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



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CONSULTATIVE TASK FORCE
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CANADIAN MACHINERY INDUSTRY

May 1979

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INTRODUCTION

In February 1978, Canada's 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 and territorial 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, the Government believes that the emerging process of Government/private sector consultation is of equal value. In this regard, the federal government views the results of these consultations as a significant framework for evaluating existing policies and programs and for designing 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. On February 21, 1979, the Government released its response to the forty-six recommendations made by the Overview Committee. The Government agreed with and outlined measures in relation to the overwhelming majority of these recommendations. This document, Response of the Federal Government to the Recommendations of the Consultative Task Force on the Canadian Machinery Industry, constitutes one of the twenty-three 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. Finally, the Government recognized that in responding to the recommendations, not all participants of each task force will be satisfied. In a number of instances, dissenting reports were submitted along with or after completion of the task force report. The Government is committed to addressing all recommendations contained in these reports.

PART I

GOVERNMENT RESPONSE TO TASK FORCE RECOMMENDATIONS - AN OVERVIEW

The federal government recognizes the importance of a strong and efficient machinery industry to the achievement of Canada's social and economic development goals and has undertaken and/or is considering new initiatives to meet the concerns and objectives of this industry. These initiatives stem from a close examination by federal government departments and agencies of the measures proposed by the task force on the Canadian Machinery Industry to deal with six major issues affecting the growth of this industry: manpower policies, export promotion, import substitution, research and development, MTN adjustment and investment policies.

As many of the issues identified by this task force are common to those of the other sector task forces, the Government response, as outlined in the comments made in respect of each recommendation, includes both framework policies of general application and specific policies aimed at meeting particular concerns of the machinery industry. The Government's plan of action in this regard encompasses three broad policy thrusts:

- a) increased funding through enriched incentive programs and expanded fiscal incentives in a number of areas where there was general agreement with task forces regarding the need for a higher level of government support. This includes:
 - i) an increase of over \$70 million in the Canada Employment and Immigration Commission budget for 1979/80 for manpower programs;
 - ii) an additional \$135 million for R & D support; and
 - iii) approval for a significant expansion of federal financial assistance to industry to adjust to the MTN.
- b) the setting up of formal mechanisms to study and evaluate means of providing increased assistance to meet concerns of the task forces and to deal with major problems or issues. The creation of the Employment and Immigration Advisory Council on Labour Market Policies and Programs, the Review Committee on export promotion and the proposed co-ordinated approach by the Department of Industry, Trade and Commerce in the area of domestic marketing are examples of such initiatives.
- c) federal government commitment to engage in consultations and concerted activity with provincial authorities in areas where the two levels of government have jurisdiction. In many such areas the federal government has ongoing activities and new initiatives under consideration which can be made more effective if pursued in concert with provincial initiatives. This applies in particular, to:

- i) overtures by the federal Ministers of Labour and Industry, Trade and Commerce to First Ministers regarding the need to address the problem of harmonization of labour legislation and trade certification practices;
- ii) provincial government representation on the Advisory Committee to guide the review of government policies related to Export Promotion which is to make recommendations to both federal and provincial trade ministers;
- iii) the establishment of a federal/provincial working group to co-ordinate the study and formulation of procurement policies;
- iv) proposed discussions between the federal and provincial governments regarding possible joint activities in support of domestic marketing; and,
- v) agreement of First Ministers to collaborate in the consideration of possible further extension of R & D incentives.

The Government has attempted to respond to all of the issues and recommendations of the task force and where the action taken or contemplated does not coincide exactly with the specific type of measure proposed, it nevertheless generally meets the desired objective, even if in a somewhat different form. There are a few instances, such as certain proposed modifications of the EDP or DIP programs, where the Government considers that the recommendations cannot be implemented at this time. It is also recognized that the task force may consider that the response to the problems created by the DISC legislation in the United States may not be as positive or effective as desired. While the particular concerns of the Machinery Industry with regard to the DISC are appreciated, this issue is linked so closely to the MTN negotiations that unilateral action by Canada at this time, to attempt a final resolution of the problem could be premature or counter-productive.

By their very nature, many of the new initiatives proposed by the task force, which have been agreed to in principle, can only be implemented over a certain period of time. Some recommendations will require study in terms of their possible effectiveness, cost-benefit implications and the need to make a selection between various options. This applies, for instance, to the extension of federal manpower training programs to areas not previously covered, to the issues that will be addressed by the Review Committee on Export Promotion, as well as to suggestions pertaining to the extension of R & D assistance to other stages of the production cycle. In addition, the consideration of issues involving provincial jurisdiction can only proceed on the basis of consultations with provincial authorities. This is particularly the case for such issues as procurement policies, domestic marketing and manpower policies.

While the Labour representatives disassociated themselves from the report, the high degree of consensus between labour and industry representatives on the manpower issue has greatly facilitated the expansion of federal government support in this important area. It is also noted that following deliberations of the task force, the industry through its associations has undertaken work in cooperation with labour and the Canada Employment and Immigration Commission with regard to the development of training programs and the identification of skilled trades requirements.

PART II

DETAILED RESPONSE TO TASK FORCE RECOMMENDATIONS

MANPOWER POLICIES

1. Recommendation

As a first priority, government manpower policy should emphasize long-term training programs to produce fully trained tradesmen.

Government Response (Agree)

In the 1978-79 fiscal year the federal government provided \$83 million to support apprenticeship programs including training costs and income support. Furthermore, in the development of its employment strategy for the 1980's the Government will explore means of placing greater emphasis on on-site industrial training and continue to give increased priority to high skill training programs. In this regard, funding of \$20 million per annum will be provided in 1979/80 for Critical Trade Skills Training which will concentrate on increasing training in key high-level blue-collar skills. The 1979-80 Employment Strategy also calls for a \$20 million increase in funds allocated to the Canada Manpower Industrial Training Program (CMITP) and \$30 million in new funds to the Canada Manpower Training Program for institutional training and necessary trainee allowances for skill training to meet industrial needs.

