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Chair

Mr. Massimo Pacetti

Standing Committee on Finance

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● (1725)

[*English*]

The Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.)): We'll get started. I apologize for having started so late. We have to make it up somewhere, and this is the group I'm going to make it up with.

We have an additional problem that I'm not sure you're aware of. We have a vote at 5:45, so we're going to have to take a break. We're only going to be half an hour at most, from what I understand, so members are going to come back after the vote.

Thank you for taking time out of your day. Obviously when you're the last panel of the day it makes it more difficult for some of the members, but you'll have to bear with us and we have to bear with you.

We're here pursuant to Standing Order 83(1) on the pre-budget consultations for 2005. I'll allow you an opening statement of seven to eight minutes, and I would ask that you stick to that.

We'll start with the Association of Consulting Engineers of Canada, Mr. Boivin.

Mr. Claude Paul Boivin (President, National Office, Association of Consulting Engineers of Canada): Thank you, Mr. Chairman.

We have three issues that we would like to raise with the committee today, and all three of them affect and have an impact on Canada's productivity and Canada's competitiveness.

Issue number one is Canada's $22-billion highway deficit, which is having a negative impact on our economy.

Issue number two is the federal government's procurement system, which promotes false economies through low-price bidding for professional engineering services.

Issue number three is Canada's international cooperation program and the trend at CIDA to de-Canadianize Canadian aid.

Regarding our first issue, highways, the reality is that trucks and cars are not going away, and we will need highways for years to come to support our economy. The other reality is that we have a $22-billion highway infrastructure deficit in this country, which means bad roads. For our economy, bad roads mean slowed shipping, extra labour costs, and extra fuel consumption, all problems that affect Canada's productivity. For consumers, bad roads mean vehicle wear and tear, which translates into added costs for Canadian families. It also means more dangerous highways, which translates, unfortunately, into more injuries and more deaths.

So our recommendation is that the federal government recognize the role that the federal government should play in supporting highways, and the role that highways play in our productivity. If you ask how much, as you've asked other representatives here, well, if the federal government dedicated about $1 billion a year and this was matched by the respective provinces, we could get rid of the highways shortfall in 11 years.

Our second issue deals with how construction design professionals such as engineers and architects are chosen. Currently the federal government places an inordinate emphasis on low-price bidding, which results in what we really think are false economies, false economies that choke innovation and ultimately affect productivity. When you build a government facility, you must invest wisely in the upfront design, because that design is going to determine the quality of the building. That represents only about 1% to 2% of the overall cost of the design. But if you get the design right at the outset, you will have a quality project and a quality facility that can actually save money in the long term by reducing life cycle maintenance costs.

We're delighted to hear the public works minister, Scott Brison, say that Government of Canada buildings are part of the environmental solution. We're especially delighted to hear him say that the Canadian government must design innovative and energy-efficient buildings, even—he stresses—when it costs more up front. Mr. Godfrey said exactly the same thing yesterday at lunch.

I think those are encouraging words, but we must translate those well-intentioned words into policy. In the United States, there's a federal law that makes it mandatory to select engineers and architects who do the crucial design of buildings and infrastructure based on their qualifications and not price. It makes sense to choose a professional based on qualifications.

I think you yourself, if you needed eye surgery, or God forbid, your children needed heart surgery, would not go to a surgeon and get the best price. You would select your physician based on technical competence. You would select them on experience and proven performance. We say that's how engineers should be selected as well, so we urge the government to move into changing its procurement system for intellectual services provided by engineers by having qualifications-based selection.

On our very last issue, CIDA, there are two matters of deep concern to us. The first is the trend at CIDA to de-Canadianize Canadian aid. Today, instead of making Canadian talent, Canadian expertise, and Canadian resources available to those who need them in the Third World, CIDA is increasingly making huge cash disbursements to multilateral organizations, without the involvement of Canadians. This growing trend, in our view, has serious negative consequences for Canada. Fewer Canadians will be working abroad. This will certainly diminish our visibility and ultimately reduce our influence globally.

What we are in fact seeing is CIDA taking the Canadian brand off the Canadian aid packages, and we think that is detrimental to Canada. So we recommend that this trend of de-Canadianizing our aid be reversed.

● (1730)

The other issue, the last issue that we'll be addressing today, is with regard to CIDA again and how it has abandoned funding for infrastructure projects. This is at a time when the leaders in developing countries, especially the African leaders, have clearly said that what they need as a top priority is investment in physical infrastructure, and our country is not providing that. In Canada the development of our infrastructure has been vital to our economy, and how can we expect developing countries to develop their economies without reliable infrastructure?

[*Translation*]

Our message to the government is that it must re-establish balance in CIDA's budgets by reinstating funding for infrastructures.

Summing up, Mr. Chairman, our association wants three things: first, long-term funding for our roads and highways; two, the selection of engineers based on their qualifications, not the lowest price; and third, funding by CIDA for infrastructures in the developing world.

Thank you, Mr. Chairman.

[*English*]

The Chair: Merci, Monsieur Boivin.

If we could, we'll get one more presentation in, the Canadian Electricity Association. Mr. Konow.

Mr. Hans Konow (President and Chief Executive Officer, Canadian Electricity Association): Thank you very much, Mr. Chairman.

I'm appreciative, again, of the committee giving us this opportunity to meet with you this year.

The Canadian Electricity Association, as you may be aware, is the national voice of the electricity sector in Canada, representing the full value chain from production through delivery to the customer. The electricity supply and delivery system has historically been reliable, secure, and cost-effective. It has been one of the key competitive advantages underpinning the Canadian economy.

Canadians expect this performance to continue into the future, but to do so will require significant capital investment. Although the Canadian economy continues to demand less energy for every additional million dollars of GDP, the demand for electricity continues to grow on an absolute and on a per capita basis. What that reflects is efficiencies we've made in terms of our industrial capacity to become more efficient, but it's being overlaid by per capita consumption and by growth in the economy as a whole.

From 1990 to 2003 Canada's total domestic electricity demand grew by 19.5%. Despite anticipated gains in energy efficiency, national demand is projected to continue to grow at an annual rate of 1.5%. Canada's electricity sector will need to build infrastructure to meet future demand growth and to upgrade or replace a significant portion of the generation, transmission, and distribution capacity built in the last 50 years.

As you know, the electricity sector competes in an international capital market, where demand for investment worldwide is extremely mobile and growing. If we do not succeed today in attracting the necessary investment to finance tomorrow's electricity infrastructure, Canada's competitive economy and standard of living may be at risk.

Mr. Chairman, I would like to thank this committee for its important recommendations last year regarding capital cost allowances. Your interventions helped to obtain in Budget 2005 a significant improvement to CCA rates in certain key areas, such as a new 8% rate for electricity transmission and distribution assets. That was up from 4%.

In order to invest for future demand, CEA member companies will need to address both the affordability and the environmental sustainability of their investments. With this in mind, we believe there are several specific adjustments to CCA rates that would prove helpful in ensuring appropriate investment choices. These are covered in greater detail in our brief, which has been distributed to committee members. I will review them briefly.

