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Chair

Mr. Massimo Pacetti

Standing Committee on Finance

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● (1115)

[*Translation*]

The Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.)): Good morning.

I want to thank all of the groups for taking the time to make a presentation to the committee this morning. These pre-budget consultations are being held pursuant to Standing Order 83.1.

I would ask witnesses to limit their presentations to seven minutes, if possible.

[*English*]

I don't want to interrupt, so at least try to keep it to seven minutes, because then the members are going to want to ask questions.

I have a list of the witnesses who are here today, so we're going to go in the order I have.

I have Mr. Boag, from *l'Association des industries aérospatiales du Canada*. He was here, but I don't see him now. Okay. We can go to the next group.

Mr. Williams is ready, so we'll go to him.

Mr. Williams, from Canada's Research-Based Pharmaceutical Companies (Rx&D), will begin.

Thank you.

[*Translation*]

Mr. Russell Williams (President, Canada's Research-Based Pharmaceutical Companies (Rx, & D)): Thank you, Mr. Chairman.

My name is Russell WIlliams and I am joined by Terry McCool, Vice-President, Corporate Affairs, at Eli Lilly Canada. I represent Rx&D, Canada's Research-based Pharmaceutical Companies, an association of 50 innovative companies operating in every province across this country. We are, first and foremost, a necessary part of the health care system. Canadians take pride in their tradition of care. Protecting the health of our fellow citizens drives our efforts. For patients, these efforts result in the discovery of new medicines that alleviate diseases and help them live better lives.

[*English*]

I would like to acknowledge the committee for taking up the challenge of identifying specific ways in which the federal government can enhance productivity growth and increase Canadians' standard of living. The innovative industry makes significant investments in human and physical capital. On these points, I would draw your attention to a recently completed study by Price Waterhouse Cooper, which forms a part of our submission, to demonstrate how our industry has a positive impact on Canada's productivity performance. This study is included in your packages.

Today we'd like to focus on the entrepreneurial capital, or innovation, and provide your committee with recommendations on how our industry can continue to contribute to raising Canadians' standard of living through a competitive commercial environment. Our members' success owes much to the high quality of their employees, highly trained researchers, and strong investments in capital equipment.

Our member companies' collective investments in people and research also translate into tangible impacts on other sectors of the economy, notably through spinoff job creation. Moreover, our community is the most significant source of health R and D in the business sector, the largest single source of funding for medical research in the country.

Rx&D member companies are also significant partners in Canada's economy. Our member companies employ 22,000 men and women in some of the best jobs in Canada—doctors, biochemists, engineers, and many other professionals. We are a research-intensive industry, and we employ the highest proportion of R and D employees holding master's and doctorate degrees in the high-technology sector. That represents 42%. Collectively, Rx&D companies also generate, directly and indirectly, some $3 billion in tax revenues to governments each year.

Productivity growth in our sector is nearly 2.4 times higher than other manufacturers and 4.5 times higher than in Canadian industries overall. Our products improve the health of Canadians while at the same time bolstering the economic well-being of our country.

I will now ask Terry McCool, the chair of Rx&D's intellectual property protection committee, to address the committee.

● (1120)

Mr. Terry McCool (Vice-President, Corporate Affairs, Eli Lilly Canada Inc., Pharmaceutical Manufacturers Association of Canada): Thank you, Russell.

Good morning.

In short, we are a successful industry but we are also very vulnerable. The competition for life sciences research and development, which has been so beneficial for our country, is quite fierce. Research is global, and unless we create a better environment to invest, we risk losing ground to other countries. It is already happening.

The life sciences industry is built on fresh knowledge. Other countries, including France, the U.K., Singapore, Japan, and our neighbour the U.S., have adopted comprehensive initiatives to anticipate the commercial, technological, and scientific changes that will attract more life sciences investments.

One of these strategies is effective and enforceable intellectual property protection. How does Canada stack up? In the European Union, by the end of this month countries must provide at least 10 years of data protection.

Let me explain. Data protection is a requirement under both the WTO and NAFTA. It is the protection of the confidential test data that companies submit to regulatory authorities for drug approval. The U.S., Japan, and China all offer data protection.

I'm sure it comes as no surprise that such countries as Sweden, the U.K., and Japan have briskly outpaced Canada in terms of pharmaceutical research and development investment in recent years. If we wish to be a competitive destination, we must reward discovery and pharmaceutical innovation. Furthermore, the federal government must also ensure that all federal policies and regulations are appropriately aligned with its commercialization efforts and innovation objectives.

We therefore recommend that the Standing Committee on Finance include in its final report to the federal government, as an immediate first step, a recommendation on the need to implement eight years of data protection set out in the proposed food and drug regulations introduced last December. This would introduce a level of predictability in the Canadian market and compensate in part for the long and costly drug development times and regulatory delays. Ultimately, these measures will help lay the foundation of increased R and D growth in the innovative pharmaceutical industry and contribute to the future health needs of Canadians.

The recommendation will have no impact on the federal government's fiscal framework. Indeed, evidence shows it would boost productivity, attract greater investment and employment, and lead to greater government revenues. These are regulatory changes, not legislation, and they could be accomplished quickly.

Mr. Russell Williams: In closing, Mr. Chairman, I would like to suggest to you that if Canada is to remain one of the most compassionate countries in the world, with strong social foundations such as a high standard of living and quality of life, it will require several highly productive industries to contribute to the future gains and productivity needed to maintain, sustain, and grow these standards, thus assuring Canada's social foundation for years to come.

Our industry is improving Canada's competitiveness. We have a proven track record of partnering with governments. There is an urgency to move forward if we want to build on this foundation.

[*Translation*]

Mr. Chairman, we've tried to keep to our allotted time. We would now be happy to answer your questions.

Thank you for this opportunity to present our views to your committee.

[*English*]

The Chair: Thank you.

Next is The Canadian Chemical Producers' Association. Mr. Paton.

[*Translation*]

Mr. Richard Paton (President and Chief Executive Officer, Canadian Chemical Producers' Association): Thank you, Mr. Chairman.

My name is Richard Paton. I am joined today by David Podruzny, Senior Manager, Business and Economics.

