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RESPONSE OF THE FEDERAL  
GOVERNMENT TO THE  
RECOMMENDATIONS OF THE  
CONSULTATIVE TASK FORCE ON

# THE CANADIAN NON-FERROUS METALS INDUSTRY



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TO THE RECOMMENDATIONS OF THE  
CONSULTATIVE TASK FORCE  
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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 Non-Ferrous Metals 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 objective of the Report of the Consultative Task Force on the Non-Ferrous Metals Industry was:

"to provide a basis for formulation of public policies which permit the optimal future development of an internationally competitive non-ferrous metals industry".

In its report the task force noted an urgent need for policies and action to cope with the problems facing not only the non-ferrous metals sector, but Canadian industry generally. In particular, the task force was concerned about improving the business and investment climate for industry and about reviving the level of exploration for new non-ferrous metals mines in Canada. To this end, the recommendations focussed on four major areas: investment climate; resource processing, transportation and trade; environment, research and development; manpower and labour.

The Government recognizes the importance of the non-ferrous minerals and metals industry to the economy of Canada and has taken action in a number of areas in response to the recommendations contained in the task force report. The primary focus has been on Government initiatives in the fiscal, environmental, research and development and manpower areas in order to provide a better business climate for Canadian industry in general and to encourage investment in mineral based resource industries in particular.

In reviewing the report, the Government noted the emphasis placed on identified weaknesses in exploration and new mine development and in the trade position of the semifabricated materials sector.

To assist the industry in exploration and mine development, the Mining Association of Canada's recommendations regarding write-off for mining assets were accepted and were contained in the November 16, 1978, budget. As well, the Government now permits the costs of clearing and removing overburden at a mine site to be written off at a 100 per cent rate. The enhanced investment tax credit, proposed in the November 16, 1978 budget, will also aid non-ferrous metals, particularly that part of the sector's operations that are located in areas eligible for the higher tax credit rates of 10 and 20 per cent.

In recognition of the importance of R & D to a healthy domestic industry, increased incentives for R & D in the private sector were provided in the budget.

The coordination and duplication of programs are of 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 federal environmental regulations will be transferred to the provincial governments. In addition, the federal government will be meeting with provincial governments shortly to discuss the issue of further processing. At the federal level, the Board of Economic Development Ministers has been created to coordinate the activities of the various federal departments.

In response to other recommendations the Government has also undertaken: to improve anti-dumping and countervail procedures and administration; to examine the problem of labour mobility; to expedite resolution of rail transport rate appeals; and to expand and improve labour training and certification.

Although action has been taken in a number of areas in response to the task force recommendations, the Government was unable to respond in all cases. As the Second Tier committee noted, "if all the tax recommendations contained in all the task force reports were implemented at the same time, there would be such a massive reduction in government revenues that the results would be unacceptable". Accordingly, some recommendations will have to await future budgets; whereas others, such as those dealing with inflation accounting were not implemented since the Government believes the existing level of corporate taxation does not differ greatly from what would exist under a comprehensive system of inflation accounting. The Government will, however, continue to support the development of appropriate inflation accounting systems in the private sector.

Although the labour representative dissociated himself from the task force report, a number of questions of common interest were noted in his letter to the Chairman (Appendix VIII: A Report By The Sector Task Force on "The Canadian Non-Ferrous Metals Industry", pp. 26 refers). These issues are responded to in Part III of this report.

The Government appreciates that many of the issues are still of major concern to the industry and would like to continue attempts to develop reasonable solutions to these and to other issues which may arise in the future. In this regard, the federal government continues to attach a high degree of importance to the consultative process itself and would like to maintain an open dialogue among management, labour and both levels of government on these matters.

The individual recommendations of the task force and the Governments response are recorded on the following pages.

PART II

DETAILED RESPONSE TO TASK FORCE RECOMMENDATIONS

NEW INVESTMENT OPPORTUNITIES AND COSTS

1. Recommendation

The background papers supplied to the various task forces correctly identify Canada's uncompetitive cost structure as a major problem. The recent decline of the value of the Canadian dollar, painful though it may be in terms of our pride and living standards, does correct this problem to some extent. In fact, for many companies devaluation provides the margin of survival. We recommend that the government accept the verdict of the exchange markets and that artificial means not be used to increase the value of the Canadian dollar.

Government Response (Agree in principle)

The Government continues to follow its policy of allowing the exchange rate to be determined by market forces. However, it may intervene to dampen short term fluctuations.

For example, in the face of unusually low levels of capital inflows through traditional channels in recent months, the government decided to undertake foreign borrowing to assist in the financing of the current account deficit. This financing is not, however, intended to defend any particular level for the Canadian dollar. It has enabled the Government to replenish its holdings of official international reserves and has thereby enhanced its ability to maintain orderly trading conditions in the foreign exchange market.

The Government recognizes that the decline in the exchange rate helped reverse the loss of competitiveness which Canada suffered earlier in the decade. Many firms are better able to compete in the domestic market and, indeed, are increasing sales in foreign markets.

2. Recommendation

The fact that the costs of new construction are higher in Canada than elsewhere is a serious barrier to new investment. This may be partly inevitable due to our climate, but should be mitigated to the extent possible. We therefore recommend removal of all sales taxes (federal and provincial) on all materials and equipment forming part of new production facilities.



Government Response (Agree in part)

The sales tax on construction materials was reduced from 11 per cent to five per cent in 1974 and most construction equipment is now exempt from sales tax. Machinery and equipment used directly in the production of manufactured goods are exempt from federal sales tax.

