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● (0835)

[*English*]

The Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.)): Let us get started.

Good morning, everybody. This is our last day here in Toronto. We've been here three days, so we're hoping you don't disappoint—not to put pressure on this group.

We have quite a few witnesses. The way I'm going to operate is to allow you a seven- to eight-minute timeframe for your opening remarks or opening statement to present us with your brief. I have to cut you off if you go over the eight-minute time limit, because the members are going to want to ask questions afterwards.

We're here pursuant to Standing Order 83.1 on the pre-budget consultations for 2005.

From the Association of International Automobile Manufacturers of Canada, we have Mr. Adams.

● (0840)

Mr. David Adams (President, Association of International Automobile Manufacturers of Canada): Thank you, Mr. Chairman, committee members.

This will be a collaborative presentation between myself and my colleague, Mark Nantais, from the Canadian Vehicle Manufacturers' Association.

A bit of a background on the automotive industry. It's pivotal to the Canadian economy. As you well know, our industry is annually and consistently amongst the largest contributors to Canada's GDP, merchandise trade, and overall trade surplus. More importantly, Canada's automotive industry, from parts suppliers, automotive dealers, and distributors to vehicle manufacturing employs more than 570,000 Canadians from coast to coast.

With respect to the structure of the new sales market at this point in time, on a year to date basis, at the end of October, actually, sales were up 3.2% compared to last year. And it's expected that the year will end sales in about the 1.57 million to 1.5 million range, which would be an increase of roughly 4% over the 1.53 million vehicles sold in 2004.

If we turn our attention to vehicle production, Canada's six assemblers are anticipated to produce roughly 2.55 million vehicles in 2005, despite the fact that production was down 4.5% overall on an August year to date basis, compared to last year. Again, for more perspective, Canada is the eighth largest producer of motor vehicles in the world, and that ranking is expected to slip slightly to ninth by 2011. According to CMS Worldwide, between 2000 and 2015, fully 92% of the total growth in global production will take place in developing markets such as China, India, central and eastern Europe, and Brazil, primarily to service those growing markets.

In contrast, sales growth in Canada and North America will continue to stagnate. According to Statistics Canada, automotive sales grew at an average pace of 7.1% between 1996 and 2000, but only 3.6% between 2000 and 2004. In the global scheme of things, North American jurisdictions are high cost, low growth, and there is significant overcapacity in the North American market due to the changing market share. Nonetheless, Canadian assembly facilities have traditionally been more productive than their North American counterparts.

In fact, in *The Harbour Report* of 2005, Canadian facilities were cited as amongst the most productive in all of North and South America, measured on an hours per vehicle basis. Industry Canada notes that vehicle assembly plants in Canada have a 6.2% productivity advantage over their American counterparts. In the face of such a highly competitive North American and global environment for automotive production, our automotive assembly productivity advantage is shrinking.

Canada needs to continue to cultivate an investment climate that will continue to complement our comparative advantage in health care costs and a skilled workforce to maintain our roughly 16% share of the North American production. In this regard, since the federal government and the Government of Ontario established the automotive investment mechanisms worth $1 billion, about $5 billion in automotive investment has been secured, including the first greenfield auto plant in 15 years

These upgrades in capital stock will assist in ensuring that Canada continues to have some of the most productive facilities in North America for the next generation of production.

Given the integrated nature of our industry both within North America and globally, there are several other policy concerns that affect our productivity and competitiveness. We have supplied the committee with detailed written submissions on our priority issues.

However, today, in light of the short time we have, I would like to highlight just a couple of our issues and recommendations now, but we would be happy to discuss them in more detail during the question period.

These issues are the following. We support those recommendations of a number of Canada's leading national horizontal associations that are seeking the elimination of the large corporations tax, as well as pressing the government for a more than competitive corporate tax system that will assist in attracting foreign direct investment into Canada. These revenues from such investment will assist in providing Canadians with the government services, including health care, that all Canadians have come to appreciate and expect from the federal government.

Given the shared driving, manufacturing, and environmental conditions across North America, smart and coordinated regulations within Canada and with our major trading partners are essential to improve efficiencies and productivity. Given the integrated manufacturing environment across North America and a reliance on key trade infrastructure for the competitiveness of our industry, we need greatly improved critical trade infrastructure, especially at the new border crossing in the Detroit-Windsor region.

Now I'd like to hand the presentation over to my colleague, Mark Nantais, president of the CVMA, to discuss our final recommendation, which is the main focus of our discussions today.

Mark.

Mr. Mark Nantais (President, Canadian Vehicle Manufacturers' Association): Thanks, David.

Mr. Chairman, members of the committee, in April of this year the automotive industry signed a memorandum of understanding with the Government of Canada to reduce its greenhouse gas emissions from the vehicle fleet by 5.3 megatonnes. That target actually exceeds that set for us in the climate change plan. And I was certainly pleased to be directly involved in the negotiation of that agreement.

This is the thirteenth memorandum of understanding that the auto industry has signed with the government, and we are proud to say that we have met or exceeded commitments in each of the previous agreements, and we fully expect to do so again. We have a proven track record of delivery in this regard.

Our ability to fulfill the industry's obligations to reduce GHG emissions will, in large measure, rely on the application of technology to improve fuel economy and the ability to remove the oldest, most polluting vehicles from our roads.

In this year's budget the federal government asked the National Round Table on the Economy and the Environment to study the introduction of “feebates” on the purchase of new vehicles. Just recently, as you may have heard from the chair of the round table, that round table reported back to the government that feebates should not be introduced at this time. And this is consistent with other studies that recognize the overt complexity, cost, and ineffectiveness of such concepts. We fully support this recommendation.

We also support the submission made to you by the Canadian Automobile Dealers Association on the same subject.

Our industry believes that a better approach to driving consumer demand is through consumer incentives to aid early adoption of new advanced technology vehicles, such as hybrids, ethanol at E85 concentrations, and advanced clean diesels, as examples. The challenge in getting consumer acceptance of advanced technology vehicles is not the technology itself, it is the cost differential for comparable traditional or conventional model vehicles.

In some cases, depending on the type of technology, an advanced technology vehicle can be several thousand dollars more than the equivalent traditional gasoline-powered vehicle. This gap is a significant hurdle in getting consumers to adopt the technologies. This is especially true in Canada, where consumers have lower disposable incomes and already purchase smaller, less expensive vehicles. Typically, for every 100 vehicles sold in the United States, roughly 10 are sold in Canada. However, in terms of hybrid technology vehicles, for instance, Canada's market is only 3% of the U.S. Therefore, for every 100 sold in the United States, only 3 are sold in Canada, which leaves a gap of 7 hybrid vehicles.

It's also interesting to note that the United States, which did not sign on to the Kyoto Protocol, has nonetheless set up a tax program whereby purchasers of hybrid and other advanced technology vehicles are actually eligible for a meaningful tax credit—up to $3,400 U.S. As a result, we would expect this gap to grow even further.

Some provincial governments have already moved to offer consumer incentives for the purchase of advanced technology vehicles as well: Ontario, for instance, at $1,000; P.E.I. at $3,000; and B.C. at $2,000. And they would be helpful, indeed, in driving consumer support for these technologies. However, given the significant cost involved in many of the advanced technologies, the provincial government programs only cover a small part of that overall gap. We would propose a federal consumer incentive program, a meaningful one, that would help to create a national pull for advanced technology vehicles and work in conjunction with existing provincial programs to help bridge the cost gap for consumers who are looking at these technologies but simply cannot afford or justify the cost of this differential.

A federal solution could take many forms, including an income tax credit, sales tax credits, or instant consumer credits, for example, as well as cover off a wide range of technologies. Increasing the number of advanced technology vehicles on Canadian roads will help to reduce greenhouse gas emissions and support Canada's Kyoto commitments in the voluntary GHG MOU we have signed.