To support long-term training programs further, the Government plans to investigate means by which federal funds can be used to maintain training levels during periods of economic slack and to provide financial support to employers in the early years of training, when their training costs are highest. It will be prepared, furthermore, to explore with management and labour means of obtaining greater private sector participation in skill training, and will examine the scope for expanding programs for training first-line supervisors and journeymen/teachers.

2. Recommendation

The task force recommends the formation of tripartite provincial committees comprising representatives of industry, labour and provincial officials with an advisory role in the formulation and implementation of manpower training policies in the educational system. The scope of the committees' activities would extend to such areas as:

- a) the orientation of students towards skilled trades, with improved career counselling services to ensure that students whose capabilities are related to skilled trades are encouraged to pursue these careers;
- b) the development of appropriate training curricula and the provision of an adequate range of machines and equipment in the schools;

- c) the establishment of standards and the recognition and certification of particular trades required in industry;
- d) the co-ordination and integration of formal training in the schools with apprenticeship training in industry, including the provision of facilities to train in-plant instructors;
- e) the commitment of funds to assist deserving students to pursue training in areas where the shortage of skills is more acute;
- f) the mounting of public information programs to create a better appreciation in society that a career in a skilled trade is rewarding and contributes significantly to the national economy.

Government Response

This recommendation is directed exclusively at provincial governments and calls for the co-ordination of manpower training programs as provided by industry, labour and educational institutions within each province. A related recommendation regarding a national committee was addressed in the response to recommendation number 3.

3. Recommendation

A national manpower policy co-ordinating committee should be established which would include representatives of the provincial committees described above, together with federal officials, responsible for developing concerted national policies particularly with regard to the interchangeability and harmonization of provincial trades recognition and certification requirements.

Government Response (Agree in part)

The federal government has taken the initiative to create the Employment and Immigration Advisory Council to advise the Minister of Employment and Immigration on the formulation of labour market policies and programs. This council will be composed exclusively of non-governmental members including representatives of both business and labour. The CEIC also supports a strong sectoral approach in the identification of training requirements, and would be prepared to participate with sectoral groups in the identification of sectoral training needs, programs, and policies. Through the interprovincial "Red Seal" program, there is co-ordination of provincial certification standards in many trades. In addition the federal and provincial Ministers of industry have urged 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.

4. Recommendation

A program should be initiated to establish and maintain a national and regional inventory of existing and required skilled manpower by trade, age and skill level.

Government Response (Agree in part)

The Government strongly supports the need to improve manpower planning. It regards an increased private sector role in the manpower planning and training process as critical to the development of adequate supplies of domestically-trained workers, and is prepared to discuss specific joint management/labour proposals regarding instruments to improve manpower planning. The Government notes, however, that the establishment and maintenance of a detailed national inventory of skilled manpower would be beyond its resources.

To facilitate the filling of more immediate manpower needs, the Government is giving a high priority to the development and installation of a computerized National Job Bank to help match supply and demand for labour on a geographical basis. It is also noted that following deliberations of the task force, the industry through its associations has undertaken work in cooperation with labour and the Canada Employment and Immigration Commission with regard to the development of training programs and the identification of skilled trades requirements.

5. Recommendation

On-the-job training must recognize the limited availability of disciplines within a particular plant. Industrial training, therefore, must be modular in concept. In this regard, inter-plant mobility may be necessary in order for an apprentice to obtain full training in his trade.

Government Response

The pedagogical aspects of training, including curricula and course organization are provincial responsibilities. However, the Government encourages any developments aimed at improving training quality, and is prepared to use its industrial training funds in a flexible fashion to support such developments. It is currently cooperating with one province to support a modular training program in several key trades. The Government will continue to support classroom teaching as an important aspect of training which can be appropriate in certain circumstances.

6. Recommendation

Financial assistance should be provided to companies to provide in-plant apprenticeship training. This would apply to firms prepared to undertake a formal approved training program and the assistance could extend to professional expertise retained by a company to set up the training program. This element of

subsidization will, to some extent, offset the risks that companies now face regarding the loss of skilled people to other employers before any payoff is obtained from the training provided. Such a measure would be particularly significant for the smaller companies that at present cannot afford the cost of apprenticeship training in view of the risks involved. The task force is of the view that this kind of financial assistance could be provided by the federal government without encroaching on provincial prerogatives in the education field. At the same time, industry would be encouraged to maintain a minimum ratio of apprentices to journeymen. In addition, the skilled training programs should include upgrading of existing employees as such employees will be a prime source of candidates for skilled trades.

Government Response (Agree in principle)

As outlined in the response to Recommendation 1, the federal government already supports apprenticeship to the extent of \$83 million in 1978-79, and has committed a further \$20 million in 1979/80 for the development of industry-based Critical Trade Skills Training with additional increases in funding levels planned for the 1980's. In addition, the Government plans to investigate ways in which funds could be used to maintain training levels during periods of economic slack and to provide financial support to employers in the early years of training, when their training costs are highest. The Government is also prepared to explore with management and labour means of obtaining greater private sector participation in skill training through concepts such as "levy-grant" training financing on the understanding that such an approach would be voluntarily sought by the industry itself and not imposed by the Government. It will also examine the scope for expanding programs for training first-line supervisors and journeymen/teachers.

7. Recommendation

The Canada Employment and Immigration Commission should review its current foreign manpower recruitment policies with a view to providing more flexibility in its program. For instance, there is a growing concern in industry over new requirements pertaining to the temporary entry of service personnel to perform repair operations on machines purchased abroad.

Government Response (Agree)

The Canada Employment and Immigration Commission has had consultations with affected companies and industry associations and has recently modified its policies to better meet the particular concerns and requests of companies who must bring in foreign service personnel to perform repair operations on imported equipment. This particular industry concern will also be included as part of a broader review by the Government of its overall foreign manpower recruitment policies.