The Government does not believe that sales tax on construction materials should be reduced further at the present time. The extension and enrichment of the investment tax credit proposed in the November budget acts to lower the costs to industry of investment in non-residential construction in much the same way as would a reduction in commodity taxes. Moreover, the investment tax credit has the desirable feature of applying to investments in machinery and equipment as well.

3. Recommendation

Except for the mining sector, we do not consider that nominal corporate tax rates in Canada are excessive. We do believe, however, that only real earnings should be taxed, and make specific recommendations in this regard in this section of the report.

Government Response

See response to Recommendation 6 below.

4. Recommendation

The taxation of mining income across Canada is chaotic and perverse. It has resulted in a situation in which development of all but the richest discoveries would be uneconomic even when demand and prices improve. As a result, exploration activity in this sector is far below the levels needed to sustain present production, let alone provide for growth. We, therefore, strongly support the recommendations of the Mining Association of Canada in this regard, and recommend that this issue be addressed by the federal and provincial governments as a matter of extreme urgency.

Government Response

See Response to Recommendation 5 below.

5. Recommendation

Obviously a high and sustained level of mineral exploration effort is essential to the continued long-term existence of much of this sector. Unless measures are taken to revive exploration in Canada, the rest of the recommendations in this report will be largely irrelevant, since much of the industry will have no future.

Government Response (4 and 5 Agree in principle)

As noted in the Government's budget of November 16, 1978 the federal and provincial finance and resource Ministers have just concluded an in-depth review of the tax situation in mining. The industry's views on federal and provincial tax policies were addressed in this review.

In his budget speech, the Minister of Finance said:

"Federal and provincial finance and resource Ministers have just concluded an in-depth review of the tax situation in mining. The federal tax system has been found to be basically sound. However, some changes could be introduced to spur the development of new ventures. I want to take the lead here. Following our recent meetings, I feel confident that provinces will do their part."

The new measures included in the federal budget of November 16, 1978 are as follows:

- The development expenses may be written off at 100 per cent. Previously these costs could be written off at a maximum rate of 30 per cent.
- The capital cost of new social assets and townsite facilities for new mines will be eligible to earn depletion, at a rate of \$100 for every \$300 of expenditure.
- As well, the two year write-off of water and air pollution equipment has been extended indefinitely.

Much of the Mining Association of Canada's brief recommended a series of actions to be implemented by provincial governments.

Mining will also benefit significantly from the extension and enrichment of the investment tax credit proposed in the budget.

The federal government is committed to the spirit of co-operation with provincial governments established in the recent review of resource taxation and will not take action to offset the benefits from tax reductions that provinces may introduce.

Regarding stability of the mining tax system, the Minister of Finance indicated in his budget that it was not the Governments' intention to initiate tax system changes that would create uncertainty.

These incentives, coupled with ongoing federal/provincial consultation in the mining sector, address the concerns noted in these Non-Ferrous Metals Task Force recommendations.

CORPORATE LIQUIDITY AND NEW EQUITY CAPITAL

6. Recommendation

We recommend that only real earnings be taxed, and that corporations be permitted the optional use of LIFO inventory accounting instead of the present inventory tax credit. This method of calculating taxable (and reported) income is available to firms in our major competitor country the United States, and a comparable benefit is available in the United Kingdom through an adaptation involving a special inventory increase deduction. The lack of this in Canada is considered a competitive disadvantage not only for metal producers but more particularly for fabricators and secondary manufacturers. The only plausible argument that has been advanced to us against the proposal is that it would reduce government revenue in the short term. According to the Economic Council of Canada, taxation of inventory gains has been running at the rate of more than \$1 billion per year, only 30 per cent of which is offset by the inventory tax credit. Governments must recognize that it is unreasonable to expect the private sector to provide the economic growth Canada requires while its financial strength is being drained by taxation of capital through overstatement of real profit. In any event, if the government inflation targets are met, the cost in terms of tax revenues will not be large. To argue that government cannot afford the revenue loss resulting from use of LIFO is also to argue that government cannot afford to meet its own inflation targets.

Government Response (Disagree)

The Government does recognize the distortions that arise from use of historic cost accounting in an inflationary environment. It has come to be generally accepted that inflation not only leads to an overstatement of profit because of first-in first-out inventory and historic cost depreciation accounting, but also to an understatement of profit because accounting conventions overstate the real cost of corporation borrowing during an inflationary period.

When the implications of debt financing are recognized, along with the full implication of accelerated capital cost allowances, the investment tax credit and the three per cent inventory adjustment, the overall level of Canadian corporation taxation does not differ greatly from what it would be under a comprehensive system of inflation accounting. Again, the need to maintain tax system stability indicates caution in any early movement to a comprehensive system of inflation accounting. There would also be many considerations in such a move related, for example, to the changes in tax burden on particular sectors in both directions that would result, to tax complexity, to the interaction between the corporate and personal tax, and to the harmonization of Canada's tax system with that in other countries.

The Government will continue to support the development of appropriate inflation accounting systems in the private sector because of the importance of accurate information on business operations for the efficient operation of the economy, and the possibility that the existence of such information would allow a fairer distribution of the total corporation tax burden among sectors.

7. Recommendation

For the same reasons, we recommend indexing of fixed assets for capital allowance purposes. (According to the Economic Council's studies, the revenue impact of this proposal would not be profound). Strong reservations on this point by one task force member must be recorded here. He felt that any indexing method could lead to passive acceptance of inflation and preferred a recommendation that Government seek policies to reduce and limit the debilitating impact of this factor.

Government Response (Disagree)

See response to Recommendation 6 above.

8. Recommendation

Changes in Government policy and national attitudes towards profits are badly needed to create the necessary climate of confidence. The earning of profits commensurate with the risks involved must be - and must be seem to be - a socially desirable objective. We recommend that government take the lead in creating a climate in which successful investment is applauded, not condemned.