Quite frankly, we need to get real, early tonnage reductions of greenhouse gases from consumers in the on-road transportation sector, and I would suggest that a meaningful consumer incentive program would be a very good investment of the government's climate change funds.

Thank you, Mr. Chairman. I'd be pleased to answer any questions.

● (0845)

The Chair: Thank you, Mr. Nantais.

You're from the Canadian Vehicle Manufacturers' Association, correct?

Mr. Mark Nantais: That is correct.

The Chair: From the Canadian Pensioners Concerned Inc., Ms. Kaegi.

Mrs. Gerda Kaegi (President, Canadian Pensioners Concerned Inc.): Thank you. And thank you, Mr. Chairman and members of the committee, for being here on a Friday with exciting times in Ottawa.

We're an organization of seniors, and we're especially concerned about the inequality that is growing in our society.

Canada is not achieving the growth and productivity it should, and because of this, the standard of living of all Canadians is at risk. If the economy fails to be competitive, then there will be fewer resources for governments, individuals, and citizens to reinvest in the people, businesses, and communities.

In our brief we have 19 recommendations that we believe will help to improve the economic, social, and environmental conditions in this country, thus leading to improved productivity. We then set out our top three priorities, and I will make brief arguments to support the positions we took.

On human capital, our primary emphasis is on people—human capital, in your terms. We believe there are actions the federal government could take alone, actions taken in collaboration with the provinces, territories, and local governments, and actions taken with the corporate community, all of which will make a difference.

First, we argue that reduction in poverty is essential. People who are poor, who lack food, safe housing, and full access to education cannot fully participate and contribute to society. We are losing the skills of too many. Reinvest in social housing, raise the minimum wage, and provide safe and regulated child care spaces. These are just some of the actions that can be taken.

Two, the endemic racism that is so unacknowledged in Canada is hurting and unfairly limiting those who have so much potential. Whether it is the new immigrant whose credentials we refuse to recognize, the young aboriginal who is marginalized by our education system, or the young black whose despair turns to violence, all are people who can contribute to the great potential of this country. At the moment they can't, and we are wasting important human capital.

Three, increase the funding and active support to post-secondary education, both students and institutions. Canadian business can do more in this area, and the federal government needs to think of strategies in its taxation policy that will push the corporate sector to do more.

Four, the federal government must insist that the provinces and territories prohibit the artificial barriers that have blocked immigrants not educated here from practising their professions in Canada. And here, the self-regulating professions are among the worst offenders.

On physical capital, in our brief we already noted that the committee's focus on physical infrastructure is far too narrow. Communities need good roads, public transportation, high speed communication systems, etc.—the entire physical infrastructure that you can count. They need to be able to ensure safety and security for all through urban design and the building of integrated housing and communities.

On cities, municipalities need recreation facilities to build healthy minds and bodies. They need museums, theatres, and studio workshop areas to encourage thriving artistic communities. They need all members of their communities believing they can share equally in the benefits and responsibilities of citizenship. Some of this will come from physical infrastructure, but this will not work alone. We need the investment in human capital to build strong, integrated, egalitarian, and caring communities.

I would urge you to look at the work of Richard Florida, who has established the critical connection between technology, talent, and tolerance. He's established the clear link between the three Ts in the creation of creative capital, which is now indisputably linked to dynamic economic growth.

So we argue that the federal government must enter into direct partnerships with local governments to maximize community development and the full range of infrastructure programs.

We draw your attention to the third sector, the non-governmental organizations, which are key community actors that Ottawa must engage in the strengthening of communities. They are a critical avenue for citizen engagement in their community and yet they are not brought into the public policy-making process. And there are problems with the current excessive accountability demands from Ottawa that have driven previously successful organizations out of community-based services, such as youth employment and so on.

The economy of cities and the health of their economies is at the core of national economic development. In spite of the Constitution, the federal government must be actively engaged with the other levels of government in improving the social, environmental, and physical infrastructure of our cities. We will never achieve the productivity improvements we need with Ottawa sitting on the sidelines.

● (0850)

We're also concerned that many in the public are beguiled into thinking that less money going to government means more money for them. This will appeal to the wealthy, no doubt, but the average citizen is not asked to look at how tax cuts lead to the inevitable reduction in government services, which in turn leads to greater personal expenditures to attain what used to be provided through the public purse. It would be interesting to see a government ask the public if they would prefer $100 less income tax rather than a publicly funded health service or after school program, for example.

On entrepreneurial capital, last but not the least of the issues we wanted to address and you wanted us to address, governments should recognize and reward through targeted tax expenditures and program spending companies that reinvest in their businesses and their communities, that undertake or sponsor research and develop new technologies, and that foster employee training.

We argue that the government should use a targeted corporate taxation system rather than try to meet an indiscriminate, competitive corporate tax regime. There is no such creature.

Corporate investment in research and development and the use of new technologies must be encouraged through targeted programs. Changes to corporate values and practices are essential if productivity is to be improved. We argue that excessive corporate greed must be stopped. We need federal program support to transform corporate governance practices and the creation of a national securities regulator.

We're also concerned about the growth in income trust, and the argument I think is known to everybody: they pay money to their shareholders that should be reinvested in developing the business, its human, physical, and capital resources.

We believe that strong investment in apprenticeship programs by all governments, the business community, and educational institutions is essential. We need a concerted public education program highlighting careers in the skilled trades in conjunction with targeted tax incentives—and here I use as a good example the program at Dofasco.

Improvements in productivity require workers and management to work together. The current unacceptably wide wage gap between workers and senior management does not foster the cooperative spirit needed. Only teamwork between workers and management can improve productivity; neither can do it alone.

Finally, we are arguing that the expansion of the Business Development Corporation to foster venture capital and start-up enterprises is needed. Tax support should also be provided to encourage venture or risk capital investment in new businesses and technologies. It would be helpful if the big financial institutions in Canada would commit to a percentage of venture capital investment based on their gross profits. However, any tax relief must be conditional on specific program commitments and deliverables.

Thank you for you attention, and we'd be more than willing to answer any questions.

● (0855)

The Chair: Thank you.

From the Canadian Restaurant and Foodservices Association, Ms. Reynolds.

Mrs. Joyce Reynolds (Senior Vice-President, Government Affairs, Canadian Restaurant and Foodservices Association): Thank you, Mr. Chairman.

I am grateful for the opportunity to appear before you today as part of the pre-budget deliberations. I represent the $49 billion food service industry, which employs more than a million Canadians.

Mr. Chairman, I took to heart your directions about keeping our submissions short and focused and not a laundry list of recommendations. I'm going to focus on our priority recommendation today, which is targeted payroll tax relief in the form of a yearly basic exemption in the EI program.

I'd like to give you a little background about our industry. There's a lot more in our brief.

Canada's food service industry has faced an unprecedented number of challenges in recent years, from a dramatic reduction in travel to Canada to the rapid rise of the Canadian dollar, and most recently, skyrocketing energy prices.

As a result, real food service sales have increased only 2% in 2000, compared to real GDP growth of 13% during the same period. There are 1,000 fewer food service operators today than in 2000 because of declining consumer demand and lower profit. According to the most recent data from Statistics Canada, rising food and labour costs reduce the pre-profit margins for the average food service operator to only 3.3% of operating revenue in 2003.

Given that less than rosy picture of our industry, I want to get on to the focus of our presentation and discussion today.

I'd like to say that the Canadian Restaurant and Foodservices Association welcomes the finance committee's focus on Canada's productivity performance. It's well established that higher productivity is necessary to raise the standard of living of Canadians and that productivity growth in Canada has been relatively flat over the past couple of years.

High tax rates diminish the ability of companies to invest in research, development, training, and new technologies that lift output per worker. Lower levels of taxation encourage firms to invest in more human and physical capital, leading to greater innovation, higher levels of productivity, and increases in disposable income.

