extended indefinitely the investment tax credit for the purchase of qualified assets. The basic rate of credit was increased to seven per cent, to 10 per cent in most DREE designated areas, and to 20 per cent in the Atlantic Provinces and the Gaspé region of Quebec. These rates compare with the general rate of credit of 10 per cent of the cost of eligible investments acquired before 1981 available in the United States. The U.S. rate however is greatly reduced for assets with a useful life of less than seven years and buildings, which account for a significant proportion of capital investment, are not eligible for the U.S. investment tax credit.

The reduction of the capital cost allowance base by the credit received, which is required in Canada but not in the United States, has been taken into account when setting the level of rates in Canada and is considered desirable in order to provide neutral treatment of longer and shorter lived assets. Extension of the carry-forward period of the investment tax credit from the current five years to seven years as in the U.S. would create considerable administrative difficulties without significantly aiding many taxpayers. Moreover, the U.S. requirement that the capital cost allowance must be claimed in full each year significantly reduces the flexibility of taxpayers in claiming deductions.

A more detailed discussion of these issues is presented in the supplementary papers prepared by the Department of Finance for the November 16, 1978, budget.

The list of qualified assets for investment tax credit purposes continues to exclude certain types of logging equipment although road building equipment, forwarding equipment and trucks used in logging have been eligible since 1977.



2. Recommendation

Our inability, in Canada, to consolidate or group income for tax purposes, as is permitted in the U.S., is a major disadvantage, which should be corrected in the Canadian system.

Government Response (Disagree)

This question is addressed directly in the supplementary papers of the November 16, 1978, budget. In summary, any system allowing related corporation groups to consolidate or group income for tax purposes would likely be very complex, would require significant amendments to the Income Tax Act and could result in a substantial loss in tax revenues. The federal government, however, recognizes the problems created by the existing situation and attempts are being made to develop reasonable solutions.

3. Recommendation

The introduction of an inventory tax credit of three per cent on opening inventories has been beneficial in combating a portion of the inflation-related inequities in taxation, and should be continued. In addition, consideration should be given to the use of the LIFO method of valuing inventory for tax purposes, as is permitted in the U.S. and other countries.

Government Response (Agree in part)

The Department of Finance has concluded in its study of the tax system of Canada and the United States that the combined effect of the more generous Canadian capital cost allowance system (including the two-year write-off of machinery and equipment), the low rate of tax on manufacturing and processing income and the three per cent inventory deduction more than offsets the ability of U.S. manufacturing firms to use LIFO accounting for tax purposes. Considerable attention is directed toward the problems created by inflation and proposed tax adjustments in the budget's supplementary papers. The general conclusion is that when all factors have been taken into consideration, the overall level of Canadian corporation taxation under the present system does not differ greatly from what it would be under a comprehensive system of inflation accounting.

4. Recommendations

The fast write-off for manufacturing and processing assets is important in offsetting the effect of inflation on replacement costs. However, the exclusion of logging equipment from the fast write-off provision is grossly unfair, considering the importance of increased mechanization to cost reduction in this segment of the industry. We recommend extension of the fast write-off to logging equipment.

The six percentage point reduction in the income tax rate provided in 1972 for manufacturing and processing was very welcome. But it continues to be discriminatory in that, for no explainable reason, it excludes logging income. Generally speaking, for an integrated forest products company, the net effect is to increase the tax rate by about two percentage points from that for manufacturing and processing, and for an independent logger the discrepancy is six per cent. This anomaly in the Income Tax Act should be corrected. Logging is an integral part of the manufacturing and processing operation, and should be classified as such.

Government Response (Disagree)

Logging continues to be classified as a primary industry and therefore is not eligible for the special tax treatment granted to manufacturing industries. The Government's position is that special tax incentives for particular industries such as manufacturing and small businesses should exist only where exceptional national priorities or a special need can be identified. There is a concern that reducing the tax rate on logging income and extending the fast write-off provisions to include logging equipment would create a precedent and would result in increased demands from other industrial sectors for similar treatment. The indirect stimulus given to the primary industries including logging should be recognized, at least to the extent that special tax incentives result in increases in both output and purchased inputs in the manufacturing and processing sectors.