Government Response (Agree)

The Government has acknowledged the importance of the private sector and believes the private firm operating in the market place is the key to economic development. Government can aid in the identification of certain opportunities and in ensuring an environment conducive to entrepreneurship. The November 16, 1978 Budget provides a number of incentives for investment in order to realize an improved business climate.

9. Recommendation

While it is not an important source of government revenues, the new capital gains tax structure is a serious impediment in terms of the perception of risk investment by Canadians. As long as inflation persists, it will remain a tax on capital and not on real gains. Collective saving, through private pension and other plans, is not taxed on realization of either income or gain, until the funds are

withdrawn for consumption purposes. This reduces the general tax bias against saving and aids capital formation. The same treatment ought to be available to individuals for private saving through equity investment. If the recommendations of the Bryce Commission are politically unacceptable, we recommend that: a) indexing of the capital cost base be permitted; and b) tax free roll-overs (i.e. deferral of tax by reinvestment) be allowed for all investors, not only for owner-operated businesses and firms. Canadian content rules could accompany such adjustments.

#### Government Response (Disagree)

The concept of a capital gains tax is to apply the tax on a disposition of a capital property. Roll-over rules already apply in some cases when family business assets are passed down from parent to child and are in place in order to prevent a forced liquidation of a family business on the death of a parent. If roll-overs or deferrals were permitted for voluntary disposition, problems might arise since there could be almost an unlimited deferral of tax. The federal government believes that tax equity requires inclusion of capital gains in income for tax purposes. Any removal or reduction in the taxation of capital gains would add greatly to the complexity of the tax treatment of this income source and other sources of income.

### GOVERNMENT OPERATIONS

#### 10. Recommendation

The task force agrees that new legislation governing competition would be desirable, but believes that the most recent draft (in common with its predecessors) is completely at odds with employment and efficiency objectives. It does not come to grips with the original intent of the Economic Council in recommending revisions to the Combines Act. The proposed Competition Act generally ignores the reasonable recommendations made in the Skeoch-MacDonald report, and the general thrust is at variance with the findings of the Bryce Commission. It concentrates on an apparent lack of competition within an industry producing products from a common material and ignores the real competition that exists between industry sectors producing products with a common use from differing materials. It would promote industrial fragmentation and remove control of economic policy from politically accountable government departments and agencies. Unless new competition legislation can be harmonized with the government's economic policies and the needs of the Canadian economy in the 1980's, the task force supports the recommendations of the cement and concrete industry that it be abandoned. The present law at least has the virtue of familiarity.

Government Response (Disagree)

The merger provisions of Bill C-13 instruct the Competition Board, in determining whether it should prohibit a merger, to consider certain factors, including the degree to which acceptable substitutes for products supplied by the parties to the merger or proposed merger are, or are likely to be, available.

It is not the intent of Bill C-13 to promote fragmentation. The merger provisions contained therein resolve conflict between the objective of effective competition and that of increased efficiency in favour of the efficiency goal.

11. Recommendation

The task force agrees that, wherever possible, industrial development should not unduly degrade the natural environment or cause harm to indigenous wild life. On the other hand, industrial activity, wherever it occurs, is bound to have some environmental impact, and a proper balance must be struck between the needs of people, new employment opportunities and the desire to preserve an unspoiled environment. Recent proposed land use regulations (e.g. Baker Lake, N.W.T.) tend to ignore these very real trade-offs. The task force recommends that, in establishing priorities, economic objectives be given full consideration, except where severe and irreparable damage to the local environment or wild life would clearly result.

Government Response (Agree in principle)

The Government attaches great importance to environmental considerations in the north, but also recognizes the economic benefits to be realized from industrial development.

The Department of Indian and Northern Affairs was instrumental in the recent formation in conjunction with industry, of a consultative committee established to develop a northern mineral strategy. Economic objectives in the North, including Baker Lake, N.W.T., were reviewed. The committee's report is under consideration.

12. Recommendation

Industry is increasingly concerned about the high cost of satisfying the demands of government for information and compliance. The task force recommends a reduction of the paperwork and other responsive burdens imposed by government on industry. Co-operative ventures, such as the present consultative exercises, can be among the more useful forms of contacts, providing that a real two-way communication flow results.

Government Response (Agree)

The Government has responded by:

1. Appointing a controller charged with responsibility for effecting an immediate reduction in the cost to business of supplying information to the federal government; for assisting departments in measuring the paperburden they create; and, for establishing methods for control and reduction.
2. Reducing statistical requirements: CALURA amendments will reduce the number of firms required to report from those with a half-million revenue and a quarter million assets to those with \$10 million revenue and \$5 million assets.

To the end of March 1979, it has been estimated that Canadian business has saved approximately \$100 million, primarily as a result of the Government eliminating and simplifying 1.9 million forms. Of even greater importance is that other proposals already approved but requiring changes in legislation, redesign of surveys, and changing of complex procedures, are expected to result in even greater savings in both dollars and irritation to the business community.

FURTHER PROCESSING - CONCENTRATES TO PRIMARY METAL

13. Recommendation

Canada should continue to seek elimination or significant reductions of foreign tariffs and quotas on all non-ferrous metal products up to and including at least the primary stage.

Government Response (Agree)

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 representations made by the industry to the Canadian Trade and Tariffs Committee, have been taken into account in the development of Canada's position. The negotiations are expected to conclude by mid-1979.

14. Recommendation

The Government of Canada should not assist the construction of resource processing facilities in other countries to produce commodities produced in Canada and traded in the international market, without providing at least equivalent assistance to domestic industry.

