Thank you very much,

I want to thank the Board for having me here today. It is indeed an honour to appear before such a distinguished body and group of people, and a wonderful treat to visit this city, which of course is one of the world's most impressive.

I've been in town a few days now and before I start I wanted to share the following with you. Saturday I had the opportunity to do something I've never done before, and it should be on your life's to-do list if you happen to enjoy both activities.

I actually golfed and skied on the same day. One could probably count on a single hand the cities on earth where that is possible, and it was a day I won't soon forget. But we're not here to talk about golf or skiing.

We're here today to talk about innovation. It's a word that conjures up countless images. For many, it brings to mind a world of flying cars and instantaneous travel.

For others, including I suspect many in this room, innovation is nothing less than the very idea upon which successful business is built.

For everyone, it's a concept that inspires hope in a world that is more prosperous, safer and cleaner. As with most lofty ideas, however, consensus on how to achieve it is hard to come by.

A University Professor that I had many years ago wrote a book called The History of the Future, in which he spoke about human perceptions and expectations of what their future may hold, and how those perceptions have helped to shape history itself.

This interesting book came to one basic conclusion: while it is in our nature to think almost constantly about the future, we are almost always wrong in our perceptions and assumptions about what it will bring.

Not surprisingly, the further into the future we look, the less accurate our predictions.

Conversely, when we look at the past, events appear as inevitable. We recently celebrated the 20^{th} anniversary of the fall of the Berlin Wall, perhaps the most significant geopolitical event of the 20th century and an event whose inevitability we now take for granted, but in the years directly preceding the Fall of the Wall it was by no means a given that it would occur.

The same is true of how we view technological innovation.

The past generation has seen such revolutionary technological progress on all fronts that we now see this progress as inexorable.

But you, as business leaders, know that technological progress is anything but inevitable.

It requires education; it requires brain power and creativity; it requires a healthy appetite for risk and a ready supply of capital.

These are not easy to come by but they are all resources possessed in abundance by this country, this province, and of course this city.

If you were able to describe today's world – a world where one can instantly communicate with someone on the other side of the planet basically for free – to someone living just 100 years ago, you'd be dismissed as insane and quite possibly locked up, like Galileo who spent his final years under house arrest for claiming the earth orbited the sun.

But that is only because those alive 100 years ago were just as unable to predict the future as anyone before or since. The exponential rate of innovation since then means that this is now truer than ever.

Harold Macmillan, Prime Minister of the United Kingdom 50 years ago, was once asked by a young supporter what the greatest challenge was for a statesman. His famous reply: “events, dear boy, events.”

The same is true for business leaders tasked with ensuring that perceptions of inevitability in technological and business innovation become reality.

Which brings us to the automobile sector, the retail side of which I represent as Chief Economist for the Canadian Automobile Dealers Association.

The recent troubles of the car industry, particularly in North America, are well known.

But the popular image perpetuated by recent challenges – that of a lumbering beast stumbling from one catastrophe to another – belies present day reality and the foundational role played by the sector in business and technological innovation ever since C. Harold Willis, an engineer at Ford Motor Company posed in 1912: “Why don’t we assemble the motors like they kill hogs in Chicago?”

Combining that one simple idea with Henry Ford’s desire to produce a car affordable enough to be within reach of the very people assembling them provided the innovative underpinnings for what became one of the most important industrial developments in history.

Now, some may consider it daft or disconnected to gather in a room like this to talk about the lofty ideals of innovation while most businesses out there are merely struggling to survive what's been the toughest couple of years – economically – most people alive today have lived through.

But it will be our collective ability to develop new ideas, practices and products that will ensure our strong position is maintained.

Canada's car dealers have a presence virtually in every community in the country. Together, they employ nearly 140,000 Canadians in well-paying jobs in every corner of the country, and that's before you count a single manufacturing job, a sector that remains vital to the economy of central Canada.

But car dealers, the retail side of the business, are the real community presence and the face of the industry in pretty much every town and city in Canada.

