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# **Standing Committee on Environment and Sustainable Development**

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**EVIDENCE**

**Tuesday, February 8, 2005**

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**Chair**

**Mr. Alan Tonks**

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## Standing Committee on Environment and Sustainable Development

Tuesday, February 8, 2005

• (0900)

[English]

**The Chair (Mr. Alan Tonks (York South—Weston, Lib.)):** Members of the committee, ladies and gentlemen, Mr. Minister, officials, welcome. Thank you for being here.

Pursuant to Standing Order 108(2), this is a study on Canada's implementation of the Kyoto Protocol. We're dealing with that with respect to a framework document provided and agreed to by the committee as a course of action to review Kyoto, in particular in the area of fiscal reform as it relates to environmental initiatives.

Minister, I understand that this is the first time a Minister of Finance has been before the committee, and I would like to express appreciation, on behalf of the committee, for your being here. Without any further ado, what we will do is turn the floor over to you. I understand you have a statement, and then we will go directly to the committee to engage in a question and answer period.

Thank you again for being here.

**Hon. Ralph Goodale (Minister of Finance):** Mr. Chairman, thank you very much. Good morning to you and members of the committee and the other guests and visitors in the room this morning.

I understand we have about an hour, and my officials are available for some time after that. In view of how short that time is, I thought I would keep my initial remarks very brief so that for the most part I could deal with questions and comments from committee members.

First of all, let me say I am very glad to appear before you. I gather this is the first time a finance minister has done this, at least in the memories of most people around the table. I'm glad to be here and hope we have a useful discussion.

You will know, of course, that I am in the latter stages of putting together the budget for 2005. That will be presented in the House of Commons on February 23. In light of that, obviously in this discussion today I cannot be explicit about what may or may not be budget pronouncements—that would certainly be contrary to parliamentary tradition—but I want to take advantage of this opportunity to listen very carefully to the priorities that members of this committee would highlight, and to the observations and suggestions, the ideas and advice you would put forward.

We have, of course, been following the deliberations of this committee as well as of the finance committee and other committees of the House to gather the views and advice of members of Parliament, and I've had the opportunity to meet with the finance

critics of all of the opposition parties to gather their input into the budget-making process.

Today's discussion is another occasion to advance the dialogue. As we do that, let me just make three points.

The first is about the fiscal framework within which this budget is being assembled. We have a major national and international economic uncertainty in the world at the present time having to do with the value of currencies and exchange rates. We may be beginning to see the first elements of that downside risk in Canada in the most recent numbers on exports and so forth. Therefore, it's no time to get careless about our approach to fiscal responsibility. With the downside risk of currency changes, plus other national and international factors, prudence is still critically important.

Second, as indicated in the fiscal update last fall, we have over the course of the next five years some pretty healthy numbers accruing in respect of the government's fiscal situation. Unfortunately, they do not accrue to the advantage of the Government of Canada. On a steady straight-line progression moving forward year by year in the future, the flow is irregular. It starts with numbers that are very good this year, and then they drop off in the next two years and come back in the third year and build in years four, five, and six.

The reason for the slump in the next two years is that we have made two major commitments that have a big bearing on our ability to exercise flexibility. One is the spending commitment on health care and the other is the spending commitment on equalization. Together they amount to an average of \$6 billion to \$7 billion per year that is already committed in the fiscal framework, leaving a relatively smaller portion available for future commitments.

The third point I would make about the fiscal situation is that when we were all facing the electorate last year and announcing our various plans in competing platforms, we were all talking about how we would approach programs and policies over a period of five years. That was the standard framework within which all of the political parties laid out their platforms.

• (0905)

In the context of a minority, it is natural for all of us in Parliament and around this table not to concentrate so much on the five-year frame but on the next year or two. As we try to compress five years of ideas into two years of a fiscal framework, it gets to be a bit of a challenge in terms of making everything fit. So I just ask members of the committee to keep in mind those fiscal parameters.

My second point is to bear in mind all the things that are competing for attention in this next budget. We have, of course, the big commitments that have already been made on health care and equalization. There are also very important commitments on child care and on cities and communities. There are commitments with respect to senior citizens and aboriginals, and with respect to national security, national defence, foreign aid and global affairs, and of course the environment.

In achieving the right kind of budget message, I think we have to make sure we've directed proper attention to all those issues, and that takes some very careful balancing in the budget-making process.

My final point is this. I think in this day and age Canadians expect and it is our obligation as parliamentarians to deliver on the principle that smart economic policy and smart environmental policy are not inconsistent; they are not mutually exclusive. They are, in fact, or at least can be, mutually reinforcing.

Canadians, in my view, from what I've heard from them, don't want to have to choose one or the other. They want very much to have both, and it is the obligation of parliamentarians to exercise the wit, the wisdom, and the judgment that will produce smart economic policy, smart environmental policy, and a successful country based on those principles of productivity and competitiveness on one side and sustainability and environmental responsibility on the other.

With that, I would be very anxious to hear what the committee has to say.

● (0910)

**The Chair:** Good. Thank you very much, Mr. Minister.

We'll go to the top of the order, which is Mr. Mills.

**Mr. Bob Mills (Red Deer, CPC):** Thank you, Mr. Minister, for appearing. It certainly is nice that we finally got someone to talk about the economics of Kyoto.

As you know, I guess, you talk about surplus and we talk about overtaxation. So our outlook on those is slightly different.

But in 1997, basically we went into Kyoto and any questions about an economic plan were not there. We didn't take into consideration the large country, the cold climate, and so on. We committed, of course, to 6% below 1990. By 2000 we were 20% above 1990. Today we're probably 30% above 1990. Officials tell us that instead of 240 megatonnes, we now have 300 megatonnes to deal with in terms of the problems.

I wonder if your department has ever done a cost analysis of what it would be to comply and to achieve 6% below 1990 levels and exactly what that cost analysis shows. Obviously, we've spent or committed \$3.7 billion to try to achieve that target, and we're going the wrong way. I would like to know what you plan in those expenses and how that's going.

What you've created, I believe, through saying you're going to hit these targets is a real economic chill in investment and in long-term planning by most of our companies.

My real question is, would you rather have a company take a million dollars and buy credits with it, or would you like them to put it into research and development for new technologies, which would

then allow us to compete in the world and of course transfer that technology?

My second question is in regard to the foundations. Every time you do a budget and you set \$200 million aside, off in a little slush fund somewhere that cannot be audited by the Auditor General's department, we say it's for alternate energy or something, but there's no audit of it; there's no accountability. In this climate today, and particularly with what's happening in the Gomery inquiry, it would seem wise that the government not set aside any more slush funds in a fashion such that there's no audit.

I wonder if you could respond to those two items, please.

**Hon. Ralph Goodale:** Mr. Mills, in the absence of specific examples of credit trading versus technology, it's a little difficult to be precise. But as a general principle, I would like to see our investments with respect to climate change invested in those things that bring results in Canada. That's our first objective and our first obligation.

Some people speculate about the value or, on the other hand, one could say the iniquity of investing in the so-called rush of hot air that has been referred to. Clearly, that kind of international expenditure is not on Canada's agenda.

There may be international projects that meet the standards of joint implementation or the clean development mechanism that can bring benefits internationally and also bring benefits to Canada in which we would choose to invest under the terms of some international trading regime that, as you know, has yet to be developed internationally. But in terms of the priority of investments and credits versus investments in specific mitigation techniques that actually bring results on the ground in Canada, obviously it is preferable to have those results on the ground in Canada.

**Mr. Bob Mills:** So the \$1.4 billion predicted to go to international credits is only the media speculating on something that isn't true.

● (0915)

**Hon. Ralph Goodale:** Mr. Mills, you know I don't comment on any speculation about my budget until I present it in the House of Commons. I've explained the principle that matters to me, and that is, we make the greatest difference as fast as possible in focusing upon good domestic results.

With respect to foundations, I hear the concern. Your question is a timely one because over the last year and a bit that I've been Minister of Finance, and indeed in the last number of days, I have had the opportunity to discuss this issue once again with the Auditor General.

I think the Auditor General and I share two very strong points in common. We want to advance the cause of research science and innovation in Canada. We want it to be done on a sound basis that has to do with the merit of the work being done and not any other kind of artificial interference in the decision-making process about which science projects are worthy and which ones aren't. There needs to be that peer group judgment that comes to bear on the validity and the value of the projects.

We recognize, in a common way, I think, that many of these science projects tend to be bulky and lumpy in terms of their expenditure patterns over time. For example, if you look at the TRIUMF project in British Columbia, the Canadian Light Source in Saskatoon, or some of the very major projects at Western University, the University of Montreal, or other major universities across the country, their revenue requirements tend to come in big and irregular chunks. Therefore, we need a vehicle that can meet the challenge of innovation funding.

The second thing the Auditor General and I completely agree on is that as we establish the vehicles to provide that kind of innovation support, we must have adequate reporting, measurement, and accountability. There has to be a fundamental element of transparency in how these institutions conduct themselves.

We have taken steps in past budgets to contribute to improvement on the transparency and the accountability side. There were some particular measures announced in Mr. Manley's last budget in 2003. Quite frankly, I hope I can build on that as I put together my fiscal plans.

**Mr. Bob Mills:** Will they be audited then?

**Hon. Ralph Goodale:** Mr. Mills, they are already audited.

**Mr. Bob Mills:** Will they be audited by a publicly accountable Auditor General's department?

**Hon. Ralph Goodale:** The Auditor General has told me that her concern is not what would be the normal year-to-year business and financial kind of audit that would apply to any business in the private sector. That's done by private sector auditors.

**Mr. Bob Mills:** This is taxpayers' money we're talking about. It has to be accountable.

**Hon. Ralph Goodale:** Let me finish the thought, Mr. Mills.

In terms of the normal annual financial audit that one would expect of any entity either within government or in the private sector, that is done with respect to all of the foundations by a private sector auditing firm.

