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## **Federal Government Response to the Recommendations of the Forest Industries Advisory Committee**

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Government  
of Canada

Regional Industrial  
Expansion

Gouvernement  
du Canada

Expansion industrielle  
régionale

**Canada**

FEDERAL GOVERNMENT RESPONSE

to the

RECOMMENDATIONS

of the

FOREST INDUSTRIES

ADVISORY COMMITTEE

February 1984

EXECUTIVE SUMMARY

The Forest Industries Advisory Committee composed of senior business and labour representatives from across Canada, was formed in February, 1983 to provide continuing advice and guidance to the federal government in its efforts to help the forest industry and its employees respond to changing conditions in world markets. The high vulnerability of Canadian producers to increasingly intense foreign competition in world markets was highlighted in a report presented to the federal government in August, 1983 on the state of the Canadian forest products industries.

The recommendations submitted last August were far reaching and covered the full range of government economic development policies related to industrial and regional development, trade, labour adjustment, innovation and Canada's forest resource base. Two major themes emerged: 1) the need for greater investments in productivity and cost competitiveness to meet world competition; and 2) greater attention to individual needs of displaced workers and dependent communities affected by technological change and industrial renewal.

The Government agrees with the Committee on the importance of maintaining a constructive environment among business, labour and government in dealing with forest industry issues. As part of its commitment to this consultative process, the Government has undertaken to respond to each of the recommendations made by the Forest Industries Advisory Committee. In addition, this Committee was established on an ongoing basis and the Government would be pleased to discuss other issues not fully dealt with in the August report such as labour/management relations and the prospects for secondary wood and paper manufacturing.

The Department of Regional Industrial Expansion will support the tripartite assessment of comparative manufacturing costs of forest products in major producing areas of the world as recommended by the Committee in order to develop a common data base on which management, labour and government can agree. assessmt

The need for improved productivity and measures to facilitate labour adjustment is widely accepted within the federal government as well as in the forest industry. The capital investments required to bring the Canadian industry up to the competitive standards set by its major competitors in the United States and Scandinavia are substantial. The Government agrees that the responsibility for this investment is located within the private sector and that government can only play a facilitating role. An investment climate of confidence and stability is essential.

In response to the current world oversupply situation and the Committee's concerns over the effects of government supported increases in new pulp and paper capacity, the Department of

Regional Industrial Expansion has initiated a critical review of government assistance to all sectors of the forest industries at this time. The prime objective of this review is to develop guidelines for departmental assistance.

The development of new products and new processing technologies is an essential component of any strategy designed to improve productivity and international competitiveness in Canada's forest industries. The Government provides support to the forest industry mainly through direct assistance to the three cooperative research institutes in the forest industries and support for innovation projects at the company level. The Department of Regional Industrial Expansion has contributed \$17 million under the Special Recovery Capital Projects Program towards the construction of new pulp and paper research facilities in Vancouver and expansion of existing facilities in Pointe Claire. The Department has also financed a series of regional seminars to encourage greater application and use of microelectronic technologies in the wood products sector.

Trade policy and market development considerations are of strategic importance given the importance of exports to the forest industries. Market access, particularly to important markets in the United States, Europe and Japan must continue to be defended during a time of increased protectionist sentiments in these countries. The Department of Regional Industrial Expansion has initiated discussions with all industry trade associations and interested provinces with a view to identifying joint government/industry action that can be taken to improve the offshore export performance of the wood products industry across Canada.

The Government is highly sensitive to the concerns raised by the Committee on labour adjustment to modernization and technological change. This is also a priority area for the Government and the Government would be very receptive to any specific recommendations made by the Committee to improve human resources planning within the industry as well as government adjustment policies and programs.

A more detailed response to each of the Committee's recommendations is outlined in the following sections.

## TASK FORCE RECOMMENDATIONS

### A) To strengthen the financial position of the forest industry

- (i) Recommendation: The Advisory Committee is deeply sceptical of the wisdom of government making major capital grants for the expansion of manufacturing capacity in pulp and paper. We believe that expansion should occur only in response to market forces.

Grants for modernization and productivity improvement, whether in pulp and paper, wood products, or secondary wood manufacturing, are not so disruptive in the market place. Nevertheless, because they are by nature discriminatory and discretionary, they may be no more equitable than grants for expansion.