8. Recommendation

Apprentices should be covered by a collective agreement where other employees are represented by a trade union in the plant, with special provisions covering layoffs to reduce as much as possible the disruption of an apprentice's training. Unions should also have a role in the establishment of realistic apprentice/journeymen ratios in plants under a collective agreement.

Government Response

The ultimate balance between the need for training and the protection of seniority rights is an issue which rests with business and labour. However, the federal Department of Labour has agreed to sponsor consultations between management and union representatives on matters related to collective bargaining at the request of particular sectors. Such consultations could include labour relations issues which impact on manpower training policies. In addition the CEIC has agreed to examine ways in which its industrial training funds might be used to facilitate agreements of this kind.

EXPORT PROMOTION

9. Recommendation

The federal government should examine the feasibility of introducing specific measures to counteract the effect of foreign export subsidies such as the DISC program in the United States. This could include consideration of such aspects as: (i) the effectiveness of fiscal measures put in place to neutralize the effects of export subsidies such as DISC; (ii) vulnerability to countervailing measures by Canada's principal trading partners; (iii) the possibility that foreign export subsidies may not be significantly reduced following the MTN negotiations; and (iv) the need to ensure that Canada is on as equal a footing as possible with other machinery exporting countries in providing support to its exporters. A number of alternatives were identified by the task force which could be the subject of further study including:

- a) The introduction of a two-tiered tax structure applicable to operating income on production for exports as opposed to production for the domestic market. For example, operating income on production for both the domestic and export markets could be taxed at a rate of 25 per cent but the tax on income derived from exports would be deferred for a period of time - e.g. five years, with the possible further stipulation that savings on the deferred taxes be re-invested in expansion of production capabilities or productivity improvement.

- b) In the event that the DISC program of the U.S. is retained and is shown to increasingly affect Canadian export possibilities, Canada could adopt a parallel DISC patterned closely on the U.S. legislation. This would admittedly be a simplistic and last resort approach which could be adopted if other possible measures run a high risk of countervailing action by the U.S. The U.S. government would find it difficult to impose countervailing duties against an export support program identical to their own.
- c) An indirect export promotion feature could be incorporated in a multi-purpose fiscal incentive which would provide variable benefits based on a company's incremental achievements in such areas as increased employment, productivity improvements, R & D, contribution to correcting regional imbalances, manpower training and increased exports.
- d) The DIP (IMDE) program of Industry, Trade and Commerce should be re-examined with a view to either extending similar provisions to non-defence exports or removing its inequities in terms of the exclusive advantages it provides to support the "civilian" production of companies that also engage in defence exports.

Government Response (Under review)

The federal government, in order to meet the concerns of the task forces in relation to export promotion, has established a Review Committee composed of senior businessmen, representatives from labour and the academic community with a full time secretary provided by the Department of Industry, Trade and Commerce. The committee is to conduct a comprehensive review of government policies related to export promotion with emphasis on information systems, use of public agency expertise, export incentives, consultant promotion of Canadian equipment and services, export consortia promotion, use of free consulting services as an export tool and federal/provincial co-ordination in export marketing.

An advisory committee with representation from business, labour and the provinces is to be established to guide this review. The Review Committee is to make recommendations to both federal and provincial trade ministers in December 1979.

In 1972 the federal government introduced a reduction in the corporate tax rate on manufacturing and processing income and a two-year fast write-off for equipment used in manufacturing and processing. This was partly in response to the U.S. DISC program as well as in recognition of the national priority for a strong manufacturing sector. DISC benefits were curtailed by the U.S. government in 1975. The study of the tax systems of Canada and the United States, which is included in the November budget papers, indicates that the Canadian corporate tax in the manufacturing

sector compares very favourably with that in the United States. The Government does not believe that tax policy should be used to subsidize exports and it has consistently protested the U.S. DISC program on those grounds. Any move by Canada to do the same would be inconsistent with the form and spirit of the MTN negotiations and would run the grave risk of retaliation by other countries.

In the MTN the Government is pursuing the conclusion of a code on subsidies/countervail duty which will provide improved international discipline on subsidies that affect trade including those associated with measures such as DISC. It appears that introduction of export subsidies by Canada may not be the most effective way of countering moves by other countries. Other avenues to follow should agreements fail to impose greater discipline on other countries' use of export subsidies include, among other measures, offsetting changes in duties or non-discriminatory domestic tax changes such as those introduced in 1972. The budget papers released on November 16, reiterated the Government's concern that exports from Canadian industry not be impeded by measures taken by foreign governments. It stated: "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".

It is not expected that the DIP (IMDE) program of Industry, Trade and Commerce will be re-examined at this time.

10. Recommendation

The high level of support to Canadian exporters by trade representatives in Posts abroad could be made more effective by:

- i) reducing the frequency of rotation of Trade Commissioners from one Post to another in order to provide greater continuity of assistance to exporters; and
- ii) more frequent and expanded familiarization tours of Canadian industry by Trade Commissioners to improve their knowledge of Canadian supply capabilities.

Government Response (Agree in principle)

The Department of Industry, Trade and Commerce will continue to review the operations of its foreign posts on an ongoing basis with a view to increasing their effectiveness. The rotation of Trade Commissioners as well as expanded familiarization tours of Canadian industry by trade representatives will be pursued as much as possible within the limitations imposed by present government expenditure restraints and the need to provide meaningful career development opportunities for Trade Commissioners.

11. Recommendation

There is a need for a comprehensive sourcing information system on Canadian supply capabilities, utilizing modern data handling facilities, that could serve to keep Canadian Trade Commissioners and consultants working on projects abroad informed on Canadian products available for export. The task force fully supports current efforts by the Department of Industry, Trade and Commerce to set up a system along these lines, and recommends that companies be encouraged to subscribe to the system on a fixed fee basis.