While typically thought of as a franchise, the relationship between a car dealer and the manufacturer is very different than that of, say, a Tim Horton's and its parent company.

Car dealers enjoy much more independence than normal franchises, but in so doing also absorb much more risk.

No manufacturer has the resources to bear the risks assumed by its dealer network.

They have to bear the burden of purchasing every single car on their lot, which often runs into the tens of millions of dollars.

Their stores are very capital intensive, from the inventory to the physical plant to the constant investment needed to maintain service and repair standards for dozens of models.

Dealers' direct economic effect is easily demonstrated: tens of thousands of jobs with a geographic breadth that is almost unmatched.

The indirect benefits associated with Canada's network of car dealers is harder to quantify, but impossible to ignore.

They buy millions of dollars of ad space every year in local media outlets, and so represent an important source of revenue for another industry that's going through a very difficult time.

They participate in charitable causes worth countless millions of dollars across Canada.

They donate their time and money to important community organizations, like hockey and soccer teams.

Their presence, in short, is woven into the economic and social fabric of our communities from this side of the country all the way to the other one.

Indeed, long before the current crisis hit, dealers were embarking on business innovations that has helped most of them weather the recession.

Chief among these has been consolidation. Not long ago, for example, dealers of one brand weren't even allowed to own stores of other manufacturers.

Today, with an increasingly splintered market and in the context of a smaller pie cut into ever more pieces, it is brand diversification that has allowed many dealers to thrive.

The proliferation of multi line dealer groups has brought to the industry all the benefits associated with scale while not compromising the personalized service our members are famous for.

But car dealers, like all other businesses, are in the midst of dealing with a recession that has left no one untouched.

As with most businesses and individuals in a recession we've hopefully seen the worst of, it has been cold calculations of dollars and cents that has driven decisions since the storm hit our sector late last year.

But now, if the worst is indeed behind us, we are able to focus on longer term strategies instead of short term survival tactics to preserve the leadership role we've earned in Canada at the retail end of the car industry as well as our economy at large.

CANADA V. U.S.

To that point, I want to talk a little bit about the state of the industry in this country compared to the United States.

It's been a very difficult year in our sector, at the retail and manufacturing levels, as it has been for just about everyone.

However, as political leaders often trumpet, we're in a much better position than most, if not all other countries. This is true in a general sense, and more specifically in the car industry.

The two biggest problems, as with so many businesses, have been a lack of sales and a severe tightening of the credit screws.

The latter has softened somewhat, as credit markets have begun to thaw, but the return to pre-crisis conditions is a long way off, if it will ever come, in terms of credit.

Since too much easy money was a major contributor to the mess the economy is in, this is probably not such a bad thing in the long term. However in the short term, dealing with hysterical debt markets is no more fun for car dealers than it is for anyone else.

The former - lack of sales - is also softening. 2009 will go down as a brutal year but ever since things went south late last year, slowly they've been creeping up to more normal levels.

At the end of this year, we'll probably be off by 11 or 12 per cent in terms of sales across Canada and sell a little fewer than 1.5 million cars.

Losing 12 points in a single year is a huge challenge for anyone, but perspective is key.

First of all, it's compared to 2008, which was a bumper year. It was the 3rd best on record in this country for new car sales, and was on pace to be the best year until the month of November.

More importantly, it is nowhere near the severity of the cliff the U.S. market has fallen off. At its peak, the American market demanded as many as 17 million new cars per year as recently as 4 years ago.

This year, it'll barely break 10 million units.

For the better part of a decade, Americans have been buying cars at a rate we now know was unsustainable.

The ownership rate in that country for driving-age adults is actually in excess of 100 per cent: the average driving-age American has a shade more than one car.

By way of comparison, in Canada the equivalent ratio is about 75 per cent. Never having experienced an automotive consumption explosion on an American scale, we didn't have as far to fall when consumers retrenched.