[*English*]

This is my tenth presentation to this committee, so you're probably wondering what kind of miserable life I lead to be doing this so often, and I sympathize with you sometimes, having to listen to all these presentations. But I've always found the reports of the committee, including the minority reports, to provide excellent advice to government and often to be ahead of their time in areas like regulatory reform, cost recovery, or capital tax. So I'm hoping that even with this rather fragile Parliament you will once again set out an agenda that's bold, that challenges the government to address the budget and fiscal issues we face today.

Since the finance minister has been talking about the importance of productivity recently, I would like to suggest at the outset that your pre-budget report focus on the ways in which Canada's economic and budget policies can enhance the productivity of our economy and increase our investment, and hence, the standard of living for Canadians.

I recognize that the productivity challenge is not something that easily resonates with the public, and governments have been a little bit fickle in their support of solid progress in this area, but for the chemical industry, productivity is critical. Basically, what I mean by productivity is the efficiency of our economy and our ability to attract investment and grow. Our industry is significantly more productive than our major competition in the United States. This has helped us win about $6 billion in new plants and equipment between 1997 and 2003 in Alberta, and about $12 billion overall in Canada. These new investments in turn have made us more efficient, more modern, more productive, and more environmentally friendly. They have generated wealth for Canadians.

However, these investments are declining very quickly and shifting to other countries, and Canada is now becoming a net exporter of capital. These are some of the issues I want to raise with you today, because Canada is at a crossroads in terms of dealing with its economic challenges.

To increase productivity and attract investment, Canada needs to put in place the economic and fiscal policies that will enable us to compete in a more global environment. We need to focus on making our investment environment as good as it can be while maintaining our social and health program structures. We need to remember that wealth generation is a foundation for the standard of living we cherish in this country. So my basic message today is that Canada, and in particular the federal government, is not focusing on productivity or the efficiency of the economy and in fact is neglecting key initiatives that could enhance productivity and the growth of our economy. This is hurting our industry and jobs for Canadians.

Notwithstanding our current good economic fortune, which tends to lull us into complacency, I think, this neglect of the economy and fiscal policy is undermining the most important sector of the economy, the manufacturing sector, of which our industry is an important part.

Just to put this into perspective, the manufacturing sector represents 22% of the Canadian economy. It's a fact that seems to be forgotten in policy development. It's eight times the size of the agriculture, forestry, and fishing economies combined. The chemical industry, which is a part of that manufacturing sector, is a $24-billion industry. We provide many of the essential input products, ranging from auto parts, textiles, plastics, foods, to some of the products from my colleagues next to me, pharmaceuticals. What's most important is that Canada's chemical producers are adding value to the natural resources of this country and thereby generating wealth for Canadians.

The CCPA regularly assesses its productivity compared to that of the United States. Our most recent review indicates that our industry overall is 11% more productive than that of the United States. In industrial chemicals, which is a subset of that, we're about 33% more productive. That's a pretty good story, so you might wonder why I am here with my doom and gloom or competitiveness challenges.

The answer to that is that the competition is no longer the United States. It's China, the Middle East, and India. I'll give you a very concrete example of that. Right now there are 120 major new investments in the chemical industry planned around the world. Only one might be in North America, and that would be in Mexico. There are 17 chemical plants being developed in Iran alone. Investment in China is booming. If any of you members of Parliament have been to China recently, you know what I mean when you see Shanghai or you see Beijing.

● (1125)

The reality is that investment is shifting from Canada and North America to Asian locations, largely because of energy costs, labour costs, the rapid growth of these economies, and also because of considerable tax and other advantages, such as fast construction and smart regulation. Also, many of these countries do not have to deal with the uncertainties that have been created by the government's decision to regulate greenhouse gases as toxic substances and create additional cost for business.

What impact is this having on Canada? In our industry, we have had six plant closures in the past 12 months, covering three provinces, largely because of these factors. Real, high-paying jobs are being lost, probably forever. It's our job as industry leaders, and your job, I think, as elected leaders, to understand why this is happening—I think it's related to our budgets and our potential economic policies—and look at how we can do something about it. Today I'm going to tell you our part and provide recommendations on how the budget can help you do your part.

Given the limitations of time today, I'm going to focus only on two points that are affecting these trends toward the export of capital and investment outside our country instead of in our industry: corporate tax and energy. Unfortunately, these two areas tell a story of neglect of the basic economic fundamentals that are critical to a more productive economy that attracts investment and creates jobs.

I know corporate tax is one of those issues on which all the parties have had interesting discussions. To be blunt, I think a government that truly supported a stronger and more productive economy would not have abandoned the corporate tax reductions so easily.

Many would argue that what was originally in the 2004 budget was too little, too late, and over too long a period of time, and even that now has disappeared.

I know there's an argument that corporations doing business in Canada are doing well and do not need tax breaks. I would argue that this reflects a poor understanding of global economics. Some of the trends I mentioned earlier—the decline in investment in Canada, the problems experienced in the manufacturing sector, and the closure of our plants—indicate that Canada is not keeping pace in terms of tax competitiveness and is therefore losing jobs. These tax cuts were not a windfall for corporations; they were extremely important to helping companies adjust to a higher dollar, energy costs, and the cost environment faced by the emergence of Asian competitors.

We agree, basically, with the recent C.D. Howe Institute report on Canada's taxes and the Canadian Council of Chief Executives report that shows that Canada's effective tax rate on capital for large and medium-sized corporations is the second highest in the world. So we're taxing capital while the government keeps talking about productivity.

The second issue I want to raise is energy. If the federal government were focused on the requirements for a robust, growing economy in the manufacturing sector, one would assume it would have a very good idea of the requirements of an effective energy policy. Does anyone here know what the energy policy of the federal government is? So far, our energy policy is largely driven by our environmental policies to reduce greenhouse gases or pursue alternative forms of energy. The issue of adequate security of supply, cost, and competitiveness has not been a strong part of energy policy.

The reason this is so important to us is that, for some of you who may not be aware, energy is our feedstock. We produce most of our chemical products using natural gas as our feedstock. You'll see in your presentation a map of the world with the prices of natural gas around the world. For those of you who may not be able to get to it quickly, the price of natural gas is $9.25 U.S. per million BTUs in Canada. If you take a look at what it is in Kuwait, at $1.25, in North Africa, 80¢, and in Qatar, 70¢, when that feedstock is a huge part of your cost structure and your major source for building your petrochemical industry, you can see why there are 17 plants being planned in Iran, in the Middle East.