Response: The Department of Regional Industrial Expansion is now reviewing the question of direct financial assistance to the forest products industry for increased capacity. While it is still too early to judge the results of this analysis, the Government is sensitive to the impact that government support for new capacity can have on existing operations in Canada particularly in light of the apparent world over capacity situation and intense foreign competition. The major objective of this exercise is to provide guidelines for departmental programming assistance to the forest products industry.

- (ii) Recommendation: A new, national program to promote industrial restructuring and development in Canadian industry in general was announced in April by the Minister of Industry, Trade and Commerce/Regional Economic Expansion. The Advisory Committee would like to have the opportunity of commenting on the details of this program when they are available, but before they are finalized.

Response: Bill C-165 establishing the Industrial and Regional Development Program was passed by the House of Commons on June 29, 1983. This program provides for support over the whole range of industrial development needs: industrial infrastructure, industrial innovation, plant establishment, modernization,

expansion, marketing and industrial restructuring or renewal. It provides for the first time, levels of financial assistance to all areas of the country while, at the same time, providing for the varying needs and opportunities of Canada's many regions through a development index based on economic disparity.

The Department has reviewed the details of this program directly with the Committee at its meeting on September 27, 1983 and looks forward to further discussions over the coming months.

- (iii) Recommendation: The instability of exchange rates has eroded confidence, and made forward planning treacherous, particularly in capital-intensive, export-oriented industries like forest products. Now that inflation is declining throughout the industrial world, we would hope it may become possible to achieve greater stability in exchange rates. We therefore urge that governments, including Canada's, make that a high priority.

Canada's industrial cost structure and productivity performance suggests that today, a level of 80¢ - 82¢ for the Canadian dollar vis-à-vis the U.S. dollar expresses fairly accurately the relative competitiveness of the two economies. Clearly, in forest products, any early return to par or even close to par would bring financial disaster.

Response: Since June 1970, the position of the Government has been to allow the external value of the Canadian dollar to move in response to shifts in the underlying conditions of supply and demand. There is no attempt by the authorities to achieve or maintain a particular exchange rate, although the authorities do intervene in the market to promote orderly trading conditions. While there may be some truth to the statement that instability of exchange rates in recent years has "made forward planning treacherous", it should be recalled that this instability is largely a reflection of instability in underlying international economic conditions: divergent and large changes in relative inflation rates, large movements in interest rates, oil shocks and so forth. As inflation is wound down internationally and as progress is made in the industrial world in returning to a sustainable pattern of economic growth, greater exchange stability should ensue.

Over the near term, at least, financing methods are available by which the exchange rate uncertainty associated with many international transactions can be reduced or eliminated. It may also be noted that in recent years the Canadian dollar has been relatively stable against the U.S. dollar when its experience is set against that of the major overseas currencies, and consideration is given to the fact that the U.S. market accounts for the bulk (two-thirds) of our exports of wood and paper products.

- (iv) Recommendation: That the unlimited use of investment tax credits (ITC) earned after April 19, 1983 and the new three-year carry back and seven-year carry forward rules for ITC earned after April 19, 1983 be extended to pre-budget investments.

Response: These measures are designed to encourage investment in new productive equipment as part of the Government's Economic Recovery Program. The extension of these provisions in respect of investments undertaken before the budget would have, at best, a modest effect on new investment. It would be difficult to justify the application of an incentive designed to encourage new investment to expenditures made before the new measures were introduced.

- (v) Recommendation: That allowable capital losses incurred as a result of fluctuating rates of foreign exchange be deductible against income from any source.

Response: Under the existing rules, where a loss is incurred by reason of the repayment of a debt in a foreign currency, the loss is ordinarily characterized as a capital loss which, like any other capital loss, can be offset only against capital gains. This rule is a fundamental principle of our system of taxing capital gains and is designed to prevent discretionary dispositions to create capital losses for tax purposes. In general, capital losses are generated by fluctuating market conditions and it appears that foreign exchange losses are no different in this respect. Nevertheless, this suggestion will be given further consideration.

- (vi) Recommendation: That related companies be allowed to file consolidated tax returns.

Response: The pressure for consolidated returns is to permit losses of one company to offset the income of another within a corporate group and to permit loss companies to take advantage of the investment and other

tax credits. There are several problems associated with the introduction of consolidated reporting for tax purposes. The proposed rules would inevitably be very complex and would run contrary to the Government's initiatives concerning tax simplification. As well, a system of consolidation would have serious implications on the allocation of taxable income amongst provinces and could not be implemented without extensive consultation with the provinces.