Government Response (Agree)

The Department of Industry, Trade and Commerce is currently implementing a national sourcing system to be known as the Business Opportunities Sourcing System (BOSS). The first Stage is due for completion in the summer and will establish a data base on some 15,000 companies. The establishment of the national system, Stage II, is due for completion early in 1980 and should include a data base on an estimated 30,000 companies. Further rationalization and development will be possible annually as questionnaires are updated.

12. Recommendation

Canadian consultants working on capital projects abroad involving funding by government should be required to write equipment specifications on the basis of the kinds of equipment available in Canada, wherever possible. This would counter the existing frequent practice of basing specifications on particular manufacturer's brand names (and, in many cases, foreign machinery). It is also recommended that the Department undertake a campaign to encourage consultants to follow a similar practice in the case of foreign capital projects that are not funded by government.

Government Response (Under review)

Means to achieve the objective sought by this recommendation will be considered under the comprehensive review of government policies on export promotion outlined in the response to recommendation number 9.

13. Recommendation

To encourage the smaller firms in the industry to enter into export markets and/or expand their export marketing efforts the assistance provided by the Department under shared cost programs to promote participation in trade fairs, missions and market identification visits should be increased to 75 per cent of costs for small companies as opposed to the current 50 per cent contribution. The definition of small business for this purpose could be the one adopted for special assistance measures recently announced by the Minister of State for Small Business.

Government Response (Under review)

This recommendation will be considered under the comprehensive review of government policies on export promotion outlined in the response to recommendation number 9.

14. Recommendation

The Department of Industry, Trade and Commerce should give greater visibility to its existing services to alert Canadian manufacturers of export opportunities available through multilateral (World Bank, Asian Development Bank, etc.) and bilateral (EDC, CIDA) financing agencies. This should be accompanied by a promotional campaign, in which the industry could participate, to encourage subsidiaries of multinational companies to participate more actively in export projects which do not involve Canadian government funding.

Government Response (Under review)

This recommendation will be considered under the comprehensive review of government policies on export promotion outlined in the response to recommendation number 9.

15. Recommendation

The Government has in place a program to assist in the formation of export consortia. However, the small companies face particular difficulties in engaging in concerted activities for export business in terms of lack of financial and human resources. Accordingly, it is suggested that Industry, Trade and Commerce give consideration to the possibility of providing expanded assistance to small firms in terms of expert advice and staff to assist in the formative stages of consortia.

Government Response (Under review)

This recommendation will be considered under the comprehensive review of government policies on export promotion outlined in the response to recommendation number 9.

In addition, private sector consulting councils such as the Hamilton-Wentworth Business Council are being established to enable larger firms to provide expertise and advice to smaller firms.

16. Recommendation

The federal and provincial governments should establish a regular consultative mechanism to co-ordinate their respective export promotion activities in order to maximize the total effectiveness of their program, eliminate duplication and avoid confusion on the part of industry.

Government Response (Under review)

This recommendation will be considered under the comprehensive review of government policies on export promotion outlined in the response to recommendation number 9.

17. Recommendation

It is recommended that the federal government give full consideration to proposals that will be made by the recently formed Industry Task Force on CANDU Export Marketing, in view of the significant benefits to a high-technology area of the Canadian machinery industry as a result of increased CANDU export sales.

Government Response (Agree)

Federal and provincial First Ministers in their recent economic conference urged the continued development of the Canadian nuclear industry and an aggressive export policy consistent with the Canadian position on international nuclear safeguards. In this regard, the federal government supports the overall objectives of the task force on CANDU Export Marketing and is currently considering the possible implementation of the recommendations it has made.

IMPORT SUBSTITUTION

18. Recommendation

All levels of government should agree on a "Buy Canadian" policy based on the following features:

- i) Specifications would be based whenever possible on the kinds of equipment available in Canada. (ref. Section II, Recommendation 12).
- ii) Canadian bids would be evaluated on the basis of price, quality and delivery. In this regard, while the task force does not advocate an increase in current margins of preference for Canadian content, the bid evaluation process should be such as to neutralize advantages accruing to foreign suppliers from support provided by their respective governments in terms of subsidized or abnormally low interest rates or tied and concessional financing. Further, bid evaluations by governments and public utilities should include a factor to reflect the employment benefits of "Buying Canadian".
- iii) Provincial governments should agree on a code which would eliminate "Buy Provincial" practices wherever they exist. In view of the wide dispersion of machinery needs in Canada, the extensive product differentiation characteristic of the industry, and the limitations of the domestic market for each type and size of machinery, the fragmentation of the Canadian

market that results from restrictive purchasing policies at the provincial level is viewed as a serious impediment to the growth of the machinery sector and counterproductive in terms of the expansion of machinery production capabilities in individual provinces. Such a code could include agreed-to rules governing the negotiation of offsets in the placing of contracts with plants located outside of the province undertaking the capital project.

- iv) The above rules would apply not only to major equipment items but also to components supplied by sub-contractors. This implies the imposition of "Buy Canadian" conditions on prime contractors by government agencies.
- v) Canadian industry should be encouraged to develop its own "Buy Canadian" approach parallel to that of government. This could be facilitated by joint government/industry campaigns to encourage voluntary compliance with such a policy, and possibly also by the introduction of a provision in government purchasing codes which would include the "Buy Canadian" record of suppliers as an item in the evaluation of bids.

Government Response (Agree in principle)

First Ministers in their meeting on the Economy in November 1978, affirmed that Governments would work to ensure that the Canadian market is not unnecessarily fragmented through Government procurement practices. A Federal/Provincial Working Group on Cooperation in Government Procurement has subsequently been established and is to report to Industry Ministers and First Ministers in the fall of 1979. The federal/provincial working group previously described would be in a position to consider the possibility of including the "Buy Canadian" record of suppliers in the evaluation of bids. It will also examine the scope for greater harmonization of standards and specifications to permit economies of production. It should be noted that the Department of Supply and Services has requested that major suppliers to Government have sub-contracting programs in order to optimize the participation of small business in such procurement.