● (1130)

Our energy policy is critical to our future, and yet if you look at the energy policies of the last three or four years, or you try to find the energy policy of the federal government, it largely encourages more natural gas use, offsetting coal and other forms of electricity generation, therefore creating more supply issues.

In conclusion, members—

The Chair: I thought you concluded already. You're way over.

Mr. Richard Paton: Okay, good.

The Chair: I just have a quick question. On your second remark, on the energy policy, I don't see it anywhere in your brief.

Mr. Richard Paton: Mr. Podruzny will give you an answer on that.

The Chair: Mr. Atkinson, from the Canadian Construction Association, we will start with you.

Mr. Michael Atkinson (President, Canadian Construction Association): Thank you, Mr. Chairman.

As you heard, my name is Michael Atkinson. I'm the president of the Canadian Construction Association, which is the association representing the non-residential construction industry in Canada. We have some 20,000 individual member firms located in all regions in the country.

Mr. Chairman, our brief comments today will directly respond to the committee's desire to hear what specific measures government can take to enhance Canada's productivity. Productivity is usually enhanced by investing in people through training or investing in the technology or tools that allow a business or a group to become more innovative. We're really here to talk about what you in the federal government can do to help business help industry become more productive. Time permitting, I'll tell you a bit at the closing of my comments about what we are doing as an industry to try to address our productivity shortfalls.

There are three main areas I would like to concentrate on; the details are in the written brief, so I will be brief. Number one, we'd like to see the federal government continue in its course of reducing the debt. Cumulative federal debt in the last years is a heavy burden that continues to inhibit the entire Canadian economy from reaching its potential. In fact, debt is the very antithesis of productivity, so as a nation we must continue our resolve to reduce it. Our members truly believe that reducing the cumulative federal debt must be a priority, not a contingency.

Perhaps the most neglected area of our country with respect to the need for productivity investments and enhancements is our national highway system, our key national transportation system. The productivity and efficiency of a nation's economy are directly proportional to the state of its infrastructure, particularly its transportation infrastructure. Don't take my word for it. At the recent premiers conference, all premiers identified Canada's transportation system as one of the most important foundations of our country's international competitiveness and noted that it is absolutely key to ensuring a better standard of living for all Canadians. Yet Canada is the only G-8 nation that does not have a national highway program. In short, we have absolutely no plan for the revitalization and long-term maintenance of our key national highway system.

The inefficiency of our major highway networks impacts the efficiency, and therefore the productivity, of many sectors of our economy. I'm not talking here about something that has only been a roadblock for enhancing productivity in my own industry—the construction industry—but something that indeed is a millstone around the neck of enhancing productivity for all industry within Canada, particularly our exporting industries, which use our highway infrastructure to bring their goods to market in the United States.

And you know, on this whole question of investing and planning for our key essential national highway system, it's not a question of whether we should or not. I don't think there's anybody in Canada who would say let's allow all of the highways to deteriorate to the point where they can't be used, or let's allow our bridges and our border crossings that are so important to get to the point where they are totally inefficient and completely stall traffic. Nobody is saying that.

So it's not a question of whether we should invest but of when and how much we should invest, and without a plan, I can tell you that it's a “pay me now or pay me much more later” situation. We need to get a concerted effort going, with some leadership from the federal government in partnership with provincial governments, to start addressing our infrastructure deficit when it comes to our national highway systems and our key international highway routes.

As far as tax measures go, there are two that we have singled out as being key ones to create a climate or an environment for businesses to invest in their people, to invest in their companies, and to become more innovative. One has existed since 1974—and, unfortunately again, we have neglected it—and that is the small business deduction. We all say in Canada that small business is the engine of the economy, that it's what drives the economy, that it's where innovation and productivity has to come from.

● (1135)

We have already in our current tax system a lever we can use to encourage small business entrepreneurs to keep their money in their companies, to reinvest in their people, reinvest in key strategic capital investments, yet we've let it go by the wayside. In fact, it wasn't until just recently that we increased the threshold from $200,000 to $300,000.

We as an industry feel there's more that could be done with that particular incentive, perhaps immediately increasing the threshold to $500,000. After all, who knows better where to invest in their people or their business to obtain productivity gains than the small business owner, the entrepreneur? Surely they know better than any of us sitting around here.

The other tax area we would like to bring to your attention is to parallel something that is being done now at the provincial level. Ontario introduced an apprenticeship training tax credit. We think this is an excellent incentive again, investing in people to ensure productivity gains and innovation. I think all of you are aware that in an apprenticeship system there's a portion of the learning or training that is on the job. It's key to have employers part of the puzzle in placing those apprentices in the particular skill or trade they are working in.

We would suggest to you that you take a hard look at the new Ontario provincial measure and have it topped up, or have a similar parallel program at the federal level, to act as an initiative to get more small businesses and employers involved in investing in training, supporting proven training systems such as the apprenticeship training system.

In closing, to give you some indication, we realize that enhancing productivity in our industry is something we have to take a responsibility to do. It's not as simple as going to the federal government, or any government level, and saying, “This is on your head.” We see this very much as a partnership.

I want to bring to your attention very quickly that just last year we were one of the organizations key in establishing something called the Canadian Construction Innovation Council. The major purpose of this particular industry-led organization is to coordinate a strategy for enhancing research and development, innovation, and productivity in the construction industry. We have representation from all segments of the industry, including labour and including our clients. We see this as an important step in ensuring a coordinated approach.

Moreover, the council itself has come to the conclusion that yes, enhanced research and development is needed; yes, it's going to take the investment of some dollars; but it should be the industry that shoulders that. We've made a commitment to saying it will be the industry that funds that particular initiative. We are looking at potential partnering with the federal government, and not with our hands out for funds, but saying perhaps you can assist us in collecting those dollars through a collection mechanism such as the employment insurance system.

I'd be happy to answer questions. Thank you very much, Mr. Chairman.

● (1140)

The Chair: Thank you, Mr. Atkinson.

I want to commend your association for respecting the 10-page rule and for providing us with a page of executive summary with all the recommendations outlined. Thank you; that helps our job.