In addition, several representations have suggested that a system of consolidation would benefit large conglomerates at the expense of small businesses.

The Income Tax Act currently permits considerable flexibility for companies to arrange their affairs to minimize the difficulty. In addition, the rules relating to corporate reorganizations were recently revised to permit losses to flow on the amalgamation or liquidation of companies within a corporate group. This has gone some way in alleviating the problem.

- (vii) Recommendation: That the incentive rate of capital cost allowance for manufacturing and processing equipment be extended to logging equipment.

Response: The main purpose behind the introduction of the manufacturing and processing incentives in 1973 was the need to provide a substantial stimulus to secondary industry as opposed to the primary producer. The expansion and modernization of productive facilities in Canada was and continues to be necessary to ensure the continued competitiveness of Canadian products in international markets. Inherent in this policy decision was the assumption that a stimulation of the secondary industries would increase the demand in the primary sector. While it is recognized that there is a degree of integration of logging activities with the related manufacturing processes, any change to the distinction between primary and secondary production would represent a basic policy change.

While action on this issue is not precluded, it should be noted that a large proportion of logging equipment is already eligible for relatively short amortization periods depending on the particular class of capital equipment. To extend the manufacturing and processing tax treatment (including manufacturing and processing profits tax deduction, as well as accelerated capital



cost allowance) to all primary sectors, as the Government would be pressured to do, would be a costly exercise. Estimates done in 1979 indicated that the initial cost of introducing such a measure for the logging industry alone would be in the range of \$70-\$100 million per year. While these costs would be reduced as the system matures, the current budgetary deficit of the government demands that serious consideration be given to the merits of any proposal that would further erode revenues.

- (viii) Recommendation: That special investment tax credits be implemented to assist the forest industry to adjust to lowered tariff rates on imported products.

Response: The Government has reservations about the merits of targetting tax incentives to specific industries and sub-sectors to address problems of industrial adjustment to tariff charges.

B) To reinforce Canada's world-wide forest products efforts in trade development

- (i) Recommendation: The Co-operative Overseas Market Development Program has been very successful in increasing and diversifying exports of wood products from British Columbia. It should be continued beyond the 1985 termination date of the current agreement. In addition, this type of co-operative promotional program should be available to the wood products sector elsewhere in Canada. Ultimately, there must be integration of such efforts.

Response: The Government agrees with the Committee on the need to extend the Cooperative Overseas Market Development Program to diversify and expand the market base of the Canadian wood products industry in all regions of Canada. Discussions have been initiated with all interested provinces and industry trade associations across the country with the view to taking joint government/industry action to improve the offshore export performance of the industry in these regions. The fragmented nature of the industry and the difficulties in developing an appropriate industry delivery mechanism are the major constraints to be overcome in applying this tripartite market development approach to the wood products industry in all areas of Canada.

Despite these difficulties, the Department of Regional Industrial Expansion is actively pursuing these discussions with interested provinces and industry trade associations and hopes to conclude an agreement in the near future. The Committee can be assured that any promotional activities for eastern Canada would be fully co-ordinated with the western segment of the program. A mid-term review of the current five-year B.C. program, 1981-85, is now under way and it is still too early to make a decision on the extent of Government participation beyond 1985.

- (ii) Recommendation: Major federal financial support should be provided for the in-grade testing program developed over the past five years under the auspices of the Canadian Wood Council, to develop new engineering strength data for Canadian softwood lumber.

Response: The Government has agreed to provide \$574,110 in new funds under the Industrial and Regional Development Program to assist the industry in developing new performance data for Canadian lumber. This is in addition to \$276,960 already provided by the Department of Supply and Services for initial research tests. This action is necessary to defend Canada's \$2 billion trade position in the U.S. market as well as to support our promotional activities aimed at gaining greater international recognition and acceptance of Canadian codes and product standards in offshore markets.

- (iii) Recommendation: High priority must be given by the Government to the negotiations with the European Community (EC) concerning the duty-free newsprint quota. The Government should seek to maintain a position that will permit a satisfactory growth of Canadian newsprint exports to the Community.

Response: The Government agrees and remains committed to ensuring that Canadian newsprint continues to enjoy GATT-bound duty-free treatment in the EC. It is also recognized that the existing market access was not secured without cost. As part of the overall settlement with the EC, arising from accession of the U.K. to the Community, Canada obtained compensation which included an increase in the annual Most Favoured Nation duty-free quota for newsprint exports to the EC from 625,000 tonnes to 1.5 million tonnes bound in the GATT.