**Mr. Bob Mills:** Can I get a copy of those audits?

**Hon. Ralph Goodale:** Yes, they're in the public domain.

**The Chair:** Minister, may I interrupt for a moment.

Mr. Mills, please ask the question, allow the minister to answer, and then ask your supplementary.

**Hon. Ralph Goodale:** As far as I know, they're in the public domain, Mr. Mills. Also, any of the foundations can be called before committees of the House of Commons at any time to answer questions about their performance. Indeed, a number of them have appeared before various standing committees of the House to report on their activities and to answer questions from parliamentarians.

But you make the point, as the Auditor General would make the point, that greater efforts need to be made to enhance the accountability and transparency of these institutions. They do good work, and that needs to be reported upon in a transparent way. I will make every effort to improve that methodology of reporting, transparency, and accountability.

**The Chair:** Mr. Mills, you have time for one more question.

**Mr. Bob Mills:** Can you provide us a line-by-line list showing where the \$3.7 billion has been spent or allocated and the details as to where that money is going?

**Hon. Ralph Goodale:** Again, that is already in the public domain. But I understand how convoluted it is and how difficult it is to get it all in one place from the various reports. So, yes, we will make an effort to give you the full itemized statement of when that money was committed, in which budget, and to what purpose it has been dedicated.

**The Chair:** Thank you, Mr. Mills.

Mr. Bigras.

● (0920)

[Translation]

**Mr. Bernard Bigras (Rosemont—La Petite-Patrie, BQ):** Thank you very much, Mr. Chairman.

I have been a member of this committee for about eight years and I must tell you that for the past eight years, we have been waiting for you to come see us to have the opportunity to put these questions to you.

My first question will be simple, clear and specific. Since the beginning of the climate change issue in Canada, your department has put aside an amount of about \$3.7 billion to fight climate change. Yet, greenhouse gas emissions have increased by 20% since 1990. As a champion of cost-benefit analysis and of imposing conditions, standards and greater accountability obligations to provinces, can you tell me if, in your view, the \$3.7 billion invested by your department to fight climate change have had concrete results?

[English]

**Hon. Ralph Goodale:** In some respects, Monsieur Bigras, it has, and I can give you a list of examples where some very good work has been done. I won't belabour the conversation now with a long list of examples, although I could offer them. But one example would be the money we have invested in the research having to do with carbon capture and sequestration. There is a very major project in western Canada, which indeed has been acknowledged by the OECD, the International Energy Agency, and the Department of Energy in the United States. It has won approval around the world as one of the most significant new technology development projects that could have a practical impact on reducing carbon in the atmosphere. There are many other illustrations.

Do you make the point that some of the money has not achieved the results we would have liked to achieve?

[Translation]

**Mr. Bernard Bigras:** No. What I am saying, Mr. Chairman—

[English]

**Hon. Ralph Goodale:** I would agree with that proposition. I would say that in my budget I hope to indicate how some of the existing spending patterns—never mind what might be new—can be altered to achieve the greater cost effectiveness you refer to.

[Translation]

**Mr. Bernard Bigras:** Mr. Chairman, I am disappointed by the minister's remarks this morning because even in his opening statement he was not able to confirm for us a commitment, including on wind power, which was in the speech from the throne. Mr. Chairman, all we are hearing this morning is that Canada is committed to meeting its objectives on the basis of international credits. You are talking to us only about carbon sinks. You are not saying a word about reducing greenhouse gas emissions at the source. How can you say that Canada is a leader in the fight against climate change when greenhouse gases have increased by 20%?

Mr. Chairman, let's be serious. They can give anecdotal evidence. They can say that funding has been given to the Suncor corporation to reduce their emissions and develop carbon sinks, but the reality is that the fiscal and budgetary policy of the federal government is a failure. The primary example of this is Bill C-48, which demonstrates that the strategic environmental assessment has not been done by your department.

Mr. Chairman, what we are expecting from you today is for you to tell us clearly that you fully intend to introduce a green budget on February the 23rd. Do you intend to repeal Bill C-48? Do you intend to grant fiscal deductions to citizens who are buying transit passes? Do you intend to grant a fiscal deduction to citizens who want to buy hybrid cars and to create a tax incentive to this effect? Do you intend to give as much funding to the renewable energy industry as to the large polluters that you have been attempting to protect in the past few years? That's what we want to know this morning. We do not want you to talk to us about partial results. Tell us about the overall result achieved by your department which is literally a failure.

● (0925)

[English]

**The Chair:** Mr. Minister, before you answer... Mr. Bigras and members of the committee, we all know—even in my short experience, not as a member but from a public perspective—that the sanctity of the budget is something that is very important, and the minister is in a situation where he cannot divulge specifics.

But, Mr. Minister, I think you get a sense of the direction that the questions are coming from in terms of principle, in terms of the philosophy that is important to the committee. So I wonder if we could frame the questions and answer the questions, Mr. Minister, with respect to that framework.

**Hon. Ralph Goodale:** I appreciate your intervention, Mr. Chairman.

It's one thing to intervene in a confrontational way and it's another thing to make progress on real substance. I intend to make progress on real substance. You've made the point very clearly that at this stage I cannot answer direct questions about what is or is not in the budget. That would be entirely inappropriate.

But I have indicated very clearly that we have made progress in the past on the climate change challenge. In my view, we have not made enough progress. We have to reorganize a significant portion of the expenditures that are already booked in order to get, if I may put it this way, more bang for the buck in terms of what's already in the fiscal framework, and we will have to add new things to the fiscal framework in order to improve the results.

Specifically with respect to Bill C-48, I'm not sure the simple repealing of that legislation is actually what the committee would want, because the end result of that would be to restore the resource allowance, which is a very artificial method within the tax system that was in the eyes of many people in the environmental community quite a destructive technique. The new approach in Bill C-48 allows a deduction directly in respect of actual cost, not in terms of an artificial construction that used to be called the resource allowance. So there's an important retrogressive result buried in this question.

Secondly, I have examined very carefully with my officials the issue of transit passes, which was also mentioned in Mr. Bigras' question. I've also met with other groups, including the Green Budget Coalition, about the environmental effectiveness of transit passes. There is a pilot project under way now in Ottawa, as a matter of fact, involving the testing of the concept to see if it actually would have a favourable result. I'm anxious to see the result of that pilot project in terms of whether it simply rewards existing behaviour or changes behaviour by getting more people to use public transit as opposed to individual automobiles.

I have also asked for specific calculations from the Green Budget Coalition of the cost and about the benefit, and they have undertaken to give me that information. I am waiting for that further information from the Green Budget Coalition.

[Translation]

**Mr. Bernard Bigras:** I understand, Mr. Chairman. However, when they want to give \$250 million per year in tax incentives to oil companies, it is not necessary to have a pilot project. The money is flowing very rapidly. The OECD, among others, has criticized you very strongly regarding these tax incentives.

I have one last question. I believe you are in good faith when you say that you are concerned about the issues of climate change and sustainable development. Do you know that there is a special cabinet committee on sustainable development and the environment? I suppose that you know about it.

● (0930)

[English]

**Hon. Ralph Goodale:** Am I on the cabinet committee? Yes, I am.

[Translation]

**Mr. Bernard Bigras:** Everyone knows that you are not a member of that committee. I would like to know whether you have written to cabinet to express your wish to sit on the cabinet committee on sustainable development and the environment. It seems to me that if you had expressed that intention in the past, that would have showed your commitment to environmental protection and especially your will to follow through with the implementation of the Kyoto Protocol.

Have you expressed to cabinet in writing your wish to sit on that committee?

[English]

**Hon. Ralph Goodale:** Mr. Chairman, such a request is unnecessary, because as Minister of Finance, I'm an ex officio member of every committee of the cabinet. I can attend when necessary, and I have ensured that my officials are in attendance at every meeting.

[Translation]

**Mr. Bernard Bigras:** Did you ever take part in a meeting of that committee?

[English]

**Hon. Ralph Goodale:** I have not, Mr. Chairman, but I have on several occasions discussed the issues with the two key ministers who are responsible for policy development in this area, both Minister Dion and Minister Efford, and I am in contact almost daily or every second day with the chairman of the committee, Minister Emerson.

**The Chair:** Thank you, Mr. Bigras.

We'll now go to Ms. Ratansi, and then we'll go to the other side.

**Ms. Yasmin Ratansi (Don Valley East, Lib.):** I thank you, Mr. Minister, for coming. I don't envy your position at all. You are someone who has to balance priorities and do your cost-benefit analysis in an ever-changing environment, and you have unexpected things coming at you.

When we look at the environment and the economy—and I understand your prudence, because I'm an accountant by trade—how do you do your return on investments? What tools are you using to ensure that any investment that is being made in the environment has its return in the health field, for example, or in any other fields?

And as my second question, while you are validating the various technologies available—for example, alternative energy, biosphere, or technology in coal—what sort of investment can we expect in the budget? Within the confines of your confidentiality, what can we expect?

**Hon. Ralph Goodale:** On the latter point, obviously I cannot be specific today about individual measures, or about dollar amounts, but clearly environmental issues have been identified in the throne speech as being extremely important to the government. They have been talked about in a number of parliamentary committees. They figured prominently in the platform documents from last year. Among the major leading undertakings of the government—the flagship undertakings, you could say—the environment is positioned at a very high level. So it will be an important part of the budget.

In terms of the assessments we make about the effectiveness, and the return on investment, of various measures that get considered from a public policy point of view or a budget-making point of view, my officials ask a number of questions in the ordinary course of analysis; for example, will the measure be effective in changing behaviour in a way that will actually further environmental objectives?

Take the issue of bus passes. It sounds on the surface like a very good and laudable thing to do. It would appear to advance the yardstick. However, there is evidence from some other jurisdictions that, by a ratio of 15:1, it's possible that this tax measure could simply be rewarding existing behaviour as opposed to incentivizing a change in behaviour. If it were to cost some tens of millions of dollars a year, which, under some estimates, is possible, is that the best and highest use of that money, or would some other environmental purpose be better served?

