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Chair

Mr. Massimo Pacetti

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• (0840)

[*Translation*]

The Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.)): Good morning. Please pardon the delay. It's my fault. I come from Montreal, but I had forgotten how long it takes to get downtown. I've gotten out of the habit. I'm used to making a two-hour trip to Ottawa.

Thank you for having us and for taking the time to come and make your presentations. I'd like to welcome my colleagues who aren't from the region: Messrs. Solberg, Prentice and Holland, as well as Mr. Bouchard, who's from Chicoutimi. That's quite far from Montreal.

We're meeting here today pursuant to Standing Order 83.1 in the context of the pre-budget consultations 2005. I'm going to allow you between seven and eight minutes. I don't want to interrupt your presentations, but I will do so if I have to. There are quite a lot of you, and the committee members would like to ask questions after your presentations.

We'll begin with the Conseil national des cycles supérieurs.

Mr. Giroux.

Mr. Philippe-Olivier Giroux (President, Quebec Federation of University Students, National Council for Graduate Studies): Mr. Chairman, ladies and gentlemen members, first, we would like to thank you for inviting us to present our brief today.

CNCS-FEUQ is an organization with a mandate to defend and promote the rights and interests of post-graduate students at Quebec's university institutions. We represent them to the public and to the main players in the education and research system. For that reason, we've been taking part in government consultations, including pre-budget consultations, for roughly three years, and in more occasional presentations specifically concerning university research issues, such as the consultations on Canada's Innovation Strategy that were held a few years ago. We are very pleased to give you our recommendations on the Government of Canada's 2006-2007 budget.

Those recommendations concern four points: increase federal transfers for postsecondary education; promote skills training and a quality work force; reinforce the research environment at university institutions; and redirect the money invested in the Canada Foundation for Innovation.

As regards increasing federal transfers for postsecondary education, the idea is to ensure that Canada is one of the five leading countries in the world in research and development performance. To do that, we think it is essential that additional amounts be invested in our universities. We believe that an increase of $4 billion over three years in federal transfers for postsecondary education would be the appropriate lever. That would enable us to offset the cutbacks that were made in 1992. We recommend that this investment, a total of $4 billion over three years, be made as follows: $900 million in 2006-2007, $1.3 billion in 2007-2008 and $1.8 billion in 2008-2009.

As for promoting skills training and a quality work force, CNCS-FEUQ contends that, to ensure a new supply of university teachers, increase the quantity and quality of research that we conduct and meet our growing need for highly skilled labour, the Government of Canada must improve its financial support to student researchers as follows: by increasing the budgets of its granting councils: NSERC, SSHRC and CIHRC; by providing full tax exemptions on student grants; and by making the Off-campus Employment Program accessible to international students across Canada.

With regard to the granting councils, we estimate that the budgets should reach the following amounts in 2006-2007: the Social Sciences and Humanities Research Council, $263 million; the Natural Sciences and Engineering Research Council of Canada, $1 billion; and the Canadian Institutes of Health Research, $1 billion.

As for the tax exemption on student grants, CNCS recommends that the federal government provide a tax exemption for all student grants and research grants paid to Canadian students. This measure is already in effect in Quebec. It makes it possible to avoid a paradoxical situation in which the government pays money to students in the form of grants, but recovers a portion of those grants through tax. Implementing this measure would increase the amounts granted to students by the granting councils. We feel this is a good way to improve the funding power of those agencies and that this measure would not be excessively costly. By our estimates, $60 million would be enough to do this across Canada.

Lastly, as regards making the Off-campus Employment Program accessible to international students, we feel that foreign students, particularly post-graduate students, are important players in the knowledge economy. The idea here is to increase the number of highly skilled individuals in Canada. To that end, the pilot project enabling international students to work off campus that was recently established by the federal government is a step in the right direction. It's one way to ensure that these people come and study in Canada. If my memory serves me, it was proposed last summer that all Canadian students have access to the program. We would like that to be done as of the start of 2006.

As for reinforcing the environment of university institutions, we feel that, to make those institutions more effective, and considering that universities are recognized as playing a fundamental role in knowledge creation, the federal government has a duty to take action at two very specific levels. It must provide funding for indirect university research costs based on their actual value and establish a specific funding program for small universities. As regards indirect research costs, I would note that the government currently funds approximately 25 percent, whereas the generally recognized level is 65 percent.

To achieve this objective of 65 percent, we estimate that an additional investment of $420 million is needed. That's what we're requesting in the context of the 2006-2007 budget.

● (0845)

CNCS also recommends that the federal government set up a specific research fund program for smaller universities that enables them to contribute fully to the development of their area. The purpose of this program is to establish small universities with sustainable research capacity through a program that would make accessible to them the funding necessary to start up new research activities. The AUCC estimates the cost of this kind of program at approximately $30 million. We recommend that it be put in place in the 2006-2007 budget.

The fourth and final point is to redirect the money invested in the Canada Foundation for Innovation. Considering that this foundation, as a private entity, is not politically responsible, and to the extent that the granting councils already have selection committees for the research projects they fund, CNCS feels that the federal government should stop investing in the Canada Foundation for Innovation and instead pay those amounts to the granting councils.

Those were our recommendations for the 2006-2007 budget year. To provide you with a brief review of those recommendations, I will summarize: increase federal transfers for postsecondary education by $4 billion over the next three years; increase the budgets of the granting councils; provide a tax exemption on student grants and research grants for students across Canada; expand the Off-campus Employment Program for international students across Canada starting in early 2006; fund 65 percent of indirect research costs; introduce a specific funding program for small universities; and stop investing in the Canada Foundation for Innovation and pay all of that money to the granting councils.

Thank you for your attention.

The Chair: Thank you.

Mr. Giroux, what do you mean by “small universities”?

Mr. Philippe-Olivier Giroux: They're mainly regional universities. For example, in Quebec...

The Chair: Is it determined by the number of students who attend those institutions?

Mr. Philippe-Olivier Giroux: Indeed. In the papers of the Association of Universities and Colleges of Canada, there's a fairly clear definition of small universities.

The Chair: Thank you.

We'll now hear from Mr. Vaillancourt, from the Coalition pour le renouvellement des infrastructures du Québec.

Mr. Gilles Vaillancourt (President, Mayor, City of Laval, Coalition pour le renouvellement des infrastructures du Québec): Thank you, Mr. Chairman. I'm here this morning with Mr. Marc Couture, who is Chairman of the Coalition's Technical Committee and a partner with BPR, a consulting engineering firm.

I'd like to thank you for this opportunity to contribute to the federal government's thinking on the budget decisions it should take to ensure the best possible development of Canadian society, both regionally and nationally.

The Coalition pour le renouvellement des infrastructures du Québec was created in August 1999 and brings together 21 organizations representing the key players in Quebec directly or indirectly involved in the renewal and upgrading of municipal — mostly underground — and highway infrastructures, which are major factors in our quality of life and productivity.