The EC is seeking a reduction in the GATT-bound duty-free newsprint quota following the eligibility effective January 1, 1984 of Scandinavian newsprint for

unrestricted duty-free entry to the Community by virtue of its free trade agreements with remaining EFTA countries on accession of the U.K., Denmark and Ireland to the EC in 1973. Canada has pursued a negotiated solution which would provide GATT-bound protection for anticipated levels of Canadian exports to the EC and elimination of the requirement for those exports to be waterlined. On December 19, 1983 the EC adopted a provisional duty-free quota for 500,000 tonnes of newsprint in 1984, pending further negotiations with Canada. Since this action clearly constitutes an impairment of Canadian GATT rights, the Government has initiated GATT dispute settlement procedures while indicating its readiness to continue efforts for a negotiated settlement.

The Government shares the concerns of, and intends to continue to consult closely with Canadian industry and provinces over the need to protect and preserve Canada's rights with respect to duty-free access for our newsprint exports to the EC. Newsprint is Canada's third largest export item to the Community, which accounts for up to 40 per cent of newsprint exported from some provinces, particularly in eastern Canada where several mills and communities depend for their continued viability on access for newsprint to EC market areas.

- (iv) Recommendation: The dispute between the Canadian and U.S. governments over what constitutes final resolution of the Tokyo Round of accords on paperboard items has left a residual element of doubt as to whether the U.S. may at some future date take a unilateral action damaging to the Canadian pulp and paper industry's opportunities in the U.S. market. Conclusive and satisfactory resolution of these items is important to the industry's trading opportunities.

Response: The Government regards the tariff concessions in paper and paperboard negotiated with the U.S. at the Tokyo Round of the Multilateral Trade Negotiations (MTN) as a major step towards enlarging the market opportunities of Canadian producers and encouraging product upgrading.

In order to secure U.S. tariff concessions in the sector, the Government, by Order in Council, gave effect to a reduction to 6.5 per cent of the Canadian Tariff on linerboard and solid bleached boxboard, to be phased in over four years beginning January 1, 1983. These reductions have fulfilled Canada's MTN commitment in the paper sector thereby obviating the need to reopen the issue in 1983/84.

While the U.S. government had initially contended in bilateral discussions of the issue that rate reduction should be considered on other types of boxboards, the Administration has since withdrawn its claims while acknowledging that they could not be substantiated by available documentary evidence about the MTN negotiating history between Canada and the U.S. The issue is therefore effectively resolved and the Government trusts that the uncertainty expressed by the Committee has now been removed.

- (v) Recommendation: Valuable opportunities exist for more exhaustive consultation between government and industry on positions to be taken by Canada in trade negotiations, both as the positions are being developed and during the negotiations themselves. As one element in this, we would submit that when the vital interests of an industry are at stake, that industry should be given observer status at the negotiations, where it could act as an immediate source of accurate information for the negotiating team.

Response: The Government recognizes the need for close consultations with industry representatives before negotiations are joined, during the negotiating process and before results are implemented to ensure that the needs and views of industry are reflected in the conduct of Canada's trade relations.

The Government reiterated in its recent Trade Policy Review, the commitment to consult closely with industry through, for example, trade associations, in pursuing acceptable resolutions of trade issues concerning forest products. Recent examples in this regard are the consultations with the industry through the Canadian Pulp and Paper Association on the newsprint issues with the EC and the boxboard and linerboard tariff issue with the U.S. and with the Canadian Softwood Lumber Committee, representing the ten major lumber industry associations across Canada on the U.S. countervail action against Canadian softwood products.

- C) To utilize the human resources of the forest industry more effectively, and respond to the impact of economic change

- (i) Recommendation: Spending of public monies to modernize industry operations should be accompanied by firm financial commitments to workers adversely affected by the change. More specifically, a portion of public

funds should be assigned to the protection of those workers. There should be appropriate severance pay provisions, special unemployment benefits, and lengthy advance layoff notices.

Response. The Government fully recognizes the burden that layoffs resulting from plant modernization and technological changes impose on workers, their families and communities. Under the terms and conditions of the Pulp and Paper Modernization Program, all companies must provide detailed manpower utilization plans. In the few mills involved in major manpower adjustments, both federal and provincial manpower programs assist companies to take appropriate adjustment measures for their employees. Nevertheless, the Government will take into consideration the views of the Committee in the design of industrial development incentive programs.