Payroll taxes comprise 40% of the tax load of the average restaurant operator and represent the largest component of the tax base. Payroll taxes are consistently identified by CRFA as one of the biggest barriers to entry-level workers, investing in training, and paying higher wages to employees.

Productivity gains can be achieved by removing barriers for young Canadians, as well as recent immigrants and others in transition from unemployment or social assistance to the workforce, to acquire valuable first-job experience and generic skills such as communication, team work, customer training, problem solving, and workplace protocol. These generic skills help Canadians build a foundation for advancement within the food service industry and provide a springboard to other career paths.

Payroll taxes get in the way of productivity improvements because they are profit-insensitive, regressive, and a drain on the economy. The food service industry proposal is for a targeted reduction in EI premiums through a yearly basic exemption, or YBE. This will improve investment in entrepreneurial capital and enhance Canada's investment in human capital, leading to greater investment in physical capital.

The idea of a targeted reduction in payroll taxes is not new. CRFA's proposed solution has been supported twice in the past by this committee and twice by the House of Commons committee on human resources. With a new focus on productivity improvement highlighted by these consultations, such an initiative recommends itself as a targeted, important, and efficient way to boost productivity in an industry that supports more than a million jobs in communities right across Canada.

A yearly basic exemption hardwired into the employment insurance program would of course not only benefit restauranteurs; it would also benefit any business or industry that has a significant human resource investment. Such an exemption already exists within the Canada Pension Plan and the Quebec Pension Plan. As well as increasing the job prospects of inexperienced unemployed Canadians, a YBE increases the take-home pay of all working Canadians.

The cost of a $3,000 YBE, based on the current EI premium rate of $1.95 and an employed workforce of 16 million, is $2.3 billion per year. More detail on how the YBE works is provided in our submission.

I'd also like to touch on another aspect of productivity that was raised in the committee's discussion document, and that is the importance of investments in entrepreneurial capital in the form of smart regulation.

Smart regulation is critical to the achievement of productivity improvements in Canada. According to the Government of Canada's regulatory strategy on smart regulation, “regulation must achieve its intended policy objectives...should be supported by evidence and should reflect the latest knowledge”. Regulation must also be cost-effective and designed in the least costly manner to both industry and government.

There is currently a great deal of government and media attention on the serious and complex issue of obesity, with many and varied policy intervention proposals to address this issue. Government must guard against implementing regulation that will have a significant negative impact on economic development and productivity, without evidence of significant positive impacts in terms of health. For example, it has been proposed that foods of low nutritional value be taxed more heavily than so-called healthy foods, or conversely, that some foods be given tax breaks because of their nutritional qualities. However, the taxation effects on consumption of so-called unhealthy foods are largely unknown. In a few instances where snack food taxes have been implemented, there has been no significant change in consumer behaviour.

● (0900)

At the same time, a fat tax would be impossibly complex to implement because of the huge number and variety of nutritional attributes that must be taken into consideration. For example, an item high in fat may contribute to essential fibre and vitamins, while an item low in fat may provide no nutritional benefits.

In California the government was forced to repeal its Twinkie tax because of such difficulties. The tax applied to a list of over 5,000 food items with arbitrary distinctions for sales clerks to memorize. These types of approaches will have a substantial negative impact on workplace productivity.

To conclude, Mr. Chairman, CFRA's two key recommendations are that the finance committee recommend to the government the establishment of a $3,000 yearly basic exemption in the employment insurance program, and that the government ensure recommendations meet the smart regulations filter and will not have a negative impact on industry and productivity.

Thank you.

The Chair: Thank you, Ms. Reynolds.

From the Direct Sellers Association of Canada, Mr. Creber.

Mr. Ross Creber (President, Direct Sellers Association of Canada): Thank you, Mr. Chairman.

Mr. Chairman and honourable members, on behalf of the Direct Sellers Association, I want to thank the committee for providing us with the opportunity to present our recommendations to support and promote the economic growth of the small business sector of the Canadian economy.

My name is Ross Creber and I'm president of the Direct Sellers Association. I'm joined today by Mr. Jack Millar, a managing partner of the firm Millar Kreklewetz and a long-standing member of the DSA board of directors.

The Direct Sellers Association was founded in 1954. It's the national association representing 42 direct selling companies whose independent sales contractors in 2004 sold more than $1.4 billion of products and services to Canadian consumers. In the recent socio-economic impact study of the Canadian direct selling industry commissioned by the DSA and conducted by Ernst & Young, it was reported that there are close to 1.3 million Canadians who are ISCs engaged in operating their own direct selling businesses in Canada.

Direct selling companies and ISCs market and distribute a wide variety of products and services directly to the consumer, usually but not exclusively in the consumer's home rather than in traditional retail establishments. Generally these products and services are sold by ISCs in the context of group presentations commonly referred to as a "party plan" or on a personal consultation basis. These independent business persons represent such well-known names as Avon, Mary Kay, Tupperware, PartyLite, Weekenders, Tahitian Noni, Shaklee, Cutco, Nature's Sunshine, Creative Memories, Nu Skin, and Quixtar.

Mr. Chairman, the strength of direct selling lies in its tradition of independence, its simplicity, and its commitment to a free market system. It provides accessible business and career opportunities wherein people's entry is not restricted by gender, age, education, or previous experience. It is a significant fact that direct selling is a manageable economic opportunity that can further family income with minimal disruption and minimal investment. Furthermore, it reduces the burden on government assistance programs and provides significant tax revenues through the GST direct sellers alternate collection mechanism.

It should be noted that 88% of independent sales contractors are women, 81% are married, and 56% have full-time jobs, using the direct selling business opportunity to earn extra income. More than one-third are over the age of 50. In addition, 15% work part-time and have no other occupation, while 11% were unemployed prior to entering the industry.

Mr. Chairman, in the committee's charge to witnesses, it was suggested that we consider programs to "encourage citizens to engage in work rather than leisure and to invest in lifelong learning". According to the Ernst & Young study, 65% of the respondents indicated one of the benefits of being a direct seller was improved business skills. For example, 78% cited "Build self esteem", 70% cited "Build better sales skills", and 70% cited "Build business management skills". The Canadian direct selling industry invests and reinvests in Canadian entrepreneurial growth.

The DSA believes it's important for the government to understand that the direct selling industry is a vital part of the small business sector in Canada. We have a tremendous capacity to create jobs and economic growth and in the process reduce dependence on social assistance programs by providing accessible earning opportunities with little or no investment to a broad spectrum of Canadians.

In the recent Ernst & Young study, it was reported that the industry's labour pool includes more than 3,900 permanent employees and, as noted above, about 1.3 million independent sales contractors. This combined labour force earned an estimated $966 million in income, and with the income multiplier applied, the total personal income contribution of the direct selling industry to the Canadian economy in 2004, Mr. Chairman, was in excess of $1.4 billion.

The Direct Sellers Association has always shared its experience and knowledge with all levels of government. For example, the DSA has worked closely with the Canada Revenue Agency in educating independent sales contractors, by assisting in the preparation of an income tax guide for independent sales contractors, to comply with Canada's income tax laws.

The DSA continues to work with Health Canada's natural health products directorate with respect to the implementation and interpretation of the natural health product regulations that came into force on January 1, 2004. Approximately 60% of DSA member companies provide such products to their customers. In spite of the DSA's efforts and those of other stakeholders, the tremendous backlog in the issuance of NHP licences is not only denying Canadians access to these products, it is also stifling entrepreneurial growth in the industry.

The recent DSA study conducted with its members indicated that the licensing delays for new product introductions planned during the next two years could amount to lost or delayed retail sales of more than $175 million, with a subsequent loss of income to independent sales contractors in excess of $69 million.

● (0905)

In the DSA's view, the interpretation and implementation of the current natural health products regulations do not meet the goal of smart regulation. Unless changes are made very soon, the situation will continue to have a negative effect on entrepreneurial activity in Canada.