We are appearing here at a time when the federal government's new urban strategy is substantially supporting Canadian cities in their efforts to solve the problem of the deterioration of existing infrastructures.

This problem stems from the municipalities' under-investment in their infrastructure over the past generation, thus creating a major investment deficit. This remains a hidden deficit since it is not included in any system of accounting or measurement. The maintenance and renewal needs of all our infrastructures and parks, both for governments and municipalities, do not appear in the public accounts or in the municipalities' financial statements.

I therefore wish to express our sincere thanks to the federal government for acting in response to our repeated requests to put a stop to this real hidden deficit that, for the past generation, has directly threatened our productivity and standard of living. As a result of the measures it has taken, alone and with others, that deficit is well on the way to being eliminated.

Today, we'd like to tell your committee about measures that would represent major additional milestones in the effort to correct this hidden deficit 15 years later. By adopting these measures, the members of the Standing Committee on Finance could complete the work that has been so well started on the infrastructure issue.

We are proposing two types of measures to you today: first, the introduction of an automatic indexing mechanism for the amounts that the federal government transfers to the municipalities to protect the capital necessary to the work undertaken to correct the hidden deficit; and, second, the immediate allocation of a portion of the federal budget surplus to speed up the gradual financial transfer related to the federal gas tax.

Before elaborating further on these two recommendations, I'll briefly summarize the situation. The deterioration of public infrastructures dates back to the early 1980s, when a number of responsibilities were transferred to the municipalities without financial compensation by the other two orders of government. The municipalities were thus required to limit their infrastructure maintenance operations in order to reduce the negative impact of increases in property taxes, which were already quite high for taxpayers.

Over time, this state of affairs had a dramatic impact on local infrastructures, both on the amounts to be invested in them and on the direct cost to the public, not to mention lost opportunities, as shown by numerous studies cited in our brief, the key findings of which are as follows.

First, there are the prohibitive costs to the municipalities alone. In its 2003 study, the Conference Board estimated that it would cost nearly $18 billion to upgrade infrastructures over the next 15 years, on the assumption that the longer it took to spend the money, the more the cost would increase. Adjusted for changing costs, the annual amount needed to solve the problem is now $1.25 billion. This is an appreciable cost to the public.

Two independent studies in 2004 showed that the level of private costs was already of the same order of magnitude in Quebec as the amount of public funding needed to correct the deterioration problem.

In other words, what taxpayers do not pay on the one hand, they're already paying on the other. One need only think of bottled water purchases generated by the lack of trust in public facilities, of damage caused to cars by the condition of roads, of additional maintenance expenses for buses and other rolling stock. This amounts to a real loss of opportunities.

According to one Statistics Canada study, the investment of one dollar in public infrastructures reduces business costs by $0.17 a year. Furthermore, failure to invest in infrastructure has major repercussions for business competitiveness and productivity.

● (0850)

Of course, as a result of representations made by various stakeholders, our coalition in particular, governments realized the inextricable situation into which municipalities had been forced. Starting in the mid-1990s, they established programs of various types. Over time, federal involvement has been confirmed and has now become necessary.

The strong measures taken by the federal government over the past two years have considerably improved the situation. Those measures include full reimbursement to the municipalities of GST paid and accelerated payment over five years of funds for municipal infrastructure, the first component of which more specifically addresses drinking and waste water infrastructure.

There's also the recent agreement with the Quebec government on payment to municipalities of a portion of federal gas tax revenues. Evaluated at $138 million this year, those transfers will gradually rise to $460 million as of 2010.

Our coalition wishes to thank the Standing Committee on Finance for recommending that the government go further and faster in its commitment on the municipal infrastructure issue. While there is every reason to be satisfied with what has been done to date, it is important that we emphasize a few remaining concerns. First is protection of investments made. A review of the current economic situation suggests there will be a sharp increase in raw materials, materials and equipment costs in the medium term, as recent rises in the prices of oil, steel and concrete, to name only a few, have shown.

With an additional adjustment or indexing mechanism, the coalition believes that the increase in cost of the work will result in the medium term in an opportunity cost that will delay the elimination of the hidden deficit. We have examined how this adjustment could be made, and we believe that it could take the form of a comprehensive method for indexing amounts allocated for infrastructure. Indexing could be based on the annual growth rate of federal revenues, which are directly dependent on the economic performance of the regions of the country as a whole.

Consideration could also be given to using a portion of the federal budget surplus to erase the deficit. The federal government has budget surpluses. Those surpluses are used on a priority basis to repay the debt and for other purposes, in particular health and education.

We at the coalition believe that a portion of the federal surplus should also be allocated to accelerate cash transfers related to the federal gas tax. This deficit now weighs more on the country's economic potential than the debt, which has considerably decreased relative to the size of the Canadian economy, from more than 70 percent in the mid-1990s to nearly 40 percent today.

In conclusion, we very much hope that these few considerations and proposals will contribute to the thinking of your committee, in preparation for the federal government's next budget exercise. The coalition recalls that, while the situation appears on paper to be improving, as a result of new federal funding, it is quite different in practice because results are slow in appearing. We've previously had the opportunity to say so, but we emphasize that every passing year increases the overall burden. The infrastructure deficit is still growing and becoming a greater burden. It's the object of the concern of the coalition's members. We hope that members will hear this aspect of our message.

On my own behalf, that of my colleague and of the 21 members of our council, I thank you for welcoming us here today and for the action you'll take on our recommendations.

● (0855)

The Chair: Thank you, Mr. Vaillancourt.

We'll now go to Mr. Roquet, from the Mouvement des Caisses Desjardins.

Mr. Louis Roquet (President and Chief Operating Officer, Desjardins Venture Capital, Desjardins Group): Mr. Chairman, members of the Standing Committee on Finance, on behalf of the Desjardins Group, I want to thank you for hearing our presentation and recommendations. With your permission, I'll briefly provide some background so that I can focus my remarks on the recommendations.

The Desjardins Group is a cooperative institution, the largest financial institution in Quebec and the sixth in Canada. It has assets of $106 billion. Desjardins Venture Capital, one of its subsidiaries, currently manages the assets of 10 venture capital funds. Forty-five percent of all the investments of those venture capital funds have been allocated to Canadian high-tech and innovative companies. So this shows the interest and involvement of the group and its fund manager in the innovation sector and in the renewal of Canada's industrial structure.

It's often been said that there isn't enough venture capital. On the contrary, we estimate that $500 million in capital will be made available in various funds for innovative businesses in the coming months in Quebec alone. The problem is not capital availability, but capital efficiency and cost effectiveness. It is true that the venture capital industry in Canada is much younger than the U.S. industry, which has approximately 40 years' experience, whereas the Canadian industry only has about 15. The efficiency of venture capital isn't there, for three reasons that I would like to state for committee members.

The first reason is that there's inadequate and insufficient evaluation of the technical-commercial potential of innovations. The business research and development strategy and the commercial potential of innovations are poorly matched. This prevents businesses from accessing profitable markets and does not allow them to survive.