First, with respect to incenting action to reduce air and water pollution, CEA is requesting the reactivation of class 24 and class 27, which were phased out in 1998. Alternatively, all of the generation-related technologies to control or reduce pollutants, such as NOx, SOx, particulate matter, and mercury, could be placed into class 43.1.

Fiscal tools to incent improvements to thermal plants benefit Canadians in a number of important ways. A reduction in the cost of improving air and water quality will help retain capital in Canada. At the same time, it will provide utilities with incentive to further accelerate the deployment of pollution control and abatement equipment for existing and new electricity plants. Thermal plants will be able to continue to provide reliable, competitively priced power to customers while minimizing cost-of-service rates at a time when rising fuel costs have engendered significant national attention and concern.

Finally, implementing this recommendation will provide all resource and manufacturing industries equal opportunity to invest in sustainable solutions to meet environmental regulations.

On a second front, Mr. Chairman, CEA is recommending action to accelerate the implementation of advanced metering infrastructure, a significant tool in delivering greater energy efficiency. The advent of new technology in the area of metering can help customers of electric utilities conserve energy.

● (1735)

Advanced metering infrastructure includes the use of smart meters for homes, and real-time phase meters that are used on transmission networks and in generation plants to manage load, voltage, and power quality.

CEA is asking that all of these sophisticated meters be elevated to an incentive class that reflects their key component parts. Smart meters will allow customers to see and react to higher prices typically found during peak hours of consumption, and utilities can use that data to offer load management and energy conservation programs to their customers to help offset rising prices and reduce greenhouse gases. Smart meters can also help utilities identify theft, including marijuana grow operations, detect outages, and restore power faster. Accordingly, action is required to further incent investment in AMI. Specifically, CEA is recommending a combined CCA rate that would take into account that IT systems represent 75% of this technology.

On this basis, AMI technology, including smart meters, requires an incentive rate in the order of 45% for communications software, firmware, and related information technology components, and 12% for hardware.

Ensuring a strong, sustainable, and secure electricity industry in Canada requires further action on the part of government to foster an environment conducive to greater investment in conventional and emerging generation, transmission, and distribution technologies as well as enabling demand-side technologies.

Given long planning and construction lead times, ensuring an efficient, diverse, and reliable power supply for tomorrow depends on investment decisions made today. In this regard, CEA continues to believe that further enhancements to the CCA rates for generation, transmission, and distribution equipment are appropriate.

More work needs to be done to ensure that CCA rates reflect appropriately the economic life of our assets, attract the new investors, build the necessary supply, and provide reliable power at competitive prices while meeting our environmental performance objectives.

I would point out that with the adoption of the recent U.S. Energy Bill, CCA rates in Canada continue to lag behind those in the United States, where more generous depreciation allowances exist for major technologies like nuclear plants and transmission and distribution equipment.

In addition, CEA believes the federal government should remove the inequity of distinguishing between new and used assets, and raise used equipment to the rate of new equipment.

Finally, CEA encourages this committee to recommend that the government implement the federal corporate tax rate reductions that were announced in Budget 2005.

With that, Mr. Chairman, thank you very much.

The Chair: Thank you.

We're going to try to go to one more, to the Canadian Professional Sales Association. Mr. Ruffell, you have six minutes.

Mr. Terry Ruffell (President, Canadian Professional Sales Association): Thank you, Mr. Chairman.

My name is Terry Ruffell, and I serve as vice-president of association relations for the Canadian Professional Sales Association. On behalf of our president, Harvey Copeman, and the association membership, I'd like to express my gratitude for the opportunity that's been provided to take part in these important pre-budget consultations.

CPSA, to give you a little background, is a national organization with 27,000 members. Collectively, they represent all aspects of the sales and marketing of goods and services both within Canada and around the world. Members are located in all provinces and territories, and range from self-employed entrepreneurs to employees of major corporations.

I'm confident in being able to assure you that the contents of our pre-budget submission represents the views of the membership. Input was gathered by means of a pre-budget survey undertaken this summer of a representative cross-section of our members across Canada.

Fundamental to our submission is the fact that Canadian-based companies must be price-competitive if they are to succeed. This observation is equally true for domestic sales, where Canadian companies must compete both with Canadian companies and international suppliers, as well as for export sales. Our objective today, therefore, is to recommend initiatives in this paper that will enhance the competitiveness of the nation's sales and marketing force, thus creating benefits for all Canadians.

A characteristic of the sales profession is its optimism concerning future prospects. Thus, the standing committee should be concerned that the consensus position of the profession is for moderate growth for the balance of the year and through 2006. Fewer than 50% of the survey respondents believe consumer confidence is strong enough to keep the economy buoyant throughout this period. It's unlikely that a consumer price index predicted by the Governor of the Bank of Canada to rise to the 3% level and stay there through 2006, along with higher borrowing costs, would have improved our mid-summer outlook with respect to consumer confidence.

The highest priority of the standing committee, therefore, should be a budget that promotes a healthy Canadian economy. Thus far the standing committee has not had the chance or the benefit of being able to make judgments within the context of the Minister of Finance's economic and fiscal update. The 2005 budget forecasted real GDP growth at 2.9% this year and 3.1% in 2006. The most recent monetary policy report of the Bank of Canada was released last week, and it's adjusted the outlook for real GDP growth down to 2.8% and 2.9% next year.

When the finance minister does appear before you, it will be important to determine whether the projections for economic growth next year are both realistic and sufficient to promote the ongoing health of the Canadian economy.

In the eyes of two-thirds of our CPSA members who responded to our survey, there's no better way to ensure economic growth than by personal income tax reductions. Recent budgets have focused on spending priorities or debt reduction, with little or no reduction in personal taxes. Individual tax reductions in the past have been largely targeted to lower tax brackets. As a result, individual taxes remain a high priority, especially for middle- to upper-income Canadians. Therefore, we have recommended that the standing committee should recognize the importance of the need for broad-based personal tax relief.

By contrast, only 16% of our survey respondents identified debt reduction as the most important economic stimulant that the standing committee should recommend, and just 4% of them opted for increased spending on national programs and services. Thus, the CPSA urges personal tax relief to be regarded by the committee as a priority over both increased program spending and an overly robust approach to debt reduction.

While significant debt reduction is not viewed as an economic imperative, 89% of our members regard ongoing commitment to balanced budgets as essential. The 2005 budget noted that in the previous fiscal year the government spent 19¢ out of every revenue dollar servicing interest on our national debt. As long as nearly 20% of every tax dollar collected from Canadians is directed to debt servicing, then certainly suggestions to permit the nation's finances to slip back into a deficit are regarded by us as irresponsible.

Our submission urges the government to keep its commitment to maintain the $3 billion contingency reserve intact, that the economic prudence factor be increased, as promised, to $2 billion in this budget, and that the objective of reducing the federal debt-to-GDP ratio to 25% by 2014-15 be maintained.

Since increased program spending is not viewed by our members as a positive contribution to Canada's economy, it should not be a surprise to the standing committee that 85% of them stated that ongoing expenditure review is either extremely useful or somewhat useful.