Next is the Canadian Federation of Agriculture. Mr. Shauf.

Mr. Marvin Shauf (Vice-President, Canadian Federation of Agriculture): Thank you, and thank you very much for the opportunity to present to you here today.

My name is Marvin Shauf. I am a vice-president of the Canadian Federation of Agriculture, which represents 200,000 farm families across Canada. I have with me today Mr. Gauvreau, who is the chief executive officer of La Coop Fédérée, from Quebec, and Justin To, who is on the CFA policy staff.

The 200,000 farm families that I just mentioned are families who work hard, and they invest in their communities. They provide a lot of value in the communities and in society across Canada. Why is agriculture important in this society? It is because of that investment, because of the hard work, and because of what it provides: one in seven Canadian jobs, employing a couple of million people. In 2004 the agrifood industry exported $26.5 billion worth of product, and contributed $6 billion to Canada's trade balance. Agriculture is the backbone of rural communities. It provides $6 billion in investment in cash, salaries, fuels, and fertilizer, and all the jobs that are associated with that.

Most importantly, the industry provides high-quality, safe, and environmentally responsible food for Canadians. The problem with this is that producers have enjoyed record low incomes in the last number of years, and there are significant fuel cost issues that will provide a significant further impact.

So obviously where we are in the strategy that we are currently operating isn't taking us to where we need to be. For today, while we have all of the short-term issues, CFA is going to focus more on the longer term and the bigger picture, and talk about a new strategic framework.

When first developed, the current agriculture policy framework aimed to develop strength and grow the Canadian agrifood industry. We've not achieved that goal. Most notably, farm incomes continue to fall and are currently at record low levels, as I said. There are many reasons for this: increasing market concentration, agriculture subsidies distorting markets, and regulatory hurdles that impede innovation.

The Honourable Andy Mitchell and the Honourable Wayne Easter have worked hard to find solutions for transformative change. The current framework we are operating in is nearing its end, and work must begin to develop the next framework. And it must develop its constituent parts to work more strategically.

The policy needs to focus on and develop support through the entire production chain, and to develop stability for value-added processes. It also needs strategic investment in infrastructure, research, and market development. It must build new markets, new revenue streams, and provide better value from agriculture than we're currently achieving. We need to achieve strength, growth, and income from the marketplace for all links in the chain, including primary producers. That's our goal.

CFA has already begun work with its industry partners in building toward that new framework. CFA recommends that the Government of Canada commit to work in true partnership with industry towards the development of a new strategic agriculture policy framework. Secondly, we'd like to talk about one tool within that framework that is an integral part of making sure that producers have some ability to be profitable.

It is a cooperative investment plan, and it was mentioned in last year's budget. It was something that was agreed to study further. The agri-food industry has become increasingly powerful and concentrated both pre- and post-farm-gate, excluding power at the producer level. There's been a significant squeeze to producers both on the cost side and on the market revenue side.

From the Easter report from 1984 to 1995, agriculture led almost all sectors in annual productivity growth, yet the profitability of producers remained minuscule relative to the rest of the industry.

● (1145)

Cooperatives and collective action have long been a solution for primary producers to bargain for equitable input prices in market output products. But there are some issues that need to be dealt with in terms of working with cooperatives and making them more sustainable. They are, in fact, an extremely effective mechanism to achieve economic efficiency. Cooperatives gather multitudes of individuals, achieving economies of scale and efficiencies in coordination, finding buyers, sellers, sharing risk, and reducing transaction costs. Simultaneously, cooperatives consist of individual firms maintaining competition and efficiencies gained through competition. Most importantly, collective economies of scale endow the collective with market power to bargain for sustainable margins.

Across Canada there are more than 1,300 agricultural cooperatives employing 36,000 people, generating over $19 billion in revenue per year. Significantly, cooperatives generate income and wealth and reinvest back into rural communities, distributing the earnings back to the producers who own them. Cooperatives are a significant farm income and rural development tool.

So what is the problem? Capitalization for cooperatives is an issue that needs to be resolved. It's an issue in ensuring that cooperatives have access to capital and have access to being able to deal with their equity and revolvement.

In terms of finding a solution, in 1985 the Province of Quebec developed and implemented the Régime D'Investissement Coopératif—the cooperative investment plan. The CFA recommends the adoption of the Canadian cooperative investment plan applied to federal income taxes, spurring innovation and capital investment in rural development and improving agricultural incomes.

The CIP is a 125% tax deduction granted to members and employees who invest in their cooperative's preferred shares. The program has been a great success in the province of Quebec. In 2002 the program cost the Government of Quebec approximately $6 million, but it generated over $36 million in direct capital investment and leveraged close to $100 million in investment into rural communities.

Extrapolated across Canada, it is estimated that a national CIP would cost the Canadian government approximately $18 million to $20 million per year and in successive years generate hundreds of millions of dollars in agricultural cooperative investment into Canadian communities, providing again the tool for being able to more appropriately share the revenue from the value chain and the income.

Canadian farm families are driving forces behind the Canadian agri-food industry, and their goal is simply to generate sustainable incomes from the marketplace.

The cooperative investment plan is a low-cost, efficient, and effective tool to take one small step toward achieving that goal. We begin with this one step in a greater strategic framework to empower farmers and maximize agriculture's strength and contribution to the Canadian economy.

Thank you to the committee for the opportunity to present this. If you have questions about this proposal we would be prepared to answer them, either today or in follow-up communication.

Again, thank you.

● (1150)

The Chair: Thank you.

Mr. Wassmansdorf, from the Canadian Home Builders' Association.

Mr. David Wassmansdorf (President, Canadian Home Builders' Association): Thank you, Mr. Chairman and members of the committee.

I'm a second-generation builder based in Burlington, Ontario. I operate in the Hamilton, Halton, Guelph, and Waterloo regions.

You already have our pre-budget submission with extensive information about our industry and our detailed proposals for government action. My focus today will be on the role of the residential construction industry on Canada's productivity.

The CHBA defines productivity as our capacity to sustain and increase the standard of living of Canadians. It is about improving the life chances of Canadians now being born and growing up in this country. We see this as the triple bottom-line imperative: economic to be sure, but also social and environmental.