Government Response (Disagree)

EDC supports projects abroad because Canada does not have any control over the internal decisions of countries which wish to develop their 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 with many countries possessing viable technologies and capable of backing their exporters financially. While the Government recognizes that newly installed capacity in the mining industry's traditional market areas will often compete directly with Canadian exports to these markets, it is clear that these 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 services will not be placed at a disadvantage with respect to export financing facilities. The export sales of machinery and services that may be lost as a result of placing restrictions on EDC financing 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.

15. Recommendation

Research on improvement of processes by private industry should be encouraged to take advantage of future opportunities in Canada for further processing as well as provide requisite adjustments to higher energy prices and a changing international environment.

Government Response (Agree)

Please refer to responses on research and development below.

FURTHER PROCESSING - PRIMARY METAL TO SEMI-FABRICATED PRODUCTS

16. Recommendation

The auto pact continues to be an important facet in the development of semi-fabrication based on the total North American market. In view of the present trade deficit in auto parts, the Government should be encouraged to continue its worthwhile efforts to increase parts manufacturing in Canada.

Government Response (Agree)

The Government has received the Reisman Study of the automotive industry in Canada and has responded to the study in detail. The Government wishes to increase R & D in the Canadian automotive industry since, for example, R & D expenditures by the Big Three in the U.S. amounted to approximately \$3 billion in 1977 with an additional \$245 million being spent in the U.S. by the 21 leading parts suppliers. In comparison, total automotive R & D expenditure



in Canada in the same year amounted to about \$8 million. As a first step, automotive parts manufacturers will be given access to the Enterprise Development Program (EDP) for innovation projects of exceptional benefit that would not otherwise likely to be undertaken in Canada. As well, the Government is urging the major motor vehicle manufacturers to assign product lines and associated R & D to Canada and to actively develop suppliers in Canada for technology-intensive parts and research and development leading to technology developments. The Government expects the major manufacturers to stimulate the development of a high technology parts industry and to contribute to a reasonable overall balance in the sector.

17. Recommendation

The present duty drawback procedure is too complex and should be simplified to facilitate development of import-export opportunities for Canada. The Government should hasten the proposed inward processing order, which would permit the importation free of duties and taxes of materials to be used in the manufacture of goods destined for export.

Government Response (Agree)

This order was made 1 March 1979, and is to be in operation up to 1 January 1982.

It allows the remission of customs duty, at the time of import, on imported goods and materials that are used in the manufacture of products for export. Imported fuel and equipment used in processing are not eligible for duty remission. Exports must take place within three years of the import of goods and materials used in making them.

Under this new system the financial burden to those importing for further processing and export is much less than has been the case hitherto. This is especially important for small business which often has cash flow problems.

18. Recommendation

DREE assistance as a development incentive particularly for fabrication and manufacturing should be maintained where regional disadvantages, long development lead times, or initial start-up risks may require some back-up for private capital. Investors should be given the alternative of some form of tax exemption in place of direct subsidy. This would be a more motivating incentive and a less costly one to administer, yet it can still vary for different parts of Canada according to regional economic development needs. As a policy matter as much value should be placed on the preservation of existing jobs as on the creation of new ones.

Government Response (Agree in part)

Concerning the recommendation that tax incentives should be offered as an alternative to the present system of regional development grants, the Government agrees that tax incentives are effective, but holds the view that such a policy would not, in practice, be feasible. Among the principal advantages of the system of direct grants is the fact that, compared to the alternative tax incentive mechanism, its costs and benefits are clearly visible and it is relatively easily administered. To offer tax incentives on a selective basis would require more financial information from applicants than the present system. If the program were offered on an unselective basis, its costs would be prohibitive, as many firms would receive windfalls gains. Another advantage of grants is that they provide direct, front-end cash flow, which is of particular value to new firms.

However, the Government agrees with the task force that tax incentives are an essential instrument of regional development. Some recently instituted tax incentives, such as the investment tax credit, the employment tax credit and the R & D tax credit, have a regional dimension in their design. Although these are not administered by DREE, they are applied more generously in the RDIP designated regions.

The preservation of existing jobs is a very important concern of the Regional Development Incentives Program and, in fact, some consideration is being given to increasing the rate of incentives for modernization. However, this is not the sole purpose, or indeed, even the major purpose of DREE's incentives program. Its primary objective is to attract new investment and new jobs to slow growth areas. A number of provincial programs and federal programs take a more direct responsibility to preserve existing jobs.

19. Recommendation

Any reduction or removal of Canadian tariffs on semi-fabricated non-ferrous metal products should be proceeded with selectively and over an extended period of time in order to provide opportunity for the industry to adjust properly to import competition from lower cost countries. Accurate commodity classification on customs documentation is essential to the preparation of accurate import statistics for proper monitoring and decision making.

Government Response (Agree)

Reductions in tariffs emanating from the multilateral trade negotiations, which are expected to conclude in mid-1979, will be phased in over an extended period, probably eight years. In addition to the gradual phasing-in of tariff reductions, industrial support programs are being reviewed and the Enterprise Development Program broadened to provide increased financial assistance for industry restructuring to meet future opportunities, including

those arising from the MTN. That part of the recommendation dealing with customs documentation will have to be addressed further. The department is now involved in attempting to clarify and define import classification. The Department of Industry, Trade and Commerce is, as well, initiating a review in consultation with the provinces and industry of the whole question of further processing particularly in the light of the outcome of the Multilateral Trade Negotiations with a view to identifying opportunities and formulating approaches by Government which would be supportive of Canadian industry in realizing them.

20. Recommendation

Provincial government initiatives to restrict products made of non-ferrous metals for reasons other than health or safety, clearly inhibit this sector. Restrictions and taxes on beverage cans are an example. A positive policy of levying high returnable charges to prevent littering would be preferable to outright prohibition in that the market is permitted to make the necessary adjustments.