The DSA continues to work with Industry Canada's Competition Bureau in promoting the principles set out in the Competition Act to our members and ISCs, as well as working with consumer protection agencies across the country to promote the harmonization of provincial direct selling legislation.

Through the industry's Direct Selling Education Foundation we continue to support programs that are designed to develop a more informed consumer. An example of this is the DSEF's partnership with the Ontario ministry of consumers and small business to develop a consumer awareness program for students in grades 9 through 12.

Mr. Chairman, honourable members, the DSA believes that the following recommendations will assist the House of Commons Standing Committee on Finance in preparing this year's pre-budget report.

The DSA recommends that the government continue with corporate tax reductions that will contribute to Canada's economic growth, job creation, and international competitiveness. By not maintaining a competitive corporate tax structure, direct selling companies will be unwilling to invest in Canada, thereby reducing the number of entrepreneurial opportunities to Canadians.

Mr. Chairman, as we know, on the world stage Canada is a relatively small but somewhat mature market. International companies have many opportunities to invest in some of the emerging markets with greater potential, although in some cases with greater risks. Economic growth in central and eastern Europe, China, and India are just a few of these examples.

We need to give companies a reason to invest in Canada. Canada is a great market for companies to test their international capabilities and their competitiveness, with our multicultural population, our transportation challenges, two official languages, and certainly a different legislative and regulatory environment.

Our second recommendation is that existing social programs be amended to allow transitional relief to all individuals who are trying to move from a position of dependence to a position of independence—not just through employment, but also through starting their own businesses.

Mr. Chairman, in your charge to witnesses, the committee stressed the importance of investment in human capital, including women and seniors. As previously stated, 88% of those participating in the direct selling industry are women. More than one-third are 50 years or older, and 11% of independent sales contractors were unemployed before commencing their own small direct selling businesses. Accordingly, by equalizing the transitional rules and removing the current discriminatory roadblocks to starting one's own business as opposed to re-entering the workforce as an employee, investing in such human capital will be enhanced.

Mr. Chairman, I recall during our appearance before this committee last year that you challenged witnesses that if they wanted the committee to give serious consideration to their recommendations, they needed to support these recommendations with credible, third-party socio-economic data. Mr. Chairman, we have done this, and we request that the committee give serious consideration to our recommendations to increase entrepreneurial growth in Canada. We're also prepared to share much more of the information that was in the socio-economic impact study with the committee at a later date.

● (0910)

The Chair: Thank you, Mr. Creber.

Mr. Ross Creber: The third recommendation is that the food and beverage zero-rating provisions in the Excise Tax Act be clarified to expressly zero-rate dietary supplements and natural health products to further the goal of investing in the health of Canadians.

Fourth, the DSA recommends that legislative action be taken so that the direct sellers mechanism will be equally available to direct sellers and ISCs who operate on a sales agent basis. Currently, only direct sellers and ISCs who operate on a buy and sell basis may use the direct sellers mechanism. This recommendation is a technical cleanup of the mechanism that was created through the joint efforts of the DSA and the Department of Finance to address the application of GST in the direct selling sector for the benefit of industry, the ISCs, and the government.

Mr. Chairman, honourable members, the DSA appreciates the opportunity to appear before the committee and believes that its recommendations are consistent with the committee's objective to present a pre-budget report that addresses the needs of Canadians. As always, we are prepared to provide our support to the government to help achieve these goals.

The DSA and all its members thank the Standing Committee on Finance for inviting us to participate in this pre-budget consultation process.

The Chair: Thank you, Mr. Creber.

From the Greater Kitchener Waterloo Chamber of Commerce, Ms. Korgemets.

Mrs. Linda Korgemets (Director, Greater Kitchener Waterloo Chamber of Commerce): Thank you.

My name is Linda Korgemets. I bring greetings from the Greater Kitchener Waterloo Chamber of Commerce.

Our president, Todd Letts, would normally be here this morning. I have Sarah Macauley with me from the chamber. Todd is in a board meeting this morning in Kitchener-Waterloo.

I chair the taxation subcommittee at our chamber. I'm a chartered accountant. I specialize in income taxes with PricewaterhouseCoopers.

I wanted to start off by talking about a quote from Aesop in 600 BC. How did he know that "After all is said and done, more is said than done"? Your committee has listened to many hours of submissions, and I'm hopeful that this government takes action based on what has been said this past month.

A copy of our oral report has been handed out to you. I can't possibly cover it all in the eight minutes allotted, so I'll hit the highlights.

Since many of you are not from southwestern Ontario, I wanted to make you aware that the greater Kitchener-Waterloo area is about an hour west of here. Our chamber represents over 1,700 members, and we're one of the fastest-growing economies in Canada. We are privileged to have the following Canadian head offices located in Kitchener-Waterloo: Research in Motion, of Blackberry fame; Manulife Insurance; DALSA; Open Text; Sunlife Insurance; Economical Insurance; and Equitable Life Insurance. We're also home to the University of Waterloo, Wilfrid Laurier University, and Conestoga College, all highly ranked post-secondary institutions.

Our recommendations cover the fiscal agenda that we'd like to see enacted and strategic investments that are needed for renewed economic growth. Dealing first with the fiscal agenda, you'll see the order I'm speaking in, which is program spending first, then tax reform, income taxes, capital taxes, and the employment insurance fund.

Program spending has a bad habit—well, government has a bad habit of spending too much and going on last-minute spending sprees once it sees a surplus looming. We have been fortunate to have surpluses in the last many years, but this has to stop. If we can't control our spending, we can't repay debt in the future or give the tax relief needed for us to prosper.

Since 2000, spending has increased 48%, while revenue has increased 30%, so do the math. We aren't on the right track. Spending increases should be tied to population growth and inflation, which historically have been at a rate of about 3% per year. Spending over the last five years has come out at 8% per year. That's over the last five years.

On tax reform, I could speak a lot longer than the two minutes I'm going to spend now—that's because of my background in tax—but we firmly believe that we need another five-year tax reduction plan like the one we've just come from, and we'd like to see that announced in the next budget.

The current Surplus Allocation Act just does not deliver that message of tax cuts. It just toys with tax reduction, and it really institutionalizes surpluses, as if we're always going to have them, so let's do it this way.

Tax reform is not only tax reduction, but also an in-depth review of what should be taxed and how it should be taxed. I reference the recent popularity of income trusts, which are created because of the double taxation of corporate profit—it's taxed once when it's earned in the company and it's taxed again when it's received by the investor as dividends or capital gain.

Our recommendations on the tax front are as follows: first, eliminate capital taxes. We know elimination is coming. It would just be nice if they were gone altogether, sooner rather than later.

Second, reduce personal taxes by reducing marginal rates at the lower income levels and increasing the top threshold from its current level, which is $104,000, to $150,000.

Three, lower the corporate tax rate.

Four, introduce a more favourable tax depreciation regime by increasing tax depreciation in the year of acquisition. We say that because we believe businesses need an incentive to invest in capital, and our current regime just isn't doing that. We've seen quite a bit of success south of the border in fast-start depreciation regimes.

Five, reform personal and corporate tax regimes to create the proper tax integration on income flows coming out of corporations.

● (0915)

Six, introduce changes in the research and development tax credit rules to encourage more research and development to be done in Canada. That's very critical to the area we're in with the universities and the spinoffs. Research in Motion has only been in business for 20 years. It's quite a phenomenal success story on the research and development front in our area. So research tax credits should be refundable in full for all companies, rather than only creditable against their tax payable. When you're doing research, you're often not taxable at the beginning, and if you're not a small company, you can't get at those credits.

Currently, these tax credits flow into taxable income in the year after they're claimed, and this should be rescinded. You shouldn't have to pay tax on the tax credit the government gave you. They're giving you back your tax then you're paying tax on the tax credit. That's not good. It's regressive.