That's why a pilot project is being run right now, involving four or five departments of the Government of Canada. That's also why I've asked for further information from the Green Budget Coalition, based on the experience they have gathered around the world in jurisdictions like San Francisco and others.

One principle we look at, then, is will the measure change behaviour? Second, is the fiscal cost reasonable overall, given the benefits anticipated? To put that in the context of Kyoto, if it takes a million dollars to get a quarter of a tonne, how does that measure stack up to where you may invest a million dollars and get five tonnes? Obviously you would choose the latter, because it would get you a better fiscal result.

We also measure impact, to the extent we can, on productivity and competitiveness. We try to measure fairness in terms of the impact of a measure on different kinds of households, and sectors, and regions of the country. We also look at administrative efficiency. Is this measure that's being proposed reasonably easy to administer, or do you actually impose an administrative burden that's sometimes worth more than the measure itself?

Those are the kinds of factors that go into it. Granted, some of these things can be quantified right down to the dollar; others can't. In some cases, there's a judgment to be made.

That's why I would say, Mr. Chairman, rather than have a fiery confrontation that may serve our respective political purposes, I would like to have a constructive dialogue with this committee about what makes sense in terms of environmental policy, and how we can put together this smart combination of good environmental policy and good economic policy that meets the expectations of Canadians.

● (0935)

**Ms. Yasmin Ratansi:** Thank you.

**The Chair:** I would just remind the members and the witness that we have ten minutes this round, and the party can use the ten minutes. I have three minutes left now in that line of questioning.

Mr. McGuinty.

**Mr. David McGuinty (Ottawa South, Lib.):** Thank you, Mr. Chairman.

Good morning, Minister. Good morning, officials from the department.

I would like to present four questions to you, Minister, in rapid-fire succession given the time we have. Maybe you can seek to address them now, or throughout your comments this morning.

The first question relates to the A-base funding of Environment Canada. It is, I think, a matter of consensus across Canadian society and across the government that Environment Canada is definitely punching below its weight, partly because it is one of the least funded federal line departments. I understand its 2004-05 budget is just above \$1 billion. We heard in this committee just a month ago how, for example, we are incapable of meeting our water commitments in the Great Lakes, and that a series of International Joint Commission reports have spoken to the need to invest in our scientific and economic capacity.

So the first question I want to put to you is, where do you stand on the question of the A-base funding of the department?

Secondly, I wanted to speak to you about the capacity within your own department and about whether or not you are satisfied that you are getting the evidence-based robust measures you need in order to make tough decisions about allocating scarce resources.

Do you believe your department is sufficiently staffed, sufficiently well involved in the environmental and economic policy interface? Is there a team in your department that is generating this kind of research, particularly economic modelling and analysis, to help you make those kinds of decisions you alluded to a moment ago?

**The Chair:** Mr. McGuinty, I'm afraid we're going to run out of time. I wonder if I could come back to you on the next round and if we could go with those two. Thank you.

Mr. Minister.

• (0940)

**Hon. Ralph Goodale:** Mr. Chairman, on the A-base funding for Environment Canada, as you can imagine at this time of year, and certainly for the last number of months, all of my cabinet colleagues have been making very strong cases for improving their A-bases. I have been taking all of that carefully into account. I'm particularly sensitive to the issue you raise about internal science capacity.

There are seven or eight departments of the Government of Canada that are particularly science-based. We have as a government invested the better part of \$12 billion over the last seven or eight years in innovation, most of it external to government. That investment has had a very strong impact. I believe the latest statistics show that we are among the leading countries in the world in terms of government investment in external university-based research. Where we're not doing so well is in private sector investment in research of all kinds and in government internal science within departments like Environment Canada, Agriculture Canada, or Natural Resources Canada, and so forth.

This is an issue I've raised with the Prime Minister's science adviser, and he has raised it with me. I think for the future we do need to do better in supporting the internal capacity of our science-based departments.

In terms of your question about the Department of Finance, I think over the last four to five years in particular the importance of environmental analysis has truly registered on the department's radar screen. I think the organization you were previously associated with in the round table made a very material contribution to raising that consciousness. It contributed to putting forward, for example, the principle of environmental indicators and suggesting that this needed to be built into the decision-making of government.

In my budget in 2004 we set aside the first allocations of money that would allow the first of those indicators to actually be developed, and the effective use of them, of course, also depends on the capacity within the Department of Finance.

Am I satisfied with the level? I'm satisfied that we are focused on the issue. We are making improvements. We have room yet to go. But I'm sure that with the ongoing encouragement of organizations such as the one you led, and parliamentary committees like this one, we will keep the attention and the focus will accelerate.

**The Chair:** Thank you, Mr. McGuinty.

Mr. Layton, please.

**Mr. Jack Layton (Toronto—Danforth, NDP):** Thank you, Mr. Chairman. Good morning, Minister.

I would like to believe the proposition that the environment has been placed at a very high level, as you mentioned a few moments ago, but here are my concerns. I don't think the evidence allows us to accept that indeed that's been the case over the last decade. Canadians have been promised—in fact the world has been promised for many years—that Canada would be taking aggressive and significant action around the environment, but we haven't seen it. We've seen the promises. We had the Prime Minister's role in writing the red book suggesting that greenhouse emissions would go down by 20% by 2005. We're now in 2005 and they're up by 20%, according to your government's own reports.

I have to say I was embarrassed to be at Buenos Aires at the world forum and to hear the reaction globally to Canada's position on these questions. The evidence was so strong to show that Canada was not pulling its weight that it really had us feeling that Canadians were being told one thing and the world understood quite a different thing. I'm hoping we can turn this around, and I welcome this opportunity for a dialogue.

I have a number of questions, prefaced by one observation.

I think it's very important that we begin to look at the long-term economic impacts of climate change on our economy. I had the opportunity to be part of the national climate change process earlier. An analysis and modelling group was formed that spent a lot of federal money analyzing the economic impacts of various measures, including the ones you've talked about today. I was a little surprised at your reference to having asked the Green Budget Coalition to calculate the costs of measures, because that work has been done already.



I actually learned a new term—and I hope you will expunge it from the language—that was being used by bureaucrats. They talked about the “negative costs” of some of these measures. In other words, measures that actually made money or saved money were described as measures that had a negative cost. It was the most extraordinary bafflegab I’ve ever heard. In fact, many of the measures that are being proposed today have real benefits. The problem is there’s a push-back against them by the biggest polluters, so they get wrapped up in terminology that allows them not to move forward. I think this is the biggest problem we’re facing.

I have four very quick questions to throw out.

First, have we actually analyzed the economic impact of climate change to the economy? Have we calculated the economic cost of pine beetles in B.C., of the droughts on the farmers, of the long-term consequences of the glaciers melting and the headwaters of many of our rivers being therefore unsustainable? What about the smog costs in Canada? We know there are strong estimates that the smog costs in Ontario alone are \$1 billion. Have you analyzed that, and can we have a look at that information?

Second, it looks as though what we’re seeing—and certainly on television what we’re seeing—is that the Kyoto plan from the government is for us to buy a better fridge, get a pamphlet from a 1-800 number, and go out and buy a better car. We’re being asked to pull our weight. I think Canadians want to do that, but how can we really believe we’re going to achieve our Kyoto targets if we allow our large polluters to be ignored? Why aren’t we asking them to pull their weight? It’s their smokestacks that are pumping the pollution in the largest volumes into our atmosphere. I’d ask if you could comment on that.

Third, why would we be considering spending billions of dollars buying initiatives elsewhere in the world when we could be taking steps here? You referred to that earlier, and I’d like you to elaborate further. How far are you willing to go to convince and assure Canadians that the investments will be in Canada, that we’ll have a made-in-Canada solution, that indeed our emissions targets will in the vast majority of cases be accomplished here in Canada? That will give Canadians cleaner air to breathe.

Fourth, I’d like to ask why it is that we’re able to say, apparently, that we want Canadians to burn less oil and less coal and use more renewable energy, when at the same time taxpayers are subsidizing oil and coal?

● (0945)

Could you tell us how much those subsidies are? It’s like pulling teeth to find out from this government how much is being spent there. Isn’t that a little bit like pretending to fight smoking while at the same time we’re allowing tobacco to cost less?

Those are my opening questions.

**The Chair:** Four minutes to reply.

**Hon. Ralph Goodale:** Mr. Layton, you’ve covered a lot of ground there.

Might I just say, Mr. Chairman, that this kind of dialogue demonstrates a good reason for perhaps having a more formal way to have these discussions, because the topics raised by Mr. Layton have

been particularly important, and I’m not sure we can do them justice in just four minutes. So I’d perhaps like the opportunity, after I’ve presented my budget, to have a way to continue the conversation.

On the economic impact of climate change, I recall from my days as Minister of Natural Resources that a lot of work had been done by the Climate Change Secretariat and by the modelling group to try to calculate the costs, on one side, of not taking action, versus the benefits, on the other, of taking action. You do the arithmetic on both sides of the equation, the puts and the takes. I think it’s obvious that there are impacts—like the droughts Mr. Layton has referred to—that have not been properly factored into our decision-making process in the past.

There is clearly a cost of taking action. There’s no doubt. There is also clearly a cost of not taking action, and the two of those have to be weighed very delicately together.

You refer to the current advertising involving a rather famous Canadian personality, Rick Mercer, promoting the one-tonne challenge. I agree with you. I think Canadians want to be engaged in, for example, the purchase of Energy Star appliances, which are particularly energy-efficient, but if you’re making the point that this in itself is one dimension, and an interesting dimension, but not nearly sufficient, you’re quite right.

Therefore, the approach has to be more comprehensive. Canadians have to be engaged as individuals in how we heat our homes and run our cars and behave on a day-to-day basis, but business needs to be engaged, and the large emitters need to be fully involved as well. That is part of what the government is working on, just as much as the one-tonne challenge is. Mr. Mercer’s engagement does give profile to the issue, which I think is extremely helpful in building enthusiasm among Canadians about the action that needs to be taken.