Government Response (Under review)

Recommendations of the task force have been brought to the attention of provincial governments, some of whom are preparing responses to task force recommendations that come within their jurisdiction.

TRANSPORTATION COSTS

21. Recommendation

The non-ferrous metals industry should pay rail freight rates in keeping with transportation costs of its products, and should not be expected to assist in subsidizing other industries' transportation costs. Sector assistance, notably for grain products, should be drawn from general government revenues if public policy requires that subsidies be paid.

Government Response (Agree)

The Government's policy is to rely primarily on market forces to establish freight rates, except where, for socio-economic objectives, carriers are required to carry goods at unremunerative rates. In these cases, the additional costs incurred by carriers should be borne by Governments. As part of the solution to the revenue shortfall experienced by railways in transporting grain at statutory rates, the Government is undertaking a number of programs to support railways in this area, including the provision of hopper cars, rehabilitation of some branch lines, abandonment of other uneconomic branch lines and rehabilitation of old boxcars. The Government has, in Bill C-20 (an Act to amend the National Transportation Act, the Department of Transport Act and the Railway Act) stated a principle that where a decision of government(s)

requires that the achievement of social and economic objectives takes precedence over commercial viability, the benefits and costs involved will be identified and any relevant additional costs assumed by government(s) concerned.

## 22. Recommendation

Rail movement is the most efficient means of handling bulk products. In remote areas, it should not be necessary to build-in the additional infrastructure costs of an alternative mode of transportation, such as construction or upgrading of roads and highways, in order to obtain competitive rail rates.

### Government Response (Agree)

If rail rates are deemed by users to be excessive due to lack of competitive pressures, there are two methods available for appealing these rates to the Canadian Transport Commission. Through the introduction of amending legislation (Bill C-20, first reading on November 16, 1978), the Government has taken steps to ensure that appeal procedures are not unduly burdensome. The CTC, for its part, has attempted to expedite such appeals through informal initiatives. A key principle of Bill C-20 is that, where effective competition exists, transportation rates and service will be established through the working of the market mechanism, but where no effective competition exists, transportation rates and services will be so regulated as to give transportation users the same protection as they would have if effective competition existed.

## 23. Recommendation

Possibilities for large size plants for the manufacture of semi-fabricated products at more remote locations in Canada which have advantages of materials availability, are limited because rail freight rates to the central North American markets are higher than for equivalent distances in the United States. Initiative should be taken to encourage more widespread industrial development by establishment of more uniform freight rates regardless of the nature of the commodities transported. Initially subsidized developmental freight rates should be established which would provide a reasonable return to the carrier as local semi-fabricating industry develops and volume increases.

### Government Response (Agree in principle)

In making comparisons between Canadian and U.S. freight rates, attention should be paid to the significant differences in the railway systems, including market characteristics, operating conditions (terrain, weather) and the financial viability of the railway companies. Discrepancies in rates are often largely accounted for by these factors. It is recognized that the setting of international joint through rates may present special problems, and Transport Canada is at present examining the feasibility of establishing a suitable procedure for settling disputes in this area.

Given the Government's policy of relying primarily on market forces to establish freight rates, it would be difficult to establish a system of "more uniform freight rates regardless of the nature of commodities transported", as suggested. A trend in this direction would ignore the different costs associated with carrying different products.

The recommendation also proposes subsidized developmental rates to support local semi-fabricating ventures. While railways at present offer developmental rates in some areas, these rates are compensatory, as required by the Railway Act. Any new program of subsidized rates, which would necessarily involve additional Government expenditures, would have to be very carefully scrutinized to ensure that freight rates were in fact the determining factor in plant location and that the proposed operation had reasonably good prospects of being self-supporting without relying indefinitely on Government assistance. The comments noted in paragraph 21 are relevant here as well.

#### TRADE POLICY AND TARIFFS

##### 24. Recommendation

Foreign export and other subsidies are detrimental, and Canada should seek their elimination. More uniform application, in conformity with GATT rules, of countervailing duty and anti-dumping sanctions is important to continuing international competitiveness of the industry.

##### Government Response (Agree)

Canada has been participating actively in the MTN in the development of a Code on subsidies/countervail which, inter alia, will seek to clarify and improve the provisions of the GATT regarding subsidies affecting international trade. As regards safeguard action, the Government is committed to taking expeditious action on injurious imports compatible to our international rights and obligations. This is being accomplished by improving and simplifying anti-dumping and safeguard procedures.

##### 25. Recommendation

Although Canada should seek reciprocal removal of tariffs and quotas up to the primary metal stage, caution is recommended in reduction of tariffs on semi-fabricated products, wire and cable. Complete elimination of tariffs on these products would have a perverse impact and cause a decline in investment and employment in this segment of the industry in Canada.

##### Government Response (Agree in principle)

The views of the task force also have been brought to the attention of the Canadian Co-ordinator for the Multilateral Trade Negotiations and have been taken into account in the development of Canada's negotiating position.

26. Recommendation

International commodity arrangements for price stabilization and market allocation hold no practical advantages for the Canadian industry. Canada would be under extreme pressure to bear a disproportionate share of production curtailments during periods of oversupply. The task force recommends that participation in any international group be solely for purposes of collection, dissemination and improvement of statistical data on the industry.

Government Response (Agree in principle)

Canada's current policy in this area is flexible and pragmatic and has a demonstrated bias favouring information exchange and consultations over more elaborate arrangements for non-ferrous metals which we export. This orientation is expected to continue in the foreseeable future. It is, however, in Canada's best interest to keep all policy options open in order not to limit our ability to react effectively to unforeseen circumstances that may arise.