Foreign companies who carry on R and D in Canada do not really benefit from the research tax credit they earn in Canada. It simply ends up increasing their foreign tax bill in their local country. The government should change the mechanism of allowing the credit to ensure that a foreign company does not lose the benefit of the research tax credit. This is to encourage foreign companies to come to Canada and spend dollars on research and development here, creating jobs, and giving us the knowledge bank of the research and development.

Then I go into debt repayment. The government has done well on paying down the debt so far, and we're really encouraged by what's gone on to date. This momentum must continue, given our future demographic challenges, our declining workforce, our increasing senior population. The government needs to get interest expenses down substantially so those funds can be used to meet our increased spending needs as our population ages. We recommend a debt-to-GDP ratio of 25% by 2014.

Then I move into the employment insurance surplus. Even this past year it operated at about a $2.6 billion surplus. I know there's new legislation that's been passed indicating that this is going to operate on a break-even basis in the future. That is good. We expect premiums will come down. The way we'd like to see premiums come down is to have the employer premium, which is currently equal to 140% of what the employee pays, to be reduced to 100%, so the employer matches the employee's premium.

Then we move into strategic investments. Productivity is key to our future success. Our growth has been abysmal in this area. Most of our growth has come from employment growth, very little on capital investment. We need our businesses to invest in capital, and given that our dollar is quite high now, this is a good time to encourage our Canadian businesses to invest in manufacturing equipment, capital, that they would often buy overseas because our dollar goes further.

The government must invest in critical infrastructure, including transportation. Our particular region, as it's very fast growing, needs the government to commit funds to create a central transit corridor. There's currently a study in place to figure out the best way to go forward, and we're hoping that once that report is out, the appropriate moneys will be released.

I can't talk about health care and education. I would love to, but we don't have the time. They are very important, because they're our biggest expenditure areas. If we don't get that right, we won't be able to move forward as a country globally. We need to keep working with the provinces to get those areas funded properly.

Skill shortages. Certainly, in our area we're operating at high employment levels. We need to attract highly qualified and skilled individuals. We look at immigration and believe that the government must support, fund, and promote the certification, licensing, and accreditation of foreign-trained professionals and tradespeople. The government must fund cooperative programs at a local level to help new Canadians integrate into the local business sector.

We are introducing, through our chamber, an immigration council to help new Canadians find suitable employment with local employers. This will entail educating employers as to the benefits of employing new Canadians, as well as advocating for these new Canadians.

In addition, the federal government has yet to enter into an agreement with Ontario on training and labour market development issues. We think it's very close, but we still know it hasn't been signed. We're very eager to see that occur.

Last but not least, the dear old border. As you trundle down the 401 and you get into Windsor and you're trying to go across to Detroit, there are many infrastructure improvements recommended, and we'd like the government to get on with those. It's costing, I believe, billions of dollars—and I didn't look up the number—in lost time at the border for our businesses to export into the U.S. We're an exporting country. We need that border to be efficient and let the trucks through quickly.

● (0920)

Thank you for your attention. I will be happy to answer questions later.

The Chair: Thank you.

Your daughter won't be happy with you if she thinks she's going to be an accountant and has to count like you. You're almost at 10 minutes.

Mrs. Linda Korgemets: I think that's my clock stove. I don't think it works very well.

The Chair: I thought it was your accounting skills. I'm a CGA and I had to say that.

Mrs. Linda Korgemets: I know. I can handle it. It's good. Bring it on.

The Chair: For the Multi-Employer Benefit Plan Council of Canada, Mr. Anderson.

Mr. William Anderson (President, Multi-Employer Benefit Plan Council of Canada): Thank you very much for this opportunity, and thank you for listening to us in the past.

To explain the Multi-Employer Benefit Plan Council of Canada, MEBCO represents multi-employer pension plans and multi-employer benefit plans across Canada, with approximately 1.2 million individuals who are affected by these programs in Canada.

It's in an industry where there is normally low pay and people wouldn't have benefits or pensions if it wasn't for this type of plan—for example, the construction industry, the transportation industry, or the hotel industry. The InterContinental Hotel is in a trust fund both for pensions and for benefits. Garment, retail, and security industries are all part of and represented by MEBCO.

MEBCO is a joint venture among management, labour, and professionals—and by "professionals", I mean actuaries, administrators, legal, and accounting.

If I might take a minute, I know it's not the most interesting topic in the world to talk about pensions and benefits, but it's of interest to Canadians, particularly as we're getting older. Demographics is a large part of a concern we have.

I know this government was to have a report on aging about five years ago. We haven't seen it yet, and I suspect the reason we haven't seen it is simply because the results are going to be devastating. People are getting older in this country, and there are not enough young people to support that aging. It's something we have to look at in a big way, and I'll mention it in a minute.

Pharmaceutical costs and prescription drugs are going up dramatically, very much affecting our membership. These dramatic costs are something that I think we have to work on with the government, both of us coming together to support our seniors as they get older.

I want to talk about pensions, and I want to talk about solvency for a minute. Solvency is in every pension plan, not only single-employer pension plans but multi-employer pension plans as well. I'll explain.

We're always coming at the government over taxation, and in all honesty, I want to thank the government for listening to us about pensions and benefits by keeping this tax deferral in place.

Finally, we have to address health care. It's too much of a complicated topic for MEBCO to delve into. But hopefully, we would support the best medical care system, with the most cost-efficient way of doing it, and we would support equality in health care. We again commend the government for starting the process. Hopefully, we'll keep it up.

On pensions, as we all know, contributions to pensions are tax deferred. Moneys earned in RRSPs or pensions are tax deferred. When money is taken out, tax is paid. We have talked to the government about changing some of these regulations, rules, and tax guidelines. I don't think that's going to happen. Everybody has kept their promises so far.

I only want the government to know that if taxes are changed in these areas, it's going to greatly affect the amount of contributions going into pensions. Can we please keep the system the way it is? I thank you for that.

On solvency, pension plans run in two different areas; one is on an ongoing basis and the other is on a solvency basis. I'll explain in a minute.

Most of it's done under provincial jurisdiction. I understand that. But OSFI, the Office of the Superintendent of Financial Institutions, has been a member of CAPSA, the Canadian Association of Pension Supervisory Authorities, and has a big influence. They're well-funded and they have a big influence on CAPSA.

I'm appealing to the federal government to talk to CAPSA in regard to three things that I think we have to address.

First, let's take the federal government and the federal employee pension plan as an example. As long as funding is coming in and as long as a tax dollar is coming in, the pension plan is going to keep going on an ongoing basis. What happens if the tax dollar stops? Is the pension then able to pay out on all the promises it has made to the federal employees? I think not. It's a good example as an explanation, but it's not a good example in that I think most pension plans are better funded than the federal employee pension plan.

Solvency means that if there are no more contributions and the company goes bankrupt, such as Stelco, as an example right now, will the pension promises be paid? That's solvency. What OSFI is forgetting is the difference between a multi-employer pension plan, which could have up to 5,000 employers involved in that pension plan, and a single-employer pension plan. I'll take Stelco again as an example. They are concerned, and OSFI has said, “We want to reduce the company's ability to repair their pension plan solvency from five years to three years, so give us a three-year plan.” That could work for a single employer. It doesn't work for a multi-employer. It doesn't work for two reasons, and it's not needed for another reason.

● (0925)

If you have a multi-employer with 1,000 employers and two go bankrupt, that plan is not going to wind up; it's going to continue. It's different from the case of a single employer, and as yet, OSFI has not realized that. Some provinces have: Alberta, New Brunswick, Nova Scotia, and Ontario is starting to. OSFI hasn't yet, and we need OSFI to recognize that fact, the difference between multi-employer and employer plans.