On your point about internal versus external investments, I agree with your principle that we should be focused—and I said this earlier—upon investments within Canada that make a practical difference in Canada. There may well be international projects worthy of investment from a Canadian point of view, and those, it seems to me, would fall within the definition of the projects that have international approval, such as those that come under the joint implementation technique or the clean development mechanism, both of which are recognized under the Kyoto Protocol as legitimate types of investments for countries to make.

I do want to make it clear that when you rule out the specious kinds of investments in what is known as the rush of hot air, we are in total agreement with your point that it is a counter-productive kind of investment that doesn’t achieve an objective, either globally or nationally, and our focus needs to be on national action within Canada. That’s where our focus is and will continue to be.

On your final point about achieving balance in the tax policy, I take some encouragement. The first time this was analyzed, in 1996, the analysis showed a fairly obvious imbalance in favour of non-renewable types of fuel sources. When this was looked at again in 2000, and a report was provided by an independent body, the conclusion of that report was that there wasn't a perceivable imbalance one way or the other—that the two had come into balance with each other. That represents progress from 1996.

The question going forward is how to continue to make that progress and put more emphasis in future on those sorts of things within tax policy that make a tangible contribution to Kyoto solutions, improve the environment, and help us all to deal with the challenge of climate change. We've moved, in that period from 1996 to 2000, in the right direction.

● (0950)

Some would say with great enthusiasm that we haven't moved far enough, but on the basis of the most recent statistics it would appear that it's more or less in a balanced position now, and we have to keep moving in that direction.

**The Chair:** I think we've gone to the end of the allotted time.

**Mr. Jack Layton:** I'm out of time?

Thank you very much.

**The Chair:** Thank you, Mr. Layton.

We'll go to the top of the batting order.

Mr. Richardson, then Mr. Wilfert—and these are five-minute interchanges.

**Mr. Lee Richardson (Calgary Centre, CPC):** I'll be quick.

I'm still wondering why you're here. It's not particularly unusual—

**Hon. Ralph Goodale:** I was asked to come.

**Mr. Lee Richardson:** Well, sure you were, and I'm sure almost every committee on the Hill would ask the finance minister to come to their committee prior to the budget, as they always have. What's unusual is that you accepted this invitation.

The chairman has alluded to the possibility that Canadians and people here in the House simply aren't comfortable that the Liberal government has a position, that they have a plan on Kyoto, that there is any way you're going to meet the commitments. Is it that you don't think the Minister of the Environment is doing the job, so you're going to send in the big guns to cover for him? Do you have a plan to meet Kyoto commitments by 2010 without buying emission credits internationally?

**Hon. Ralph Goodale:** Mr. Richardson, the government's commitment is clearly expressed in the Speech from the Throne. That is the commitment we stand by. It's only—

**Mr. Lee Richardson:** We're aware of the commitment. I'm asking you if you have a plan to reach that commitment. Was that your reason for coming today? I'm wondering why you're here.

**Hon. Ralph Goodale:** Look, the committee asked me to come to talk about environmental issues. I'm pleased to participate in that discussion. Can I, today, talk in detail about what may or may not be in the budget? No, I can't.

● (0955)

**Mr. Lee Richardson:** I'm not asking you to. I'm asking you if you have a plan. Do you have a plan, and are you going to meet the commitments by 2010 without buying hot air offshore?

**Hon. Ralph Goodale:** Mr. Dion, Mr. Efford, and the committee under the chairmanship of Mr. Emerson, are charged with the responsibility of putting together that plan. There obviously is a climate change action plan for Canada. We have concluded that the plan is not sufficiently robust; it's not sufficiently aggressive to achieve the targets that are necessary to be achieved.

In the throne speech we made the commitment that we intend to honour our international obligations, and to do so in a way that is obviously conducive to a strong economy as well as a clean environment. We believe we can achieve those objectives. Many of the measures we have in place now are worthy measures that are making an important contribution, and they can and should be continued. Some of them need to be reorganized, some of them need to be revamped. That will be part of the effort that Mr. Dion, Mr. Efford, and Mr. Emerson are working on. And some brand-new initiatives need to be taken as well.

Again, to answer the question for the third time, do we intend to buy international hot air? The answer is no.

**Mr. Lee Richardson:** No, that wasn't my question. My question was whether you are going to be able to achieve the targets without doing that. Do you have a plan by which you can achieve them without buying offshore credits?

**Hon. Ralph Goodale:** Are you saying any offshore credits, or hot air?

**Mr. Lee Richardson:** Maybe you can explain.

**Hon. Ralph Goodale:** There's an important distinction, Mr. Richardson.

**Mr. Lee Richardson:** That would be a good place to start.

You can tell me that you can't buy offshore greenhouse gas emission credits.... You speak of hot air. Well, even vented hot air... of course, the Liberals are pretty good at venting hot air.

This term, I'm asking you if you can achieve this without sending Canadian tax dollars offshore to buy greenhouse gas emission credits.

**The Chair:** If I may, I don't think anybody has a monopoly on hot air.

Minister, may I help?

Mr. Richardson, maybe from your perspective, what's the difference between the architecture of emissions credits? Maybe that's where you should start, if I may, Mr. Richardson.

**Hon. Ralph Goodale:** There are certain kinds of international investments that are classified either in the joint implementation category or in the theme development mechanism category that are judged by the signatories to the Kyoto Protocol to have international value in bringing down and genuinely, legitimately, reducing greenhouse gas emissions globally. Those are projects that, if you will, bear the Kyoto seal of approval. The so-called rush of hot air is not in that category. It just doesn't pass muster in terms of the credibility test.

So no one who is serious about this process would engage in that kind of transaction with respect to the specious credits. But there are some international projects that may well be valuable to the global community and can bring benefits from a Canadian point of view as well. In those international projects that are meritorious and pass the Kyoto seal of approval test, there may be some future opportunity or some value in a Canadian investment.

Where do we want our emphasis? As I said to Mr. Layton, we want our emphasis on projects in Canada that change things on the ground domestically within Canada.

**The Chair:** Thank you, Mr. Richardson.

Mr. Wilfert, please.

**Hon. Bryon Wilfert (Richmond Hill, Lib.):** Thank you, Mr. Chairman.

Mr. Minister, I've detected over the last few months your sincerity in wanting to move toward the implementation of Kyoto and beyond. I do believe it's time that the Department of Finance stepped up to the plate.

I believe, Mr. Minister, with all sincerity that there has been institutional resistance within the department. I say that because as a former parliamentary secretary to the Minister of Finance, I know what I'm speaking of. I would like to ask you a couple of questions and make a few other comments.

First of all, how is the Department of Finance going to ensure that strategic environmental assessments are conducted effectively? The Commissioner of the Environment made it very clear that, in her view, the department was not committed to a systematic analysis of the impacts of the tax system on environment and sustainable development. I'd like your comments on that.

I do believe, Minister, that the department can play, must play, a critical role in achieving our climate change objectives. As you know, the Standing Committee on Finance has made some, I think, very important recommendations in that regard. As you yourself have said, we have a plan that is not robust enough. I believe with all sincerity that this is where the Department of Finance must play a critical role. I believe it will play a critical role, hopefully after the 23rd of this month.

I have a few other questions, but I'll leave it at that for the moment for the minister.

**Hon. Ralph Goodale:** I think the Department of Finance, now and historically, has approached its responsibilities in good faith and with all seriousness. For many people, in and outside of Parliament, issues related to the environment have accelerated on their radar screens in a very pronounced way, particularly in the last five to ten

years. I think that is reflected in the accelerated focus within the Department of Finance.

I take your point that you want better and sharper focus. You want a greater sense of commitment and momentum. That is precisely what we are attempting to build.

With respect to the environmental analyses, the cabinet process requires that they be done, document by document, before they hit the cabinet table by the responsible departments that are sponsoring individual proposals, including spending proposals. It's a process in which the Department of Finance must be engaged, but indeed it's a process in which every department of government must be engaged so that as they are developing their policy proposals and their spending proposals, each department considers how this will impact on the environment. That has to be reported in the cabinet document itself.

• (1000)

**Hon. Bryon Wilfert:** Mr. Chairman, there is no question that as far as the Minister of Environment is concerned, he is absolutely and without equivocation committed to our Kyoto commitments.

**Hon. Ralph Goodale:** There's no doubt.

**Hon. Bryon Wilfert:** He has talked about the environment and competitiveness not being mutually exclusive, and obviously that's particularly important in terms of the critical role your department can play. Your department in the past, to its credit—on the green municipal enabling fund, as an example, which was then doubled—demonstrated a solid commitment in terms of dealing with that particular issue. As you know, I have advocated a similar initiative on brownfields, something absolutely critical to municipal governments across this country.

I know you're not going to be able to tell us what's in the budget, obviously, but one area of grave concern I do want to signal to you is that since the 1970s we've lost 20% of our built heritage in this country. We do have the Canadian Register of Historic Places, in which up to 20,000 sites will in fact be registered. Again, there's a role the Department of Finance can play, particularly as they've done in Australia, France, England, the United States, etc., because it's a tax credit issue. When a developer buys a piece of property and there's a designated historic site on it, often of course it's lost. There are different mechanisms; in Ontario there are 180 days in which eventually the site is lost.

That's where your department can play an important role. Whether it's a two- or three-year pilot project... And it's a major industry in the United States. We have to do something to make sure we do not lose any more of our historic properties and sites. Having a national registry, which is a great example of federal-provincial-territorial cooperation, will be of no value if in fact the Department of Finance doesn't step up to the plate with tax credits to ensure at the beginning of the process that these properties are in fact valued and can be saved.

**The Chair:** You'd better get to the question or you won't get an answer.

**Hon. Bryon Wilfert:** I have another question, but, Minister, do you have any comment on that?

**Hon. Ralph Goodale:** Mr. Wilfert, I will take your points as representations. I think you understand that I can't respond in detail at this point.