The second problem is the ability of management teams. The U.S. industry has a third or fourth generation of successful high-tech entrepreneurs who have developed businesses based on research and development. In Canada, we're still on our first generation, perhaps our second generation of high-tech entrepreneurs. We lack qualified managers who are capable of developing businesses based on R&D.

The third problem we're experiencing is access to major consumer and buyer markets, of course, but also to capital and public markets such as NASDAQ.

In view of these problems, we're making four recommendations to the committee, which we think would represent relatively low-cost solutions to these three problems.

The first measure is expanding funding programs for marketing and pre-marketing activities. Through Canada Economic Development and the National Research Council of Canada, the federal government is already managing programs that support the marketing and pre-marketing activities of businesses. We suggest that those programs be expanded, that a number of restrictive standards be eliminated so that, from their inception, high-tech companies can be supported in their pre-marketing and marketing efforts.

For the second problem, weak management teams at high-tech companies, we recommend that tax incentives be offered to high-tech entrepreneurs, regardless of whether they're Canadian or non-Canadian, so that, once they achieve initial success, they have a real incentive, such as a capital gains tax break, for example, to go back to work and start up businesses.

● (0900)

It takes a very special talent to develop a business, particularly a high-tech business. People who have experienced initial success can generally repeat it with a high probability of success.

My third recommendation is to ease the rules governing the capitalization of cross-border venture capital partnerships and their investments. In the high-tech field, and in biotech in particular, one of the best ways to generate value from an investment is to merge a business that has one technology with another business that has another, compatible or complementary technology.

If you look at the deal flows from a single region, the probability of creating these wealth-building mergers is very limited. The concept of a trans-border fund that draws on U.S. and Canadian research centres and that uses Canadian and U.S. capital as well as the expertise of U.S. fund managers, which is much more developed than that of Canadian fund managers simply because they've been in the business for a much longer time than we have, guarantees a much higher probability of success.

There are currently tax barriers to introducing these kinds of funds. We are personally involved in setting up an initial trans-border fund in Montreal, and we hope not only that these barriers are removed, but that incentives are introduced. That would also give us access to managers with networks including major businesses that can represent potential buyers for Canadian businesses and also to people who have access to capital markets, in particular the NASDAQ market, which is one of the best vehicles for innovative high-tech businesses.

Lastly, our final recommendation is that primary contractors be encouraged to make greater use of technologies developed by Canadian start-up companies. As you know, the Canadian government is a major buyer. The U.S. government has introduced measures requiring large businesses that receive government contracts to retain the services — in some cases for up to 15 percent of the total contract amount — of small businesses or businesses managed by members of minority communities, as the case may be.

We recommend that the government introduce a policy for its major contracts requiring large businesses, such as CGI in the information technology field, to use technologies of small emerging businesses. This would prevent the somewhat crazy situation in which our emerging high-tech businesses have to sell their technology to the Americans before they can sell it Canada. This would also provide these businesses with a demonstration site that would greatly facilitate their access to an international clientele.

That summarizes the measures which we think could support high-tech SMEs at a time when the supply of start-up capital should increase significantly in Canada. This would make it possible to make that capital, which will be available to businesses, infinitely more effective and would give high-tech businesses access to markets that would support their growth.

Thank you for your attention, and I'm available to answer your questions.

● (0905)

The Chair: Thank you, Mr. Roquet. I have a number, but we're going to move on to the next presentation, that of the Union des producteurs agricoles du Québec.

Mr. Pellerin, over to you.

Mr. Laurent Pellerin (General President, Agriculture, Union des producteurs agricoles du Québec): Good morning, Mr. Chairman. Good morning, committee members as well.

With me is Marc Saint-Roch, a tax expert and coordinator of the UPA's accounting and taxation department, and Serge Lebeau, who is responsible for international trade files and other economic issues. Mr. Lebeau will make the presentation. I'll answer questions later.

Mr. Lebeau.

● (0910)

Mr. Serge Lebeau (Senior International Trade Manager, Agriculture, Union des producteurs agricoles du Québec): Thank you, Mr. Pellerin.

Mr. Chairman, members of the Standing Committee on Finance, first we want to thank you for inviting us to take part in these hearings.

Today, we essentially want to address four subjects of particular concern to the Union des producteurs agricoles. First, we'll discuss the net income crisis and the anticipated negative impact of the trade negotiations underway at the World Trade Organization. Then we'll come back and say a few words on fiscal imbalance and our requests with regard to the tax system.

As a result of the problems our industry is facing, we are now at a crossroads. It goes without saying that we want to take the right direction, and the Department of Finance can help us do that.

However, before addressing our concerns, and without going into details, I want to emphasize the farm sector's major contribution to the economic and social development of Quebec and Canada. Our brief contains extensive information showing this.

With regard to declining incomes, I invite you to look at the supplementary notes. These are charts from the brief which have been expanded and will help you see matters a little more clearly. The net income crisis that farmers are currently experiencing is undeniably much more structural than circumstantial. Figure 1, which concerns changes in total farm net income in Canada, shows a strong downward tendency in farm net incomes. That decline has accelerated in the past 10 years.

Now let's look at the second figure. This situation has been analyzed in various studies, in a study by the Canadian Agricultural Policy Research Institute and in a study conducted by the Parliamentary Secretary to the Minister of Agriculture and Agri-Food, Mr. Wayne Easter. All of these studies have come to the same conclusion: declining revenue has resulted in increased farm indebtedness in Canada, which has caused a deterioration of their financing structure. The figures presented in this chart show this. The BSE crisis and depressed prices, particularly in the grain industry, have amplified this trend.

Mr. Serge Lebeau: To reverse this trend, it is imperative that Canadian agricultural policy be more energetic and that it have a real impact on the prices producers get in the market. We think two actions can be taken to achieve this. We're seeking the political support of the Minister of Finance. The idea here is to strike a balance between producers and the other links in the chain. We also hope that the Department of Finance will provide the necessary funding to include in the Agricultural Policy Framework a component concerning the long-term profitability of farm businesses in order to offset market disparities.

This measure would protect our producers against trade disputes and market variations that have long-term impact on their incomes. To provide all the flexibility the policy framework needs, this assistance should be compartmentalized in order to meet the specific needs of each region and type of production. We also ask that you increase your contribution in support of the grain industry and support the immediate formation of a committee responsible for examining the grain issue.

As regards the BSE crisis, we ask that you support the investments of the Fédération des producteurs de bovins du Québec in the processing sector, including investments already made to consolidate slaughtering capacity in Quebec. The department should also insist that Canadian authorities continue their efforts to open borders completely and, in the meantime, continue supporting sectors still under embargo.

As for the WTO agriculture negotiations, the UPA requests your political support to ensure that Canada firmly defends the maintenance and development of collective marketing and supply management. This would have no impact on the public treasury. We also ask that you support the introduction of adequate regulation to control imports that too often defy WTO rules.