The federal government recently announced a series of measures which together constitute a "National Purchasing Policy". The steps include a new Source Development Fund of \$25 million for its first year of operation. The Fund will provide the extra money needed to help Canadian firms develop products, particularly high technology items, not currently manufactured in Canada. Because of "best-value-for-money" requirements in the Government's purchasing, it has been difficult to pay the extra costs involved in developing Canadian products as sources of supply. The Source Development Fund addresses this problem.

Tied to the Fund is a new "Purchase Review System", which provides for early consultation with industry and increased co-ordination within the federal government with respect to planning of the Government's larger purchases. Other measures in the policy include increased profit rates for Government suppliers who contribute to industrial development goals such as increased employment, investment, and regional growth. The Government will also increase the value of contracts let in high unemployment areas; the membership of the Canadian Government Specifications Board, now an internal Government body, will be broadened to include representatives from all levels of Government, business, labour and consumer groups; a continued drive to involve Canadian firms in Government sub-contracting, especially small business and firms in high technology areas; and a determined effort to co-ordinate the purchasing policies of the federal and provincial governments to maximize the impact of governmental purchases on the Canadian economy.

With respect to that part of the recommendation dealing with encouragement of a parallel approach by Canadian industry to a "Buy Canadian" policy, several additional steps have been taken to meet the objectives of this recommendation:

- 1) The federal government is conducting a "Shop Canadian" program to encourage Canadians to purchase domestically produced goods.
- 2) The Government of Ontario has already adopted a similar program and discussions of the program are continuing with other provinces.
- 3) A government/industry/labour task force has been established to consider ways of maximizing Canadian industrial and regional benefits from major Canadian projects and their report with recommendations is to be presented to Industry Ministers later this year.

19. Recommendation

There is a need for a concerted approach to determine the basic factors which currently seem to favour imports over domestic production and develop appropriate means to counter these tendencies. This implies selective approaches by Government to Canadian machinery users to identify specific factors pertaining to their own companies regarding the basis for the existing propensity to import machinery as well as an assessment by machinery producers of the effectiveness of their domestic marketing strategies and practices. In this regard, machinery producers should be encouraged to participate fully in the Business Opportunities Sourcing System currently being put in place by Industry, Trade and Commerce, jointly with provincial governments, as a means of giving greater visibility to their ability to meet the wide range of needs currently supplied by imports.

Government Response (Agree)

The Department of Industry, Trade and Commerce will implement a co-ordinated approach to identifying potential domestic markets currently being met by imports and to assisting Canadian manufacturers to improve their domestic marketing practices. In addition, selective market opportunities for machinery manufacturing will be actively pursued in consultation with machinery users as part of the ongoing activities of the department. The Business Opportunities Sourcing System should prove a useful tool in this regard and Canadian machinery manufacturers will be encouraged to participate fully in the system.

20. Recommendation

Capital investment assistance should be made available to enable companies to undertake the production of products not available in Canada where such products involve a costly and time consuming "learning curve" while the new producer endeavours to reduce production costs to levels required to meet import competition. In this regard, it is considered that greater returns can generally be expected in the long run in pursuing import substitution opportunities in machinery product areas involving a significant "learning curve". An alternate approach could be the incorporation of a similar feature in the kind of multi-purpose fiscal incentive described under item 9 (c) of this report, covering export promotion.

Government Response (Agree in principle)

The federal government in its last two budgets increased its support for both capital investment and R & D through improved write-offs and higher tax credit provisions. The Government has also increased the level of assistance provided under the Enterprise Development Program through higher ceilings on loan guarantees and greater financial support for innovation and restructuring projects.

21. Recommendation

The task force recommends the extension of the Machinery Program approach to additional tariff items such as those covering equipment for mining, oil and gas exploration and refining, and certain construction equipment. Such action would remove inequities in the current tariff structure and provide assistance to industry in increasing the range of products manufactured in Canada, as well as in obtaining a larger share of the domestic market for items already produced here.

Government Response (Agree)

The Government is currently seeking the views of interested industry associations and companies with regard to the proposed extension of the Machinery Program. In addition, the Government has been holding discussions on this topic with our trading partners in the context of the MTN negotiations.

22. Recommendation

Government should expand resources available for the acquisition and dissemination of detailed information on machinery imports. This would cover such aspects as the identification of "clusters" of imports in sufficient quantities of particular sizes and types of machinery to justify economic production in Canada; the sources of imports and their destinations; price levels of imports; and, suitable approaches to interested companies in a position to capitalize on import substitution opportunities. In this regard, it may be necessary to examine the feasibility of amending the Statistics Act if it should prove to be unduly restrictive in terms of information that can be released.

Government Response (Agree)

The Government is pursuing activities of the type recommended to the extent of its resources. The identification and pursuit of import substitution opportunities is a detailed and time consuming task and the department is examining the feasibility of expanding resources available for this work. It should also be noted that primary responsibility in this area rests with the private sector and therefore the allocation of increased government resources for this work must be closely co-ordinated with individual firms in the industry.

23. Recommendation

The federal and provincial governments should co-ordinate efforts in providing a continuing program of local exhibitions and showcases to encourage the interchange of information on components currently imported that could be made in Canada. This opens up the possibility of concerted action to develop domestic sources of supply for components, particularly where total demands might be sufficient to justify economic production of certain components if users pooled their requirements. The provinces of Ontario and Quebec have mounted similar campaigns on occasion with some measure of success. What is needed, however, is a joint co-ordinated program involving all the provinces, with "pooled" funding, as well as financial contributions by the federal government. The industry could participate in cost sharing on a fee basis.