5. Recommendation

The threat of reduced tariffs for some sectors of the forest products industry deserves special consideration. Special investment allowances should be considered for the replacement or modernization of facilities threatened by tariff reductions:

- first, tax-exempt financing,
- second, relief from income tax, provided the income thereby retained is invested in new facilities or modernization in Canada.

Government Response (Agree in part)

The federal government recognizes that the use of tax-free municipal bonds in the U.S. and investment funds in Scandinavia is an integral part of the taxation systems of these countries. While there are a number of advantages and disadvantages associated with these mechanisms, the overall level of corporate taxation of manufacturing companies in Canada compares favourably by international standards. The Department of Finance has pointed out that when tariffs have been changed in the past or other countries adopted new export-oriented programs, these were followed by significant changes in Canadian tax or expenditure policy to provide for industrial adjustment and maintain competitiveness as required.

The Department of Industry, Trade and Commerce has expanded the Enterprise Development Program to include financial assistance for industrial adjustment to the new competitive environment of the 1980s. However, it is recognized that some sectors may face unusually complex adjustment problems beyond the scope of EDP and these will be addressed in the context of specific sector policy reviews. In this regard, the Minister of Industry, Trade and Commerce will develop, in consultation with industry and provinces, specific recommendations related to industrial adjustment and possible rationalization in these sectors. Discussions are expected to proceed almost immediately, pending the final outcome of the MTN.

## FOREST RESOURCE AND MANAGEMENT

### 6. Recommendation

There should be closer co-operation and co-ordination of effort amongst industry, labour and the federal and provincial governments in dealing with forest problems in order to maximize the social and economic benefits of the resource base.

#### Government Response (Agree)

The federal government fully agrees with the task force on the importance of a high degree of co-operation and consultation amongst industry, labour and both levels of government in dealing with forestry problems.

A considerable amount of consultation between provinces and the federal government on forest resource management and industrial development issues has taken place in recent years. Consultation with respect to forest management has primarily been through the Canadian Council of Resource and Environment Ministers (CCREM) and in the negotiation and implementation of DREE forestry sub-agreements with the provinces. A task force under the aegis of CCREM is looking at the current status and use of Canada's forest resource and possible measures to further protect and enhance the forest resource base. Policy recommendations related to this review are expected by June, 1979.

Discussions in the Federal/Provincial Forest Industries Development Committee (FIDC) have focused primarily on the industrial side of forestry. The FIDC, chaired by the Department of Industry, Trade and Commerce and comprising two officials from the respective industry and forestry departments of each province and one official from six federal departments, was established in 1974 to facilitate and encourage an exchange of views between provinces and the federal government on forest industry matters. A major part of the work program of the FIDC over the last few years has been devoted to a comprehensive review of the Canadian forest products industry and related forest product issues. Following an internal review of

the original terms of reference, progress to date, and future direction, all members expressed strong support for continuation of the FIDC as an effective mechanism for federal/provincial consultation in the forest products sector.

With respect to government consultations with the private sector, the work of the Forest Industries Consultative Committee established by the Department of Industry, Trade and Commerce in 1976 and the Sector Task Force itself has provided the Government with valuable and practical advice on the major issues in the forest products sector. In view of the success of these committees, the Department of Industry, Trade and Commerce intends to continue this dialogue with industry including both management and labour components although the exact form of future consultations has yet to be determined. On the forestry side, the Canadian Forestry Advisory Council for the Minister of State (Environment) has been reactivated and has been asked to review all forestry research activities in Canada and make recommendations on their organization, the adequacy of their funding, their scope and conduct.

While this list of formal consultative mechanisms already in place is quite extensive, the federal government recognizes that there is still a need to strengthen the consultative process further, particularly in the design and implementation stages of specific initiatives. At the federal level, fuller consultation will be undertaken between departments to ensure the proper co-ordination of federal activities directed towards resource and industrial development. The Board of Economic Development Ministers has recently been established for this purpose. In addition, the government has directed that in all resource development policy matters, the Department of Industry, Trade and Commerce, and other interested departments be consulted at an early stage.

#### 7. Recommendation

There should be a co-ordinated effort by the federal and provincial governments and industry aimed at:

- a) completing a survey of economically accessible forest reserves;
- b) encouraging intensive forest management on public and private lands;
- c) carrying out research required for the implementation of these measures.