The Government responds to the broader labour adjustment concerns expressed by the Committee through labour adjustment assistance and job creation programs such as Manpower Consultative Services (MCS), Work Sharing, Canada Works, and the Industrial and Labour Adjustment Program (ILAP).

A number of Unemployment Insurance (UI) program provisions assist workers who lose employment due to modernization of industrial operations. While the UI Act does not legislate severance pay provisions, recent regulatory changes ensure that termination payments, including severance pay, vacation pay, accumulated sick leave credits, wages in lieu of notice, among others are not treated as earnings for UI benefit purposes. Thus, a cushioning effect is provided on layoff when UI benefits can be received along with termination payments.

Furthermore, the Commission has recently adopted measures to ameliorate its labour adjustment program package (Work Sharing is now applicable to permanent layoffs on an experimental basis) and is presently re-examining the content and delivery of ILAP. CEIC recently formed a task force to study the possibility of a scheme for skill development leave and several options are presently being considered for a national program.

The recommendation for "lengthy advance layoff notices" is an issue involving labour and management as well as governments. As forest industry workers fall under provincial jurisdiction, provincial termination provisions would apply to them. Five provinces -- Manitoba, Newfoundland, Nova Scotia, Ontario and Quebec

-- have group termination legislation. The employer and the trade union are often required by law to cooperate with government to attempt to attenuate the impact of the termination and to re-establish redundant employees in other employment. The length of the notice period usually increases with the number of redundant employees involved, and ranges from eight weeks to four months. Ontario requires severance pay to be given to employees with five years' service or more in cases of group termination, calculated on the basis of one weeks' wages per complete year of employment, up to 26 weeks. In the provinces where there are no group termination provisions, the individual notice provisions apply. Typically, the notice period varies from one week to eight weeks depending on the number of years of service an employee has accumulated. In both cases of group and individual termination, the employer may give pay in lieu of the period of notice required.

- (ii) Recommendation: The Labour Adjustment Benefit Program should be expanded to accommodate the labour adjustment requirements of the forest industry. This would have particular application to older workers laid off as the result of a modernization program or closure.

Response: The Government continues to place a priority on facilitating the adjustment of workers to economic change through initiatives such as the Industrial and Labour Adjustment Program (ILAP). ILAP, which includes the Labour Adjustment Benefits (LAB) program as one of its elements, has been introduced in two forestry-dependent communities.

The LAB program provides "last resort" income assistance to older workers laid off in industries and communities designated by the Government. The program is reactive in nature and is designed to serve those workers for whom employment programs, such as retraining or mobility allowances, have proven ineffective. The LAB program thereby plays an important but limited role in the labour adjustment process and should be seen as one program element within the context of a broadly based adjustment package, such as ILAP.

A federal labour adjustment strategy is currently being reviewed in light of the new Industrial and Regional Development Program (IRDP) and the experiences of ILAP. An "ILAP successor" is being developed, which would retain the present community focus but concentrate on

labour adjustment programming. When the current review is complete, the Government could consider the delivery of LAB, and other labour adjustment programming, to forestry dependent communities on a case-by-case basis as layoffs or plant modernizations occur.

- (iii) Recommendation: Adverse effects of modernization on employment may be minimized by a commitment to make early retirement or voluntary separation sufficiently attractive to reduce the work force to an economic level.

Response: While the Labour Adjustment Benefits program described above can serve to mitigate the adverse effects of modernization, it is not designed to make early retirement or voluntary separation attractive. Such commitments touch on the issue of public and private pension adequacy which is under intensive review at the present time.

- (iv) Recommendation: Federal employment and manpower measures include a broad range of programs dealing with unemployment, job creation, work sharing, training, mobility, industrial restructuring, and related subjects. Indeed, so complex is the range that it is extremely difficult for an employer or employee to comprehend and assess what is available and relevant. The Advisory Committee believes the Government should launch a more extensive educational effort to explain and interpret these programs. It is convinced that the difficulties of industrial readjustment might at least to some extent be eased by a greater knowledge of them and therefore a wider application.

Response: The Government recognizes that the wide range of programs and services can be confusing for potential users, both employers and employees. The issue is even more complex when one also considers the availability of provincially-administered manpower programs. The Government agrees in principle with the content of this recommendation and will seriously examine any specific proposal made by the Committee in this regard.