Government Response (Under review)

The Department of Industry, Trade and Commerce will implement a co-ordinated approach to identifying potential domestic markets currently being met by imports and to assisting Canadian manufacturers to improve their domestic marketing practices. As part of the co-ordinated approach the department will initiate discussions with provincial governments regarding a possible federal role in support of local exhibitions and showcases to encourage the interchange of information on components at present imported that could be made in Canada.

24. Recommendation

The Government should encourage the participation of Canadian machinery suppliers in trade fairs and exhibitions within Canada in a manner similar to the assistance provided under the PEMD program. The cost sharing could be on a lesser basis, e.g., 25 per cent of costs, with possible cost recovery provisions for subsequent sales, and additional restrictions regarding repeat participation in the same event and the size of company eligible for assistance.

Government Response (Under review)

With regard to the particular issue addressed in this recommendation, it is considered that it is one that should take provincial sensitivities into consideration, and it is proposed to initiate discussions with provincial departments. In the event that provincial reaction would be favourable, Industry, Trade and Commerce would propose to examine the need for financial support in this area, the impact of possible assistance, and the costs involved.

RESEARCH AND DEVELOPMENT

25. Recommendation

The definition of what constitutes acceptable R & D activities under existing incentive programs should be extended to cover the broad range of activities pertaining to new or improved products, processes and manufacturing techniques that are not strictly production costs. This would include, within broadly defined limits, market research and development costs.

Government Response (Under review)

The Government is examining mechanisms to provide increased support to industry for high technology activities through direct assistance programs and tax incentives.

Under the Income Tax Act, the R & D tax incentives apply to basic research, applied research and to development, i.e. the use of the results of basic or applied research for the purpose of creating new, or improving existing materials, devices, products or processes. Engineering and design activities which are undertaken directly in support of the above activities also qualify.

Tax measures to promote R & D must be generally available to all who meet the requirements. Non-tax initiatives can be much more selective. Any extension of the activities covered by R & D tax incentives can run the risk of subsidizing normal marketing, style change or other costs throughout the economy, which is not the objective of this policy instrument. As a practical matter, the tax system cannot be used selectively to identify which of such market research and development costs were involved with a product or process which is the outcome of more basic R & D.

26. Recommendation

Qualifying and reporting procedures under R & D incentive programs need to be simplified. This could be accomplished by:

- a) manufacturers providing annual projections of proposed R & D objectives, activities and expenses;
- b) an examination by Government of the achievements attained (as compared to previously stated objectives) at the time of the claim for tax credit or grant payment; and
- c) acceptance by Government of verification audits for R & D, carried out by the company's own auditors.

Government Response (Agree in part)

It is not expected that this recommendation can be fully implemented at this time. However, the Department of Industry, Trade and Commerce has carried out a study of administrative procedures pertaining to its major incentive programs and the procedures have been simplified to accelerate the processing of cases. In addition, recent changes in EDP funding assistance - to 75 per cent of direct costs, from 50 per cent of direct costs and some indirect costs - should also contribute to simplification of procedures in that only direct cost information need be provided. Any measures contemplated by part (b) of the recommendation would appear to complicate, rather than simplify, the claiming of tax incentives for R & D.

27. Recommendation

The "means test" of the federal Enterprise Development Program is considered an impediment to increased R & D activities. It should be replaced by a new approach which would put the emphasis on encouraging companies to commit more of their own funds to R & D than would otherwise be the case.

Government Response (Disagree)

It is not expected that the "means test" will be removed from the Enterprise Development Program (EDP) at this time as it serves a purpose within the context of the objectives of this particular program. However other measures to support R & D, which do not include a means test provision, e.g. tax credits and write-offs, have been introduced and/or expanded.

28. Recommendation

The requirement of the "design" component (formerly IDAP) of the Enterprise Development Program can sometimes unduly increase the costs of design work that could be undertaken by companies on their own. Firms should have the option of either hiring consultants or using their own design resources.

Government Response (Agree)

While the primary aim of the "design" component of the EDP was to enable small companies to make use of the expert advice of consultants, the program has sufficient flexibility to enable companies to obtain assistance for the use of their own design capabilities, where a case for such assistance can be made. In this regard it should be noted that EDP funding for research, design and development will be increased to 75 per cent of direct costs (from 50 per cent of direct costs and some indirect costs).

29. Recommendation

Existing R & D support by Government could be consolidated through an optional two-tiered approach allowing firms to select between:

- a) fiscal measures (write-offs and/or tax credits), or
- b) shared cost grant programs. Fiscal incentives would generally be more attractive to larger firms in view of their greater financial resources and the reduced reporting requirements, while small firms might benefit more from the earlier cash flow benefits of grant programs. In addition, fiscal incentives are of little value to firms in a temporary net loss position.

Government Response (Agree in part)

Existing Government support for R & D provides a combination of fiscal measures and grant programs. Both avenues are open to companies to optimize the amount of R & D support available. While it is not exactly the type of option sought in the task force recommendation, it nevertheless meets the overall objective of the recommendation.

30. Recommendation

The task force is of the view that a higher level of overall Government support for R & D is justified, particularly in the increasingly competitive economic situation. This implies both an increase in the basic level of tax credit from five per cent at present to at least 10 per cent and an increase in the write-off provisions from 150 per cent to 200 per cent.

Government Response (Agree in part)

The recent federal budget has doubled the basic level of tax credit for R & D from five per cent to 10 per cent for most businesses in Canada, except the Atlantic provinces and the Gaspé region where the credit has been increased to 20 per cent. In addition, Canadian controlled private corporations that qualify for the low rate of corporation tax will receive an investment tax credit of 25 per cent on R & D expenditures throughout all of Canada. The Budget of April 10, 1978 had also provided for an additional tax deduction of 50 per cent of the costs of R & D expenditures in excess of their average levels for the preceding three years. These additional federal tax incentives for R & D (beyond the basic 100 per cent write-off) now exceed \$100 million per annum. In addition, it is expected that the budget of the Enterprise Development Program for innovation grants will be increased from \$25 million to \$60 million and the cost sharing ratio by Government will be increased to 75 per cent of direct costs.