We ask that you exercise pressure so that the new agricultural negotiation mandate, which will soon be discussed in ministerial offices, is tough enough to preserve our supply management systems and our income security programs. In any case, Canada must not sign a bad agreement. However, we find the proposals currently on the table of little benefit for Canadian agriculture. They anticipate lower tariffs, the end of the Canadian Wheat Board, the closing of European markets and the possibility that Americans and Europeans can continue financing their agricultural sector on a massive scale.

In addition, we think it necessary that the Department of Finance restore fiscal balance. The decline in government support for agriculture, which is related in part to fiscal imbalance, stems from the fact that the federal government, despite its financial resources, is not fully playing its role, in particular in helping Canadian producers compete on an equal footing with other countries. As we noted last April, we see, on the one hand, that the federal agriculture and agri-food budget fell from four percent in 1991-1992 to 2.5 percent in 2004-2005.

● (0915)

You have a table summarizing what I've just said.

As the table shows, there was an overall reduction in public expenditures during the decade from 1994-1995 to 2003-2004, compared to the decade from 1984-1985 to 1993-1994. The drop in expenditures came more from the federal side. Expenditures fell 43 percent, whereas provincial spending declined 30 percent during the observed periods.

This situation is reflected in the provincial share of total expenditures, which rose from 38 percent to 43 percent, as the provinces had to offset the federal withdrawal and continue providing front-line services. The fiscal imbalance is definitely not unrelated to this trend.

Lastly, as regards farm and forestry taxation, as you'll see in greater detail in the brief, a number of farm and forestry tax measures should be introduced or amended by your department.

To name only a few, first there is the transfer savings plan, which is similar in certain respects to a registered retirement savings plan and should be introduced with the government's support. In the case of eligible farm transfers in which the business sold continues to operate, the capital gains deduction should be increased by $500,000 to $1 million. To support agricultural research and development and to take specific characteristics of human-scale farms into account, an incentive similar to the research and development tax credit should be put in place.

The government should recognize investments made by private forest operators in order to manage forests in a sustainable manner in accordance with recognized practices. To do so, it should allow forest operators to deduct, in computing their incomes, all forest development expenses incurred in a year, in accordance with a qualified forestry development plan, regardless of the income generated by the sale of wood in that year.

In addition, the government should put in place a measure for averaging income from the sale of wood produced by irregular cutting in order to average the income tax burden fairly over a number of years. This would be more consistent with the operation cycle of the private forest industry.

Thank you.

The Chair: Thank you, Mr. Lebeau.

We'll now go to Mr. Vinet, from the University of Montreal.

Mr. Luc Vinet (Rector, University of Montréal): Mr. Chairman, committee members, good morning and thank you for receiving us. In eight minutes, it is difficult to provide an overview of the situation. First, I'm going to give you the main message I want to send you.

In view of the challenges of globalization and very rapidly developing economies as well as demographic decline that we're facing, I believe that the keys — and a certain consensus is developing on this point — to the development of our society are innovation and the development of human capital. Our plan in this regard must be based on quality.

The development of postsecondary education is becoming critically important, and it is therefore essential that our universities have the necessary resources to be the best. The important point, then, is to build on this innovation-based strategy in order to develop an ambitious national plan for postsecondary education that, I think, should include direct support programs by the federal government and transfers to increase the capacity and performance of our universities at the under-graduate level. That's the essential point. I'll now follow the presentation we submitted to you.

A few words on the University of Montreal, the importance of which is at times not accurately gauged in the Canadian scene. It is the second largest university in Canada. You have a few figures illustrating, in particular, the fact that the university has a student body of 55,000, in addition to 2,400 professors, and has the largest concentration of health and life sciences programs in the country. In fact, it is the only university that offers all disciplines in the sector. It has the largest medical school in Canada. It is important to emphasize, for example, that medical students from the University of Montreal have scored first in the exams of the Canadian College of Physicians in the past six years. It also has the only veterinary school in Quebec.

As regards investments in research, what has been done by the federal government since 1998 has enabled the university to do some catching up. Funds allocated for research at the University of Montreal have virtually doubled. You see it in the chart. Funding was approximately $110 million in 1999-2000 and is now $210 million. That shows, on the one hand, the size of federal contributions and the performance rate, since these funds are essentially allocated through competition. This funding has also had a leverage effect and has influenced contributions from other sources. We have to be pleased with those choices.

However, efforts must continue since the objectives Canada set in 2000 have not yet been achieved. We are still not among the leaders in R&D spending. To reach the target that was set for 2010, investment in research will have to increase by 53 percent.

We must celebrate our results, but we must not be blinded by what has been accomplished. Other countries have also headed in the same direction. Our competitors invest more in research and development than we do. Despite substantial investments, Canada's gross R&D expenditures are lagging behind those of other OECD countries. You'll see that soon. If postsecondary education is really the key to developing Canadian society, if we want the best universities, we'll have to do some serious catching up, particularly to U.S. universities.

If you look at Canada's international competition, you see that other countries have continued to increase total R&D spending. The yellow bar shows what happened in 1997. Looking at the blue bar, you can see what has been done in the other countries. Canada is still well out of the lead. In particular, you can see the progress that has been made in Sweden.

● (0920)

The next table shows the growing gap between Canadian universities as a whole and public universities — and I mean “public” — in the United States. If you look at this table, you'll see that, since 1980, funding by governments, that is by the states and the federal government of the United States, has increased 25 percent, whereas it fell 20 percent in Canada over the same period. This means that government investment in U.S. public universities amounts to an average of $5,000 more per student. If you add tuition fees to that, there's an average gap of $8,000 per student relative to Canadian universities. So for the University of Montreal, that would represent $240 million a year in the operating budget.

It's important for the federal government to take targeted action on a few measures. It must invest where the impact will be greatest. We think there is a consensus on this point, that it is important to increase funding of indirect research costs. The lack of this funding, which was recently corrected, but not yet adequately so, has left Canadian universities in a very, very difficult situation. We're now at the 25 percent level — and that's a good thing — but we have to be able to reach the recognized level, which is at least 40 percent.

The competitiveness of our universities and the development of human capital that they achieve is brought about by graduate students. We have to increase our competitive level in this respect. We are unable to attract more Canadian students to graduate schools or to attract international students, essentially because our scholarships and the ability of universities to offer such scholarships are not great enough. I would point out to you that the OECD considers that the international post-graduate education market will experience absolutely stunning growth. We must therefore position ourselves in this area, hence the importance of increasing the level of support for post-graduate students and of enabling universities to move in the same direction.

Lastly, infrastructure will have to continue to be created and renewed. We think it is important to maintain efforts in this area and to do so through the Canada Foundation for Innovation. The funding provided through this organization has been put to good use and has created a number of partnerships. We feel it is important to continue in this direction.

In conclusion, I would re-emphasize how crucially important postsecondary education is for Canada, hence the importance of continuing and substantially increasing funding for this sector. To have a consistent impact in this area, it is also important, in addition to direct measures, to enable universities to increase their capability and performance in 70 percent of their activities, that is to say in under-graduate education. I therefore believe there are other ways to do this than through transfer payments.