But I share your concern with respect to protecting the ecological integrity of national parks and trying to make sure heritage sites, which are sometimes in disarray across the country, as has been reported upon by the Auditor General and others, receive the kind of attention they deserve.

I can't pretend to you that in one budget I can address all of those issues, but I hear your point.

**Hon. Bryon Wilfert:** I just want to say, Mr. Chairman, that I was pleased with the Premier of Saskatchewan, who was very supportive of this particular initiative. There are many sites, as you know, in your own province.

But finally, Mr. Chairman, just to point out—

**The Chair:** I'm sorry, Mr. Wilfert. I think you've had your kick at the can—colloquially speaking, of course.

**Hon. Ralph Goodale:** To whom were you referring as “the can”?

**Some hon. members:** Oh, oh!

**The Chair:** We don't take things personally in this committee, Mr. Goodale.

Minister, I'm conscious of the time. You had indicated you were able to stay until 10. Is there any flexibility in that? I have a couple more questions for you.

**Hon. Ralph Goodale:** These are five-minute rounds?

**The Chair:** Yes, they are.

**Hon. Ralph Goodale:** We can go until 10:15.

**The Chair:** That's very good. Thank you.

Mr. Simard.

[Translation]

**Mr. Christian Simard (Beauport—Limoilou, BQ):** Minister, I have here the report of the Commissioner on the environment, especially the part on using the tax system. In my view, the Finance Department's response is a slap in the face of the commissioner. She says:

The department does not commit to any actions beyond those already in place or previously planned. These actions were already taken into account in our conclusion and recommendations. Consequently, the department does not appear to accept our recommendations.

In 2001, your department was saying that it would use the tax system. For some time now, they are not even talking of using the tax system anymore to meet Kyoto's environmental objectives. We know that you have spent \$3 billion in useless initiatives, with no results, and that there was a 20% increase of greenhouse gases. I am not asking you to divulge a budgetary secret, but could you give today a commitment to use the tax system in a neutral fashion, that is by penalizing what's bad for the environment and encouraging clean industries in a progressive fashion? In this way, we could meet the objectives of Kyoto without wasting billions of dollars in buying emission credits from other countries and taking puny measures that have no impact.

•(1005)

[English]

**Hon. Ralph Goodale:** First of all, to the extent that I'm aware of the situation, Mr. Chairman, nothing has been invested up to this point in the purchase of external credits—nothing. So there has been no expenditure in that direction whatsoever.

In terms of tax measures, we have provided tax incentives for energy-efficient and renewable energy generation equipment. We support the production of alternative fuels through an excise tax exemption. We've extended that to include biodiesel in the last budget. We have tax measures to encourage the donation of ecologically sensitive land.

We have announced that we are eliminating the deductibility of fines and penalties, which had the perverse effect of allowing environmental penalties to be deducted.

So those are just a few examples.

There are illustrations of what we already do through the tax system to try to influence behaviour in a positive direction with respect to the environment. Will we do more? Yes.

[Translation]

**Mr. Christian Simard:** Will you continue? Will you do more? Yes? You are committed to do more?

[English]

**Hon. Ralph Goodale:** Yes.

**The Chair:** Mr. Simard, thank you.

Mr. Paradis.

**Mr. Bernard Bigras:** We hope.

**The Chair:** A well-placed hope.

[Translation]

**Mr. Denis Paradis (Brome—Missisquoi, Lib.):** Thank you very much, Mr. Chairman.

Thank you, minister, for having agreed to meet with us and allowing us to hear your views about the Kyoto Protocol.

In order to reduce our emissions by 6% below the 1990 level, and this by 2010, all sorts of measures must be taken. Some are voluntary measures. For example, we are presently negotiating with the automobile industry. Other measures are enforcement action: some people are asking us to pass more legislations in order to require... Of course, we will hear from other ministers, including the Minister of Industry and the Minister of the Environment. Finally, there are incentives and these are your responsibility since they are incentives based on the tax system.

In the past four or five days, we have seen a lot of smog in Montreal and Toronto, among other places. If there were more trees in our environment, it will be helpful.

Since organizations such as Conservation of Nature Canada are buying and keeping for dozens of years or even for eternity huge tracts of land where trees are planted to protect nature, could we consider some tax measures? I am thinking, for example, of granting an exemption from capital gain tax for those who are giving ecological gifts. We could even consider complete deduction of ecological gifts.

Do you have in the department an inventory of tax incentives having an impact on the environment? If not, would it be possible to do an inventory of possible tax measures that could have a direct impact on our results in terms of meeting the objectives of the Kyoto Protocol?

• (1010)

[English]

**Hon. Ralph Goodale:** We are constantly working at that inventory, Mr. Paradis.

There's a constant argument about the economic efficiency of trying to accomplish an objective by means of a tax incentive as opposed to some other kind of incentive, like a direct grant, for example. Sometimes it's actually more effective to use a direct grant than it is to try to use the tax system, which is sometimes a fairly blunt instrument to try to achieve a certain result.

On the point you made just now about more trees, which is a way of arguing for larger carbon sinks through forestation, we launched a program two years ago in rural Canada called Greencover Canada. It is intended to take the appropriate land base, often it's marginal farmland or riparian lands along watercourses, and convert them from perhaps traditional agricultural practices that may be inappropriate for the physical circumstances to some kind of permanent cover. We have in this the support of the land conservation organizations and the farm organizations across the country.

That was about a \$100 million investment.

I believe it began three years ago. It's partway through. It has proven to be quite successful, supported, I believe, by the Green Budget Coalition.

I have always believed that we should extend that area to urban centres as well. Obviously it's not the same scale. It's not the same order of magnitude as acres and acres in a rural setting, but it can make a difference in terms of landscaping and sinking in the urban context.

So I think it's well worth looking at.

**The Chair:** Thank you, Mr. Paradis.

Minister, we're conscious of the time you have allotted, but there are members who have additional questions. Perhaps the members could put those questions in writing and refer them to you and your officials and receive a response. Would that be possible?

**Hon. Ralph Goodale:** Absolutely. I think out of previous appearances by my officials before the committee, a number of questions have been left with us and we have responded to them. I would be happy to have that dialogue in a written form. Perhaps at a

future date, sometime after the budget, we can take up the conversation once again in person.

**The Chair:** I'd suggest to members that if responses come back that you wish to share with the committee, you could put those on our distribution list through the clerk.

**Mr. Jack Layton:** Mr. Chairman, if that discussion could take place between the budget speech and the budget vote, it would be helpful.

**Hon. Ralph Goodale:** That's a narrow window, Jack.

**Mr. Jack Layton:** I think it's ten days.

**The Chair:** You'll take that under advisement.

**Hon. Ralph Goodale:** We'll take it under advisement.

**The Chair:** Thank you, Mr. Goodale. We appreciate your being here.

**Mr. Lee Richardson:** I have a point of order. Might we expect responses to those questions prior to the next election?

**Hon. Ralph Goodale:** We will respond to them very quickly. As of this week, all of the outstanding questions that were previously asked have been responded to in writing. We'll get the answers to you just as rapidly as we can.

**The Chair:** Minister, we will excuse you. Thank you for being here.

Your officials are here, and we're going to continue. There are other questioners.

We have with us Mr. Bob Hamilton, assistant deputy minister, tax policy branch; Denis Gauthier, assistant deputy minister economic development and corporate finance; Serge Dupont, general director, tax policy branch; and Susan Margles, director of economic development and corporate finance.

Mr. Layton, you are the next questioner.

**Mr. Jack Layton:** Thank you very much.

In his answer to my question, the minister mentioned a study showing that forms of energy were roughly treated equally by the tax system. I'm wondering if you can enlighten us further on that study. I'd also like you to explain why we would be providing favourable tax treatment to polluting energy in any case and how this would be regarded as acceptable public policy. Maybe you can also give us the quantity of tax subsidies that are given to polluting forms of energy.

• (1015)

**Mr. Bob Hamilton (Assistant Deputy Minister, Tax Policy Branch, Department of Finance):** The study the minister referred to was done by the Commissioner of the Environment and Sustainable Development in 2000. It looked at renewable versus non-renewable energy. As the minister said, it basically came to the conclusion that with a few exceptions on either side, we're in a position of equilibrium. That's not to say one couldn't go further, but that was the conclusion of that study.

Last year the OECD looked at the Canadian tax system, and although they were critical and said that perhaps we could do more on the tax front, they also made the point that over time we've reached more of an equilibrium between the tax treatment of renewal versus non-renewable energy. There are measures on either side, in particular provisions for oil sands on the one side that one might argue tilt toward the non-renewable and provisions for certain renewal energy sources on the other side—wind energy, etc.—and at the end of the day we're approaching more of an equilibrium.

In terms of where one might find what particular tax measures cost or what they provide in terms of incentive, we do publish annually a tax expenditure account that looks at the provisions in the tax system that provide differential tax relief from a benchmark and tries to quantify that where it can. There are some places where we can't quantify it. But where we can, it's in there, and I'd be happy to provide that to the committee. It doesn't bring everything together into one measure, but it does provide for certain provisions what the cost is.

**Mr. Jack Layton:** If you could provide those calculations, that would be helpful. I'd appreciate having an opportunity to see them.

What's the justification for all of the gas tax going into federal coffers? We recall a time when a cent and a half was added on by this government in an earlier incarnation ostensibly to help deal with the deficit and with the idea that perhaps it would be removed afterwards. That didn't happen. What's the underlying tax philosophy that has \$4 billion a year or more coming from gas tax into the federal coffers and none of it going back—unless we see something different in this budget—to the infrastructure that provides the opportunity for the tax itself to be raised? Is it simply that the municipalities and others have to provide the infrastructure and the federal government can get away with it, therefore it's a good idea, or is there a more sophisticated rationale?

**Mr. Bob Hamilton:** I'll take a first stab at this, and my colleague may want to talk a little more about the more recent gas tax discussions.