Government Response (Agree)

- a) While the collection of forestry data is primarily a provincial responsibility, particularly for the detailed purposes of forest management, the federal government has an interest in an improved data base for the purpose of long-term national policy development. The Department of the Environment in co-operation with the provinces has upgraded its national forest inventory program. A Canadian Forest Inventory Committee consisting of federal and provincial officials acts as a co-ordinating mechanism to ensure uniform standards of data collection across the country.
- b) Federal expenditures for intensive forest management are primarily directed through DREE agreements with the provinces and more recently through the Canada Works programs. These expenditures have increased considerably over the last few years and the use of DREE subsidiary agreements will form a major part of the federal governments overall strategy for the forestry sector.
- c) Federal research in this area is undertaken primarily through the regional forestry research centres of the Department of the Environment.

8. Recommendations

The following specific actions should be taken to stimulate intensive forest management:

- i) Provincial governments should adopt policies providing for long-term security of tenure;
- ii) Cost allowances and taxation benefits should be made available. Industry should be permitted the right to offset forest management costs against stumpage fees for wood harvested. In order to encourage intensive forestry practices beyond those eligible for the stumpage offsets, a tax credit of 150 per cent should be provided for these additional forestry expenditures;
- iii) The provincial governments and the federal government must begin to plow back into forestry a larger share of the revenues they derive from the forest. After all, we are dealing here with a public resource;
- iv) DREE-type grants should be provided for greatly expanded tree improvement programs and nurseries.

Forest areas assigned to companies should be geographically defined to assure proper planning for harvesting. Together with other reliable sources of fibre supply, they should be capable of meeting each company's wood requirements under sustained yield management.

Government Response (Agree)

With the exception of (iii) and (iv), the above recommendations are within provincial jurisdiction and the provinces are developing their own responses to the views expressed by the task force.

Despite the widely publicized budget cuts in the Department of the Environment, total federal expenditures on forestry and forest-related activity will increase to about \$121 million in 1979/80 from about \$105 million in 1978/79, largely due to increased funding of DREE and Canada Works programs and the newly created programs to develop energy from the forests.

The need to devote more federal expenditures to forest resource development has been a key concern of the Board of Economic Development Ministers. This concern has been manifested in the recent decision of the Board to increase the funds available for resource development through DREE subsidiary agreements. This will result in further increases in federal expenditures in this area in future years.

9. Recommendations

Aerial spraying to combat budworm infestation should be continued, subject to the proviso that research be continued into alternate methods of control which are more effective, as well as environmentally acceptable. An assessment should be undertaken to determine the appropriate levels of budworm research expenditures to deal with this very serious ongoing problem.

Government Response (Agree in part)

The federal government recognizes that the spruce budworm is a major threat to the forest resource in many parts of western and eastern North America. An \$8 million Canada-U.S. Joint Budworm Research Program was established in 1977 which will enable a number of large scale, pilot and operational trials of new methodology for budworm control to go forward on both sides of the border. Canada's share of this program amounts to \$3 million, two-thirds of which is aimed at developing alternatives to chemicals as a means of budworm control.

The use of aerial spraying to combat budworm infestation is a provincial decision.

10. Recommendation

The status of government forestry services should be upgraded, to reflect the more important role which they must play in intensified forest management.

Government Response (Under review)

At the federal level, the Department of Environment is currently reviewing its role and organizational structure.

ENVIRONMENTAL CONTROL AND POLLUTION ABATEMENT

11. Recommendation

Both levels of government should apply the test of socio-economic impact assessments to determine whether the anticipated benefits of existing or proposed environmental legislation and regulations outweigh the costs.

Government Response (Agree)

The federal government will apply socio-economic impact analysis including cost-benefit analysis on all new major regulations being developed and the results will be made available to any interested persons. In addition, the federal government has recommended to the provinces that they consider a similar approach in developing their own environmental regulations.

12. Recommendations

The "two-tier" system of umbrella prohibition, under which emission penalties can be imposed even where there is no proof of a deleterious effect, should be replaced by legislation and regulations which prohibit environmental emissions only if they exceed specified standards.

The pollution aspects of the federal Fisheries Act should be separated from aspects having to do with the control of fishing. Industrial water pollution should be dealt with under a separate regulatory framework, without the threat of arrest and jail sentences which are applicable under the general prohibition section and other sections of the Act.