● (0925)

The Chair: Thank you, Mr. Vinet.

First, I want to remind witnesses that committee members have six minutes for questions and answers. So I would ask you to answer briefly so that they can have an opportunity to ask other questions.

Mr. Prentice, you have six minutes.

Mr. Jim Prentice (Calgary Centre-North, CPC): Thank you, Mr. Chairman.

My question is for Mr. Vaillancourt.

I read your brief, and I see your proposal on the hidden deficit. On page 8, you say that the hidden infrastructure deficit continues to grow. You outline the scope of the problem on page 5 of your brief. In your opinion, it's a deficit of more than $1 billion a year over 15 years, and it must be eliminated.

Mr. Gilles Vaillancourt: When we started conducting evaluations in 1997, sir, our report showed that, if we invested $1 billion a year over 15 years in infrastructure work, we would enable Quebec municipalities to achieve the Ontario and U.S. levels. More than seven years have already elapsed. Although there have been some programs, the funds have never reached the level required to produce $1 billion worth of work. Eight years later, we've simply softened the curve of this deficit, which was increasing. Now we need $1.25 billion a year, not $1 billion.

Mr. Jim Prentice: What do you think is the priority?

Mr. Gilles Vaillancourt: It's obviously all the water production and treatment systems, but also roads. It's extremely difficult to separate these elements. A road includes underground equipment, which includes drinking water distribution and waste water treatment. You can't take action on one without there being consequences for the other. Roads aren't built like a desk with drawers. You can't decide to open the waterworks drawer and install a good pipe this year, open the sewer drawer the following year and one day redo the asphalt. That all has to be done at the same time. If there isn't enough money, we'll never do it. Although the federal government has been a decisive player, its efforts haven't been big enough to correct the curve.

● (0930)

Mr. Jim Prentice: Have you requested tax changes and measures?

Mr. Gilles Vaillancourt: Yes, we've requested some. We're here to suggest two to you, and we've also asked the Government of Quebec to help us. Its response will apparently be in the next budget, in the form of a long-term program.

Quebec municipalities have another problem. Of all the municipal debt in Canada — which totals more than $12 billion — the debt of Quebec municipalities represents slightly more than $10 billion. Those municipalities can no longer borrow to overhaul their infrastructure without risking a lower credit rating and extremely high additional expenses.

Mr. Jim Prentice: Do you think that's an indication of fiscal imbalance?

Mr. Gilles Vaillancourt: When the government transfers started, the municipalities lost what little capacity they had to maintain their infrastructure. In Quebec, since the municipalities' indebtedness is extremely high — 80 percent of municipal debt in Canada is in Quebec — we are unable to restore infrastructure to the desirable level without the aid of both governments.

Mr. Jim Prentice: Thank you, Mr. Chairman.

The Chair: Thank you, Mr. Prentice.

Mr. Loubier.

Mr. Yvan Loubier (Saint-Hyacinthe—Bagot, BQ): Thank you, Mr. Chairman.

I have a number of questions to ask. As I know time is very limited, I'll do so quickly and avoid a longer preamble.

My question is for Mr. Roquet. In your presentation, you referred to two specific measures: one to assist in the creation of a trans-border fund, and the other to assist small high-tech start-ups. I'd like you to tell me what the tax barriers are to the creation of a trans-border fund that would give us greater venture capital capacity.

Mr. Louis Roquet: I don't have all the technical details, but American investors are penalized for creating a fund such as this and investing in Canadian projects. With your permission, I can send you details on the subject.

Mr. Yvan Loubier: I have another question to ask you. You referred to incentives for large businesses to deal with small high-tech start-ups. But don't you think that this kind of government incentive, in the context of an act, could be contrary to the principles guiding NAFTA and the WTO on non-discrimination and national treatment, for example?

Mr. Louis Roquet: No, not at all, because the transaction would be a requirement of the call for tenders. It would be up to the large business getting the contract to assess the available technologies — it is qualified to do so — and to identify smaller businesses able to provide technologies that could be integrated into the project submitted.

Mr. Yvan Loubier: These are small U.S. businesses. International trade rules require us to have national treatment for these small businesses.

Are you ruling that out? Or is this strictly for Quebec and Canadian businesses?

Mr. Louis Roquet: This is done in the United States and it's consistent with NAFTA.

Mr. Yvan Loubier: Perfect.

Mr. Pellerin, you've appeared on a number of occasions in recent years, but let's say that the last three years have ultimately been dramatic. In looking at the figures on changes in farm net income, I see that the situation has not returned to normal.

When we're in Ottawa, I don't know whether the air is different here, but we're told that, with the billions of dollars that have been invested in the agricultural sectors, producers are fine and the BSE crisis is behind us. Grain producers are doing quite well, even though the Americans subsidize grain production and marketing to considerable extent.

I'd like you to comment on these remarks, which we hear virtually every day in Ottawa.

Mr. Laurent Pellerin: Let's get things straight on the agriculture situation. Canadian producers are among the most competitive in the world in terms of yield, whether it's per kilo of meat produced, per liter of milk per cow or any other criterion. We are extremely efficient.

Where matters are not doing well is in regard to the Canadian government's support for Canadian agriculture, which is absolutely not up to snuff compared to that of the U.S. government for U.S. agriculture or that of 15 of the 25 European governments for their agriculture industries.

We can be competitive in our own backyard, but we can't be with the public treasuries of other countries. That's the job of the federal government, and I don't think it's doing it. The table shows the lack of net income of Canadian agricultural producers. The situation of the grain industry is particularly dramatic. While it's hard in Quebec, imagine that it's catastrophic in Western Canada because producers there rely solely on grain.

● (0935)

Mr. Yvan Loubier: A billion dollars was allocated a few months ago to resolve the crisis caused by BSE in particular. What investment would be needed?

Mr. Laurent Pellerin: When we met with the Minister of Finance last spring, with the Canadian Federation of Agriculture and each of the provincial organizations, we requested an investment of $2 billion a year for each of the next few years. That's what was missing to make up the difference.

Ultimately, the idea was to go back to the budget that had been allocated for agriculture in Canada from 1990 to 1995, an annual budget the same size as it was at that time. We underwent the budget rationalization of 1995, which had an extremely significant negative effect.

In the second table we presented to you, you see that nothing is lost, nothing is created. Producers continue to invest and live from agriculture. So they went into debt because the market incomes weren't there. You see the indebtedness curve.

If interest rates went up one percentage point tomorrow morning, it would be catastrophic for a number of agricultural sectors in Quebec and Canada.

Mr. Yvan Loubier: Thank you, Mr. Pellerin.

I'd simply like to tell the Quebec Federation of University Students that my party supports its request for the exemption and a $4 billion investment in response to chronic under-investment. That's one of your demands, and you agree, at least on that subject.