We have three main themes for today: first, developing the skilled people we need now and in the future; second, meeting the housing needs of those who currently lack decent accommodation that they can afford; and third, creating a positive environment to encourage and facilitate innovation in our industry.

These aspects of our future rest within a simple and fundamental context. If you do not have a safe, secure place that you can call home, you cannot be productive. As Minister Fontana says, it all begins with an address.

First, let me talk about the kinds of people we need and want on our job sites every day: framers, drywallers, bricklayers, and a dozen other occupations. They are valued assets to every new home builder and renovator. Each of them brings specialized skills that meet the distinct needs of new home builders and renovators. They are the backbone of our industry, those who work with us to deliver on promises of affordability, quality, safety, environmental performance, and timely delivery to consumers.

We have a comprehensive, Canada-wide action plan for training our industry's future skilled people and managers, and it is before the Minister of Human Resources and Skills Development. We just need to get going on it in cooperation with community colleges and apprenticeship programs. Without action on this plan, we are quite frankly facing a crisis within the near future. Even conservative forecasts of shortages are in the tens of thousands of skilled trades people. Each job represents an opportunity for a meaningful and rewarding career in our industry.

We also need to see changes in immigration policy and regulations in order to bring in more skilled people to Canada.

The other major element of improving productivity in residential construction, process improvements, I'll address in a moment.

There's a second key issue requiring attention and aggressive action, and that is the underground economy. I'm sorry to say that Canada Revenue Agency is continuing to bury its head in the sand on this one. The contract payment reporting system has utterly failed to address the underground economy, and governments are losing literally billions in underground cash transactions without a concerted tax collection effort.

What is the connection then with productivity? It is simple and direct. The underground economy undermines efforts to achieve quality for consumers, to advance innovation through skills development, and to build up human resource assets for the future. It is widely linked with theft of materials, slipshod workmanship, intimidation, and other types of crimes and misdemeanours.

We stand ready to work with the federal government on concerted effective actions to address the underground economy.

Let me turn now to my second point: housing needs and productivity. Minister Fontana has been talking about the dividends from decent accommodation that people can afford. These are the measurable benefits to health, education, justice, and the environment from sound, well-planned housing in communities. These are all productivity dividends.

A recent report by the Vanier Institute of the Family notes that despite the improvements in overall housing affordability, younger Canadians are falling behind in gaining access to home ownership. We need effective and combined action, by all orders of government, to break down the barriers facing many young people starting out and those on the margins of housing affordability—the working poor.

At present, government taxes, levies, and charges comprise as much as 20% or more of a home. We need action to index the GST rebate on new and substantially renovated housing, and we need tax reform to make investing in new rental housing viable again. We also need a housing lens applied to federal infrastructure funding to ensure federal infrastructure investments carry a housing affordability dividend for consumers.

● (1155)

In each case the impacts of federal action are direct, because there is one interdependent housing market. There is also a need for governments to target certain specific housing needs directly, and thereby secure productivity dividends for improved living conditions.

We are calling for a comprehensive housing policy toolbox that includes housing allowances. These would give lower-income households the additional money required to access accommodation that best suits their needs, or to stay where they are and spend more on other necessities of life. This is not rocket science of public policy, it is common sense, and it's endorsed by provincial governments in Quebec, British Columbia, and Saskatchewan.

In addition, we need selected housing production initiatives focused on our aboriginal peoples, residents of the north, and those with special needs for combined housing and support services or specialized accommodation. All of us know about the transformation that concerted action on good housing can make in community morale, family health, and individual productivity.

My final topic is innovation. Ours is a highly innovative industry. We incorporate dozens of new products every year into our Canadian homes. These in turn come from innovative Canadian manufacturers. What I should note as well is that as an industry we strive to be on the cutting edge of introducing new technologies, building processes, and designs.

Let me just make two examples. One is the R-2000 program, recognized worldwide as the best available housing technology to conserve energy and the environment. Our industry has championed this new home-building technology in partnership with the federal government from day one 25 years ago.

We have also been leading the world in introducing a vital contributor to housing innovation and productivity. That's now the objective-based building codes. Canada is the first country to develop and introduce them, starting this year, through the sound work of the Institute for Research in Construction at the National Research Council. So there are many product and process innovations that have great potential—for example, putting community-scale energy and water systems together with innovative homes and community facilities.

To continue to innovate and reap the productivity gains from innovation, we need to address some fundamentals. One is sustained investment in the expertise and outreach of our partner agencies for research and development, those being Canada Mortgage and Housing Corporation and the Institute for Research in Construction at the NRC.

We need concerted federal efforts to address the business case for community-scale innovation as a whole, rather than item by item.

We need to close the gap between the costs of conventional practices and those of newer alternative technologies.

We need innovation in financing and insurance to manage the risks of innovation to builders and developers, coupled with a sound and stable legislative framework, such as establishing joint and several liability in the event of technological failure or environmental concerns related, for example, to brownfields redevelopment.

Those are my points today, Mr. Chairman. Good housing in safe and well-planned communities is the foundation of productivity and sustainability. We are poised for coherent action on looming shortages of skilled workers and the underground economy, and we are ready for a comprehensive housing policy toolbox. We are ready for accelerated housing and community-scale innovation.

Thank you very much.

● (1200)

The Chair: Thank you.

Next, from the Canadian Steel Producers Association, is Monsieur Lacombe.

Mr. Barry Lacombe (President, Canadian Steel Producers Association): Thank you very much, Mr. Chair.

My name is Barry Lacombe, and I represent the Canadian Steel Producers Association. We very much appreciate the opportunity to present to the committee the views of Canada's steel producers, as you develop recommendations for the next federal budget.

I also want to take this opportunity to thank the committee for its support in last year's report. The committee has supported and recognized the need for a competitive tax regime. It supported and recognized the importance of addressing international trade factors negatively affecting the Canadian market and industry. Finally, the committee supported the Canadian Steel Partnership Council, which brings together federal and provincial governments and all our stakeholders to develop a long-term sustainability vision for the industry. We very much appreciate that.

Finally, I want to say that we also want to compliment the committee for its focus on productivity. This is essential if Canada is to ensure and enhance Canadians' standard of living, in light of the challenging demographic profile we face and the intense global competition, much of it based on unfair competition.