● (1740)

In response to what CPSA regards as significant annual spending increases by the government, our members were asked to look at options to control spending in the future, and 62% of them said that spending should increase only marginally to adjust for inflation or population growth, while a further 21% said they wanted to see spending frozen.

Still on the subject of spending, our submission urges the standing committee to continue its support for ongoing review of all non-statutory programs. As for the need to reallocate funds from low priority to high priority objectives of the government, we've asked our members to rank a number of the government spending options. They ranked health care—certainly you heard that earlier today—as the most important of these choices, followed by education and training, and national security, third.

The least important spending priorities for our members were public transit, regional development, and at the bottom of our list, subsidies to business.

Pages 8 and 9 of our submission address four additional issues that are important to the sales community. I'd like to spend just a few moments talking about those briefly.

First is the issue of EI premiums. The February 2005 budget expressed an expectation that a new permanent rate-setting mechanism would be in place by 2006. It stated that in the absence of a new mechanism, the rate for 2006 would remain at $1.95. CPSA believes that the EI fund continues to operate at a significant surplus, and we urge the standing committee to recommend a rate reduction from the $1.95.

Second is the impact of gasoline and diesel fuel prices on the profitability of our members. Well prior to the huge post-Katrina price increases, 46% of the respondents said they were experiencing a major negative impact, and another 46% said they were having a negative impact somewhat less severe. The windfall revenues to the public purse from the federal sales tax on gasoline and diesel fuel this year have led to 80% of the survey respondents saying they favoured some reduction in GST/HST on gasoline and diesel fuel. In the view of the CPSA that reduction should be implemented, provided the standing committee cannot recommend some more viable alternative to double taxation of gasoline and the diesel fuel tax burden on Canadians.

Third is the treatment of personal vehicles for business. If the self-employed were permitted to take a reasonable cost-per-kilometre deduction for their auto expenses, this would mirror the prescribed rates, I guess, that you've talked about over the last several weeks. Prescribed rates that could be established for reasonable allowances would greatly ease the compliance burden facing the self-employed in Canada. CPSA recommends the standing committee support a reasonable cost-per-kilometre deduction for individuals using their own cars for business purposes.

And finally, we state that from a tax perspective the restriction placed on legitimate business expenses imposed by the 50% business meal deduction is questionable. We further argue that substantial compliance difficulties arise in separate identification of business meals from other expenses in company accounting records, and in determining whether a restriction is applicable to any given meal. In light of these concerns, we've asked the standing committee to undertake a comprehensive review of the business meals deduction both from a tax policy point of view and a compliance perspective with a view to its elimination, or at least modification.

Thank you, Mr. Chairman, for these brief remarks, and I look forward to our further discussion.

● (1745)

The Chair: Thank you.

For the members, we're having supper served right after, so five minutes after the votes, please come back.

For the witnesses, perhaps you can just hang on, if that's okay. I apologize. It's part of our job to actually vote in this place, so hopefully in half an hour we'll be done and we'll be back.

Thank you.

The meeting is suspended.

● (1748)

(Pause)

● (1848)

The Chair: Good evening. Could we restart? I have to apologize. Part of our job is to vote, and of course things never take as little time as you wish they would take.

Without further ado, I understand that Mr. Lacroix.... Mr. Ostrander, you have to leave? I'll leave it to you.

Go ahead, Mr. Lacroix. Merci.

[*Translation*]

Mr. François Lacroix (President, Cement Association of Canada): Mr. Chairman, on behalf of all cement manufacturers in Canada, I thank you for this opportunity to present out views on productivity.

I am the President of the Cement Association of Canada. With me today are Paul Ostrander, Senior Vice-President of Ontario St. Lawrence Cement Inc. and chairman of our government relations committee. He will be making today's presentation, but both of us will be glad to answer your questions.

Thank you very much.

[*English*]

Mr. Paul Ostrander (Senior Vice-President, Ontario, St. Lawrence Cement Inc., Cement Association of Canada): Thank you, François.

Mr. Chairman, members of the committee, I am pleased to have the opportunity to speak to you this evening on behalf of Ontario St. Lawrence Cement Inc. and the Cement Association of Canada.

You all have copies of the CAC's written submission. Rather than repeat what it says, I would like to provide some context for our industry and conclude by summarizing our recommendations.

Canada's cement industry and the CAC membership includes 10 vertically integrated building material companies manufacturing cement at 16 facilities and delivering to over 45 distribution centres from coast to coast. The cement and concrete industries make a significant contribution to the Canadian economy, generating more than $6 billion in revenue in 2004 and directly employing over 26,000 Canadians.

Canada's cement industry successfully competes in the global cement industry, exporting at least one-third of our annual production to the United States. Cement is an essential ingredient of concrete. Concrete is fundamental to virtually all construction projects, regardless of scale or application. In fact, more concrete is used globally than the combined total of all construction materials, including wood, steel, plastic and aluminum.

The cement industry recognizes that continued growth and the ability to operate depend on successfully reconciling financial objectives with environmental protection and community well-being. The industry accepts the fact that our performance will increasingly be of value in how well we do in meeting the objectives of the triple bottom line.

Canadian cement companies are focused on common priority issues, reducing carbon dioxide emissions, using more alternate fuels and raw materials, continuously improving safety performance, and engaging in local communities on key issues.

There is another aspect of our industry that influences the perspective we bring to the table today—innovation. The industry's commitment to R and D is demonstrated in the marketplace by the introduction of new cement and concrete products and systems that result in better, more durable, more sustainable infrastructure. Canada's cement industry partners with all levels of government, universities, non-government organizations, private sector, develop and implement, manufacturing and construction applications to produce better products with less energy and inputs of raw materials.

Mr. Chairman, these are the elements of the approach that the Canadian cement industry has already adopted to enhance productivity and prosperity in a competitive global marketplace. It's from this perspective that we offer advice to the committee and the government. The industry's message to the committee is simple and straightforward.

Strategic investment in infrastructure is an essential component of a successful productivity and prosperity agenda. We do not propose infrastructure for the sake of infrastructure, as a simple job creation strategy or as a simple environmental strategy, but advocate for adopting an integrated strategic approach to meet multiple national priorities. Canada must invest in its physical infrastructure that is required to enable higher levels of productivity and prosperity while making our communities more desirable places to work. We have made similar recommendations in previous years, and while some progress has been made, the situation has become more pressing and the opportunities are now greater than ever before.

The CAC position reflects the views of Canadians in general who agree it's time for the federal government to place sustainable infrastructure much higher on the national agenda. Strategic investment in highways and border and municipal infrastructure will facilitate greater commercial trade and tourism while lowering the cost of doing business. Furthermore, investment in modern and durable infrastructure will enable and facilitate the kind of transformative economic change envisioned by the Government of Canada's Project Green.

To conclude, I will summarize the industry's key recommendations.

The cement industry's first recommendation is to enhance the strategic highway infrastructure program by committing significant long-term permanent funding for the national highway system.