Where you don't agree is on tuition fees. It's quite surprising to see that the debate here on tuition fees, whereas, yesterday, we were in Moncton, New Brunswick. We often hear about this in the rest of Canada, and Quebec is held up as an example of access to postsecondary education and tuition fees. There's considerable reliance on federal transfers, which have been cut since 1995. No one even questions tuition fees in Quebec.

However, yesterday in Moncton, they said they had to go down to the level of tuition fees in Quebec, but that the federal government should restore the transfers it has cut since 1995. So we're held up as an example in the rest of Canada, but here, there's a fairly stormy debate between university administrators and students. We find it a bit hard to get our bearings.

Yesterday, I even asked the students to take steps in Quebec to clarify the debate. They think we're right. The average indebtedness ratio per student is three times higher elsewhere than back home, and the rate of access to postsecondary education is reduced to a minimum. Students are dropping out of colleges and universities in Eastern Canada. What do you think of that situation?

Mr. Philippe-Olivier Giroux: As regards the problem of renewing the teaching staff, the primary thing for CNCS is to ensure that the largest possible number of students complete their undergraduate studies. So those who have the ability or the desire to pursue post-graduate studies, to earn a master's degree or a doctorate, and who have the necessary skills to become a university professor or to go to work as a corporate researcher, should be able to do so. They shouldn't have any financial constraints.

So they should finish their bachelor's degree with the lowest possible level of indebtedness. The reason for that is quite simple: if you give a student a choice whether to complete a bachelor's degree, work, repay debt, start a family in order to be able to buy a house and so on, or to pursue post-graduate studies and continue to go into debt, the second choice, continuing master's or doctoral studies, is clearly not very attractive.

For that reason, we believe that the freeze on tuition fees is a necessary measure. This isn't the right time to unfreeze tuition fees, when we want to ensure that as many students as possible can complete post-graduate studies. It's for that reason, among others, that we view this measure as an investment in access to education.

● (0940)

The Chair: Thank you, Mr. Loubier.

Mr. Vinet.

Mr. Luc Vinet: We're here to talk about the federal budget. So I'd like to try to find a consensus. I'd just like to emphasize — it's essential for me that we have a consensus on this point — that the universities, particularly the Quebec universities, address two challenges, competitiveness at the national level and competitiveness relative to the rest of Canada.

It should not be forgotten that it was agreed that Quebec universities were underfunded to the tune of $375 million relative to the rest of Canada. Even if I argue in favour of a federal transfer for postsecondary education, that won't correct this imbalance in the funding of Quebec universities relative to the rest of Canada, since the transfers will be at national measure.

So it's very important for there to be a consensus on the urgent need to correct the funding of Quebec universities.

The Chair: Thank you.

[*English*]

Mr. Holland, then Mr. Solberg and Mr. Bouchard.

[*Translation*]

Mr. Mark Holland (Ajax—Pickering, Lib.): Thank you, Mr. Chairman.

I'm going to ask my question in English.

[*English*]

It's a lot easier for me, so I hope that's okay.

I want to start where Mr. Loubier left off, on the issue of universities and post-secondary and graduate education. Obviously these areas are key to productivity and are going to be key to driving innovation and our competitiveness in the future. My particular concern, or the first issue that I really wanted to start with....

We acknowledge that we've made a number of great gains in this area; I think funding and research have improved dramatically. We've seen the loss of talent, or brain drain, reversed, but we acknowledge that we have a lot more to do. I think that'll be key to our deliberations in this round of budgeting.

One of the things that was referenced just a couple of minutes ago by the National Council for Graduate Students, or Mr. Giroux, in the course of the discussion was the issue of freezing tuitions.

Mr. Vinet, and Mr. Giroux, I'm wondering if you could both talk about where we, as a government and a committee, should have our priority if access is a major issue. I know we talk a lot about freezing tuition rates and having that as a particular objective, but on a net basis, what is that doing for the overall issue of accessibility, and should our focus instead be on trying to make it more accessible, such that a larger number of students will actually be able to participate in either graduate studies or university studies, or should we be looking more at something across the board, such as this notion of just freezing tuition rates?

Could both of you perhaps respond to that?

Mr. Luc Vinet: I'll take you up on that.

I think the government should be concerned with.... What is key is having education of the highest quality and making it accessible as well. The goal is to increase the quality and the training of our human capital. For that we need the quality enhanced, and we need the numbers increased to get the highest participation rate. As for Mr. Loubier's question, we still have very low participation rates across the country, particularly in Quebec, where it's at the level of 16% or 17%.

My sense is that it is not that constructive for members of government to worry so much about what tuition is in Canadian universities. What they should be concerned about is what is the level of support for our students to enable them to access university? That, to my sense, is the key question.

Mr. Mark Holland: Mr. Giroux.

[*Translation*]

Mr. Philippe-Olivier Giroux: I'm going to answer in French.

On this point, I don't think we should focus solely on tuition fees. As Mr. Vinet said, you have to take into account the issue of accessibility in general.

I'll give you another example. In our brief, we referred to a reinvestment in the federal granting councils, NSERC, SSHRC and CIHRC. Those are the agencies that give grants intended to a large degree for students or to finance researchers, who hire students.

Investing in the granting councils is another excellent way to improve university accessibility. It enables a lot of students who have access to these grants to have fewer financial constraints and to continue post-graduate studies. If we could put forward one measure that would achieve a consensus, that would be it.

● (0945)

[*English*]

Mr. Mark Holland: Thank you for those comments. I think it's important to highlight that because I'm not necessarily sure freezing tuition fees will solve the overall problem. That's just something that's discussed, but we really need to get at the issue of accessibility. I also appreciate the comments on quality. Those two go hand in hand and should be a major area of focus for us going forward.

In your presentation, Mr. Vinet, you talked about specific measures: bringing the funding level of indirect costs to 40%, and a number of others. There aren't any costs associated with these. Have you costed out any of these recommendations?

Mr. Luc Vinet: For the indirect costs to reach the 40% level, the estimate is that this would require $158 million.

Mr. Mark Holland: I'll follow up on the others, because I know I have a limited amount of time and I still have other questions.

Do I have some additional time?

The Chair: You have one minute.

Mr. Mark Holland: To Mr. Vaillancourt, I'm very concerned, as a former municipal politician, about the issue of infrastructure. Obviously we've introduced the new deal, we've continued the infrastructure programs, and we're trying to do what we can to work with municipalities.

One of the things I'm concerned about—and I'm sure it weighs on you—is the issue of ongoing sustainable funding for municipalities and how you sort of split the responsibility. My concern is I want to see us do what we should do from the perspective of the federal government, without getting to a point where we start becoming totally responsible for the issue of infrastructure; where at the end of the day it's an area that we entered into not lightly because we recognized there was tremendous need, but there is also additional responsibility there.

Perhaps you could talk about our role relative to what you see as being the province's role and the ability of municipalities to access additional funds.