I'd like to make a few points and then come to our recommendations. I know that everyone has a copy of our presentation, our submission, but let me make a few of the points.

First, all the examinations of productivity differences between Canada and the U.S. show Canada's steel producing industry as one of the sectors having significantly higher productivity than its U.S. counterparts, roughly 40% higher. We also have focused on skills development through the Canadian Steel Trade and Employment Congress, developing human resource policies in concert with the United Steel Workers.

Second, like all Canadian manufacturers, the industry faces intense international competition from China, India, Asia, and Latin American. But this competition is aided and abetted by governments through subsidies for major increases in steel-making capacity, through government export controls on raw materials, which drive up raw material prices, through export incentives to spur and increase exports, and through policies of controlling currency values. All of these are in violation of international trading rules, and no amount of productivity increase will enable us to successfully address those concerns, unless we address those concerns directly through a strong and sustainable international trade policy.

Third—and this is frequently forgotten—there have been no major tax reductions for Canadian manufacturers, including Canada's steel producers.

Fourth, to its credit, the government has been pursuing many elements of a productivity agenda, with skills development, where Canada has one of the highest educated labour forces, innovation, and support for research and development, but Canada's productivity gap with the U.S. continues to grow. The question is why? The marginal effective tax rate on capital remains unacceptably high in Canada. As Richard Paton has said, Canada has the second-highest marginal effective tax rate on capital of 36 countries, including all the OECD countries and our major Asian competitors.

Fifth, Canada's share of foreign direct investment is falling and we are now in a net negative position on foreign direct investment. More is going out than coming in, suggesting that Canada is not as attractive a place in which to invest as it once was. This is another consequence of the high tax rate on capital.

Sixth, the available fiscal room needs to be refocused. Spending increased by an unsustainable 15% last year. While we recognize there are a number of demands, a focus on productivity must mean that spending and fiscal actions focus on generating growth and enhancing the Canadian standard of living.

Seventh, as I've said, the manufacturing sector is facing particularly difficult challenges. We have the second-highest capital taxes in the world. We have higher energy prices, especially for natural gas and electricity. In our submission, we included a version of the chart to which Richard Paton referred earlier. These markets are regional, and government actions are making the situation worse. We face higher material costs and unfair competitive practices by major competitors. We have an outdated and costly regulatory process. The manufacturing sector has received very little attention, yet it represents 22% of the economy and is essentially providing highly skilled, well-paid jobs.

For these reasons, as we did last year, we propose a productivity and growth strategy, building on what the government has already done. Our one key message is that we don't have time; we have to move quickly. Therefore, we recommend the immediate reduction in the corporate tax rate to 19%, including the elimination of the capital tax and of the corporate surtax. This is moving forward budget measures that have already been announced.

● (1205)

Second, on development of a national energy strategy, we note that the Council of the Federation has announced its intention to develop such a strategy. We call on the federal and provincial governments to work together on this. Energy is absolutely key to the manufacturing sector, and the higher cost of natural gas and electricity is putting us in a very uncompetitive position.

We'd like to see real progress on smart regulation, not just words.

We'd like to see an effective international trade policy and strategy. We think this is absolutely essential to balance the productivity gains we need to make in Canada. There's no sense making those gains in productivity if foreign goods and services are going to come into the Canadian market, subsidized by their governments, and compete unfairly. Industry can't compete with government subsidies; we can compete with industry.

So we think an effective international trade policy and strategy is essential, and that should include market access but also, as part of market access, addressing non-tariff barriers to trade and of course ensuring that the Canadian market is functioning well on market-based principles.

We'd like to see and recommend a much stronger and more effective focus on manufacturing. The manufacturing sector needs attention. It is facing a number of challenges and it's important that the industry, along with governments—and I use the plural "governments"—work to address those challenges.

And finally, we'd like to see continued fiscal discipline and spending control, including a continued focus on spending review and the reallocation of existing spending.

In conclusion, I want to thank you again, Mr. Chair and committee, and we look forward to your comments and suggestions.

The Chair: Thank you, Mr. Lacombe.

We're running behind, so we may go over a little bit. I want to try to get all the members in.

Ms. Ambrose.

Ms. Rona Ambrose (Edmonton—Spruce Grove, CPC): Thank you, Mr. Chair.

Over the last week we've heard from a number of different groups. I hate to use Mr. Paton's comment about doom and gloom, but I sense in all a strong sense of urgency, particularly in the manufacturing sector.

You mentioned that Canada is now a net exporter of capital, and we've heard over and over again from many of our witnesses about the need to cut corporate taxes and increase capital cost allowances.

And of course you mentioned, Mr. Paton, as well the need for an energy policy, with the impact of high energy prices.

My question is more on the long-term basis. I know some of those things will help the situation in a shorter term and that's absolutely necessary, but particularly in respect of manufacturing and the emergence of China and India as economic powerhouses, I'm wondering what we can do in terms of looking outside the taxation environment and the regulatory framework at the social framework and at what we can do in the long term to distinguish ourselves to increase foreign direct investment in Canada.

I know some of you talked about housing policy. You talked about apprenticeship program investment and the need for a highly skilled labour force. One of the things we talk about in the Conservative Party is the need to streamline and facilitate foreign credentials, for what we have now is a very highly skilled immigrant labour force that isn't working in the areas they should be.

I wondered, Mr. Paton, if you could just talk a little bit about some long-term strategy on productivity in terms of enhancing the social framework as well.

● (1210)

Mr. Richard Paton: I will try, Ms. Ambrose, but I must say all these things are good—skills, and I see some of the other sectors are identifying those as important issues—but the reality is, if you take a look at that map on natural gas prices.... And I totally concur with what Barry said about corporate tax. When people are making investments, they start with the economics. They start with the energy costs, they start with the taxation costs, and they look at what it's going to cost to build the plant and at how long their capital is going to be tied up in the building process or the approval process. That moves us into the regulatory process.

And skills generally, in our country, in our industry—and I think it's true in most of the manufacturing sector—are a challenge but not a huge problem, even though there are some demographic issues I think most of the sectors are facing. But I don't think that in most of the cases today you would even get Canada considered because of the energy, the corporate tax, or the feedstock issues.