CEIC administers extensive advertisement and information campaigns on its programs and services and would welcome any suggestions on how to improve dissemination of this information. Industry and labour should feel free to tap the expertise already available at local Canada Employment Centres, CEIC regional offices and national headquarters.

In the event of mass lay offs because of industrial restructuring, public liaison officers meet with

employer and employee representatives to facilitate the UI process. Interaction takes place with employers regularly in relation to labour market programs which can be discussed at regular or special meetings with UI and labour market specialists. The recent rationalization of job creation efforts is intended to simplify understanding of the options and their goals and these various UI and labour market interventions will be widely publicized.

- (v) Recommendation: A new forest sector strategy would make it propitious to improve not only skills and occupational training, but also safety training and working conditions, and to reduce wasteful turnover so as to achieve the goal of a stable, qualified and well paid labour force in the industry.

Response: The Government has taken a number of steps to improve human resource planning and occupational training programs. The National Training Act enacted in August 1982 contains provisions (Skill Growth Fund and Canadian Occupational Projections System) to better address issues related to productivity and development of the required skilled work force for the 1980s. Leaders of business and labour, with the financial support of the federal government, are in the process of establishing the Canadian Labour Market and Productivity Centre. This new Centre will, amongst other things, study and advise on labour market conditions and policies for the skilled trades. Business and labour will be working together on a continuing basis to assess labour market conditions and to recommend policies which government, business and labour themselves may adopt to ensure that adequate supplies of skilled workers are available to support industrial recovery. The issue of working conditions in the forest industries falls primarily within provincial jurisdiction and is also of direct interest to labour and management.

- (vi) Recommendation: The Committee acknowledges that labour/management relations in the forest industry must be improved. Unfortunately, the time available for preparation of this interim report has not been adequate for a proper examination of the subject. However, it is an important and legitimate field of study, which the Committee will address and give the highest priority.

Response: The Government agrees with the Committee on the importance of improving management/labour relations in the forest products industry and encourages the efforts of the Committee towards this end.



- (vii) Recommendation: In a more general vein, the Committee recommends that governments, companies and unions be more active in economic education. There must somehow be developed amongst Canadians a wider understanding of Canada's position as an exporter and as a forest industry country. This is related only indirectly to the subject of human resources. Nevertheless, we consider it essential to public acceptance of policies that will strengthen the place of Canada in the forest products world.

Response: The Government recognizes the need for more informed public discussion and understanding of the opportunities and adjustment challenges facing the forest industry within Canada, as well as a more concerted effort to promote Canadian supply capabilities abroad. The publication of The Forest Sector Strategy for Canada in September 1981, subsequent policy statements on forest renewal and innovation and the interim report of the Committee itself have made significant contributions to the public debate. Promoting Canadian wood products in offshore markets is a major component of the Cooperative Overseas Market Development Program.

The Committee no doubt will be raising this issue directly with provinces in their meetings over the coming months. At the same time, labour and management have prime responsibility for promoting a greater awareness of the importance of the forest industry and its future amongst Canadians. The educational activities of such trade associations as the Canadian Pulp and Paper Association, the Council of Forest Industries of British Columbia, and the Quebec Lumber Manufacturers Association are excellent examples of industry initiatives. Public information could form an important component of the Human Resource Agreement currently being negotiated with the Canadian Pulp and Paper Association, if deemed appropriate.

- D) To provide a continuing assessment of the world-wide competitive position of Canada in forest products

- (i) Recommendation: The Advisory Committee recommends development of a data base of comparative costs in forest products manufactured in Canada and other major producing areas of the world. Such data should be developed on a continuing basis to keep it current; and government, labour and management should all participate in developing the format for the data base.

Response: The Government agrees with the Committee on the importance of developing a common data base on Canada's competitive position in international markets that has the full support of government, business and organized labour. The Department of Regional Industrial Expansion is prepared to participate on a tripartite steering committee under the aegis of the Forest Industries Advisory Committee as recommended by the Committee and will contribute towards the cost of this project.

E) To increase the productivity of Canada's forests

Recommendation: The Committee recognizes the constructive initiatives that have been taken in forestry over the past three years by the federal government, acting through the Canadian Forestry Service within the Department of the Environment. The one recommendation of the Committee pertains to structure rather than policy and programs.