With the American consumer now saving more of his and her paycheque than ever before, increased unemployment and hammered household balance sheets, the trend for the foreseeable future should be to lower rates of ownership than what we've observed recently.

To give context, a reduction in the American ownership rate by a single percentage point implies a reduction in annual sales by almost 700,000 units.

GREENING OF THE INDUSTRY

But the perception of an industry in an irreversible decline belies the simple fact that people in every corner of the world - once basic needs of housing and a full stomach are fulfilled - turn their thoughts to the acquisition of a family vehicle.

This trend will accelerate, not slow down, in the decades to come as hundreds of millions of people emerge from rural poverty in Asia's massive developing countries.

In the developed world, the number of cars will likely grow only slowly in the years ahead, but ownership in the emerging countries will soon go through the roof.

By 2050, as the population of the world increases to about 9 billion people, the global fleet of cars is expected to quadruple to nearly 3 billion.

In 40 years, by some estimates, China alone could have as many cars as are on the planet today. India's fleet could multiply by a factor as high as 40, 50, or more.

If these projections are accurate, then the global race to develop mass-marketable vehicles driven by renewable sources of energy currently taking place will be one of the defining innovative characteristics of the 21st century.

When he was running for the Republican nomination a couple of years ago, John McCain announced he'd include in his platform a federal prize worth $300 million dollars for anyone in the United States who could develop an affordable and effective battery-powered car.

The policy got Mr. McCain some headlines and allowed him to portray himself as a green champion, but such a federal prize would be redundant.

If tomorrow you could show the world an affordable, mass-marketable and effective battery-powered car, then tomorrow the world would beat a path to your door.

And that is why the race is on to develop just that. But today we are still in the infancy of what many people assume to be the inexorable march towards a global fleet of cars powered by renewable sources of energy.

After many false starts, the electric car finally seems here to stay.

If we are to sustain 12 billion wheels on the roads of 2050, this is indeed good news.

However, today's reality is that many obstacles remain.

The first is cost. Year after year after year consumers tell us that the number one factor that moves them on the dealership floor is the price on the sticker, and in response the industry has focused on getting that sticker price as low as possible.

Today in Canada, as a result of intense competition and financial innovation, among other factors, cars are at their lowest price as a ratio of average income in a generation.

It should come as no surprise that revolutionary technologies suffer from very high costs in early stages of development. Think of the first CD player you bought in the early 80s, or your first personal computer that you probably had to finance in order to afford, and that was equipped with technology that today could only be described as laughable.

Today, even the phones in every pocket in this room are embedded with greater technology than the computers of just a few years ago.

So, if history is a guide, one day soon we will look back at today's prices for electric vehicles with a chuckle. In an industry that thrives on scale, small volumes lead to high costs. But the path from here to there is one fraught with risk and uncertainty.

Range is an important obstacle to the proliferation of battery-powered cars. In urbanized Western Europe, some 80 per cent of journeys are below 60 kilometers and 20 per cent of cars never go any further.

However in this part of the world we have much greater distances to deal with. That said, in our cities, a range of 100 kilometers – which is currently not unrealistic – would satisfy most peoples' needs most of the time.

But changing "most" to "all" in both of those statements will take years of further innovation.

Finally, another obstacle is a bit of a chicken-and-egger. We take our vast network of refueling stations for granted and they allow us to drive for days and weeks at a time if we so choose, in our traditional internal combustion vehicles.

However there is no such network for battery-powered cars. Right now it is something of a catch 22 because makers are reluctant to launch electric cars because of the lack of such a network, and the incentive to develop the network is lacking because of the lack of electric cars on the road.

This is where governments could play an important role in breaking this incentive-killing yet self-reinforcing cycle.

Indeed it is already happening. A company called Better Place has partnered with the government of Israel and is currently in the process of installing a network of battery swapping stations in that country.

Why Israel? The company searched the planet for so-called automotive islands. Israel, of course, is not an island in the geographic sense of the word, but its car fleet mostly is. The vast majority of the cars in Israel never leave the country, and it is a small country.