The skills issue becomes a third or fourth round level of decision, so a skills agenda is not enough. You need an energy agenda; you need a tax agenda; you need a trade agenda, and in fact I would argue those are probably more important, especially given the imbalance we have right now in those areas.

Ms. Rona Ambrose: Thank you.

I'm going to split my time with Mr. Harris.

Mr. Richard Harris (Cariboo—Prince George, CPC): Thank you.

Mr. Shauf, let me preface this by saying that over the last 12 years we've watched, as you pointed out, farm incomes fall dramatically, and that's certainly true. We've also seen farm income support policies become increasingly more difficult to access for people in the agriculture business. This has been very noticeable over the time I've been in this House. This is confusing.

Yet you specifically take time out in your presentation to sing the praises of Mr. Mitchell and Mr. Easter as being hard workers who try to bring about change. Quite frankly, I haven't been able to see the change. I'm sure the members of your organization are wondering where the positive change is and if in fact the compliments are due Mr. Mitchell and Mr. Easter, because farmers and agricultural people in this country haven't seen the positive results.

Could you comment on that?

Mr. Marvin Shauf: Yes, I could. Thank you for the question.

The reason we have seen farm incomes continue to decline over a large number of years is because of a difference in Canada in terms of how we provide a number of the things people have talked about around this table: how we provide our domestic support, the environment we haven't created for investment in agriculture, and the predictability we haven't created in agriculture. The support mechanisms they have both in the United States and in Europe have really created market failures in grains and oilseeds in terms of market supply-demand ratios.

We look at what we have in Canada and we look at the issues relative to market concentration and the issues of competing with other countries' treasuries, and we have watched that decline while our producers try to live out of the marketplace. That's what our policy has asked producers to do.

I think the compliments are due because the minister and parliamentary secretary have recognized that this isn't working for the industry and have begun a process to find solutions to it. That's the reason they're mentioned in this report.

What we're talking about is building out of this recognition a new policy framework that takes into consideration the other issues I and a number of people around this table have previously talked about relative to investment opportunities, predictability, and those kinds of things so we can in fact have a strategy that builds value in the Canadian industry. What I talked about here is that agriculture provides a situation analysis. We are in the process now of exploring what we can build agriculture into as a value-adder and a contributor in this economy.

● (1215)

The Chair: Thank you.

Monsieur Loubier.

[*Translation*]

Mr. Yvan Loubier (Saint-Hyacinthe—Bagot, BQ): Mr. Chairman, I have two questions for either Mr. Shauf or Mr. Gauvreau.

In recent years, the Co-operative Investment Plan has not had the unanimous endorsement of all co-operatives. At least one or two co-operatives in Western Canada were lukewarm to this idea. I'm curious as to whether there is now unanimous support for this co-operative plan.

For my own benefit, and for my colleagues' benefit as well, I would also appreciate a brief explanation of the current CIP in Quebec.

Mr. Pierre Gauvreau (Chief Executive Officer, La Coop fédérée, Canadian Federation of Agriculture): Thank you for your question, Mr. Loubier.

As far as a consensus of opinion is concerned, the co-operative movement is certainly united in its support for the CIP. While a few co-operatives objected to re-opening tax agreements, the problem was resolved with the adoption of [*Editor's note: inaudible*] in the case of rebates paid in the form of units.

In terms of how the CIP works in Quebec, the plan existed in one form or another for 20 years and was reintroduced in 2004 with some modifications. The holding period was extended from three years to five years. Co-operatives issue units to their members and employees. A maximum of 30 per cent of members' eligible income can be used to purchase units which are then eligible for a tax deduction of 125 per cent.

This type of investment plan allows co-operatives to siphon off capital from both members and employees, which is especially good for new and newly formed co-operatives with substantial capital requirements. Quebec recognized these requirements by adopting regulations stipulating that once co-operatives have achieved a certain funding level, they are no longer eligible for the CIP, or Co-operative Investment Plan.

The CIP has proved to be very effective and has resulted in a several initiatives in Quebec. In its brief, the CFA mentioned the Coopérative de l'Île-aux-grues which, through the CIP, has been able to grow and develop into a very viable business. The groundwork was laid by 14 people, that is a small group comprised of eight employees and six co-operative members.

The plan introduced at the federal level last year is in line with the deferred tax scheme for rebates paid in units. With proper regulations are in place, one system complements the other. At some point, when no longer eligible for the CIP, the co-operative can adopt a deferred tax scheme.

Mr. Yvan Loubier: Thank you.

I have nothing further, Mr. Chairman.

The Chair: Thank you, Mr. Loubier.

[*English*]

Mr. McKay, and then Mr. Julian.

Hon. John McKay (Scarborough—Guildwood, Lib.): Thank you, Chair, and thank you, presenters.

I want to direct my questions to Mr. Paton and Mr. Lacombe, if I may, in the brief amount of time I have.

The first question has to do with withholding tax. I take it you're supporting the withholding tax coalition that wants to eliminate withholding tax on arm's-length interest. Is that essentially it?

● (1220)

Mr. Richard Paton: Yes.

Hon. John McKay: I suppose at one level that does stimulate capital inflow. The problem is, though, there effectively is no taxation consequence if you eliminate withholding tax. So the foreign investors—

Ms. Rona Ambrose: Mr. Chair, on a point of order.

Hon. John McKay: —would therefore make investments in Canada—

Ms. Rona Ambrose: I have a point of order, Mr. Chair.

We've given 48 hours' notice to consider a motion by Mr. Goodyear that's before the committee. We'd like the committee to consider it now, since we have ten minutes left.

My apologies to our presenters—we did raise this issue at the end of the session so that you'd get a chance to make your presentations—but we'd like the committee to consider the motion now.

The Chair: It's not on the orders of the day. We have a steering committee planned, and we were going to discuss when we were going to fit in this motion. So I can't accept that.

Mr. Gary Goodyear (Cambridge, CPC): If I can, I would challenge the chair, that the motions are before us, and that we do vote on it now.

Hon. John McKay: I really don't see that there's any challenge here.

The Chair: You're going to challenge the chair that it's not on the...?

Mr. Gary Goodyear: Yes, sir, that we vote on it now.

The Chair: Does anybody want to speak to that?