One of the issues behind what you're asking is do we, in our tax system, try to design taxes that in a sense are earmarked—where we raise the tax and the money goes back to a specific purpose—or, in contrast, do we generally try to raise taxes that go into the consolidated revenue fund and then are spent on priorities that the government determines? This issue comes up from time to time with various taxes.

The gas tax at the moment is not an earmarked tax that we raise to be used for a particular purpose and that can't be used for anything else. We tend not to have a lot of this type of tax in the Canadian tax system. Our taxes tend to be more like the income tax, corporate tax, sales tax, which go into general revenues, and then the government decides on the priorities. From a Department of Finance perspective, there are certain advantages to this. One can adjust priorities over time to reflect changing circumstances.

**Mr. Jack Layton:** If I may interject, Mr. Chairman—because I am running out of time—I thought the Prime Minister had issued instructions that, with respect to the gas tax, that old philosophy was going to be abandoned. In fact, I thought I heard promises of 5¢ per litre.

Maybe the finance department looks at promises from the Liberal Party sort of the way Canadians do. I don't know. But I'm a little surprised to hear that old rationale being drummed up again at a hearing like this.

**Mr. Bob Hamilton:** Where I was heading, if you had allowed me to finish—and I did indicate that my colleague may want to talk a little bit more about some of the more recent discussions around the gas tax. I think you were referring to an earlier time, and I was trying to provide the basic rationale for the gas tax.

Certainly there have been discussions in recent years about whether we would target some of the gas tax money to go back to municipalities. But perhaps I'll let Denis talk more about this, as it's more his area of responsibility.

• (1020)

**Mr. Denis Gauthier (Assistant Deputy Minister, Economic Development and Corporate Finance, Department of Finance):** There is a commitment, as you said, by the Prime Minister to transfer some portion of the gas tax. The minister has gone on record saying up to \$2 billion per year, \$5 billion over five years to municipalities. Minister Godfrey and Minister Goodale have been talking to the Federation of Canadian Municipalities to this effect, and that is a commitment. As far as I can see, it's a commitment; we'll see in the budget.

**The Chair:** Thank you, Mr. Layton. You're out of time.

We'll now go to Mr. McGuinty, and then we'll come back on the other side to Mr. Jean.

**Mr. David McGuinty:** Thank you, Mr. Chairman.

It's good to see many of you again.

I'd like to pick up on one of the last questions I left with a few of you when you came to the last meeting. I put a specific question to you at the time, which picks up on the question I put to the minister just a moment ago.

Can anyone tell me how many person-years are dedicated in the Department of Finance to these larger issues of environment and economy measures? How many person-years precisely are dedicated in the department to generating options for the minister and cabinet and for Canadians to consider as we move forward and wrestle and struggle with this issue of environment and economy interface? That's question one.

Question two, the minister raised this question of the environment and sustainable development indicators, which the Prime Minister had called for as Minister of Finance. Just last week, the Prime Minister spoke again in the House about the notion of natural capital and the fact that the government is moving now to expand our system of national accounts at Statistics Canada—something the minister also referred to and which he pointed out was in the throne speech.

A letter I remember was relayed to the Department of Finance some time ago. The response from Finance Canada, if I recollect correctly, said that these indicators—which the Minister of Finance at the time had asked for and which were to be used by the Department of Finance in budget-making and for reporting back to Canadians—would be better used at Environment Canada or perhaps at Treasury Board. Until these indicators were more robust internationally, I think it said, we did not have the ability to actually use them.

Two years have elapsed since that report was given to Finance Canada. The Prime Minister, I understand, is expecting these to be used very soon. We've delivered up six indicators to the Government of Canada and the Department of Finance.

Can somebody please update me on where we stand with the implementation, *la mise en oeuvre*, and the use of these indicators in the budget-making process so that we could more accurately report to Canadians on the true health and wealth of this nation-state?

This is precisely why the Prime Minister, at the time, asked for these indicators to be developed, because he said to 650 executives on Bay Street that, as Minister of Finance, he could not report on the true health and wealth of the country given the standard robust economic indicators that budget-making relies on. He wanted to expand those indicators to speak to things like greenhouse gases and forest cover and wetlands cover and other parts of what he adjudges to be natural capital.

**The Chair:** Mr. Hamilton or Mr. Gauthier.

**Mr. Denis Gauthier:** I'll take those questions. I may have signed that letter, so I might as well answer the question.

On your first question on how many persons are dedicated to environmental issues in the Department of Finance, depending on the time of the year, quite a few. I would say that at this time of the year when we get into the budget process and when, like other departments, we have to do an environmental assessment of any measure we would propose to the minister, a great deal—I couldn't put a number on it—of people have to be concerned about the environmental implications of any measures that are being discussed with the minister in the context of policy-making for the budget.

Throughout the year I can give you more precise numbers. I have in my own group seven persons who are fully dedicated to issues related to the environment and natural resources. There is a group who deal essentially with those issues and who track what is going on with the Department of the Environment, with Natural Resources Canada, with their proposals, whatever they bring to cabinet committee. They do the challenge function for the Minister of Finance on those proposals. I think in tax policies there's also a complement probably of five people who deal with tax issues in the mining sector and gas sector.

I would say there are about 15 people full-time throughout the year whose job it is to follow those types of activities. At some period in the year it rises to a much bigger number because there may be environmental implications of other types of measures that are not necessarily initiated by environmental departments, so we have to keep an eye on all of that.

Now, on the indicators, I think if I recall the letter, there's a distinction I would like to draw between using the indicators.... I think at the time the recommendation of the national round table was to feature or publish the indicators in the budget. I think the letter I would have signed at that time was more on the publication of the indicators, saying that maybe the budget was not the best place to publish the indicators, that there were other vehicles, other publications, either at StatsCan, or at Environment, or maybe even at Treasury Board, that could feature those indicators much better.

As to the use of the indicators in the budget process, yes, we do use those types of indicators or other types of indicators—social indicators, indicators on poverty, on the labour market—in preparing the budget material. Those indicators are being used.

Now, what is the status of the indicators? NRTEE had proposed six types of indicators. We provided \$15 million, I believe, in the budget last year to the Department of the Environment and StatsCan to develop those indicators. Minister Dion recently said that three of those indicators would be clean air, clean water, and—what is the third one?

**A voice:** I can't remember.

**Mr. Denis Gauthier:** Three of the six indicators would be ready for publication in the fall. I think the other indicators were not as ready so they would take a bit more time to be developed.

• (1025)

**The Chair:** Thank you.

Mr. McGuinty, thank you very much.

We'll now go to Mr. Jean. We're working our way down again.

Mr. Jean.

**Mr. Brian Jean (Fort McMurray—Athabasca, CPC):** Thank you very much for coming today.

I'm curious about the gas rebate to municipalities and whether or not that will be attached to our commitment in Kyoto, for instance, for large infrastructure programs such as rail lines, etc.

More specifically, I'm from northern Alberta. We have 20,000 men and women who go 50 kilometres daily to a plant site by bus line, and of course that is one of the largest emitters under transportation for Kyoto. Some 70%, I think, of the transportation is caught up by diesel, large-car vehicles.

I'm wondering if the gas rebates would be tied directly to Kyoto, for instance, in that particular case for a rail line, which has been debated for years but which we do not have the infrastructure moneys to make.

Is there going to be any interrelationship between gas rebates and the Kyoto Protocol?

**Mr. Denis Gauthier:** At this time the Department of Finance is providing the fiscal room to do the gas rebate. Minister Godfrey, Minister of State, Infrastructure and Communities, has been tasked to go and negotiate with each province what will be the modalities of the transfer of those resources. I think you should ask Minister Godfrey how he wants to use that, for what types of projects. There are various proposals there that came from the municipalities. There have been various formulas that have been proposed by the FCM. I think recently it's been announced that a minimum floor per capita allocation would be used.

As to the exact type of agreement that will be struck or negotiated with each province, I think Minister Godfrey will be out there negotiating and seeing what are the needs of each province.

[Translation]

Without prejudice,  
[English]

in large provinces and major cities the trends and components may be more important. It may be that in rural areas it will be a different type of infrastructure project. I think it will be up to Minister Godfrey and his team to negotiate those things.

**Mr. Brian Jean:** Has there been any debate about whether these infrastructures will be tied directly to Kyoto, obviously using a carrot instead of a stick to implement the protocol?

**Mr. Denis Gauthier:** I'm not aware of any official tie. I know that Minister Godfrey, when he talks about his file, is very sympathetic to the environmental issues and sustainable development, but I'm not aware of any direct tie that would say this would be for Kyoto. Indirectly, yes, if it contributes.

• (1030)

**Mr. Brian Jean:** Thank you.

**The Chair:** Just a reminder, we will have both the Federation of Canadian Municipalities and Mr. Godfrey at the same time before the committee. That line of questioning certainly will be appropriate then.

We're going to Mr. Wilfert and then we'll come back to Mr. Bigras.

**Hon. Bryon Wilfert:** Mr. Chairman, the minister had indicated that the plan we have is not robust enough and, I think, made an admission that the Department of Finance, in spite of some of the things that have been done, needs to step up to the plate and start delivering in this budget.

In your 2001-2003 sustainable development strategy, you identified specific areas where the tax system may be acting as an impediment to the attainment of sustainable development. Can you tell us what you found out and what you're prepared to do given those findings?

**Mr. Bob Hamilton:** Again, as the minister commented, certainly I wouldn't be prepared to comment on anything that may or may not be in the upcoming budget. But I would say, in terms of the type of analysis that goes on within the department and what we might uncover as we look for areas where the tax system could be improved environmentally, one example would be class 43.1, which is an accelerated capital cost allowance we provide for renewable

energy and co-generation projects. This has been an area where we have received representation in the past, and over time we've worked to look at that class and see if there are different forms of equipment that could be included. That would be an example of the kind of thing we do in tax policy, where people come to us with ideas, or we might have ideas of looking for places in the tax system where we can make a positive contribution. That would be one example of the kind of thing we look at that can be done in the tax system.