Doing something in three years doesn't work for collective bargaining. These are all union programs. They are all joint labour-management programs. How do we get extra contributions into a program to be able to stop the underfunding? We can't do it. We need OSFI to understand that a longer-term program is required. I know they can do it because they did it for Air Canada. They gave Air Canada ten years when the regulations were five. They want to bring it down to three now.

I think with multi-employers we have to come to some kind of agreement where we manage this program over a longer basis and allow extra contributions into the program by employers if required, but without putting that contribution towards the PA, the pension adjustment. A single employer can do it; multi-employers can't.

Insolvency has come about primarily because of demographics and poor investment performance over the last few years. Most of these programs are going to work their way out of it, if not all of them. Multi-employers don't wind up; single employers do. I would just like help from the government to recognize this minor difference. It's an important one and it's not being addressed.

Let me briefly touch on multi-employer health and welfare benefits, again affecting 1.2 million people. As everybody sitting here who has a group program knows, you are taxed on the contributions that go forward to pay for your group life insurance. The government does that. We've talked to the government over and over about not taxing other benefits—drug benefits, dental benefits, health benefits. Thank you. So far you've listened. I hope that continues. I don't mean to point fingers, but our members and others are going out of their way to contribute out of their own pockets to look after themselves, their dental care and their health care and their drug care, and they appreciate the tax deferral they get on it. If it weren't for those tax deferrals, you'd see a lot fewer contributions going in, and any retiree programs that are there now would simply disappear under multi-employers. So thank you for keeping that tax as it is; hopefully it stays that way.

Secondly, on a GST rebate for multi-employer benefit plans, I won't spend a long time because it's too technical. But you have granted it on pension plans. We are now coming back to the government asking for a GST rebate on multi-employer benefit plans, the reason being, ladies and gentlemen, that a single employer benefit plan is able to take and receive its ITCs for GST it pays on supplies and services, because it's a taxable corporation.

A multi-employer plan, being a trust fund, is not able to do that. On the pension side, we now have a rebate of 33% of the GST. We're asking for anywhere from 75% to 100% on multi-employer benefit plans in a similar fashion. We seem to run into a roadblock with Finance simply because benefit plans are not regulated as much as the pension plans are. I think we're going to need maybe a little bit of help from the political side, so you can expect us to come to see you.

On the health issue, Canada has a long way to go to fix the health system. I think it's a great health system; I think everybody in the world looks at it as a great health system. But we all know there are going to be great changes in it as well in the next 10 to 20 years, and hopefully the quality of health care will remain.

Thank you.

● (0930)

The Chair: Thank you.

Just as a quick question, in Quebec I think the health premiums are taxed, are they not?

Mr. William Anderson: No, they're not. There's a provincial sales tax. Quebec is totally different from the rest of the country. But are you talking about pensions or benefits?

The Chair: Benefits.

Mr. William Anderson: Disability is taxed, and there's a provincial sales tax of 9% on all contributions.

The Chair: Okay.

Mr. Solberg.

Mr. Monte Solberg (Medicine Hat, CPC): Thank you very much, Mr. Chairman, and thanks to all of you for your presentations.

I want to start with a question to Joyce Reynolds on the yearly basic exemption. You have been before us in the past arguing for this. Unless I missed it, I can't recall if you said a specific amount. I think you've been asking for $2,000 to $3,000. In the end, that means quite a big hit to the overall revenues of the government—probably $2 billion. Is that about right?

Mrs. Joyce Reynolds: It would be $2.3 billion.

Mr. Monte Solberg: What's the best possible argument for this, given that there are so many other types of taxes that people are asking us to cut, and people make claims that some of these other tax breaks would actually enhance our productivity as a nation even more?

Mrs. Joyce Reynolds: I guess the best argument is the regressive nature of the tax, and the fact that payer taxes are a tax on jobs. If you look at who the YBE would benefit the most, it would be Canada's youth, who are currently experiencing an unemployment rate twice as high as those over the age of 25. This would increase job opportunities for these people who are looking for first job experiences, but it would also provide lower-income employed Canadians with more disposable income.

I guess the big benefit of the YBE is it will provide more job opportunities for those who most need workplace experience, but it will also provide a tax break for all working Canadians.

Mr. Monte Solberg: Mr. Creber, I've said this in the past, but I think it's important to underline how important your industry is. I know you provide primary income for some people, but you provide supplementary income for a lot of folks, and I don't think your industry ever gets the credit it really deserves.

Having said that, I have a question about a proposal that I admit I don't quite understand. In your brief you talk about a transition program from social welfare benefits—in our context, EI—that would allow people to still collect EI while making the transition to becoming self-employed as direct sellers.

Can you sort of explain what you're proposing?

● (0935)

Mr. Ross Creber: First of all, I'd like to thank you for your comment about our industry. I appreciate that.

One of the problems we've found with people in our industry who are trying to work through the EI program is that the transitional relief program doesn't recognize anything that is commission sales. I contend to all of you in the room that if you've ever started a small business or have been in a small business, you are in commission sales, regardless, because if you don't sell anything, you don't earn anything.

The main thing we're asking for is acknowledgement and access to this program. The direct selling industry is a major contributor to the economy and has a huge capacity to create jobs. Instead of reducing the employment assistance that an individual is entitled to dollar for dollar on any income they earn over and above a certain level, we're asking for it to be reduced to 50% of that.

The program that currently exists has many criteria that require people to provide business plans and various other things. I think what is not acknowledged in our industry is the tremendous support the independent sales contractors receive from their direct selling companies in terms of products, product guarantees, educational materials, training programs, and those sorts of thing. So they are probably as well-qualified as anyone to start their own independent, small, direct selling businesses.

Mr. Monte Solberg: Thank you.

Mr. Anderson, I didn't hear you mention this, but somebody from the Association of Canadian Pension Management talked about changing the Income Tax Act so people could draw their retirement benefits and work part-time for that same company.

Have you taken a position on that, or do you have any thoughts on that?

Mr. William Anderson: Yes, a multi-employer benefit plan. For example, take the construction industry. They will allow you to take your pension and still go back and work part-time in the construction industry, because there's a demand for the skilled trades.

So, yes, I totally agree with it. Teachers, for example—I totally agree with that.

Mr. Monte Solberg: Thank you very much.

Thanks, Mr. Chairman.

The Chair: Thank you, Mr. Solberg.

Ms. Wasylycia-Leis.

Ms. Judy Wasylycia-Leis (Winnipeg North, NDP): Thank you, Mr. Chair, and thanks to everyone here for great presentations.

There are very different views on this difficult issue of productivity. We do not have enough time to do everything, but let me start by going down the line and see how far I get.

First of all to Mr. Adams and Mr. Nantais, I notice in your brief, and you verbally said this as well, you want to see the elimination of the large corporate capital tax and also a massive reduction in the corporate tax rate, all within five years. Do you have any idea how much that would cost, those two together?

Mr. David Adams: No, I don't have any idea how much that would cost, to be honest.

I think, though, as I recall, that was a commitment or a recognition that the federal government had of the need to be competitive in the hemisphere in terms of having a competitive corporate tax rate to attract foreign direct investment.

Ms. Judy Wasylycia-Leis: The reason I'm asking is that we're trying to come forward with the right response, based on what we're hearing, to the Minister of Finance before the budget. And as we all agreed, there's only so much money. It would seem to me that the automobile manufacturers of this country also depend very much on our universal health care system. That's a good part of why investments happen here and why we have a fairly significant auto manufacturing industry in Canada.

I see you didn't mention it anywhere in your paper, but I think it's a huge amount of money on an hourly basis. So I guess the question is, if it comes down to choices, are you prepared to push for these kinds of corporate taxes, even though many institutions show that there's no direct linkage between corporate tax reductions and increased productivity?

I think Gerda Kaegi made that point very well. In fact, the opposite seems to be the case, that without direct linkages, without tying tax breaks to specific incentives for the industry, we don't see the benefits. So I think you should tell us whether you are prepared to sacrifice investing in health care, which would in fact have a very serious impact on your industry, for the sake of a corporate tax that has no proven benefits in terms of actual productivity in this country.