Further support for R & D will be provided through an increase in the Enterprise Development Program budget for innovation grants, from \$25 million to \$60 million, and an increase in the cost sharing ratio by Government, from 50 per cent of direct costs and some indirect costs to 75 per cent of direct costs.

31. Recommendation

The Department of Industry, Trade and Commerce should prepare and disseminate an up-to-date and comprehensive R & D booklet outlining all the forms of assistance available to support research and development activities, covering both the fiscal and grant incentives.

Government Response (Agree)

The Department of Industry, Trade and Commerce periodically issues publications outlining assistance programs to industry and will be updating these booklets as proposed initiatives are implemented.

MTN ADJUSTMENT

32. Recommendation

On the basis of the above considerations, the task force urges the Canadian Government to develop a "contingency plan" to deal with special problems of adjustment, affecting both employment and/or production, in selected areas such as those described above. Such a plan should also be announced early enough to permit effective action before decisions made to abandon production in Canada become irrevocable.

Government Response (Agree)

The Government has already approved a significant expansion of federal financial support programs to help Canadian industry adjust to the new world trading environment following the MTN. Such assistance covers strengthening of existing programs and establishment of new programs in several key areas such as:

- 1) Financial Restructuring
- 2) Innovation
- 3) Marketing
- 4) Sales Promotion
- 5) Management Services

In addition, funds will be provided for consulting assistance and for direct loans and loan insurance for restructuring proposals by firms injured or likely to be injured as a result of the MTN. Further, a special panel within the Enterprise Development Board will be created to ensure that full EDP facilities are available for MTN adjustment cases. Finally, the Government has recently announced further additions to the industrial adjustment program. These extend the benefits and services available to designated industries.

PART III

RESPONSE TO REPRESENTATIVES OF LABOUR

The International Association of Machinists and Aerospace Workers (IAMAW) and the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW) submitted reports to the task force on the Canadian Machinery Industry, which follow, and set out the concerns of these organizations and the areas of disagreement in relation to the recommendations contained in the task force report.

The essential concerns expressed by the labour representatives are summarized below followed by the Government response.

I - INDUSTRY STRUCTURE

1) Comment

In the view of Labour the task force report fails to deal adequately with the major issues of industry structure (ownership and control scale, specialization) and the report, therefore, lacks a strategic framework within which the sector can be improved.

Response (Agree in principle)

The Government views the consultative task force exercise now reaching its conclusion as simply the first phase of an ongoing consultative process with both industry and labour which is expected to deal with major issues facing the machinery industry. In this regard the Government acknowledges that significant structural issues remain to be addressed and that new initiatives will be required to facilitate financial reorganization mergers and specialization in order to overcome problems of fragmentation and small scale. Accordingly the Government is committed to the pursuit of policies and programs aimed at assisting and expediting this restructuring process and will welcome further consultations with labour on this issue.

II - FISCAL INCENTIVES

2) Comment

In the view of the labour representatives the task force recommendations represented a request for further subsidies of various kinds that would simply add to the after tax profits of corporations and would not result in significant benefit to Canada. Task force recommendations dealing with export incentives and incentives for increased R & D were particularly criticized in this regard.

Response (Disagree)

The Government believes that fiscal incentives can be used as one of a number of instruments designed to improve the environment for private sector investment. In this regard it should be noted, for example, that the Government's recent tax incentives can only be utilized by companies if they agree to invest in new plant and equipment or additional R & D activity. Such investment should result in more competitive industries better able to take advantage of new or existing opportunities both in the domestic and export markets and create employment.

However, as noted in the material accompanying the November budget and in the federal government's response to the Overview Committee, the use of special incentives must be balanced against other functions of the tax system (such as its contribution to social policy and the need for adequate revenues to undertake functions essential to Canada's economic growth and social well-being), and against the possibility that the desired results can be achieved through other means.

The response to the Overview Committee also indicated the federal government's belief that particular investment incentives can be effective tools of economic management and that there is also a role for broad-based monetary and fiscal policies in order to maintain a growth in aggregate demand consistent with adequate real growth and satisfactory cost and price performance. The recent federal budget contained both types of measures.

III - SKILLED MANPOWER

The labour representatives have provided the task force with a number of specific recommendations aimed at correcting many of the basic institutional and industrial problems currently affecting skilled manpower availability. In this regard the Government believes that it is appropriate to point out that both the representatives of industry and labour shared a substantial commonality of views in regard to this issue. In fact the majority of the final recommendations to emerge in the task force report dealing with manpower policies were based directly on the very substantial contribution made by labour.

The individual recommendations together with the Government responses follow:

Recommendation

1. Secondary Schools

- a) Guidance counselling should be upgraded. Students should be encouraged to choose a career based on their talents rather than the social or financial status of the job. Students should be given a clear picture of the job opportunities and the requirements, wages and employment conditions in the various jobs.
- b) Job training programs should be offered in the first year of the secondary school.
- c) High standards should be maintained for technical teachers and their skills should be upgraded from time to time to keep up with new technology.
- d) Students should be given a broad-based training so that they can adapt to changing technology in future years. They should be taught maths, sciences and drafting as well as the basic bench, machine and equipment work that is related to the trade.
- e) Apprenticeship training should be recognized as part of our educational system.
- f) Shops in secondary schools should be equipped with basic modern machinery and technology.

2. Community Colleges

- a) A two- or three-year, broad-based, work-stimulated training program consisting of machine and equipment shops, bench work, drafting and design, and science subjects.
- b) Community colleges should be staffed with competent instructors and equipped with modern machines and technology.