An official of deputy minister rank should be responsible for the federal role in forestry. We would not feel comfortable at this time in offering specific advice on whether this responsibility should be lodged in a department oriented more closely to economic affairs or to resource development. However, the Committee intends to give the matter further study in the months to come.

Response: The Government has recently undertaken a major reorganization of economic development departments and does not believe that any major realignment of ministerial responsibility for forestry is called for at the present time. Nevertheless, the Government would be interested in the deliberations of the Committee on this issue.

It should be pointed out, however, that the Canadian Forestry Service has been strengthened considerably within the last few years and the status of its senior officer upgraded to Assistant Deputy Minister rank. Departmental responsibility for forest renewal agreements with the provinces has been transferred from DREE to the Canadian Forestry Service as part of the Government reorganization referred to above. In addition to forest renewal, the Canadian Forestry Service has increased its research activities and contributions to Canada's forestry schools. Under the Special Recovery Capital Projects Program, Canadair water bombers have been purchased to increase fire protection across the country and nearly \$60 million has been provided to upgrade CFS regional research centres in Victoria, Sault-Ste-Marie, Quebec City and Fredericton.

F) To strengthen the technological base for forest products manufactured in Canada

- (i) Recommendation: That the Research and Development Tax Credit be increased by 15 per cent rather than by 10 per cent as proposed in the April 19, 1983 budget and that the tax credit be non-taxable.

Response: Amendments to the Income Tax Act affecting research and development will be tabled in the near future. These amendments are essentially those proposed in the white paper on research and development tax policy included in the last budget.

The Committee recommendation for an increase in the research and development tax credit beyond that proposed in the white paper would add significantly to the costs of the measure and would have to be carefully assessed. The tax incentive proposals as announced have generally been well received and do add significantly to the existing type and level of support by government for research -- a level that compares favourably with that provided in other countries. It is likely that the government will want to assess the effectiveness of the changes proposed before considering further increases in the tax credit, particularly in light of current budgetary circumstances.

With respect to the "taxability" of tax credits, all forms of government assistance including grants, subsidies, forgivable loans and the investment tax credit reduce the capital cost of property or the amount of expense that may be claimed in computing income for tax purposes. Only those net expenditures or costs actually borne by the taxpayer are recognized. If this is not done, there will be cases where the total of the subsidies, grants, and tax benefits provided by the federal and provincial governments will exceed the cost of the expenditure to the taxpayer. To make all tax credits non-taxable would, in addition, represent a major cost in terms of tax revenues and it would be difficult to justify a special non-taxable credit only with respect to R&D expenditures. Under the circumstances, it is difficult to support this recommendation.

- ii) Recommendation: The Committee believes that the three co-operative research establishments should be funded by government and industry, on a flexible basis consistent with tradition and practice. It therefore recommends that the federal government immediately express a

long-term commitment of support, along the lines suggested in the following recommendations.

Response: The Government reaffirms the importance it attaches to co-operative approaches to industrial problems that require a common technological solution, not only between government and industry but also within the various segments of the forest industry itself. The R&D requirements, industrial structures, and funding mechanisms vary widely among the three co-operative research establishments in the logging, wood products, and pulp and paper sectors respectively, and are discussed separately below.

- iii) Recommendation: The Committee wishes here to record its appreciation of the recent announcement that the Government, through the Department of Industry, Trade and Commerce, will finance construction, at a cost of \$15 million, of a new laboratory facility in British Columbia and a \$2 million expansion of the facility at Pointe Claire, Quebec. This is urgently needed, and will do much to strengthen pulp and paper research in Canada.

Response: The Committee identified increased innovative activity as a priority in its early deliberations and the Government took advantage of the Special Recovery Capital Projects Program to provide an early start for construction of these new research facilities. It is our belief that these new facilities will allow the pulp and paper industry in all regions to take better advantage of new technology to improve productivity and increase international competitiveness and to carry out expanded research and educational activities of particular relevance to the West.

- iv) Recommendation: The Forest Engineering Research Institute of Canada (FERIC) is supported equally by its member companies and the federal government, acting through the Canadian Forestry Service. But at present, the federal contribution to FERIC is subject to a ceiling of \$1.4 million annually. As Canada emerges from recession, industry contributions will soon climb above this level. The Committee therefore recommends that government financial support be increased, on a matching basis with industry, to implement a long-term R&D strategy for the future.