Our second recommendation is to allocate funding to Infrastructure Canada to establish a multi-stakeholder process to develop a current federal-provincial policy framework for life-cycle approach-based decision-making.

Third, we recommend allocation of funding to Transport Canada to advance research and development and deployment of sustainable surface transportation options.

Fourth, the government should fund the implementation of the border infrastructure commitments of security, prosperity, and partnership announced in March 2005 by providing enhanced funding for the border infrastructure fund.

Finally, significant long-term permanent funding for sustainable municipal infrastructure should be enshrined in a permanent municipal infrastructure program, with life cycle cost approach-based decision-making incorporated directly in the funding mechanism.

The federal government is presented with an important opportunity to invest now to enhance Canadian productivity while also leveraging the investments to achieve environmental objectives and provide durable sustainable infrastructure to support future prosperity.

● (1850)

Mr. Chairman, I thank you for the opportunity to present our views, and we are here to answer any questions.

The Chair: Can I ask a quick question? I understand you have to leave.

In your recommendation five you're asking for money for municipal infrastructure, and I think in recommendation one you're asking for highway infrastructure. Is that because the highways are provincial and federal?

Mr. Paul Ostrander: Yes.

The Chair: Okay.

Do you have any amounts you would like to see?

Mr. Paul Ostrander: We like the amounts we heard at the far end of the table—a billion dollars from the federal government, to be matched by the provinces.

● (1855)

[*Translation*]

The Chair: Thank you.

Next up is Mr. Lafrenière from the Canadian Association of Mutual Insurance Companies.

[*English*]

Mr. Normand Lafrenière (President, Canadian Association of Mutual Insurance Companies): The Canadian Association of Mutual Insurance Companies, CAMIC, is pleased to appear before this committee to share its views on the questions you asked and on a number of other issues in preparation for the federal budget.

CAMIC represents 99 property and casualty mutual insurers in Canada, and as most Canadian-owned property and casualty insurance companies are mutuals, CAMIC represents the large majority—

The Chair: Mr. Lafrenière, you have to slow down, because the translators are....

Mr. Normand Lafrenière: —of Canadian-owned property and casualty insurers in this country. In 2004 our member companies had approximately 4 million policyholders, employed in excess of 10,000 managers, employees, and agents, and underwrote $4.2 billion in premiums, or 12% of the Canadian market.

Mutual insurance companies are owned by their policyholders, and most of them operate under the one-member, one-vote principle. As owners, the policyholders elect the board of directors of their company. Mutual insurers are renowned for their strong balance sheets and their community involvement. Most Canadian mutual insurers are based in small communities.

Mutual insurers are associations of people whose purpose is to supply insurance products at their long-term cost. Long-term surpluses, if any, are returned to the policyholders in one form or another, thereby empowering the people they serve. Similarly, governments are also associations of people. Surpluses, if any, should be returned to the people they serve, as they should know best how to meet their own needs.

[*Translation*]

CAMIC supports the notion that there is currently a vertical fiscal imbalance between the federal, provincial and municipal governments and that this imbalance does not serve the taxpayer well. The federal government currently raises money for which it has no use under the responsibilities obtained under the Canadian Constitution, while the provincial and municipal governments have too few resources to meet their responsibilities.

Recently, the federal government has announced its intention to split future surpluses equally between paying down the debt, reducing taxes and initiating new programs. We suggest that in times of provincial and municipal financial difficulties, surpluses should not be collected on a systematic basis by the federal government.

Further, as a recent inquiry suggests, the federal government has failed the test of proving it is able to spend the taxpayer's money wisely.The general population deserves and expects all levels of government to generate their revenue equitably and to spend responsibly.

In this respect, CAMIC applauds the 2005 federal budget's decision to hire additional Revenue Canada employees to monitor offshore investments in tax haven countries by Canadian individuals and corporations. According to a recent report by Statistics Canada, offshore investments in tax haven countries, in particular by Canadian financial institutions, have grown substantially in recent years.

[*English*]

Your invitation to appear before this committee includes a number of questions that you would like to see addressed. There is no doubt that a positive relationship exists between productivity performance and the standard of living. CAMIC believes that the government should intervene in creating a regulatory regime and establishing trade policies conducive to more trade, which should be conducive to enhancing productivity performance, but the association questions whether new taxation measures or new program initiatives directed at corporations will efficiently bring about the desired results. In fact, it appears that jurisdictions that benefit from the highest productivity growth are often those that do not attempt to distort corporate decision-making through taxation measures and programs.

It is imperative to upgrade our education system, as citizens play an important role in the country's productivity performance. However, the enhancement of our education system should be done by provincial governments, under whose jurisdiction the responsibility for education falls. Solving the fiscal imbalance between the federal and provincial governments should go a long way toward addressing the lack of good-quality education in this country.

The Canadian insurance industry has its own challenges. It needs to operate in a taxation and regulatory environment conducive to fair competition. CAMIC commends the government for maintaining financial legislation that incorporates a sunset clause, thereby forcing a review of the legislation every five years. It gives stakeholders the opportunity to comment on what needs to be done to keep the legislation current, with a view to better reaching the objectives of financial legislation reform.

This legislation has to be reviewed by June 2006. CAMIC encourages the government not to change the insurance retaining powers afforded to the banking sector. The additional insurance retaining powers sought by banks would create an unlevel playing field where banks would be able to eliminate the competition, just like they did in the mutual fund, securities, and trust industries.

The insurance industry also needs tax changes to operate more efficiently and more fairly. Foreign-owned property and casualty insurance companies doing business in Canada often benefit from taxation provisions in other countries, allowing them to set aside, free from income tax, reserves to meet their obligations in cases of catastrophes that normally occur every 25 or 50 years but which seem to occur every year now.

For its part, the Canadian tax system considers as profit, in any given year, sums of money received but not reserved for the payment of a specific claim. To establish a level playing field with their foreign competitors, many Canadian-based companies have resorted to establishing what are called offshore companies. Through these offshore companies, they can obtain the tax advantages equivalent to those enjoyed by many foreign insurers doing business in Canada.

For their part, mutual insurers do not resort to the offshore companies concept, and thus find themselves at a tax disadvantage both with many of their foreign-based competitors, as well as with their Canadian-owned competitors.

The solution lies in allowing the establishment of catastrophe reserves in Canada, just as is the case in many other countries in Europe and in Japan. This is a self-financing proposal, as the investment income generated by these reserves would be taxable.

Thank you, Mr. Chairman.

● (1900)

[*Translation*]

The Chair: Thank you, Mr. Lafrenière.

[*English*]

From Energy Innovation Network, we have Mr. Raymont.

Dr. Michael Raymont (President and Chief Executive Officer, Energy Innovation Network): Thank you very much, Mr. Chairman and members of the Standing Committee on Finance, for the opportunity to appear before you today.

I would like to take a few minutes to let you know about the work that EnergyINet is doing to develop new conventional energy and renewable energy technologies to accelerate the development and supply of secure, clean energy for Canada, thus supporting economic and social goals as well as improving competitiveness and productivity.