As well, to echo a comment about what the minister indicated, when proposals come forward it's important for us in the Department of Finance to look at those, particularly in the tax policy branch, which is my domain, to ask the questions that the minister posed. Is this going to be an effective measure? It's one thing to propose an area where the tax system could be used—and there are a number of places where it could—but we also have to ask ourselves, is that the most effective way?

If you take the environmental goal as laudable, there's a range of instruments that one could think of: tax, spending, regulation, etc. We need to look at the tax system in a detailed way to say, is it going to be administratively possible? Is it going to be fair across different people sectors, etc.? Those are the points the minister raised. That's an ongoing evolution with us.

I think we have shown progress over the last number of years and, as the minister indicated, we're probably doing a better job now than we were five years ago. We'll probably be doing a better job five years from now in part because of our own initiative, but also people are raising ideas with us and pushing us to do more. So without commenting specifically on the budget, I think that's an example where we have made progress and the kinds of places where we might be making progress in the future.

**Hon. Bryon Wilfert:** Mr. Hamilton, I'll give you the benefit of the doubt that yes, you've done better than you have in the last five years. Hopefully we don't have to wait another five years, though, to get to where we need to be.

On class 43.1, I have more scars from class 43.1 from my days as president of FCM than most people around the table, and I can tell you that if you really are sincere about using the tax system in dealing with the community or district energy systems and the whole issue of the front-end costs, we'll see it in this budget.

On the transit passes, I cannot believe that after eight years being here there's still institutional resistance on that issue. I can fill that table with mounds of evidence from western Europe and the United States on transit passes. Unfortunately, as the parliamentary secretary to the Minister of Finance, I took the bullet in killing one of those private member's bills on that. But the reality is that it can be done. If you see a transit ridership increase of 2% in a municipality of an average size, that's significant. The evidence shows it's significantly higher, between 15% to 25%—and again, I would hope that will be considered.



But in the end, it's using the economic instruments, Mr. Chairman, to ensure that our commitments on Kyoto and beyond are going to be there. I believe very sincerely that the minister is in fact committed; we'll still have to wait to see the degree of that commitment. But I think the fact that the Minister of Environment has been very clear in working with his cabinet colleagues on the issue of competitiveness in Environment says there has been a void, and that void clearly was pointed out by the Commissioner of the Environment. I think it's time the Department of Finance look at it.

We can't use all of the instruments, but clearly there are some that are going to have significant impact, which in fact the Standing Committee on Finance has pointed out. We don't have a lot of time; the point is that the clock has been ticking, and I am disappointed—

• (1035)

**The Chair:** You do not know how right you are. The clock has ticked out.

**Hon. Bryon Wilfert:** I am disappointed, and in fact we have not seen the kind of change we need. I hope the message you will take back is that those instruments will not only be accelerated in this budget but will also be continued as we move forward.

Again, we know, Mr. Chairman, that can't all be done now, but now's the time to get on with a major, major push.

**The Chair:** Thank you, Mr. Wilfert.

I don't think any comment is required.

Mr. Bigras, and then back Mr. McGuinty.

[Translation]

**Mr. Bernard Bigras:** Thank you, Mr. Chairman.

My questions will be more to the point than those asked by my colleague opposite. I would like us to discuss together the issue of strategic environmental assessment. You know that there has been since 1994 a cabinet directive requiring departments to apply such an assessment. My first question is very simple. How do you explain that your department is in direct violation of a cabinet directive, for example with Bill C-48? I would like to know how many measures taken by your department since 1994 have gone through the strategic environmental assessment process.

Secondly, can you give us today, in this committee, the assurance that you will apply the strategic environmental assessment to the budget that will be introduced on February 23?

Third, I would like to know whether you will make a commitment, before committee members and also before the audience, to introduce in this committee the strategic environmental assessment of your budget of February 23 next.

**Mr. Denis Gauthier:** We have introduced in March 2003 a strategic assessment plan that is consistent with the commissioner's recommendations. Since then, that is since 2003, we have proceeded to 39 strategic assessments, if I am not mistaken. It is not being done since 1994, since we did not have any strategic plan at that time. We have settled this in 2003.

Will the budget be consistent with the strategic assessment framework? Yes. As I mentioned earlier, in this period of the year, they are many people who are dealing with the environmental impact

and who are complying with the directive. All measures that are being proposed by the Department of Finance in the budget will have been submitted to the strategic assessment.

Will we make public the budget's strategic assessment? As the minister has indicated before leaving, departments are responsible for their own strategic assessment. There are in the budget some measures that come from other departments and that will be adopted after the filing of a memorandum to cabinet. In each memorandum to cabinet, the commissioner's directive is being complied with and a strategic assessment is being done. So the strategic assessment is being done by each department.

**Mr. Bernard Bigras:** Are you aware that you have a great responsibility regarding the greenhouse gas emissions budget in Canada? Just last week we learned that the assistance to large polluters had increased by 33% between 1996 and 2002. During that period, you did not take into account the strategic environmental assessment. You are telling us that that is being done since March 2003. However, do you realize that because no strategic environmental assessment has been done from 1994 is probably the reason why the direct and indirect assistance to large polluters has increased by 33%. That is why your department is greatly responsible for the greenhouse gas emissions budget in Canada. Will you admit that there is a link between your lack of action regarding the strategic environmental assessment and the 20% increase in greenhouse gas emissions since 1990? Are you aware of this?

• (1040)

**Mr. Denis Gauthier:** I believe that you are granting too much importance or to great a responsibility to policies of the Department of Finance in terms of their effect on the environment. That is another debate.

**Mr. Bernard Bigras:** Come on! If you think that I am giving them too much importance, this means that, if I understand correctly, the fiscal policies of your department have no effect on the environment, according to you. Are you pretending that your department does not have any role to play at the level of environmental protection?

**Mr. Denis Gauthier:** That is not what I have said. I said that you were granting too much importance to the fiscal policy when you said that it was responsible for an increase of 20% of greenhouse gas emissions by large corporations. That is granting too much importance to these policies. I do not believe that any study whatsoever would demonstrate that the fiscal policies have such an impact.

**Mr. Bernard Bigras:** Mr. Chairman, I would like this to be on the record, because what the Deputy Minister of Finance has just told us is not trivial. For all practical purposes, he just told us that the environmental fiscal policy does not exist. For our part, we are persuaded that the fiscal policy has an impact and some direct consequences. I am quite surprised to hear the deputy minister say that to us today.

[English]

**The Chair:** Mr. Bigras, we're running out of time.

Mr. Gauthier, if I may intercede, from the beginning, I think the committee has heard from witnesses in various sectors. In their estimation, there is a tax regime that is either assisting them in their sector to meet the Kyoto percentage or it is a hindrance. We are hearing that.

I think Mr. Bigras is trying to get a feel from the department on whether you are analyzing the return, the value-added for the tax regime that is applicable for the petrochemical industry, for the transportation industry. I think that's the thrust of the question.

If I may, Mr. Gauthier, and members of the committee, we appreciate the witnesses being here. We are trying to extract our information. It is not you personally, Mr. Gauthier, when we are talking about a departmental or a ministry perspective.

I'm sorry if I overstate that, but in terms of the interchange, perhaps we could keep it at that level.

Mr. Gauthier, would you like to make a response now?

**Mr. Denis Gauthier:** Yes. For clarity, perhaps I'll repeat what I've just said.

I didn't say that fiscal policy had no impact. I think that fiscal policy can be used to correct several inequities or inefficiencies in the system. I've said that I think the fiscal policy alone cannot be responsible for an increase of 20% in greenhouse gas emissions, which was what was put to me. It cannot be responsible on its own for 20%.

Now it can do something at the margin, but to say that the Department of Finance or how it uses fiscal policy would be responsible for 20%—

**The Chair:** I think that was the moot point. The major point of Mr. Bigras, if I may, was this. Are you evaluating the return with respect to using the tax regime? We have been hearing from various parts of the sector that in their estimation it isn't working for them and they're looking for changes. That was the nature of the question.

I'm going to have to go back now. We're out of time on that interchange.

Mr. McGuinty, and then Mr. Layton.

**Mr. David McGuinty:** Thank you, Mr. Chairman.

This is actually a question that picks up directly on some of the questions Mr. Bigras raised.

Lest viewers and folks in the audience today believe that the social science of the environmental assessment of policy is an advanced science, I don't think it is. I think folks all over the planet are struggling with the application of the environmental assessment of public policy, but I'm not here to apologize for the government either. However, I wanted to pick up on something Mr. Hamilton said earlier.

You alluded, Mr. Hamilton, to the minister's comments about the kinds of analyses and decision trees that are applied to the supplications and the representations made by, for example, different environmental actors in Canadian society, and you put this through quite an elaborate filter. What I want to get to here is this: I'm not sure your filter and I'm not sure the discipline, the social science of

economics, has graduated into the 21st century. The economics, as I understand them, the filters you're using, the decision tree you follow, are partly fictitious because they presuppose that the carrying capacity out there in the world, in the natural order, is limitless. It presupposes, for example, that...

Let me be very specific. Canada has 26% of the world's wetlands. Wetlands are perfect water and filtration systems that have evolved over billions of years. We keep draining wetlands at breakneck speed. We don't know how many we've drained. We don't know what percentage remains in Canada. We do know wetlands are an indispensable part of the air and water filtration systems provided by natural ecosystems through eco-services. Your filters, your decision trees, your analyses, done through a traditional economic optic, do not factor in the fact that some of these services that we have in the natural order, the last time I looked, were not replaceable.

Could you please help us understand how the Department of Finance is working with economists, analysts, modellers, to try to stop, as I see it, the fiction that the Great Lakes are inexhaustible in terms of their absorptive capacity for pollutants, for example, or that wetlands are not playing...? I've heard economists argue back to me, "Mr. McGuinty, that's all fine. Please prove to me what these wetlands are worth in dollar terms." My rebuttal to economists is always, "That's not fair. In fact, it's intellectually dishonest. Please prove to me that the wetlands are worth precisely zero. And when you prove to me that wetlands are worth zero, then we can talk."