SCIENTIFIC AND TECHNICAL/ENVIRONMENTAL PROTECTION

27. Recommendation

The federal authorities, in co-operation with the provinces, should set minimum standards for environmental quality to be enforced by the provinces. These standards would be used only for ruling out the grossest kinds of abuse.

Government Response (Agree)

Refer to 30 below.

28. Recommendation

The federal authorities should take the lead in research into environmental matters in co-operation with industry and the provinces. This would include developing improved analytical techniques, control technology and, most important, methods for assessing actual risks to people and the environment. Such an effort would be multidisciplinary.

Government Response (Agree in part)

The federal government will continue to operate its environmental R & D facility. However, rather than increasing its levels of direct R & D, action is underway by the Government to promote a higher level of R & D activity in the private sector. Environmental research now qualifies for assistance under the Enterprise Development Program.

The Government is seeking to develop mechanisms for more effective transfer of technology from Government laboratories to the private sector.

29. Recommendation

The federal and provincial authorities should jointly establish a mechanism for evaluating and comparing costs and benefits resulting from activities of the non-ferrous metals industry. The provinces would conduct the evaluation and, based on the results, give specific directions to the company or industry involved. The Social Economic Impact Assessment (SEIA) approach currently being experimented with by the federal government is a recognition that the side effects of regulatory actions must also be evaluated. The task force approves this approach, but suggests that SEIA is being applied to broad regulations whereas situations in the non-ferrous metals industry require site-specific evaluations and environmental regulations that provide opportunity for an important input from people most directly affected. This should be mainly a provincial responsibility.

Government Response

See response to Recommendation 30 below.

30. Recommendation

It is most important that federal and provincial governments co-operate in directly reducing the number of agencies, or at least co-ordinating and reducing the amount of bureaucratic overlap, which industry now faces in the process of obtaining environmental approval for new projects. An appreciation of the cost of unnecessary delay time in a project development schedule is felt to be an essential element in government-industry co-operative involvement. Accountability should be focused in one overall project - responsible department and a time frame should be specified in the law or regulation.

Government Response (29. Agree in principle)  
(30. Agree)

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

In response to the Overview Committee, the federal government has noted that it is conscious of the difficulties underlying concerns regarding the serious limitations in utilizing cost-benefit analysis in determining the adequacy of certain regulations. Significant difficulties do exist in assigning quantitative values that reflect a broad societal consensus. The Government is committed therefore to making such studies publicly available prior to implementing regulatory change that might arise from them. This will give interested parties a chance to publicly question the values so assigned.

The Department of 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.

Wherever possible, implementation of federal environmental protection regulations is being undertaken by provincial agencies; in seven provinces this is accomplished under the provisions of federal/provincial agreements. As well, the Department of Environment is examining current relationships with provinces to determine improvement in these arrangements to respond to the concerns of industry regarding overlap and will report on this examination later this year.

#### RESEARCH AND DEVELOPMENT

##### 31. Recommendation

The Government of Canada should expand wherever feasible the contracting out of research to many times its current level. This is important to aid in establishing levels of Canadian industrial R & D commensurate with those in other leading industrial nations, as well as to maintain the capability of research teams where the industrial sponsor's financial capacity is temporarily diminished.

##### Government Response (Agree)

The Government has expanded the contracting out policy and has encouraged government departments to look to the private sector for meeting their science and technology requirements rather than performing them in house.

##### 32. Recommendation

A basic and generous tax credit for industrial R & D capital and operating expenditures must be the keystone of any successful incentive program; it should include provisions for carrying forward unused credits and might include regional differentiation of credits allowed.



Government Response (Agree)

The Government recognizes that R & D is vitally important to the Canadian economy. The Government is committed to increasing R & D expenditures as a per cent of GNP.

In the area of taxation the Government has moved to support this commitment. A 100 per cent fast write-off of R & D costs has been in place for many years. In April 1978, the Government introduced a deduction of 50 per cent of incremental R & D costs and also announced a package of direct grants and subsidies for industrial R & D. In the November budget the basic tax credit for this activity was doubled from five to 10 per cent generally and increased to 20 per cent from 10 per cent in the Atlantic Provinces and the Gaspé.

Small corporations will now qualify for a 25 per cent credit.

The tax credit applies to both capital expenditures such as machinery and equipment used in R & D as well as to current expenditures such as salaries of research personnel. Any tax credits not claimable in the year they are incurred may be carried forward to reduce tax for up to five years.

These measures should result in a marked increase in industrial R & D and go a long way towards meeting the intent of this task force's recommendations.

33. Recommendation

To assist in the effective use of new professional and technical R & D manpower, and to retain in Canada trained personnel, there should also be investment in intellectual capital. Three levels of federal "manpower" grants are suggested to allow: students in professional and highly skilled technical courses to be recruited to industrial R & D installations for a period of one or more years; Canadian graduate students to be hired for a period of up to three years; hiring of other qualified researchers or student summer help where this increases the existing R & D complement at a location. These grants will be particularly important to smaller businesses which might otherwise never have access to such facilities.

Government Response (Agree in part)

The budget measures of November 16, 1978, will promote increased R & D in Canada and, therefore, the demand for skilled manpower.

The opening up of federal laboratories to the private sector, including the expansion of the NRC Program of Pilot Industry/Laboratory Projects and the proposal by the Ministry of State for Science and Technology for establishment of NRC Centres of Excellence, will be useful to the private sector especially smaller business.

The Scientific and Technical Employment Program (STEP) was announced on April 10, 1978 to stimulate the creation of permanent jobs in the private sector for graduates with scientific and technical backgrounds who are currently unemployed. This program is administered by the National Research Council (NRC) and will pay a portion of the salary of any such individuals employed by industry, especially to work on technical activities which are new initiatives for the companies concerned.