Government Response (Under review)

The Department of the Environment is currently reviewing all aspects of existing environmental protection legislation. Included in this comprehensive review will be an examination of the basis used in establishing standards as well as the question of dealing with industrial water pollution under legislation separate from the Fisheries Act.

13. Recommendation

There should be, in each region of Canada, a single authority whose function would be the orderly and efficient conduct of environmental management, including the harmonizing of federal and provincial environmental regulations. In view of Canada's constitutional make-up, this authority would logically be provincial.

Government Response (Agree in principle)

Wherever possible, implementation of federal environmental protection regulations is being undertaken by provincial agencies. This is currently in effect in seven provinces under provisions of federal/provincial agreements. The Department of the Environment will examine the relationships with the provinces to determine where further improvements can be made and a report on this examination is expected in the new year.

14. Recommendation

The two-year write-off for pollution control expenditures, currently scheduled to expire at the end of 1979, should be extended indefinitely to recognize that pollution abatement is a continuing responsibility where long-term planning and commitment are essential.

Government Response (Agree)

The November 16, 1978, budget extends the two-year write-off for pollution control investments indefinitely.

15. Recommendation

Application of the U.S. system of tax-exempt financing for pollution control expenditures would fill an important gap in capital funding of these mandatory outlays.

Government Response (Disagree)

While tax-free municipal bonds are not available in Canada, capital expenditures incurred to control air and water pollution qualify for the investment tax credit and the two-year write-off provisions which should lessen the capital burden imposed on the forest products industry. In addition, the Department of Industry, Trade and Commerce will broaden the Enterprise Development Program to allow firms to seek benefits from this program for environmental protection purposes. Other measures will also be considered to assist firms requiring financial assistance which cannot meet the EDP's significant burden test.

The major program of modernization in the forest industries recently announced by the Board of Economic Development Ministers provides considerable financial assistance for pollution abatement.



ENERGY

16. Recommendation

Governments should re-examine their priorities in terms of trade-offs between air emission control systems and waste fuel utilization.

Government Response (Under review)

A number of initiatives have been taken recently at both the federal and provincial levels to enhance industrial energy conservation and to encourage increased utilization of wastes for fuel. The need to examine, on an ongoing basis, the associated air emission demands to minimize the possible counter-productive effects has been recognized.

17. Recommendations

Capital intensive energy conservation and generation programs, including the use of wood waste, should be eligible for special incentives by the government to encourage their adoption.

There should be adequate government funding of research and development programs related to the increased energy self-sufficiency of the forest products industry.

Government Response (Agree)

In addition to programs already in place such as the Industrial Energy Research and Development (IERD) program, the federal government has initiated a number of new programs to encourage development of energy from the forests and to increase the energy self-sufficiency of the forest products industry. These include the \$143 million Forest Industry Renewable Energy (FIRE) program which provides capital cost-sharing assistance for the installation of facilities that use proven technology to convert forest or mill residues to energy or prepared fuels; and the \$32 million Energy from the Forest (ENFOR) program for research on innovative techniques for biomass production and conversion for fuel production.

18. Recommendation

A national program to establish energy conservation goals would be enhanced if co-ordination of efforts between energy suppliers and users at the national level were possible.

Government Response (Under review)

Under the joint sponsorship of the Departments of Energy, Mines and Resources (EMR) and Industry, Trade and Commerce (ITC), 14 industry task forces were established in 1976 with the goal of achieving a higher level of energy conservation in industry. These task forces, organized along industry sector lines including pulp and paper, are largely composed of and chaired by business officials. As well, there is an overall co-ordinating task force, the secretariat for which is supplied by EMR and ITC. In the two years of operation, the potential of each industry with respect to energy conservation has been examined and specific energy conservation targets established. Work is underway on the development of ways and means to meet these targets. The industry make-up of the task forces is also under review.

TRANSPORTATION

19. Recommendations

To make negotiations between shippers and carriers more equitable, there should be a more effective and faster working mechanism for the redress of grievances on transportation rates than is now available through the Canadian Transport Commission.

The interpretation of "captive shipper" in the National Transportation Act should be broadened to include those who are only "substantially captive".