Energy is one of the few areas where we can be an international leader, because we have an abundant supply of high-quality natural resources ranging from uranium to conventional oil and gas, oil sands, gas hydrates, coal, coal-bed methane, hydro, and so on and so forth. With the right technologies, these can create a long-term, secure supply of energy. I cannot think of another country that has this potential.

In addition to these resources, however, we also have world-class energy companies and high-quality people, but we need to develop an effective focus on commercializing new energy technologies to reduce environmental footprints and to add new supplies and sources.

Let me pose for you the types of issues we address. The oil sands have plenty of reserves, and we in Canada complacently feel that we have adequate energy supplies because we have “more oil in the oil sands than Saudi has in its desert”. But that assumes those reserves can be extracted using conventional technology. However, if we were to move from one million barrels a day to five million barrels a day of production, we would drain the Athabasca River and use 50% of the natural gas that will currently be projected to be on stream from Canada at that time. Clearly, we need to develop new energy technologies in Canada today for sources tomorrow.

Let me briefly describe what EnergyINet is and what it does.

EnergyINet is a not-for-profit consortium of federal and provincial governments and energy industry members, as paying stakeholders. In addition, EnergyINet has over 200 partners around the world who contribute information and intelligence and are our eyes and ears on what is going on in the rest of the world—and I'll speak more on that international component later.

EnergyINet identifies key technology barriers that currently prevent industry from commercially adopting and investing in new energy-related technologies. We do this through a sophisticated and disciplined dialogue challenge process that brings consensus for a wide range of stakeholders. We then define the projects necessary to overcome the barriers, and we coordinate the development and engineering and demonstration work necessary to de-risk a technology such that it will be adopted by industry.

It is in this respect that EnergyINet is fundamentally different from other players in the energy innovation business, because we work on the side of what we call demand-side innovation pull. Canada has invested some $13.7 billion into R and D and the creation of new knowledge, but without a continuum of programs that end with commercial exploitation, we will not reap economic success and economic rewards. So in addition to knowledge creation, it is absolutely essential that we listen to the demand side of the innovation equation, and this is where EnergyINet puts all its emphasis. You can see that we are focused on commercialization, and particularly on not R and D, but what I call D and D, which is demonstration and deployment.

Canada can be a world superpower in energy. Energy is critical to our economy, our competitiveness, and our productivity. Having an abundant, secure, clean supply of energy in the future can give us the opportunity to enjoy the quality of life we have today. If we focus on energy, already a strong pillar of the Canadian economy, we can make Canadian industry more competitive globally, we can assure supplies of energy for the future, and we can develop technologies for export to countries like China and India, earning revenues for Canada and helping global greenhouse gas and environmental challenges.

Canada develops 3% of the world's science and technology, so many technologies are already developed and ready to be adopted and adapted for Canadian application. So it's very important that we understand what's happening internationally and partner bilaterally to solve common problems, again with such countries as China, India, and Brazil.

● (1905)

Partnering is a key because there are a variety of activities and knowledge not just in Canada but globally. As I mentioned, we've pulled together over 200 partners to ensure that we are focused on the key unresolved issues and that we're not reinventing the wheel.

As examples, we are working with the U.S. government on carbon sequestration and storage projects in Saskatchewan and Alberta. We recently co-hosted a China-Canada heavy oil upgrading workshop in Beijing with representatives of government, industry, and researchers from Canada and all over the world, and we are working with Brazil on biomass. These are just three examples.

Finally, we know that energy and environmental priorities are connected. Each of EnergyINet's innovation programs view the energy puzzle as a series of linked systems instead of independent sectors. These programs recognize the need to reconcile environmental interests with economic imperatives to enhance the international competitiveness of our Canadian energy industry. Canadians should be pleased with this integrated approach since with it we can help find new ways to overcome tomorrow's energy and environmental challenges simultaneously.

Helping to contribute to Canada's role as a leader and superpower in energy is an ambitious agenda, and we look forward to doing our part. We are pleased to be working with the federal government as a partner along with provincial governments, research organizations, universities, and energy industry companies in Canada and around the world.

To that end, we are seeking $5 million a year from the federal government for the next five years to assist in the core funding required to carry out our important work. We know that the federal government, as a founding member of EnergyINet, understands the value of our approach, and I think you will recognize that this support will help us leverage funds from other governments and industry and help us to contribute to a field where Canadians should be recognized for their excellence in energy and environmental initiatives.

EnergyINet's work contributes to satisfying government's desire to reduce the impact of climate change while recognizing the important role energy plays in our lives. A secure and abundant supply of energy provides economic and social benefits to this great country in a way no other single sector can do. Canada must become an energy superpower and EnergyINet can take us there.

Thank you. I would be most happy to answer any questions.

The Chair: Mr. Raymont, in your last recommendation you asked for a certain amount of money, but it doesn't seem to be in your brief.

Dr. Michael Raymont: It wasn't originally contained in the brief, no; that's correct.

The Chair: How much was it? We missed the amount.

Dr. Michael Raymont: It was $5 million per year for five years, a total of $25 million.

● (1910)

The Chair: For specifically...?

Dr. Michael Raymont: Specifically to support the core programs of EnergyINet.

The Chair: Would that be the first bullet here in your recommendations? Is it to support a national energy strategy?

Dr. Michael Raymont: No, it's to support the core programs. I can supply you with an additional brief, which will be rewritten from this.

The Chair: Just a one-pager is sufficient.

Dr. Michael Raymont: I apologize. I just took over as CEO of this organization. I've had one and a half days in the office so far.

The Chair: Oh, that's way too much time.

Mr. Penson, are you ready to go?

We'll do five-minute rounds, and then we'll see.

Mr. Charlie Penson (Peace River, CPC): Thank you, Mr. Chair, and I thank the panel for being here.

We had a little disruption with the vote. I'm glad that we are able to continue and hear your briefs. I see some familiar faces from other years on the pre-budget hearings.

I know that some of the issues are very much the same as we've had in the past. I know that there's been quite a bit of emphasis on tax reduction on the corporate tax side. The capital cost allowance is one of the ones that has been identified as well.

Mr. Lafrenière, you have suggested that surpluses should not be collected on a systemic basis; I gather you mean there should be a lot closer calculation on how much tax is collected. I know I'm putting words in your mouth, but maybe you can now see if you agree with me.

Three years ago, I guess, we had a projected surplus of $9.1 billion. It ended up being $1.9 billion. Last year we had a surplus of $6.1 billion projected; we were down to $1.6 billion. I think it's a little dyslexic of the finance minister; he seems to get his numbers backwards. The difficulty, I think, is that it leads to a lot of crazy spending in the last few months.

I think you're critical of the budget allocation act, a bill we're debating tomorrow in the House, the one-third, one-third, one-third for the surplus. I'd like to draw others in as well. With that budget allocation act, do others feel the same way as Mr. Lafrenière, that it's a poor piece of legislation and we should try to get the numbers a lot closer when we are estimating how much money Canadians are being asked to pay in taxes prior to the surpluses?

Maybe, Mr. Ruffell, I could ask you to start.

Mr. Terry Ruffell: Mr. Chairman, I have just a couple of observations.