#### MANPOWER AND LABOUR

##### 34. Recommendation

A problem of increasing importance is labour retention, particularly at Canadian mining operations and more particularly at those remote from urban centres. There is often an excessively high turnover rate for a significant portion of the work force in these locations. In order to encourage the movement of people from highly concentrated urban areas in the South, where unemployment is high, to productive employment in the North, where development potential exists, the Government should give serious attention to some form of personal income tax relief for employees in remote areas of Canada who remain on the job for a period of two years. A graduated scale for such a "Northern allowance" is recommended, varying with the degree of isolation and latitude, e.g. 40 per cent remission above 60th parallel, 60 per cent above Arctic Circle, 100 per cent above 70th parallel. (One suggestion was made that the incentive scale be graduated on the basis of temperature gradient, by isotherms rather than geographic parallel; another that the 30 per cent additional provincial tax proxy payment be eliminated for taxpayers in the Yukon and N.W.T., which revenue loss would be small, by simply removing a single line in the personal tax form).

##### Government Response

See response to Recommendation 35 below.

##### 35. Recommendation

In recognition of equity and for better manpower planning, the industry should have assurance from regulators that benefits to compensate for isolation and higher living costs in remote areas, such as subsidized meals, housing, fuel and transportation, will not be deemed to be taxable.

Government Response (34 and 35 Under review)

The Income Tax Act generally provides that free board, lodging, transportation and other such personal benefits from employment are taxable. However, an exemption was allowed for persons working at remote locations far from their homes who have married or equivalent status. In 1978 the exemption was extended to apply to all workers in remote work sites. Typical remote work sites are logging camps, construction projects and drilling locations.

Representation made to exempt all employee benefits from taxation for persons employed in the Northern Territories are being studied as part of a broader review of the Taxation of Employee benefits. However, in the interest of equity of taxation this blanket exemption appears to be questionable.

36. Recommendation

Government policy, in conjunction with industry and labour co-operation, should encourage the upgrading of skills, training and retraining of all personnel working in the industry. Government should facilitate the certification of completed training for individuals to encourage both stability and mobility of the work force in the industry.

Government Response (Agree)

Through its Canada Manpower Training Program, the Government strongly supports the training and retraining of Canadians. The Government also regards increased private sector participation in the manpower, planning and training fields as critical to the development of adequate supplies of domestically-trained workers. Reflecting this, the CEIC is in the process of significantly increasing its emphasis on industrial training and apprenticeship. The 1979-80 Employment Strategy calls for a \$20 million increase in funds allocated to the Canada Manpower Industrial Training Program (CMITP) together with a further \$20 million for the development of Critical Trade Skills Training, which will concentrate on increasing training in key high-level blue collar skills. Further increases in funding are planned for the 1980's.

The Government also 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 earliest 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.

The Government also supports a portable wage subsidy plan whereby a wage subsidy is "carried" by employees who are laid off as a result of industrial unemployment dislocations, to facilitate their employment elsewhere. This should increase labour mobility of personnel into the mining sector.

While trades certification standards are a provincial responsibility, inter-provincial inconsistency in these can inhibit geographical mobility. Through the inter-provincial "Red Seal" program, there is co-ordination of provincial certification standards in many trades. Furthermore, federal and provincial Ministers of Industry have 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. The Ministers have indicated their willingness to participate in a task force to prepare proposals in this area for consideration by first ministers in 1979.

37. Recommendation

There is much current debate in the area of fringe benefits on the question of pensions, in particular greater ease of portability. The task force noted that the question of more portable pensions has particular application to the circumstances of the non-ferrous metals industry.

Government Response (Under review)

The subject of portable pensions has been discussed in the past and will be reviewed again in the near future, particularly its application in the non-ferrous metals industry. However, an early resolution to the problem is unlikely.

38. Recommendation

Where new mines in remote locations may be accessible by special transportation, encouragement should be given to work scheduling and ferrying arrangements to allow the work force to continue living in an existing stable community and permit the better utilization of existing social infrastructure.

Government Response (Under review)

This recommendation must be addressed primarily by provinces. However, the federal government now permits investment in equipment for rail, air, water and long-haul road transportation to qualify for the basic seven per cent investment tax credit which will, in some cases, provide encouragement to provide commuter facilities.

39. Recommendation

The Government should continue to review the operation of its unemployment insurance program, particularly to eliminate the systematic abuse of this system which is otherwise socially useful and meets needed objectives.

Government Response (Agree)

The Government, after hearing views from many parties including those of labour which were opposed to U.I. amendments, has introduced amendments to the Unemployment Insurance Program. These changes to the U.I. Act (Bill C-14) included five measures intended both to reduce the disincentives to work and to encourage workers to establish more stable work patterns and develop longer work attachments to the labour force. These changes are: higher entrance requirements for individuals with repeat claims in a 52-week period, additional entrance requirements for new entrants and re-entrants to the labour force, an increase in minimum insurability (20 hours of work per week will now be needed for such work to be insurable), a reduction of weekly benefit rate of 60 per cent of average insurable earnings, and a recovery of a portion of U.I. benefits from high income claimants.

40. Recommendation

The task force recommends that the federal government give increasing recognition to the serious cost implications to business, and the damaging effect on the industrial competitiveness of Canada's industry, of its numerous pacesetting initiatives in labour matters.

Government Response (Agree)

The Government has introduced legislation which would link compensation levels in the public sector with those of the private sector. Their legislation is intended to not only ensure equivalence in private and public sector wages, but also to protect public sector wages from lagging behind the private sector in a way which would be disadvantageous to public servants. In defining wage settlements in the public sector, the Government will continue to rely primarily on collective bargaining.