Government Response (Agree)

Bill C-20, an Act to amend the National Transportation Act, the Railway Act and other acts, received first reading in the House of Commons on November 16, 1978. The bill addresses both concerns raised in this recommendation. With respect to the redress of grievances, the existing law requires a prima facie case to be established before the Canadian Transport Commission (CTC) will investigate an appeal regarding freight rates. An amendment proposed in bill C-20 will expedite the process by judging a prima facie case to have been made if the CTC has not indicated otherwise within 90 days of an application, and by providing for less formal procedures. It might be noted that, in the past, the CTC has acted informally (and successfully) to resolve shipper-carrier disputes before they become subject of an official appeal. In addition, Transport Canada is in the process of examining what further steps might be taken to expedite the appeal process.

Bill C-20 also proposes an amendment to section 278(1) of the Railway Act which would effectively eliminate the concept of a "captive shipper" embodied in that section, and allow the maximum rate provisions to apply to all shippers.

20. Recommendation

A formal procedure should be established between the Canadian Transport Commission and the U.S. Interstate Commerce Commission, for co-ordinating the consideration and decisions of the two Commissions in matters relating to international rail freight rates.

Government Response (Agree)

The federal government will examine means of establishing a formal mechanism to co-ordinate Canada-U.S. through-rates with a view to initiating formal negotiations with U.S. authorities aimed at establishing an appropriate international mechanism for through-rate review.

21. Recommendation

A more deliberate attempt should be made to establish what the transportation equipment requirements of the forest products industry will be, and to provide for them. This would help to avoid equipment shortages which occur periodically.

Government Response (Agree in part)

The federal government recognizes that equipment shortages, particularly during cyclical upswings in demand, is a recurring problem in the forest products industry but considers that attempts to identify equipment supply/demand trends would be more appropriately handled through direct discussions between the shippers and the carriers concerned.

Expansion of the investment tax credit to include expenditures on rail, air, water and long-haul road transportation equipment announced in the November 16, 1978, budget should be a powerful stimulus for encouraging greater investments in transportation.

22. Recommendation

Transportation policy should be utilized as a tool for regional development. But any revenue losses incurred by the carriers in so doing should be borne by the federal government and not left to the carriers to recoup as best they can from other traffic.

Government Response (Agree in part)

The Minister of Transport has introduced new legislation (Bill C-20) that implements the government's general policy to allow freight rates and passenger fares to be established by market forces and that when necessary to fulfill socio-economic objectives for carriers to transport commodities or passengers at unremunerative rates, or where expenditures on facilities or services have a non-commercial rationale, these subsidies or expenditures should be met by governments.

23. Recommendation

Establishment of a forest products terminal on the St. Lawrence River, to improve the facilities in Eastern Canada for the handling of exports, should be considered.

Government Response (Under review)

A study evaluating the economic feasibility of establishing a forest products terminal in the Port of Quebec was completed in July, 1978. This study was undertaken by Swan Wooster Engineering Co. Ltd. for the Quebec Department of Industry and Commerce, the Quebec Department of Transport, the National Harbours Board and the Quebec Lumber Manufacturers Association. A number of issues that emerged such as potential users, site selection, anticipated product volumes and possible sources of funds are currently being given closer examination by these organizations.

RESEARCH

24. Recommendation

The recognition that product-related research is best done by industry. There should be a review of such research being done by various government agencies, to determine how available government resources can be re-directed to the private sector.

Government Response (Agree in principle)

The federal government has decided to set up a successor organization to take over the two forest products research laboratories currently operated by the Department of the Environment as a means of encouraging greater industry involvement in the funding and direction of wood products research and development. Effective April 1, 1979, federal funding of these laboratories will be reduced from \$7.4 million to \$4.1 million per year. Discussions are continuing with the provinces and with industry in an effort to find alternative sources of funding to at least maintain the current level of research and to ease the transition from a government to a private research organization. The hope is that industry will respond in a positive way to this Government initiative to improve technology transfer and to speed up the commercialization of new process and product development in the wood products sector.

25. Recommendation

Increased funding by government of existing government/industry co-operative research efforts, such as the Forest Engineering Research Institute of Canada and the Pulp and Paper Research Institute of Canada. This must be coupled with an assurance of continuity of government policy and funding commitments.

Government Response (Agree in principle)

The federal government agrees with the view of the task force that joint government/industry research efforts have been fairly successful in meeting certain R & D requirements in the forest products sector.

The federal government will continue to provide one-half of the funds required by the Forest Engineering Research Institute of Canada but the need for government contributions will actually be reduced in 1979 due to the size of the surplus working capital fund carried over from 1978.