Hon. John McKay: These motions are not of any great significance other than to the mover. We have a panel gathered here to present to us on what is arguably the most important part of government in Canada—namely, its budget-setting process. So what we're doing is setting aside people who are making contributions to the budget-setting process for an item of great significance presumably to the individual and possibly some school boards, but beyond that, of no great significance. Frankly, I think it's an abuse of the committee process to try to intervene in the presentation here.

Mr. Richard Harris: Mr. Chair, I'd like to challenge Mr. McKay's comment that—

The Chair: I have Mr. Goodyear first, who wants to speak.

Mr. Goodyear.

Mr. Gary Goodyear: Thank you, Mr. Chair.

I appreciate that the members have all come out today. We do have less than ten minutes in this meeting and we have all heard the presentations, so I do not feel that we are compromising the value of this particular meeting. In fact, I would argue that this is a very important issue to a number of school boards in Quebec and in Ontario, and I would like to take a few minutes of the committee's time to ask that all members here today support my motions regarding the return of GST as required by the courts but denied by the federal government to our school boards in Ontario and Quebec—not just because it's fair; not just because we must prevent this from happening to other school boards in other provinces; not just because the money is desperately needed by our school boards and not by this cash-heavy government; not just because some school boards must now lay off crossing guards, putting our children in danger because of the decision by the finance ministry; but also because of the very principle, the very nature of this issue behind the decision.

Canada is governed by the rule of law. It is embedded in our Constitution. We implore other countries to follow and respect the rule of law. This act is an affront to what is Canadian and it is an affront to the fabric of Canada.

In the case of taxation, the vast majority of Canadians prefer to pay as little as possible, and all expect to be treated fairly and predictably and of course to get the best bang for their tax dollar. Taxpayers must bear the risk that their interpretation of existing laws may not be the same as the tax collectors'—

The Chair: Mr. Goodyear, we're not discussing the motion. If we're going to challenge the chair, it's really not debatable.

Mr. Harris, before we go to a vote.

Mr. Richard Harris: I would just like to challenge Mr. McKay's statement. He seems to think this is a trivial motion of interest only to Mr. Goodyear.

Quite frankly, this is a motion that is and will continue to be of interest to every single school board in every single province in this country. If Mr. McKay thinks that's very trivial, then I think he should have a look again at just what the Liberals are doing—that is, denying the rule of law, denying and refusing to reimburse school boards that have been legally granted that right by the rule of law in this country.

I question Mr. McKay's description of triviality of a motion of this sort.

The Chair: Okay. I just want to vote on whether we're going to introduce the motion at this moment.

● (1225)

Mr. Don Bell (North Vancouver, Lib.): I have a procedural question. I've had nothing on this. Was something circulated to us? How do we add something to an agenda?

The Chair: Yes. Notice was given last week. It was presented before the committee last week—Wednesday, I believe.

[*Translation*]

Mr. Loubier.

Mr. Yvan Loubier: Mr. Chairman, so that we may continue our work and out of consideration for the witnesses who are here, I would like the committee to vote on this motion. Since it was tabled more than 48 hours ago, I think members have had time to reflect upon it.

The Chair: I already decided that we were going to debate this motion later, but at this time, we can vote on whether we want to go along with my decision, or debate the motion right away.

[*English*]

All in favour of the chair's decision of not debating the motion? All opposed?

(Chair's ruling overturned)

The Chair: Okay, so we'll debate the motion.

Mr. Goodyear, it's your motion.

Mr. Gary Goodyear: I will continue with my statement, following the last comment when I was stopped by the chair.

Taxpayers bear the risk that their interpretation of the existing laws may not be the same as the tax collectors', and in such cases of discrepancy the courts are asked for their supposedly final decision. The taxpayers must adhere to the decision or face fines and possible jail time.

Mr. Chair, the crown must too. The crown cannot choose what court decision it likes or does not like. If the taxpayer had to follow the law but the crown did not, what trouble would we be facing? I suspect we would be facing a complete breakdown of our ability to pay for the needs of the nation. The taxpayers would revolt. The entire Canadian way of life would be negatively impacted.

Canadians need stable, transparent, and predictable governing from their elected officials. They need a government body they can trust. When a government changes the law to suit itself, what message does that send the people of the land?

Well, my colleagues and members of the committee, it tells Canadians that any plans you may have for your business growth, for your retirement, for your family vacation are worthless, because we as the government can change the laws at any time and when we do you can only count on the fact that we will change them in the interests of the government, not the people.

I find it completely unacceptable that this Department of Finance would retroactively change the law and deny a court-sanctioned judgment to give school boards 100% refund on their GST payments on the transportation of our children. It is unsettling, Mr. Chairman, and I find it despicable, that the finance minister would refuse to respect the courts at a time when the Minister of National Revenue is telling Canadians we must respect the common law and honour our settlement with Mr. David Dingwall.

Members and colleagues, it is not right for this government to change tax on what is clearly a commercial activity, and it is simply greed that they take money from our school kids, forcing the schools in some cases to do away with crossing guards. It is not right and it is a dangerous precedent for any government to retroactively change tax laws.

I am asking you to vote in favour of my motion and return the money as ordered by the courts.

Thank you, Mr. Chair.

[*Translation*]

The Chair: Mr. Loubier.

Mr. Yvan Loubier: I second the motion, Mr. Chairman and I request an immediate roll-call vote, so that we can continue to hear from our witnesses. Everyone is aware of this problem.

[*English*]

The Chair: Mr. McKay.

Hon. John McKay: This issue arises out of an interpretation of a judicial decision some years ago, on which the government has taken the view that this money is not refundable. If in fact the mover of the motion thinks it is, then he has to go against the interpretation the government has put on that particular decision.

With respect to this procedure, I think we've pretty well insulted every potential presenter by this manoeuvre. These people come; they prepare; they make sincere, honest, and difficult representations to the committee. We insult them with motions such as this. This is a waste of time.

● (1230)

The Chair: The question is who is in favour of the motion tabled with the committee last Wednesday by Mr. Goodyear. Is everybody aware of the motion?

(Motion agreed to: yeas 9; nays 1)

The Chair: Seeing that it's 12:30, I want to thank the witnesses for appearing.

The meeting is adjourned.

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