Mr. Gilles Vaillancourt: I think you've been playing a key role and a leadership role in recognizing the problems of municipalities. The fact that you gave us credit on the TPS and you established part of the gas tax is wonderful. But along the road, when we look at how much money needs to be invested to correct the deficit problem, you will certainly have to look at indexing the money you're giving to the cities. It's a long-term program and it will take 15 years to get the job done. So if you don't give us a form of indexation somewhere.... Mostly, I would say you should accelerate it through the first years; in other words, if you have surpluses, if you have a few hundred million dollars, that's the time to do it. We need a kick-start. We need to quickly get on with the job so that the deficit doesn't get bigger again, so that we finally cope with it once and for all and shelve it behind us.

Mr. Mark Holland: Thank you.

The Chair: Thank you, Mr. Holland.

Mr. Solberg is next for six minutes.

Mr. Monte Solberg (Medicine Hat, CPC): Thanks very much, Mr. Chairman, and thank you all for your presentations.

I want to start by asking a question of Messieurs Lebeau and Pellerin with regard to their views on where we should be trying to go in world trade in agriculture. It sounds to me as if you've come to the conclusion that we are not likely to make progress toward real free and fair trade in agriculture, so you're saying at this point, let's basically maintain what we have. As far as I understand it, the government is saying we could put supply managed commodities under the sensitive area clause of the WTO, for instance, and that should protect it.

Is that your position? Wouldn't it ultimately be better to have completely free and fair trade in agriculture? The problem, of course, is that when you don't have that you get these gross distortions that really don't help consumers in the end. They don't even help the producers—at least the producers who are best don't always come out ahead.

Mr. Laurent Pellerin: In theory, if we applied an open market and trade were really fair, it would probably solve a lot of problems. But if you look at the proposition the EU put on the table last week, it won't happen tomorrow, and you and I will not see fair trade in agriculture, or probably any other sector, for many years.

In agriculture, the really interesting thing you have to keep in mind is that 94% of agriculture products are not traded worldwide; they are for domestic consumption. Only 6% of agrifood is traded across the world. Within this 6%, more than 90% is traded without problems. So we have a problem with about 10% of the 6% traded worldwide, and we are looking at changing the rules or elaborating on the rules for 100% of the production. There is a big problem there.

In the short term, facing the Hong Kong meeting in the middle of December knowing what is on the table from the U.S. and the EU, probably the best deal is the status quo for a certain period. Canada was expecting new fair rules for grain and exported commodities, but there is no way we will see improvement in trade, looking at what the U.S. and the EU have put on the table. So we are really nervous about what will be discussed in Hong Kong.

● (0950)

Mr. Monte Solberg: Mr. Giroux, you're arguing for tax exempt status for grants. Just so you know, the Conservative Party actually adopted that as part of our policy platform in Montreal a year ago.

But I want to get to the issue of overall accessibility, which is something Mr. Vinet also raised. There seems to be no one model that is universally acceptable. Some countries have free tuition and some countries have very high tuition rates. For instance, if you compare the United States to some countries that have free tuition, there are better enrollment rates in the United States. That seems to be counterintuitive, but it seems to be the case. Tuition levels are clearly not the deciding issue. Doesn't it have more to do with the likelihood of coming out of university and getting a good, high-paying job? Isn't that really the driver for people deciding to go to university?

[*Translation*]

Mr. Philippe-Olivier Giroux: It's definitely a factor to consider. You know I entirely agree with your analysis that there are two different models.

I'll go back to the example cited earlier by Mr. Vinet, the example of Sweden, which is a major research performer. That's a country where tuition fees are very low. That's proof that a similar model is highly functional and that you don't necessarily have to consider the freeze on tuition fees as the cause of problems in the education system.

Quebec universities are underfunded to the tune of $375 million. If you take the measure proposed by CNCS, that federal transfers be increased to $4 billion, Quebec's specific share would be approximately $1 billion. With that, there would be enough room to correct the underfunding of the university system.

To provide a more specific answer to your question on factors, that is definitely one. However, according to the studies that we've done at CNCS on graduate students, one in two or three students drops out over funding issues. Many others prolong their educations, but in view of the fact that they don't have access to good funding, they're forced to work an enormous number of hours outside their studies. So they take fewer courses per session or spread their studies over a longer period. That's a disadvantage for the state since students take longer to enter the labour market and to earn a higher salary on which they pay taxes.

[*English*]

Mr. Luc Vinet: I'd like to give you an example. At a public university they were complaining about the fact that they were losing their students from less well-off environments to USC, the University of Southern California, a private university. My point here is to illustrate and stress again that politicians, members of government, should not worry about tuition in universities; they should worry about access. It's important to give universities the means to manage, develop, and generate access for students coming from all strata of society. That is key.

It seems to me there is also a misunderstanding that I want to straighten out. If we have a national plan to support universities, it will be distributed on a pro rata basis across the provinces. This will address the competitiveness of Canadian universities with international universities, but we still need to address the internal issue. It will remain whole if something is not done with Quebec.

● (0955)

Mr. Monte Solberg: What percentage of people who apply for first-year studies at the University of Montreal are actually allowed in, even though they meet the standards in terms of grades? Do you have a sense of that?

Mr. Luc Vinet: That's a complicated question, because we have programs like medicine that have limited access.

Mr. Monte Solberg: I'm speaking of undergraduates.

[*Translation*]

The Chair: Thank you, Mr. Solberg.

Mr. Yvan Loubier: Mr. Chairman, I just want to speak for a minute. Then I'll hand the floor over to my colleague from Chicoutimi-Le Fjord. I would like to pick up where my colleague Mr. Solberg left off, and where I left off earlier.

I like your predecessor, Robert Lacroix, very much. He was my thesis director. The University of Montreal is my alma mater. So I like the University of Montreal very much.

You want to show some lucidity — that's a fashionable term these days — and join forces with students in seeking an additional billion dollars annually to fund postsecondary education in Quebec. You're chronically underfunded to the tune of $375 million. With an increase in tuition fees to roughly the level of the Canadian average, you would have $400 million more. So that would be $775 million. If you got $1 billion, that would leave $225 million, probably for the college sector, which is also underfunded.

Since that's your wish and you're a man of consensus, Mr. Vinet, if you want to expand the consensus by joining forces with the students to get that billion dollars, you'll solve your funding problem. Tuition fees don't need to be raised to the Canadian average, when the rest of Canada is trying to lower them to the Quebec level.

What's the problem in this area? Why are we having this debate, when we made choices about truly open access to university and college education about 25 or 30 years ago?

Mr. Luc Vinet: First, we don't have the time, but I'd also like that debate not to be conducted. The idea isn't to take an ideological stance on tuition fees. What's important to agree on is that transfers alone won't solve the problem of underfunding or of the lack of competitiveness.

Mr. Yvan Loubier: With $1 billion a year, you'll solve it. There's $375 million...

Mr. Luc Vinet: Yes, but that's a static world, Mr. Loubier, because, when the transfer is made, it's 25 percent. The provincial premiers are requesting approximately $4 billion for postsecondary education. So that's $1 billion for Quebec, but that means that a portion will go to Ontario.