26. Recommendation

Greater financial incentives for industrial research, applied through the tax system. The measures proposed in the recent federal budget are not adequate, and should be modified to provide a significant stimulus not only to start-up but also to ongoing research and development expenditures. Further, because major innovations are so often a long-term proposition, there should be the assurance that these incentives will be available for at least 10 years.

Government Response (Agree in principle)

The November 16, 1978, budget increases the basic federal investment tax credit for R & D from five per cent of expenditures to 10 per cent and to 20 per cent for R & D investments in the Atlantic Provinces and the Gaspé region of Quebec. Small Canadian-controlled private corporations that qualify for the low rate of corporation tax will receive an investment tax credit of 25 per cent on all their R & D expenditures. The investment tax credit on R & D has been extended indefinitely.

Eligible expenditures for the investment tax credit on R & D include those of a capital nature, such as buildings and equipment, as well as current expenditures such as salaries of research personnel.

The April 10, 1978, federal budget permitted a firm to claim an additional 50 per cent deduction for R & D expenditures that exceed its average expenditures on R & D for the previous three years. This deduction is to apply for a period of 10 years.

27. Recommendation

A high level of public funding for fundamental research which is in the national interest, such as, for energy conservation, and pollution abatement.

Government Response (Agree)

The Department of Industry, Trade and Commerce, in consultation with other federal departments, provinces and industry, proposes to analyze and evaluate the current state of industrial R & D in the forest products sector including such areas as process and product development, resource utilization, pollution control, energy conservation and technology transfer in order to assess the effectiveness of current government programs and incentives and to identify alternative ways and means of meeting appropriate R & D requirements in light of current and anticipated market needs. Recommendations related to this review would be brought forward by year-end 1979.

In addition, the Ministry of State for Science and Technology is attempting to develop a plan in co-operation with provinces which would identify both university and industrial research priorities and goals. Extensive consultation will be undertaken with industry in the development of this plan.

MARKET DEVELOPMENT

28. Recommendation

Canada could benefit from easier access to the major world markets for forest products. Lower duties or duty-free entry into the United States, the European Community and Japan for all grades of paper, paperboard and wood products would enhance the opportunities for export in the years to come.

For newsprint, pulp and lumber, which comprise some 90 per cent of the industry's exports, there is virtually free trade in the major world markets, including Canada. On the other hand, government must recognize as a fact of life that reductions of Canadian tariffs on the remaining products on the industry, such as fine and tissue papers, plywood, packaging papers and boards, and converted wood and paper products, would be very damaging. The task force recommends that such reductions not be made by Canada. If, in spite of this position, Canada makes reductions, the following should be considered, to help permit those segments of the industry which would be affected to try to adapt to the new and more difficult competitive situation.

- a) Reductions should be phased in over as long a period of time as possible, and only after the industry has been given the earliest opportunity of taking advantage of the easier access to export markets, in order to give Canadian companies time to adjust to the U.S. scale of operations.

- b) The forest industry has developed in response to the conditions that existed at the time, and governments have a special responsibility to assist in adapting to changed conditions. Specific recommendations on this point are contained in the section on Investment, Modernization and Taxation.
- c) Competition law should be modified to permit companies to consider specialization agreements.

Government Response (Agree in part)

The views of the task force have been brought to the attention of the Canadian Co-ordinator for the Multilateral Trade Negotiations and, together with the views submitted earlier by the industry to the Canadian Trade and Tariffs Committee, have been taken into account in the development of Canada's position. It is expected that the negotiations will conclude by mid-1979. With respect to the specific supplementary recommendations made by the task force:

- a) An extended period for implementing tariff reductions (possibly eight years) emanating from the MTNs is being discussed but a decision has not yet been made. A final decision will depend, of course, not only on the Canadian position but also on the views of other participating countries.
- b) In addition to the possible changes in Canadian tax or expenditure policy referred to in the taxation section, new instruments have been added to the Enterprise Development Program (EDP) to take advantage of new trade opportunities and to facilitate rationalization and industry restructuring in the new competitive environment following the Multilateral Trade Negotiations. Companies requiring adjustment assistance due to the MTN will be given particular attention by a specialized panel of the Enterprise Development Board. As discussed in the government response to recommendation number 5, industrial adjustment assistance required beyond the scope of the EDP will be considered for those sectors facing unusually complex adjustment problems.
- c) Under the proposed competition legislation, there is explicit recognition of the need for specialization agreements. The terms and conditions under which such agreements might be granted would depend upon the economic benefits accruing to Canada.