Certainly when we talked to sales and marketing professionals across Canada, overwhelmingly their commitment to keep the economy going was directed to personal taxes and broad-based cuts in the personal tax area. Spending seemed to come down the list a little bit. So I'm not sure we would recommend the percentages you're suggesting. It was overwhelming; I think 67% asked how we could keep it going and said it should be addressed there.

Our comment was that we've done a lot of spending in the past and made our commitments to spending, particularly in the health care area. On national debt, it seems to me it was a very small percentage who said yes, it's important and we have to address the issue. This time around, certainly, the personal tax area is the one that should be addressed.

I'm not quite sure that I would agree with the balance or that our members would agree with that balance, the one-third, one-third, one-third. It's taxes and control on expenses; yes, don't forget about the national debt, but that came as a much lower priority.

Mr. Charlie Penson: Are there any others who want to have a cut at this? Mr. Konow?

Mr. Hans Konow: It's not an issue our members have debated. There would be general comfort in the notion we should not increase the tax burden to Canadians, and if we are reducing taxes, we should do so in areas that would leverage economic activity. That's why we do think CCA reductions actually create a bang for the dollar, by incenting investment; that's why we continue to pursue that. The debt repayment is certainly something we have to make sure we stay on track with.

I don't have a strong sense as to whether the one-third, one-third, one-third formula is the right one; neither do I have a strong view it's the wrong one. Certainly all of those elements are legitimate.

From our perspective at least, we look at a theme we've heard around the table, that substantial infrastructure investments must take place. The fact is, we built an awful lot of varied long-life infrastructure in this country in the fifties, sixties, and seventies, and most of it, from roads to electrical infrastructure, needs to be renewed now. We will have to put capital into it, whether it's private capital, public capital, or a combination.

● (1915)

Mr. Charlie Penson: Maybe I could just ask Mr. Lafrenière to wind up. This was your suggestion. One of the concerns I have is that these things could be managed; the one-third, one-third, one-third formula only kicks in if there's a surplus above the $3 billion contingency surplus, and these things can be managed. I'm just wondering why you're identifying this as a problem.

Mr. Normand Lafrenière: In our case we are completely in favour of keeping the famous 3% contingency surplus, but above that we think that the government should have some room to manoeuvre to determine in advance what the surplus will be and make sure that they don't collect money they should not be collecting.

What we have is basically municipalities and provincial governments out there who don't have enough money to carry out their responsibilities, and we find these very people coming to Ottawa to get the money they need. We would prefer to see provincial governments and municipalities being responsible to their constituents as opposed to being responsible to the federal government, getting the money they need in order to carry on the programs they're supposed to carry on.

Mr. Charlie Penson: Thank you.

The Chair: Thank you, Mr. Penson.

Monsieur Bouchard, and then I have Mr. McKay.

[*Translation*]

Mr. Robert Bouchard (Chicoutimi—Le Fjord, BQ): Thank you, Mr. Chairman. I'd also like to thank the witnesses for their excellent presentations.

My first question is for the representative of the Association of Consulting Engineers of Canada. You focus on three areas in your brief. I'd like to speak about one of the points you raised, namely the state of disrepair of Canada's roads and highways which has caused a number of fatal accidents as well as some serious injuries. You're recommending long-term funding of $1 billion per year.

In terms of transportation, you've focused only on roads and highways. I'd like to know why you haven't mentioned trains, a very efficient mode of transportation that could be made even more efficient?

Mr. Claude Paul Boivin: Thank you. Trains are indeed a very efficient mode of transportation. However, the reality is that our roads and highways will need to serve Canadians for many years to come. In fact, 60 per cent of our trade with the U.S. involves the use of highways. Highways and roads are a priority for us.

In other submissions to the committee, we recommended that the government invest in the country's rail system. But for now, the priority remains our roads and highways.

Mr. Robert Bouchard: Thank you.

My second question is for the representatives of the Canadian Association of Mutual Insurance Companies. According to your submission, CAMIC supports the notion that there is currently a fiscal imbalance in Canada. The federal government collects more money then it should given its responsibilities, while the provinces have wide-ranging responsibilities and too few resources.

Have you considered ways of correcting this imbalance? Are transfers and the freeing up of tax points or the GST possible solutions?

Mr. Normand Lafrenière: I will admit that we would prefer to see municipalities and provincial government collect the money they need directly from the taxpayer, rather than through the federal government. We also hope that revenues raised by the federal government will decline, so that taxpayers ultimately pay the same, and maybe even more.

Very few people ever ask to pay less provincial or municipal tax. Individuals are satisfied with the taxes they pay and do not wish to pay more. They aren't necessarily asking for tax breaks. They want services to be provided and they maintain that current services are not up to par. We agree with them on that score.

We want these government to receive the funding they need to meet their responsibilities. We recognize that the federal government is currently raising more money than it needs to carry out its responsibilities. We merely want a balance to be re-established so as to allow the money to flow directly to the provinces and municipalities. We want these officials to be accountable to taxpayers.

● (1920)

Mr. Robert Bouchard: Thank you.

[*English*]

The Chair: Merci, Monsieur Bouchard.

Mr. McKay, and then I've got Mr. Solberg.

Hon. John McKay (Scarborough—Guildwood, Lib.): Thank you. I would like to follow up on that question.

With respect to municipalities, of course municipalities are creatures of the provinces, and the provinces essentially determine what tax base a municipality can charge. I don't know quite what the objection is with the federal government vis-à-vis municipalities because municipalities will be essentially dependent upon their property tax base. That doesn't strike me as an issue of fiscal imbalance between the federal and provincial governments; that strikes me as an issue of fiscal imbalance between the provincial and the municipal governments. There is a true imbalance there because the ability to raise taxes is limited by provincial statute.

Mr. Normand Lafrenière: It is to the municipalities on the base, of course, of the houses in the market. However, we feel that the taxpayer can only pay so much money in taxes. If too much goes to the federal level, then less goes to the other levels of government. What we feel is that there should be a lowering at some level and maybe higher taxes at the other level.

Hon. John McKay: The interesting thing is that all the provinces have equal access to the tax base, as does the federal government, and some choose to occupy it and some choose not to occupy it. Certainly there's no “fiscal imbalance” with respect to the province of Alberta, which has a very handsome situation, thank you very much. Saskatchewan has run 13 balanced budgets in a row. British Columbia is in and out of positive territory; I think lately they've been in positive territory. And Ontario, similarly, is in and out of positive territory. So really what you're talking about are poorer provinces that, for whatever reason, don't feel that they can tax their citizens in a parallel manner. I don't see your argument about why there's a fiscal imbalance there.

Mr. Normand Lafrenière: We also see larger provinces like Ontario having a hard time meeting their responsibilities—

Hon. John McKay: Well, in part that is because when Mr. Harris was the premier of the province, he cut back taxes quite substantially. That was his platform, to reduce taxes. Now the provincial Liberal government is stuck in a situation in which they can't raise taxes because of the actions of the previous government.

We're going to have to disagree on this point, because I don't think there is any fiscal imbalance. There is no structural fiscal imbalance in this country.