For example, if funding is also increased in Ontario, to take it as a basis for comparison, that means that the entire system will be pushed by that increased funding. For example, salaries may rise in order to deal with the professor recruitment market. So once again, Quebec universities won't be able to follow because they can't afford to. The $375 million question may be solved, but we'll still be underfunded relative to universities in the other provinces. So there will be an inability to compete in a truly international market.

Mr. Yvan Loubier: However, the universities in the other provinces say they're going to lower tuition fees if additional transfers are made. They feel their tuition fees are far too high and that they reduce access to postsecondary education.

Mr. Luc Vinet: We'll have to see, but, already in Ontario, investment in the order of $8 or $9 billion made by the McGuity government is spread over the next five years. As for the $375 million, it's reasonable to think it was established two or three years ago and that that figure is no longer valid. The other provinces are also thinking they have to increase the competitiveness of their universities at the international level.

So it's important to reach a consensus on this subject. It's not the last of our challenges or the solution to all issues. From the moment we acknowledge this situation, we can look for solutions together.

● (1000)

The Chair: Mr. Bouchard, you have two minutes left.

Mr. Robert Bouchard (Chicoutimi—Le Fjord, BQ): Thank you, Mr. Chairman. Thanks as well to each of you for making excellent presentations.

My first question is for the representatives of the Conseil national des cycles supérieurs. You asked that additional funds be paid to assist the education system. However, I didn't hear you say anything about the Canada Millennium Scholarship Foundation.

I've attended a number of pre-budget consultation meetings. A number of student associations and even associations of teachers have told us that the Canada Millennium Scholarship Foundation had not achieved its objectives and should therefore be abolished. They asked us not to renew its mandate because students are just as poor as, if not poorer than when it was established.

The Government of Quebec opposed the Foundation's creation for a number of years — at least for a few years.

Are you of the view, like your colleagues from the other provinces, that the Canada Millennium Scholarship Foundation should be abolished or, at least, that its mandate, which should end shortly, should not be renewed?

Mr. Philippe-Olivier Giroux: Quebec already has a financial aid system for students. It is entirely competent to manage this issue. The funds allocated to the Canada Millennium Scholarship Foundation should be transferred directly to Quebec so that it can invest it in its student aid system. That would be a very good solution, particularly since the Canada Millennium Scholarship Foundation is a private foundation that is not accountable to the House of Commons.

If the mandate of the Canada Millennium Scholarship Foundation were not renewed, the ideal solution would be to transfer the money to Quebec so that it could invest it directly in its student aid system. For the moment, there is a consensus that the money should be transferred. It would be preferable for it to go directly to the student aid system.

The Chair: Thank you, Mr. Bouchard.

I'd like to ask two or three brief questions.

Mr. Vaillancourt, could you give us a little more of an explanation of your recommendation that there be annual growth in the amounts already paid, or in future amounts?

Mr. Gilles Vaillancourt: I was referring in particular to the gas tax. In the fifth year, the amount for Quebec will be $460 million. That's very slow growth. The price of oil has increased sharply and the cost of the work will therefore undergo a very major increase.

The Chair: There are other funds for infrastructure. There's the rural fund...

Mr. Gilles Vaillancourt: There's the Municipal Rural Infrastructure Fund, which is a small fund that is allocating $200 million to Quebec over five years. If you consider that and the fact that the gasoline tax will bring in $1.15 billion, you see that it won't even reach half of the funding that would have been necessary. We need $1.25 billion a year.

The Chair: There are other funds as well, in particular the Canada-Quebec Infrastructure Works Program.

Mr. Gilles Vaillancourt: In fact, there's no more money in that fund.

The Chair: Do you mean that it doesn't count because it's empty?

Mr. Gilles Vaillancourt: The level of investment wasn't high enough to correct the deterioration curve. That's the problem. That's why, if you have surpluses, a portion of them should be used to accelerate the increase to the $460 million level and to take into account an eventual indexing mechanism... This is a 15-year program. If there's no indexing formula, a day will come when we can't do the work.

The Chair: Mr. Giroux and Mr. Vinet, there is a consensus among students that tuition fees should be frozen, but, contrary to what my colleague said, there's not yet any consensus among the other groups. We toured Western Canada. There was a bit of controversy.

Mr. Giroux, you said you wanted to invest everything in the Canada Foundation for Innovation, whereas Mr. Vinet said we should continue.

● (1005)

Mr. Philippe-Olivier Giroux: We think the programs are highly relevant, as is the idea of investing money in the Canada Foundation for Innovation and having infrastructure programs...

The Chair: Highly relevant?

Mr. Philippe-Olivier Giroux: Investment in research infrastructure is relevant.

In our view, this program, the machinery that makes grants, could very well be incorporated in the funding councils. Consequently, the funding councils should have similar infrastructure programs. Rather than keep the Canada Foundation for Innovation as a private foundation, it would be enough simply to transfer it under the aegis of the granting councils so that it's accountable to the House of Commons.

The Chair: I see.

Mr. Vinet.

Mr. Luc Vinet: As the English saying goes:

[*English*]

if it ain't broken, don't fix it.

[*Translation*]

The Chair: As for accountability, I believe you have the support of all parties in the House of Commons.

Mr. Roquet, I have a number of questions to ask you. With regard to taxation compared to the United States, how can we establish a fund with a neighbouring country when our taxing statutes are nowhere near the same?

We made recommendations last year. I met a few senators and members of Congress in Washington. They're not at this point. They were members of the U.S. Congress, senators from the northern states, including Massachusetts, people who know Canada. However, they're not at this point.

So if you can help us, I can help you.

That's only one of my questions. I have a number, but time is running out.

Mr. Louis Roquet: We could do three things.

The Chair: Only three things? Okay.

Mr. Louis Roquet: Right now, every time an American investor realizes a capital gain, he is required to obtain a withholding tax exemption. That could be eliminated.

Second, venture capital funds are often structured as limited liability corporations, that is as a kind of mix between a partnership and a corporation. Unfortunately, Canada does not recognize the status of non-resident, which means that foreign investors are taxed and that that tax is not recoverable.

Third, the biggest income source for a venture capital investor is passive interest, or if you prefer, the capital gain portion owed to the fund manager. Currently, if an American fund manages Canadian assets, it cannot repatriate the passive interest tax free to the United States; so it's taxed twice.

It should not be overlooked that the Americans don't need Canadian capital or Canadian venture capital management expertise. It's more the reverse.

I believe that, if, in addition to American capital, we want to attract American expertise, American networks, access to public markets such as NASDAQ and American deal flows, we'll have to make certain concessions. Those concessions would be extremely beneficial in supporting the emergence of Canadian high-tech companies.

The Chair: Thank you. That's very interesting.

I want to thank all the witnesses.

It's hard. As you can see, there are interests on each side. The shortage of time is always a problem that I have to manage.

Thanks again for giving us your time today.

The meeting is adjourned.

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