29. Recommendation

We recommend the continuation of government support for market acceptance activities on export sales, particularly as related to lumber.

Government Response (Agree)

The federal government has reaffirmed its intention to continue to support and further develop such specialized marketing programs as the Co-operative Overseas Market Development Program (COMDP) for wood products. The COMDP, which is jointly funded by the Department of Industry, Trade and Commerce, the B.C. Ministry of Economic Development and the Council of Forest Industries of British Columbia, is aimed at increasing offshore exports of lumber, plywood and other wood products. The Department of Industry, Trade and Commerce is currently reviewing a request from the Council for increased federal contributions to the COMDP in 1979 and 1980. In addition, the Program for Export Market Development (PEMD) has been expanded and eligible activities have been extended to include the United States market which should be of particular benefit to the wood products industry in the B.C. Interior and East of the Rockies.

The Department of Industry, Trade and Commerce is currently assessing the offshore export interest and capability of selected lumber producers in Central and Eastern Canada. Depending on the findings of this assessment, which is expected to be completed by June, 1979, discussions will be initiated with appropriate provinces and industry associations to determine possible joint government/industry initiatives that can be taken to increase offshore exports of lumber and wood-based panel products from these regions.

30. Recommendation

The Export Development Corporation funds should not be used for the development of forest product industries in countries that are within Canada's traditional market area for forest products.

Government Response (Disagree)

The Export Development Corporation supports forest industry projects abroad because Canada does not have any control over the internal decisions of countries which wish to develop their own forest resources, or over the availability of the technology, the equipment, the equity, the financing, or the capability to market and assemble the components of these projects. There is fierce international competition for these contracts in that Sweden, Finland, Norway, and Japan all possess viable technologies and are capable of backing their exporters financially. While the Government recognizes that newly installed capacity in the traditional market areas of the Canadian forest products industry will often compete directly with Canadian exports of forest products to these markets, it is clear that these foreign projects would go forward in any event, with or without EDC financing. EDC's mandate is to ensure that the Canadian exporter of equipment and services who is competitive on the basis of price, quality, delivery and after sales service will not be placed at a disadvantage with respect to export financing facilities.



The export sales of Canadian forest equipment and services that may be lost as a result of imposing restrictions on the availability of EDC financing abroad as suggested by the task force could be injurious to the machinery manufacturing sector of the Canadian economy, particularly in terms of its growth and its impetus to generate new technologies.

31. Recommendation

The provision of funds by governments to finance exports at concessional rates can be considered an export subsidy and, in effect, a non-tariff measure. It should be dealt with as such at the current GATT Multilateral Trade Negotiations.

Government Response (Agree in part)

The negotiation of a satisfactory Subsidy/Countervail Arrangement is a priority objective of Canada in the current GATT Multilateral Trade Negotiations. The intent of such an arrangement, inter alia, would be to clarify the GATT provisions respecting the use of subsidies affecting international trade. The views of the task force in this regard has been brought to the attention of the Canadian Co-ordinator for the Multilateral Trade Negotiations.

COMPETITION POLICY

32. Recommendation

Before yet another competition bill is brought forward, a committee from the private sector be recruited by the Government, and given a mandate to study this matter and in a very short period of time make recommendations to the Prime Minister. The Skeoch Report was a major effort of a somewhat similar kind. Unfortunately, the two bills introduced subsequent to Skeoch did not reflect adequately either its conclusions or its spirit.

Government Response (Disagree)

Although a special committee from the private sector has not been established to further study and report on an appropriate competition policy, it should be noted that numerous briefs and special studies have been submitted to the federal government by industry and other interested parties over the last few years. This has resulted in a great deal of consultation between the Government and the business community, among others. It is anticipated, therefore, that an amended competition bill will be introduced in Parliament.

LABOUR/MANAGEMENT RELATIONS, UNEMPLOYMENT INSURANCE AND MANPOWER

33. Recommendation

Governments should play a secondary role in the search for solutions to labour problems. They should be a catalyst to encourage and ensure that the parties work out their own solutions. A common purpose for the forest products industry must be sought, through dialogue and consensus, rather than confrontation.