3. On-the-Job Training

- a) Graduates of Secondary Schools (technical trades training) and 2-3 years related training in a Community College would be given up to 2 years of credit towards a 4-year apprenticeship program.
- b) At least 2 years of on-the-job training would be necessary to qualify for such trades as tool and die maker, general machinist, fitter, maintenance trades (electrician, millwright, pipefitter, etc.), instrument mechanic, electronic technician, and so forth.

- c) Successful graduates would receive a Certificate of Competency in the trade.
- d) A special fund should be established for skilled trades training into which manufacturing companies would contribute a payroll tax. Apprenticeship training costs should be paid from this fund to employers who establish and operate a recognized apprenticeship training program as well as for a recognized retraining and upgrading program when new technology is introduced in the plant.

Government Response (Agree in part)

These recommendations, for the most part, pertain to areas in which the prime responsibility rests with provincial governments (i.e. issues related to secondary school education, community colleges, and trades certification).

However, the federal government views as extremely important, the development of domestic training for high-level blue-collar skilled trades. To this end, the 1979-80 Employment Strategy has allocated \$20 million for Critical Trade Skills Training, aimed at stimulating training in certain "key" blue-collar skills. Further funding increases for this initiative are proposed for the 1980's. In addition, the federal government's funding of institutional training includes the classroom portion of apprenticeship, which will amount to over \$100 million in the 1979-80 fiscal year.

Regarding the establishment of a training fund for high-skilled trades, the Government is prepared to explore with management and labour means of obtaining greater private sector participation in skill training through concepts such as "levy-grant" training financing, on the understanding that such an approach would be voluntarily sought by the industry and not imposed by the Government.

Recommendation

4. General

- a) We need a co-ordinated national manpower training investment policy that will train Canadian youth and adults and produce an adequate supply of skilled tradesmen.
- b) This program should involve federal and provincial governments, the education institutions, labour and management.

Government Response (Agree)

As noted, in the recommendation, development of a co-ordinated approach to manpower training will involve the cooperation of governments and the private sector.

Strong federal-provincial co-ordination of manpower training is already present through the existence of Federal-Provincial Training Agreements, which are regularly negotiated between the federal government and each province. These Agreements establish the basis for federal-provincial cooperation in the training process. In addition, the two levels of government cooperate in manpower planning on an ongoing basis through federal-provincial bodies in each province (called "Manpower Needs Committees" in most provinces).

The federal government strongly supports an increased private sector role in determination of manpower policy and in the advising on training and educational requirements. It believes that the most effective approach to greater government/private sector cooperation will be to develop improved sectoral consultations and greater government/private sector cooperation at the provincial and area levels. It is the federal government's intention to recommend strongly that business and labour have direct inputs into the Federal Provincial Manpower Needs Committees.

The Government is also introducing direct measures to strengthen private sector involvement in the training process, and to provide additional support to provincial apprenticeship programs. In the development of its employment strategy for the 1980's, the Government will explore means of placing greater emphasis on on-site industrial training and continue to give increased priority to high skill training programs. In addition to the \$83 million in support of provincial apprenticeship training and the \$20 million for critical trades skill training provided by the Government in 1979/80, a \$20 million increase will be allocated to the Canada Manpower Industrial Training Program (CMITP) and \$30 million in new funds will be provided to the Canada Manpower Training Program for institutional training and trainee allowances for skill training to meet industrial needs.

Finally, at the level of national consultation, the federal government has established the Employment and Immigration Advisory Council, outlined in response to the previous recommendations, to advise the Minister of Employment and Immigration on the formulation of policies and programs pertaining to the labour market.

4. Recommendation

- c) All manufacturing industry trades, such as tool and die makers, machinists, fitters, maintenance trades, instrument mechanics, electronic technicians, etc., should be designated as apprenticed trades. The standards for each trade should be uniform in each province so that a journeyman in one province is recognized as such throughout Canada.

Government Response (Agree in principle)

While trade certification is a provincial responsibility, there is already co-ordination of provincial certification standards in many trades through the interprovincial "Red Seal" program. In addition, federal and provincial ministers of Industry have urged First Ministers to address the need for greater harmonization of labour legislation and trade practices across Canada and to direct that specific initiatives be undertaken to this end.

4. Recommendation

- d) The Government should maintain an inventory of employees in the skilled trades - the number in each trade by age groups. Industry should provide five-year manpower forecasts so there can be better planning of our manpower training programs.

Government Response (Agree in part)

The Government strongly supports the need to improve manpower planning. It regards an increased private sector role in the manpower planning and training process as critical to the development of adequate supplies of domestically-trained workers, and is prepared to discuss specific joint management/labour proposals regarding instruments to improve manpower planning. The Government notes, however, that the establishment and maintenance of a detailed national inventory of skilled manpower would be beyond its resources.

To facilitate the filling of more immediate manpower needs, the CEIC is giving a high priority to the development and installation of a computerized National Job Bank to help match supply and demand for labour on a geographical basis. It is also noted that following deliberations of the task force, the industry through its associations has undertaken work in cooperation with labour and the Canada Employment and Immigration Commission with regard to the development of training programs and the identification of skilled trades requirements.

4. Recommendation

- e) The Government should pay for moving allowances and short-term rental allowances to encourage moving to suitable jobs.

Government Response (Agree in part)

Federal Government grants to encourage moving to suitable jobs have in fact been in place for a number of years. Such grants are currently available to cover both relocation costs and the costs of travel to seek work, while federal tax regulations allow relocation costs as a deduction from taxable income. Furthermore, the program of mobility grants (the Canada Manpower Mobility Program) is being reviewed with the aim of increasing its flexibility and adaptability to the expected needs of the 1980's.

ANNEX I

LIST OF TASK FORCE MEMBERS
ON THE CANADIAN MACHINERY INDUSTRY

Chairman W.L. Mallory
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NOTE:

*Representatives of Labour did not wish to be identified with this report.

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