Can you give me some sense of how your filters and analyses are evolving in the 21st century to deal with the fact that we are beginning now to see signs of carrying capacity stresses?

•(1045)

**Mr. Bob Hamilton:** Yes, certainly. Just one very quick comment on the previous discussion to clarify. Within the tax policy branch, which I'm responsible for, tax measures that go forward since 2003, as Denis indicated, do go through a strategic environmental assessment. We do look at them, and each measure is subject to that. I just wanted to clarify that in case there was any confusion.

Now on to the point that you raised, I think it's a fair comment that the state of economics and analysis is always evolving and trying to catch up with things that are going on out there. I should be clear. We don't do all of the environmental analysis within the Department of Finance. Within my branch, I don't have, frankly, the kind of environmental experts that could go to the core of some of these environmental questions. So we very much rely on people at Environment Canada, Natural Resources, and other outside experts to help us understand the environmental part of the issue.

I guess where we come into the equation from tax policy is understanding that as well as we can to understand the environmental effects of what's being proposed. But even at a more micro level, once one accepts that one has to do something to protect the environment in a certain area, whatever it might be, is the tax system the right way to do it?

For example, if you have an environmental objective, are you better placed doing it through strict regulation that prohibits an activity? Are you better doing it through some other type of economic instrument, whatever that might be? Tradeable permits would be an example. Or are you better doing it through the tax system?

Sometimes you are better doing it through the tax system. Sometimes there may be better ways, and the kind of criteria that I was outlining—and admittedly, they're general, but I think they give some sort of an indication of what we think some of the key issues are—are how effective it would be to do it through the tax system; what some of the impacts would be on particular people, regions, sectors; how administratively costly it would be.

For example, the tax system tends to be a better instrument the more broad-based it is. In other words, if you're targeting a very specific item, sometimes it's better to use something different from the tax system. That would be just one generalization.

I take your point that one does need to be a little careful about assigning too much precision and science to this kind of thing, but we do appeal to others who know more than we do, either within government or outside, to help us understand the environmental question, and, as I say, where my branch starts to come in is almost taking the environmental objective as a given—that may be overstating—and then trying to assess where the tax system can be best used or where another instrument might be better.

I don't know if that directly responds to your question, but that's how we are approaching this issue, and we're actually planning to try to put out a framework paper in the near term that would try to bring these kinds of issues out, and maybe when people look at that paper they will say, well, you haven't got the right criteria, you're missing this element, you're missing that element.

• (1050)

**The Chair:** The committee will look forward to that, Mr. Hamilton.

Mr. Layton and then Mr. Watson for a final question.

**Mr. Jack Layton:** In the last few minutes we've certainly made some progress in these discussions, because we've at least heard, thanks to the excellent question of our colleague Mr. Bigras, that the department at least is acknowledging some responsibility for the 20% increase in greenhouse gas emissions; there's a debate about how much, but at least we've nailed down that it's some. Apparently it's at the margin, and of course that's the most important place, because that sets the direction.

The other progress is that we have the finance ministry at least accepting that there's been a 20% increase in emissions. Every day that I raise this in the House, the Minister of the Environment tries to claim that we're wrong, and that pollution has gone down. So we're making a little bit of headway here, and we're beginning to discover some of the conflicts going on; it may be a little surprising that the Minister of the Environment...and his staff are actually trying to convince the Minister of the Environment that we are polluting more. Who knows? We may have a hidden ally there.

I want to come to this issue of how we calculate the cost. I'm quite flummoxed at this point by what I've heard in the last few minutes.

Why are we at least not calculating the direct economic costs of pollution in our analysis? I first asked the minister here, do we analyze the impact, the measurable economic impact, of certain kinds of events, such as smog? Smog is good for the GNP, I suppose, looked at from a very narrow point of view, because people have to go into the hospital and they have to buy expensive drugs. Our economy actually grows—even though the people can't breathe.

This is perhaps picking up on the much more genteelly presented argument that we heard from my colleague across the way. When is the Department of Finance going to get it, that there's an economy out there that has a whole lot of dimensions to it? We can debate whether or not the fact that kids can't go out to play on a smog day has an economic value. I suppose we can debate that. I think we'd all say it's bad, but you can be saying it's not my department. When it comes to the cost of a ravaged forest, for example, which is predicted as a result of climate change, surely that is something that's relevant to the finance department, and should be fundamental. It doesn't look as though we are doing any modelling of this, any analysis.

Let me just put one question to you. We've put out a plan—I assume that your department has seen it, or that it will have been drawn to your attention—that is extremely detailed. It's a plan that creates jobs, cleans our air, and fights climate change all at the same time, but we don't give any pollution credits away for free. We understand that a Liberal government is to, or would intend to, give pollution credits away for free.

Why would the Department of Finance weigh in behind that kind of an argument when the principle really should be polluter pay?

**Mr. Denis Gauthier:** Why would the Department of Finance give pollution credits away for free...?

**Mr. Jack Layton:** Yes. As we understand it, the proposition is for pollution credits to be given away for free, under the famous 15/15 plan, as I think it's called.

**Mr. Denis Gauthier:** I'm not sure what you're talking about in terms of free credits.

**Mr. Jack Layton:** Well, we'll have to provide you with some more information.

**Mr. Denis Gauthier:** Yes.

**The Chair:** Perhaps that would be helpful. We have already an understanding that we could share with the committee anything raised in the form of a question, so thank you for that, Mr. Layton.

Mr. Watson.

**Mr. Jeff Watson (Essex, CPC):** Thank you.

I appreciate that we're studying Kyoto and the environment. Of course, I have a tangible stake in the environment. I'm going to be shameless here and announce that I was not here on Thursday because my wife gave birth to our fourth child, Thaddaeus David, a wonderful bouncing baby boy.

**Voices:** Hear, hear!

**Mr. Jeff Watson:** Thank you.

Mr. Hamilton, I want to get back to something you were talking about earlier, about people coming to you, about looking for, as you say, places where you can make some difference with respect to environmental goals here. And sometimes you go to people.

When you look at the \$3.7 billion allocated to Kyoto, and you look at the different types of tax incentives, it looks a lot like grapeshot rather than a coordinated plan. Is this a type of admission, if you will, that Kyoto hasn't been or isn't following a comprehensive, forward-looking plan involving Finance Canada as a key player in implementing Kyoto?

As well—and I'll get this question out quickly so that you can tackle it—would you agree that other political considerations or programs are overwhelming or are hindering a sound and comprehensive fiscal environmental strategy?

• (1055)

**The Chair:** Mr. Hamilton.

**Mr. Bob Hamilton:** I'm not sure I can offer much comment on the second aspect, and I think you can appreciate that commenting on political factors would not be appropriate.

Denis may want to comment a little about the broader Kyoto plan, but on the first part, I would just reiterate that at the Department of Finance we see ourselves, within the tax system, as trying to move the yardsticks forward in what we do for renewable energy and a couple of the incentives we have and trying to be open to analysis of other areas in which it might be productive to use the tax system. There are always constraints and factors to be brought to bear, and we want to make sure we do whatever we're going to do in the most efficient way, and that could be the tax system or not.

We feel as if we have been contributing through the tax system to try to make sure we are not impeding environmental objectives but are actually contributing to them. As the minister indicated, going forward, we'll only be looking for more areas to do that. You indicated that part of our source of ideas comes from a wide range of people. When we go out on pre-budget consultations, when we sit at sessions like this, ideas come forward on where we might use the tax system. We try to take those in, do as good an analysis as we can of them, present the advice, and move forward from that perspective.

I think that within the department, within the tax policy branch, we really try our best to understand where we might use the tax system and how we might contribute to the agenda going forward. As I said, I think we'll be continuing to do that. The tax system doesn't control everything, but it does have a role to play in a lot of the policies and programs.

**Mr. Jeff Watson:** I guess my overall point is that grapeshot really doesn't work in terms of achieving our targets and moving beyond to achieve even greater targets after 2012.

The purpose of my second question, I guess, was more to get an indication of how the finance department was spending its time. Do you find you're spending a lot of time analyzing other things, whether it's how to implement child care or other programs, so you don't really find you're involving a lot of time and resources in coming up with a comprehensive fiscal environmental strategy? That was more the thrust of my question, and not whether you're facing undue political pressure. I'm just asking whether or not you're involving an awful lot of resources and time in other pursuits, as opposed to developing this one. That's more the thrust of it.

**Mr. Bob Hamilton:** Again, just speaking for the tax system, it touches many different people, many different organizations, so there are always competing priorities in terms of where we must spend our time and analyze issues. From my perspective, the amount of time my branch spends assessing environmental issues is laudable and appropriate. While we must analyze a range of things, we have a group of dedicated people who really do their best to provide the best analysis they can on all those fronts. I certainly don't feel that environmental issues are being crowded out.

**The Chair:** I think that is a good segue into thanking you and the officials.

If I may just leave you with a process-oriented thought, the committee is engaged in hearing from a very broad cross-section of the community on the implications of the climate action plan. I think Mr. McGuinty characterized that there may be some course alterations with respect to meeting our commitments under Kyoto. I wonder if you could just take under consideration that at some point the committee would like to re-engage you and the minister with respect to the effectiveness and the value-added that may come from budget mechanisms that will be recommended.

I think it would be helpful to the committee if the budget recommendations were cross-referenced with the kinds of issues that are raised here. What are we really accomplishing? Do you have an accurate—or as accurate as possible—assessment of carbon reductions that particular green budget recommendations will have? In other words, the committee could engage with you in a sort of post-evaluative mode as a result of a budget that will hopefully be in keeping with the commitments we've made.

Can I leave that with you as an open-ended inquiry? It is a matter of process, and it's consistent with the process that this committee is now engaged in.

Thank you very much for being here, and thank you to the members of the committee.

This meeting is now adjourned.

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