● (0940)

Mr. Mark Nantais: I'm not sure we would see it that way. In fact, when you look at the tax streams generated by the jobs, for instance, that the auto industry provides, they're huge, and all of those dollars actually go back into funding health care programs.

What we would suggest, as many other sectors have suggested, is that when you get very capital-intensive industries like ours, reducing those capital taxes and so forth is absolutely critical to future investments. So future investments are going to provide great deals or big strides in productivity, because these are the investments in our plants, for instance, that are going to be some of the most advanced manufacturing processes and technologies that will continue to add to our productivity. And we in Canada already have some of the most productive plants in North America, if not the world.

If we don't do these sorts of things, we could well see an exodus at some point in time, and it would be a quiet exodus. The key thing here is to continue to provide an investment climate, and we certainly acknowledge that health care is part of our advantage here. We wouldn't want to lose that. But if we do start to see a diminishing advantage here in Canada, because we are considered now a high-cost jurisdiction for production, then it's conceivable at some point that you may not continue to get the investment unless we have this investment climate continue.

Developing the strong economic engine is something that will have to be a permanent thing, and one way to do that is to continue to look for a very competitive tax regime across the board, in the spirit of what David said.

Ms. Judy Wasylycia-Leis: Right, but what you're not acknowledging is that if you don't have a balanced approach and invest as well in your health and education, we could have a more serious problem down the road.

Let me go to Gerda Kaegi, because you've sat here and listened to a lot of folks talk specifically on corporate tax breaks and no one addressing, even from the business community, what you have identified as a key issue by experts in terms of productivity. And that is, number one, investment, or tax breaks that are tied to specific items that will actually improve productivity, and secondly, the health and well-being of workers themselves.

All the studies that show.... In fact, this one is just out, "Sick Work Culture Kills Productivity". What do you say to all these folks who don't seem to be prepared to address the full human dimension of this issue?

Mrs. Gerda Kaegi: We've heard the arguments before and it has distressed us immensely, because there is this claim for reducing taxes without thinking of the implications and targeting tax reductions. So we believe you have to invest in people. You have to invest in workers. You have to invest in communities. And study after study shows that that's where you get the economic growth. So when people call for tax reductions without targeting for specific benefits that will come back to the community, we're opposed to that.

Ms. Judy Wasylycia-Leis: I appreciate that. Time is running out, so let me go right down to the Kitchener Waterloo Chamber of Commerce and to Linda Korgemets.

Linda, you've given us a fact that has never been verified. It comes out of the Conservative research bureau, I think, and is not based on reality. That is that there's been this huge spending spree of 48%, you suggest. I think you have to look at it in terms of percentages. First of all, you have to look at it in terms of where all these surplus dollars have actually gone—and this is an area where Monte and I agree. I mean, we've seen without accountability to Parliament, $85 billion basically disappear from accountability and end up against the debt. So it hasn't gone to spending. In fact, in the areas of education and health care, we are still not catching up from 1993 levels.

In overall spending terms, all the experts tell us we're at about 12% of GDP, which is lower than what it was in the decade leading up to the mid-1990s. It was about 16% of GDP then. We're at about pre-1950 levels in terms of spending based on GDP.

So my question to you is, given that reality and given the fact that you represent an area that your chamber is concerned about, the economic activity in the Kitchener-Waterloo area, where you have two universities and a college that are there because of strong government involvement, because of strong public sector spending, which is now in question, could you justify to the whole Kitchener-Waterloo community an approach that says forget the spending and building up of public institutions that allows students to access an education that thereby contributes to the community? How do you answer those concerns, and do you have a balanced approach? Do you have a suggestion for us to balance tax cuts and health and education needs?

● (0945)

Mrs. Linda Korgemets: I'm certainly aware of the GDP numbers. I've read them in the newspaper myself. It still doesn't get away from the fact that each and every year for the last five years we've increased spending by 8% a year. I know in my household, I haven't increased spending by 8% a year. I think continual increases in spending embed a level of service then that you must deliver on in the future, and if we keep having these large spending increases—

Ms. Judy Wasylycia-Leis: Okay, I appreciate that. Which services, then, would you cut back?

Mrs. Linda Korgemets: Well, we know that there's an expenditure review committee of the government that's starting to do that, and that's good, because they are identifying savings. It's this last-minute spending spree. It's not in the budget. These things get agreed on in the months of February and March every year. They are not in a budget that's been approved in Parliament, as far as I know, and all of a sudden there's all of this spending that occurs because, "Oh my goodness, we've got an $11 billion surplus this year. Let's drag it down to $1 billion." We don't think that's the way to be deciding how to spend money.

Ms. Judy Wasylycia-Leis: But you should know that that's not new spending; that's the government playing games with how they account for things, and they'll pay up.... You know, they have a five-year program that they'll collapse into one year, or they have outstanding issues or some obligations that they'll suddenly put in this year, so they don't look like they have a big surplus. So Parliament does have skill at some—we may not have much control any more, but we still have control over new spending so—

The Chair: Thank you, Ms. Wasylycia-Leis.

Mr. McKay.

Hon. John McKay (Scarborough—Guildwood, Lib.): I'd love to engage in this debate, but if you do look at the jump in spending this year, three-quarters of it is transfers to provinces, and on the final so-called spending spree in the last year, instead of booking the offshore accords over eight years, we booked them in one year; instead of not recognizing the AECL liabilities, we recognized them this year. It's hardly a spending spree. You'll appreciate as an accountant that you recognize liabilities as they become legally due. They're not mythical. They're not fantasies. They're real. And that's what accounts for the vast reduction of the bulk of the surplus.

So little time and so many questions. The first question is to Mr. Anderson, having to do with the solvency issue. I think you're actually hitting on a rather interesting point here. I think it is one of those looming crises that is bubbling, but not there. I'm given to understand that about half the pension plans have solvency difficulties, certainly the ones that are federally administered. I believe about half of them have some difficulties.

And you made this interesting comment that OSFI hasn't realized the difference between multi-employer solvency issues versus single-employer solvency issues. I'm not sure I understand that argument. Is it that if there is a solvency issue with respect to a multi-employer program, the period of time for the workout should actually be reduced or extended?

● (0950)

Mr. William Anderson: Extended.

Hon. John McKay: Extended. Okay. Because of the fact that there are multiple numbers of employers contributing?

Mr. William Anderson: That pension plan's not going to wind up as a single employer's would.

Hon. John McKay: Okay. I wanted that as a clarifying point. That does seem to be....

And what's OSFI's argument to that?

Mr. William Anderson: They simply have not recognized that. They make a rule for a defined benefit plan and they have not recognized any difference between a corporate program, single-employer and a multi-employer. We're still trying to get them to understand that there's a different situation here.

Hon. John McKay: Yes. Okay. Well, that seems to me to make perfect sense.

Mr. William Anderson: It does.

Hon. John McKay: The GST on multi-employer benefit.... Again, what's the rationale between a GST rebate for a single- but not for a multi-employer benefit plan?

Mr. William Anderson: Single-employer would be a corporation that has the ability to write off ITCs in its active normal business for services or supplies it buys. A trust fund can't do that. If there are 1,000 employers, money is all contributed to one pot and it's difficult to go back to 1,000 employers and say, "You write off this much, you write off this much, and you write off this much." It doesn't work.

And what we did with the pensions—

Hon. John McKay: Could you have an allocation of the GST credit on a—

Mr. William Anderson: Absolutely. And we've done that with—

Hon. John McKay: And that's how you would do it. Okay. I see.

Mr. William Anderson: And we're working on that right now.

Hon. John McKay: Okay. Well, those are two very interesting points.

Mr. William Anderson: And that would cost about $7 million. It's not a large cost.