I want to go to a substantive question, though, rather than to political questions. With respect to the CCA rates put forward by the Canadian Electricity Association in recommendation five—reducing the federal corporate tax rate from 21% to 19%—I don't think you're going to get much argument from this side of the table on that point. On recommendation number four—treatment of used equipment—am I to understand, then, that if electricity company A buys new equipment and fuses it or merges it with old equipment, they effectively get an accelerated CCA on the old equipment, or am I mischaracterizing your presentation?

Mr. Hans Konow: That would be part of it. What we're saying is that when CCA rates are changed, as they were for transmission and distribution equipment, or earlier for generation equipment—moving from 4% to 8%—the historic capital stock, for the remaining life of its writedown, should move up to the same level as new stock. That would then take into account what we've characterized elsewhere as a fresh start. When you sell equipment and it's purchased by somebody, generally it's accorded a fresh start.

Rather than go that route, what we're simply saying is that when you change your CCA category, it should apply both to any prospective investment and to the balance of the historic investment. It isn't retroactive, but for the remaining period in which you're writing down your capital assets, it should be treated at that new rate.

● (1925)

Hon. John McKay: Okay, I understand.

Now, as you acknowledged in your presentation, the government did make a fairly serious inroad on CCA rates, particularly as they apply to energy-generation equipment. You do have some concerns about restoring class 24 and class 27. I'm not entirely sure I understand your point here. I'm assuming that 24 and 27 are a more accelerated category of CCA. So how would that intersect with what the government did last year, because we moved it up to eight?

Mr. Hans Konow: Precisely, and we, as you say, acknowledge that this was an excellent step. What we're looking for is a fairly narrow, targeted-application CCA rate benefit on an incentive basis for pollution control equipment. What we find today as we deal with the expectations of Canadians and the evolving regulatory requirements for new investment is that we think there's a case that can be made that we should treat equipment design to improve environmental performance in an enhanced fashion. That is the case in the United States and in other jurisdictions. It's meant to incent as well as compel.

The regulatory stick is used to compel; the fiscal stick is used to encourage and incent better performance in terms of our environmental responsibilities.

Hon. John McKay: Can you give me an example of what you're talking about?

Mr. Hans Konow: Certainly. If you were looking at, for instance, a fossil-based plant, you could have post-combustion cleanup technologies like scrubbers and bag houses, and things that take the waste stream, clean it up, and remove the pollutants from being released into the atmosphere. Equally, you could have front-end technologies like low-NOx burners that reduce the creation of the pollutants that might be released.

We're not trying to be specific. We're just saying that a class of investment that serves to reduce or mitigate environmental impacts could qualify for this incentive class.

Hon. John McKay: That wasn't captured in last year's budget.

Mr. Hans Konow: It was not, no.

Hon. John McKay: Okay.

You also have some thoughts about the advanced-metering infrastructure. I kind of understand that in a general way. Am I to understand that you, in effect, want a two-year writeoff for that stuff, in the order of a 45% CCA rate for communications software?

Mr. Hans Konow: What we're looking for is essentially to treat software as it's treated elsewhere in the tax system. Basically, I'm told, class 45 is the write-off category for it.

What we're saying is that because it's called an electrical meter, it has been treated at the same rate as wire and cable or chunks of steel, which have far longer lives than the effective life of software. So within the meter, the housing itself, we're only asking for 12%—in other words, for the physical component of it. The software we would see being turned over quite rapidly; therefore, we think it would be useful to treat it the same way we treat other software within the tax system.

Hon. John McKay: I don't really understand electric meters in my own house.

Mr. Hans Konow: These will help you.

Hon. John McKay: So you will be able to substitute software into a meter such as that, or, I'm assuming, into far more sophisticated metering systems for larger enterprises and would effectively be able to change that software every two years—or you would be encouraged, if you will, to change that software almost every two years—if you went to a 45% CCA rate. Is that what it boils down to?

Mr. Hans Konow: Yes. In fact it would be done through remote means. It would allow the company, as it comes up with more sophisticated approaches to energy pricing offerings—for instance, on peak, off peak, conservation strategies—to work with the customer to create and optimize the best possible solution for that customer. As the technology evolves—it's early days with these meters—you need to continue to upgrade, just as you do with most other software computers, etc.

Somewhere in the two- to three-year range, it's probably not unreasonable to expect you'd have significant software changeover.

● (1930)

Hon. John McKay: Thank you.

The Chair: Thank you, Mr. McKay.

Mr. Solberg.

Mr. Monte Solberg (Medicine Hat, CPC): Thanks very much, Mr. Chairman.

I just can't let the previous intervention go unanswered. I have to note that I think sometimes the government wants to have their cake and eat it too. On the one hand they announce the $41 billion health care deal as being essential to help the provinces deal with the challenges they face to fund hospitals and medical services, and then on the other hand they deny there's a fiscal imbalance. I think they can't have it both ways, in the end. I'm glad that many witnesses come to this committee and point out that provinces are struggling today to stay in the black, although these provinces in many cases are successful in balancing their budgets precisely because they watch their spending in a way the federal government doesn't do.

I want to make my point by pointing out that since 1999 federal program spending has gone up 55%. It went up 15% last year, the largest increase since 1974. This spending has gone up very dramatically. The question I have to this panel is, are we seeing the results? Are we getting value for all this money? If we're not getting value for money, you've laid out all kinds of priorities you claim are essential to move your industries forward. At the same time, we throw into the mix the idea that if there is a surplus we should divide it again: a third of it should be on more spending. If you applied the formula last year, setting aside for a moment that there was no surplus in the end—at least, to divide up, but if there had been—a third of it would have gone to even more spending, spending that was not planned. Also, you'd be in a situation where the government would give you a rebate, which would not be the same as a tax break because it wouldn't incent any new sort of behaviour in the consumers, the people who benefit from the tax break, which is what you would want if you wanted to improve productivity, and apparently that's what the government wants to do. But we're not seeing that in the one-third, one-third, one-third formula.

I wonder whether you'd care to comment on whether or not you feel we are getting value for that big 52% increase in spending. Obviously some things are helpful, but are we getting a 52% increase in the value we get from the federal government?

Hon. John McKay: The whole place is falling apart.

The Chair: Mr. Lafrenière, do you want to try? Go ahead.

Mr. Normand Lafrenière: I'd like to try it, of course.

The answer is no. In fact, at least within our group, we want to see more, strange as that may be. We feel that the responsibilities that are not met now are at the provincial and municipal levels. The pendulum should swing back into their hands, collecting money directly. We prefer that they do that directly, as opposed to transfers from the federal government. Of course, transfers are very often nothing. We see no need for additional programs at the federal level. We don't see any crying need. But we do see those crying needs not met at the provincial and municipal levels.

A dollar is a dollar. If it's on the left side, it's not on the right side. We want to see it move, and we want that pendulum to move back to provincial and municipal taxation.

Mr. Claude Paul Boivin: Do we see value? In some programs, we do.