Response: The federal government will continue to provide one-half of the funds required by FERIC, up to a maximum annual contribution of \$1.4 million. The annual

federal contribution has not reached the \$1.4 million level in the last two years due to the lack of matching contributions from industry. Nevertheless, the Government is willing to review its share of total costs, pending the outcome of a comprehensive internal review of program activities and the development of a long-term industrial R&D plan by FERIC.

- (v) Recommendation: The Committee proposes that the existing programs of the Department of Industry, Trade and Commerce/Regional Economic Expansion in development of new technology be reviewed, to provide a program for the forest industry which even in difficult times could create special incentives to encourage renewed development of promising concepts, and in normal times provide adequate funding to selected projects to ensure the complete development of equipment before it is sent to the field as a production machine.

Response. The Government agrees with the Committee on the importance of industrial R&D and innovation to all segments of the forest industry. The new Industrial and Regional Development Program has closed a serious gap in previous departmental programming by providing for assistance for product development and engineering processes beyond the research stage. Bridging the gap between the laboratory and commercial application of new technology is a priority for increasing the level of innovation in Canada's forest industry.

- vi) Recommendation: Forintek Canada Corp. is the former Forest Products Laboratories of the Canadian Forestry Service and is still funded partially by CFS. Since its founding in 1979, it has struggled to establish a solid base of financial support from the federal and provincial governments, and private industry. Progress has been made but serious financial problems are still to be resolved to develop that sense of stability and permanence that a research establishment should have.

The long-term support from the industry for Forintek has been slow in developing because of the fragmented nature of the solid wood sector and the very difficult financial conditions it has been experiencing. With these conditions now improving, Forintek is vigorously pursuing a commitment from industry for the long-term financing of a 25 per cent share of its budget. Additional commitments from government should be based on securing this level of support from industry.

On that basis, the Committee recommends that the federal government make a long-term commitment to provide 50 per cent of the financial support required by Forintek, with the provinces and private industry each providing 25 per cent. The Committee also recommends that to deal with immediate and pressing financial problems, the Government provide a one-time grant of \$1.2 million to correct the shortfall in Forintek's scientific equipment purchases since 1979; provide \$650,000 for structural repairs and energy conservation measures to its Ottawa building and temporary repairs to its building in Vancouver; and, in the longer term, provide the company with a more suitable building in Vancouver.

Finally, in the area of productivity improvement, the Committee recommends government support to Forintek to finance a series of regional seminars across Canada to promote the use of microelectronic technologies in the wood products sector in conjunction with the appropriate industry trade associations and labour organizations across Canada.

Response: The Government recognizes the difficult transition period that Forintek has faced over the last few years in moving from a government organization to a private research institute. The recent commitments from the various wood product industry associations across the country to increase the industry share of total funding to 25 per cent and to maintain this level over the next three years is encouraging and should provide for greater industry involvement in the setting of priorities and conduct of research activities. The Government is now assessing renewed federal support for Forintek beyond the current termination date of March 31, 1984, as well as the need for capital improvements and equipment as recommended by the Committee. The results of this review will be announced in the near future.

The Government considers greater use of microelectronic technologies to be an important means for improving product yields, increasing productivity and reducing costs in Canada's wood products industry. Financial support has been provided to Forintek under the Industrial and Regional Development Program to carry out a number of seminars in 1983/84 in co-operation with lumber industry associations across the country to promote these new technologies. Seminars have been held in Jasper, Kelowna, Prince George, Timmins, Quebec and Moncton with the final seminar scheduled for Vancouver.

The human resource has not been ignored. Discussions have focused on how microelectronics affects workers and how labour and management can help workers adjust through training and education.

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Forest Industries Advisory Committee

Terms of Reference

1. To provide advice and guidance on a continuing basis to the Minister of Regional Industrial Expansion and through the Minister to the federal government on any matter concerning the performance and well being of the forest industry and its employees.
2. To assist the Minister in developing an in-depth analysis of the present and prospective performance of the forest industry in the domestic and international environment.
3. To assist the Minister in identifying priorities and formulating appropriate strategies that assist the forest industry in increasing its contribution to national and regional industrial development.
4. To assess the appropriateness of existing federal policies and programs and to make recommendations from time to time for new initiatives and/or policy changes.

COMPOSITION

1. Senior executive officers of business and labour.
2. The co-chairmen to represent business and labour.
3. DRIE to provide secretarial support and to be represented on an "ex-officio" basis.