This has provided the perfect setting to test the viability of what many in the industry see as a future network of battery swapping stations as vast as today's gas station network.

And of course, Israel has a powerful geopolitical incentive to wean itself off oil imports.

The Better Place model does not recharge the car's battery, which is still a time-consuming exercise. It swaps it for a fully charged one, using a robot, in a matter of seconds. This model separates ownership of the car and the battery, vastly lowering the all-important sticker price on the vehicle and entirely changing the economics of electric cars.

Essentially, the battery is rented instead of purchased with the car, and so becomes a running cost, similar to traditional gasoline in today's cars.

Consumers sign up for a set amount of kilometers every month and pay a monthly bill, not unlike your cell phone arrangement.

Because consumers' behaviour is influenced so strongly by the cheque they write their dealer as opposed to the longer term costs of running the vehicle, this model, if scaled, could change things quite drastically.

Furthermore, electricity is a very efficient means of power delivery.

It is estimated that an internal combustion engine can travel 1.5-2 KM on a kilowatt hour of energy. A hybrid with a combined battery-combustion engine can go for 3.2 KM. A purely battery-powered car can travel 6.5 KM on the same amount of energy.

But again, there are still some disconnects between the popular perception of planet-saving electric cars and the reality.

A key question to consider: where does our electricity come from?

I am originally from Newfoundland, a province endowed with vast amounts of renewable power from Hydro electric plants.

I live in Ontario, a province that still relies on coal-burning power plants for much of its electricity. A vehicle plugged in to a grid that comes largely from dirty sources of electricity will be no cleaner, and probably dirtier, than the cars we drive today.

And here, government must also play its role. What is needed is a revolution in electricity generation no less significant than the revolution that is already starting in the way we power our vehicles.

While many obstacles remain in the development of vehicles powered by clean and renewable energy, they are no greater than the obstacles faced by previous generations of innovators that have brought us technology that would have been unthinkable to my parents when they were my age.

We need in Canada an environment that takes every advantage of our education and entrepreneurial drive.

We have a generous R&D regime in this country, but too often start-ups in early stage growth have to turn to the U.S. for funding.

We'll never be able to offer the kind of market that exists in the United States, but we need an investment environment that is conducive to venture capital if we are to unleash our potential to lead the world in the development of renewable energy and the other technologies I believe will define this century.

Conclusion

To conclude, I want to put some happy thoughts in your heads.

As I mentioned at the start of my remarks, we're here today to talk about innovation not because we're a group of ostriches with our heads in the sand, blind to the daily challenges faced by businesses and individuals in a recession.

We're here today to talk about innovation because of the belief that it will be our ability to adapt and do things differently that will ultimately bring us out of the terribly difficult period that we've been through.

And what powers innovation, if not adversity? Necessity is the mother of invention, or, to paraphrase, recession is the mother of innovation.

In the automobile sector, innovators around the world are working to meet the needs of billions of new customers that we know will emerge in the decades to come, while minimizing the environmental impact associated with this reality.

On the retail side, dealers remain at the forefront of business innovation in Canada and beyond, and those that survive this recession will be very well-placed to continue to provide the business leadership that has come to be expected of them in their respective communities across Canada.

And in a more general sense, while the human cost of the economic downturn has been incalculable and devastating, and while it has exposed some fundamental flaws in finance and economics, it has in many ways vindicated this country's approach.

Canada entered the recession in a much better fiscal position than any other OECD country, which is today enabling us to provide the stimulus that has been necessary, without yet incurring the staggering debts being taken on south of the border, in Europe, and beyond.

Our prudent approach to banking – and a regulatory regime that has so far resisted the temptation to allow banks to become amalgams of a handful of industries as has been the case, often disastrously, in other countries – has put our system at the forefront of the global effort to fix what's wrong with the economy.

In short, the approach that not so long ago was derided is now celebrated and showcased to the world as an example.

Now, it's up to us to do what we can with the leadership position we have earned.

Thank you.