PART III

RESPONSE TO LABOUR'S RECOMMENDATIONS

1. Recommendation

The urgent need to resolve federal-provincial jurisdiction wrangles over the taxation of mining companies so that a dependable and stable tax environment is established.

Government Response (Agree)

The federal and provincial Finance and Resource Ministers concluded an in-depth review of the tax situation in mining, wherein the crucial importance of stability and certainty in matters of resource taxation were emphasized. The federal tax system has been found to be basically sound. In his November budget, the Minister of Finance indicated that some changes could be introduced to spur the development of new ventures and took the lead by proposing various tax measures and also expressed his confidence that provinces would do their part.

The federal government intends to pursue the spirit of federal-provincial co-operation established during the review and will not take action to offset the benefits from tax reductions that provinces may introduce. It is not the Government's intention to initiate tax system changes that would create uncertainty.

2. Recommendation

The adoption of a national transportation policy which will lend itself to the most efficient use of our transportation systems in the interests of Canadian industrial strategy.

Government Response (Agree)

Bill C-20 (an Act to amend the National Transportation Act, the Transport Act, the Department of Transport Act and the Railway Act) had first reading on November 16, 1978, in the House of Commons. This Bill lists a number of principles governing transportation policy which reaffirm the government's commitment to an effective and efficient transportation system. Some of the key principles are:

- a) commercial viability will be an objective both in the operation of transportation services and in the provision of facilities and services;
- b) where government(s) decides that any such service and/or facility is required for the achievement of national or regional, social and economic development objectives, these objectives will take precedence over those of commercial viability whenever the two are in conflict.

- c) where a decision of government(s) requires that the achievement of these social and economic objectives takes precedence, the benefits and costs involved will be identified and any relevant costs assumed by the government(s) concerned.
- d) where effective competition exists, transportation rates and services will be established through the working of the market mechanism, but where no effective competition exists, transportation rates and services will be so regulated as to give transportation users the same protection as they would have if effective competition existed.

The Government would welcome comments from labour regarding Bill C-20, noting those points where labour feels the policies enunciated in the Bill are inadequate.

### 3. Recommendation

A stronger government role in the fields of research and development, and the implementation of new technologies as they relate to this and other industries.

#### Government Response (Agree in principle)

The federal government has recently announced new long-term policies and immediate measures aimed at increasing the level of R & D. The thrust of these measures is aimed at increasing the level of R & D performance by the private sector, particularly by Canadian industry. The Government has increased its role by:

- 1) the increased funding of direct assistance programs in 1979 and 1980. For example, \$35 million in additional funds, at more liberal conditions, was extended for innovation grants under the Enterprise Development Program.
- 2) A commitment to establish university-based "Industrial Innovation Centres".
- 3) Increased funds for university research grants.
- 4) Expansion of the National Research Council (NRC) Program of Industry-Laboratory Projects (PILP) in order to facilitate movement of the results of government research into the marketplace.
- 5) Establishment of regional "Centres of Excellence".

4. Recommendation

A unified approach by governments, industry and labour to the problems of resource-based communities in remote regions of the country.

Government Response (Agree)

The federal government recognizes the unique problems of resource-based communities and their inhabitants in remote regions of the country. The recent budget contained measures aimed at improving transportation and the residential infrastructure for isolated communities; however, problems associated with isolation, higher-cost-of-living and living in a single-industry community are also very real and deserve further consideration.

The Government places great importance on the consultative process as a forum to discuss and develop a rational, unified approach to a number of issues, including those of resource-based communities in remote regions of the country. The Government is prepared to consider further action as required and would welcome the continuation of a common approach to these issues.

5. Recommendation

(Raised as a question of common interest...)

The effects of foreign ownership on the nature and structure of our industrial development.

Government Response

The performance of foreign-owned subsidiaries and of all Canadian companies, and the question of their adherence to principles of international business conduct and of good corporate citizenship as set out by the Government of Canada are under continuing consideration by the Government.



ANNEX I

LIST OF PARTICIPANTS IN CONSULTATIVE TASK FORCE  
ON THE CANADIAN NON-FERROUS METALS INDUSTRY

Chairman Mr. A. Powis, Chairman and President  
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Secretary Mr. E.J. Ward, Director General  
Resource Industries Branch  
Department of Industry, Trade and Commerce

MEMBERS

Mr. H. Corrigan  
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Alcan Canada Products Limited

Mr. J.B. Campbell  
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Canadian Bronze Company Limited

Mr. H.T. Fargey  
Executive Vice-President  
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Mr. S. Brown  
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Doehler Canada Limited

Mr. D.R. Knowles  
Chief Engineer and Director  
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Mr. D.A. Thomas  
President  
Federated Genco Limited

Mr. C.W. Pritchett  
Treasurer  
Federated Genco Limited

Mr. J. McCreedy  
Chairman and Chief Executive Officer  
Inco Metals Company

Mr. W.E. Stracey  
Chairman and Chief Executive Officer  
Indal Limited

Mr. J.H. Lutley  
President  
Johnson Matthey & Mallory Limited

Mr. B. D'Aragon  
President  
Pole-Lite Limited

Mr. A. Piché  
President  
Reynolds Aluminum Company of  
Canada Limited

Mr. R.A. Farrant  
President  
Sentinel Aluminum Products Co. Limited

Mr. I.G. Stott  
President  
Stott Aluminum Corp. Ltd.

\*Mr. E.G. Docquier  
President  
United Steelworkers of America

Prof. H. Drechsler  
Faculty of Commerce  
University of British Columbia

\* Note: Mr. Docquier dissociated himself from the task force report.

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