Government Response (Agree)

The federal government shares the view of the task force that the prime responsibility for resolution of labour problems must rest with management and labour and that government should play a secondary and supportive role.

34. Recommendation

The federal and provincial governments should take responsibility for ensuring a broad understanding amongst Canadians about the standards of living that the economy can sustain.

A group of economic advisers with specific expertise in the forest products industry should be appointed to produce short-term and long-term economic forecasts, and analysis of current economic matters relating to the industry. It should provide meaningful industry data that could be used as a basis for industry/labour discussions.

Government Response (Agree in principle)

The federal government will continue to promote a high level of public discussion and understanding of the major economic issues facing the country.

The Departments of Labour, Finance, and Statistics Canada, in consultation with the Economic Council and interested departments will devise a mechanism to permit the improved collection, analysis and publication of compensation trends, disaggregated by industry sectors, as a means of enabling comparability of such trends across sectors and with similar trends in the United States and report as soon as possible.

The Department of Industry, Trade and Commerce, in co-operation with industry, provinces and other federal departments and agencies will expand its assessment of current and anticipated long-term developments that impact directly on Canada's forest products industry and as in the past, will continue to make public the results of its analyses.

35. Recommendation

Governments should undertake joint consultation with management and labour prior to the enactment of legislation affecting the forest products industry.

Government Response (Agree in principle)

The federal government concurs with the view of the task force that consultations should be undertaken with affected parties prior to the enactment of legislation. For example, the Treasury Board will direct individual departments to implement consultation at the problem definition stage with interested parties on proposed new safety, health and fairness regulations where such consultation does not at present take place and where an emergency or unusual circumstance does not exist.

36. Recommendation

Governments should relate increases in public sector compensation to those in the private sector.

Government Response (Agree)

A modified bill (Bill C-22) was introduced in the House of Commons November 14, 1978, that establishes a framework by which public service rates of pay, fringe benefits, and conditions of employment can be compared to those outside of government. The legislation establishes a National Pay Research Board to collect comparative data on labour compensation in the public and private sectors and will report to an independent board of directors selected from various sectors of the Canadian economy. The board will be guided by a steering committee consisting of an equal number of management and labour appointees.

37. Recommendations

The federal government, perhaps by initiating a conference with provincial Labour Ministers, should investigate the possibility of achieving more uniformity of labour codes across Canada.

Governments should study industrial certification as a method of reducing the possibility of a multiplicity of unions representing employees at the same operation.

Government Response\* (Under review)

The Ministers of Labour and Industry, Trade and Commerce urged the First Ministers to address the need for greater harmonization of labour legislation and trade certification practices across Canada and to direct that specific initiatives be undertaken to this end.

38. Recommendation

Because of the complexities of the problems it is recommended that a government/industry/labour task force be established to study improvements in unemployment insurance and manpower programs.

Government Response (Disagree)

The unemployment insurance program has been reviewed extensively with provinces, business, labour and other groups over the last few years. As a result, a number of changes aimed at reducing abuse of the program and increasing the incentives to work have been made in the Unemployment Insurance Act. A multipartite National Advisory Council is being established to advise the Minister of Employment and Immigration on manpower policy and programs.

The federal government will consult with management and labour in the development of its employment strategy for the 1980s and has given a high priority to improving its training programs.

39. Recommendation

There are no simple solutions to the complex problems that result from plant shutdowns. Clearly, obsolete plants cannot be subsidized indefinitely. Equally clearly, the human problems must be minimized, as well as the economic problems for the municipalities in which the plants are located, which often are single-industry communities. A high degree of labour/management co-operation is required to ease the very real disruptions that such situations cause, and this must be reinforced by specific government programs to encourage manpower training and mobility.

Government Response (Agree)

The federal government is fully sympathetic to the concerns expressed by the task force and is prepared to work closely with management, labour and the provinces to minimize the serious economic and social problems created by plant shutdowns.

The federal government has expanded and revised its industrial and institutional training programs and is prepared to respond to management and union proposals for joint investigation of alternative forms of industrial training that rely more heavily on private sector participation. The flexibility of the Canada Manpower Program has been increased to cover specific situations of employment dislocation and expansion.

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\* Mr. L.H. Lorrain was unable to agree with substantial parts of the Task Force Report.

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