We've come to this committee for four years to talk about infrastructure. To us it's a priority, and it's a national priority. So in that particular area where we have an expertise, we have seen value. I think there's a commitment on all sides of the House to deal with the infrastructure crisis, and in that particular case we're very pleased with the steps that have been taken so far.

Mr. Terry Ruffell: I'd just like to comment, Mr. Chairman. Certainly the government's commitment to look at high priority and low priority and shuffle the spending should be encouraged. Certainly our members see that as a priority. If you continue to do that, we would certainly encourage it.

On spending, and the comments that we made earlier regarding inflation and growth in population, certainly there have to be constraints on the overall spending. We would like to see ourselves remain within a positive balance, so continue, as a government, to review high priorities, low priorities, keep some spending shifts in that. Certainly our members would like to see some constraint on the spending.

Spend more within inflation and growth, but there's the cap.

● (1935)

The Chair: Thank you, Mr. Ruffell.

Mr. Raymont.

Dr. Michael Raymont: Mr. Chairman, I have two comments. One is that I think there could be more focus and attention paid to sunsetting of some existing spending programs. There are a number of government programs that are not effective in achieving their objectives that have been in place for 10 years or 20 years or whatever, and they need either heavy revamping or to be eliminated. Generally, both the bureaucracy and government are poor at taking out programs that are, once put in place, not easily taken apart again.

The other thing is that when we look at spending, one of the key things—and I'll speak from a science, research and development, and technology perspective—is that the government has done, I think, a good job of increasing knowledge creation in this country, which was down—universities and so on were notoriously underfunded—but what we haven't done is create a process where that knowledge is converted into economic value. Therefore, embarking on investing in knowledge without embarking on a complete spectrum of programs that lead us to reap the rewards of economic benefit from that knowledge is, I would argue, not worth investing in the knowledge in the first place, if one really wanted to be critical of that.

Let me give you the analogy. It's just like sowing a field with wheat and having no plan to harvest it—in fact, not even fertilize it or water it—and certainly no plan about how you would sell that grain, upgrade it to bread or pasta, and sell that. So what's happening.... I spent almost my entire career in the private sector. I am actually guilty of taking intellectual property developed in Canada south of the border for the benefit of shareholders and taking the technology and turning around and selling it back to Canada. Canada develops the knowledge, but we let other countries take the economic benefit of that.

So spending, yes. We need to create more knowledge; we're in a knowledge economy. That part of what the government's done so far is good. But we need to put in place a total process to make certain we capture the economic benefits of that knowledge.

The Chair: Thank you, Mr. Solberg.

I have just a couple of questions before I wrap it up.

Just to be fair, we had a group in the previous panel that said that spending was not out of control, not to put too much pressure.... Some of the expenses that were in this year's budget were front-end loads that were related to the health accord and the Newfoundland agreement, so you have to put that into perspective.

I just want to ask a couple of questions on the submissions.

Mr. Boivin, you're one of the few who actually put a dollar amount on the lack of infrastructure money, the funding that's missing in the highway system. On your recommendation you say $22 billion, but didn't you state that $1 billion would suffice over the next 11 years?

Mr. Claude Paul Boivin: Yes, $1 billion from the federal government a year, if it were matched by provincial contributions.

The Chair: Okay, but if you did that, how confident are you that all of our problems would go away, just in terms of infrastructure?

Mr. Claude Paul Boivin: I'm not sure that all of the problems will always go away, but certainly for municipal and highway infrastructure, if we don't do that now, we're going to have a bigger problem in 10 or 15 years, which could be out of control. I think the challenge now is manageable, but if we wait much longer, it won't be.

The Chair: Is there a problem in certain parts of the country? Is it an urban problem, a rural problem, or is it in east and west and central Canada?

Mr. Claude Paul Boivin: From the analysis we do, I think it's pretty well spread around.

The highway system has several goals: one is to support our economic trade; another is to unite the country; another is to enhance our quality of life; and another is to make the roads safer. So I think those four are pretty well found in most regions of the country.

The Chair: Thank you, Mr. Boivin.

Mr. Ruffell, on most of your points.... I'm looking at the ones relating to taxation, in particular, the one where you're asking that a "reasonable cost per kilometre deduction should be established for individuals using their own vehicles...", but you don't have an amount.

Mr. Terry Ruffell: That's something we're researching right now. All we're saying is look at yourself as a member of Parliament or a public servant, and if there's a reasonable allowance paid by your employer to run a car, then why not give that same reasonable allowance to someone who operates their vehicle for business use? As you know from the research you're doing, there is a little bit of rough justice here. We're just saying take the same treatment on allowances, and allow individual taxpayers who run their own businesses to claim the same cents per kilometre for a deduction—not an allowance, but a deduction. So if I use my car for 10,000 kilometres of business use, then I would get 40¢ a kilometre allowed on my income tax return.

What you're doing now, Mr. Chairman, is forcing me to keep gas mileage, insurance, repairs, etc. We're suggesting this would be a reasonable, simple option for taxpayers to take a prescribed rate you've agreed to as a government, and apply that for business use.

● (1940)

The Chair: So this is for the self-employed?

Mr. Terry Ruffell: Yes, for the self-employed.

The Chair: Your other recommendation for business meals I think is the same. You want us to set up or undertake a comprehensive review, but what would that accomplish? What is your organization looking for?

Mr. Terry Ruffell: Essentially, what happens with business meals is, first, it's fairly complicated tracking from an income tax point of view, segregating that and disallowing deductions if you exceed the 50%. So from a tax point of view, it's complicated. Second, you pile on top of that the GST. So there are GST implications of that.

Our recommendation is that the government ask itself, what's in it for us to make these rules so complicated, and is there an easier way for taxpayers to comply? Again, under tax simplification, let's have a look at it. From a government's perspective, what is in it for us in terms of revenue dollars to force people to go through this? Is there a simple compliance method to make it a little easier for Canadian taxpayers?

The Chair: If you incur a $100 meal and you deduct $50, how could it get simpler than that? I'm looking to you for an answer, actually.

Mr. Terry Ruffell: Well, from a Canada Revenue Agency or CRA point of view, some of those rules are fairly complicated.

The Chair: No, I understand. Some of the other rules are complicated, but that one is pretty straightforward.

Anyway, thank you.

Mr. Konow, from the Canadian Electricity Association, does your membership not deal with corporate taxes? Is that not an important issue, or is it with the CCA that it's an important issue?

Mr. Hans Konow: It is both.

We have a membership that is mixed between private, shareholder-capitalized companies and provincially owned crown corporations, so it's a mixed bag. But we are concerned about corporate taxes, which is why we made the recommendation we did. CCA rates affect everybody.

What we're seeing today is the mobilization of private capital, even in publicly owned settings, whereby the use of RFPs and bid processes for the next increments of investment has become very common across the country from coast to coast. So you're seeing less provincial government-backed investment and more private capital mobilized, which the tax regimes then have an impact on in terms of the cost of those projects.

The Chair: Okay, thank you.

Again, thank you to the witnesses for enduring the time we took for voting. So we actually did work. Thank you for taking the time out of your day.

The meeting is adjourned.

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