Hon. John McKay: No, I wouldn't think it is.

With respect to the base exemption, $2.3 billion, every point on—I think we've gone from $3.07 down to $1.95, and the suggestion is we go down to $1.88 or $1.87, I think, somewhere in there, and every cent is $100 million.

Would it be your recommendation that we not reduce the rate and just up the base exemption for a number of years to be able to get to the $3,000 threshold?

Mrs. Joyce Reynolds: As you know, I've been making this recommendation for many years.

Hon. John McKay: Yes, I know.

Mrs. Joyce Reynolds: And while the $50 billion surplus has been building up in that original account, I recognize it is more difficult now, but in terms of the benefit to labour-intensive businesses and entry-level workers and lower-income Canadians, a yearly basic exemption would be more beneficial than further reductions in the—

Hon. John McKay: I understand it would be more beneficial, but you would have to make that choice. You're either going to lower the premium or you're going to raise the threshold. And if you're faced with that choice, what's your choice?

Mrs. Joyce Reynolds: Well, obviously we don't want to be faced with that choice, but our choice would be a yearly basic exemption.

Hon. John McKay: You would go for that, so effectively you would cancel the premium reductions for the next two or three years.

Mrs. Joyce Reynolds: Yes.

Hon. John McKay: And on $2.3 billion, that would be about 23¢, I guess, at $100 million a cent. I'm just doing quick math.

Mrs. Joyce Reynolds: I'll do some more math and come back to you.

Hon. John McKay: And to the auto folks, your base issue here is, don't put regs on us to make sure the greenhouse gas emissions are met; we'll do it voluntarily; we've always done it voluntarily, and we've always met and exceeded the regulation. For my NDP friends and others who want to hammer you guys with regulations, what's that argument?

Mr. Mark Nantais: We have to remember here that we operate in an integrated North American market and the Canadian market is not large enough in and of itself to drive the design. That integrated market delivers some real benefits to Canadian consumers, and that's in the context of lower costs of vehicles.

The key thing here is not to hammer us with regulation that would prevent some of these vehicles from actually coming to Canada, some of which would be the most advanced technology vehicles. The idea is to do what we can to promote the introduction and sale of these vehicles in Canada, because the key, not just to greenhouse gas reductions but to other air quality improvements as well, is to turn over the fleet as fast as we possibly can. It does sound self-serving, but that's a fact. For the older vehicles that are higher polluting and less fuel-efficient, getting them off the road faster is really going to be the key here.

The MOU is also unique in the sense that we are the only sector that is being asked to reduce, with products we sell, use of another product that is developed and sold by another industry altogether and that is a function of consumer preferences. That's something that is unique, and you cannot regulate consumer preferences. I suppose you could, but from a political standpoint I'm not sure you'd want to do that.

● (0955)

Hon. John McKay: That's essentially your feebate argument versus—

Mr. Mark Nantais: Well, the feebate is really just a tax on most of the vehicles we build in Canada and sell in Canada, one which would affect people who live in rural and northern parts of the country who really require vehicles that are larger and have a greater utility.

Hon. John McKay: But what's your meaningful distinction, then, between a feebate and your inducement to buy hybrids?

Mr. Mark Nantais: The difference is, as I said, that most of the vehicles would be taxed. Given all the other taxes that are already on vehicles, that would really prevent the sale of these vehicles.

Hon. John McKay: Effectively, you're against the taxing of specific kinds of vehicles versus the hybrid stuff. You want the GST or some other form of tax reduced.

Mr. David Adams: Well, it seems a little inconsistent that the U. S., which has not signed onto the Kyoto Protocol, has in place these types of incentives and rebates for advanced technology vehicles and hybrids, whereas we have a commitment to the Kyoto Protocol in Canada and those types of incentives or rebates are not in place for advanced technology vehicles.

I think if a part of what we're trying to do is bring that technology into the marketplace, then providing some sort of incentive to do that is helpful. I think that builds the capability on the service side as well, which hopefully, again, builds some sort of confidence in the whole area of hybrid and advanced technology in Canada.

Mr. Mark Nantais: But why would you want to introduce a tax that would inhibit the sale of many of these new vehicles that have the most advanced technologies? It's not just from an environmental standpoint but also from a public safety standpoint. When you look at the number of serious injuries and fatalities that have been reduced by half over, let's say, the last decade or so, you'll see it's been almost entirely because of the new technology we put in these vehicles.

When we look at all the other studies that have been conducted by various provinces and agencies, including other consultation mechanisms of the federal government, which have said feebates don't work, we just question why you'd want to go down that path or even give consideration to that possibility.

The Chair: Thank you, Mr. McKay.

Just before we wrap it up, I have a couple of quick questions.

Ms. Kaegi, what is your association's position regarding trusts? I didn't quite catch that.

Mrs. Gerda Kaegi: We are clearly not very supportive. We believe the government has to look at the environment that has created this rush to trusts. We have seen—

The Chair: Supportive of what?

Mrs. Gerda Kaegi: Income trusts. Could I give you one example?

The Chair: No, I just want to know what your position is.

Mrs. Gerda Kaegi: Our position is we believe the government should act to stop this mad rush to creating trusts, which we believe harms the development of Canadian companies' productivity in Canada because it's taking the money out of the company and putting it into the hands of investors rather than in the company.

The Chair: It's not the government that's creating these trusts, it's industry that's creating them.

So you're against these public corporations converting to trusts.

Mrs. Gerda Kaegi: Yes. What we want you to do is look at the tax regime that, up to now, appears to have given an incentive. What we're saying is do something to change the incentive.

The Chair: Great. Thank you.

Ms. Reynolds, quickly, what's your position on all this pressure to add labelling or nutritional information on menu items all across the industry?

Mrs. Joyce Reynolds: I'm really glad you asked that question, because what is being suggested is unworkable for the majority of chain restaurants.

You have to have a very high degree of standardization in terms of menus, concepts, portion sizes, and suppliers. And there are very few chains that have this level of standardization that can support even the development of nutritionals for the menu products.

And then there's the whole other issue of trying to put the information on a menu or menu board. Right now there's a voluntary initiative to make sure the information is available at point of sale in a format that's consistent with the regulations for packaged goods. What we're concerned about is this idea that you have to put every bit of information on your menu board. The menu boards are already overcrowded with information.

The font size on menu boards would become so small as to become illegible if you had to put every condiment, every garnish, every cheese, every bread, every muffin, every single item on the menu board. It's just absolutely and totally unworkable.

● (1000)

The Chair: Thank you, Ms. Reynolds.

Mr. Creber, I'm not sure if I understand something in your brief. On page 4 it says there's a delay in acquiring the DSA. I'm not sure I understand that.

Mr. Ross Creber: I'm sorry?

The Chair: Something to do with a delay with getting DSAs or some type of regulation for natural health products. You're having trouble getting DSA approval? You mention “the issuance of NHP licenses”. I'm not sure how that ties in.

Mr. Ross Creber: Thank you, Mr. Chairman.

Back when the new NHP regulations came into effect in January 2004, all products had to receive product licences. Companies are submitting product licences on a regular basis. As a matter of fact, at the end of September, there had been roughly in excess of 8,000 product licence applications submitted by people in the natural health products industry.

At that point in time, only slightly more than 500 product licences had been issued. Members of our association, as I indicated in my comments, over the next two years had estimated that they were going to submit product licence applications that would have a net result of about $175 million in retail sales, and the ongoing effect of a potential loss to independent sales contractors is $69 million.

The Chair: When the bill came into force, there was not a transitional period where you could request these licences?

Mr. Ross Creber: There is some form of transition. There was supposed to be a transitioning period in order to turn a DIN number into an MPN if the product previously had a DIN number, but this still is not happening with any degree of regularity. The product licences that have been issued to date, with a few exceptions, are for single-ingredient products. It does not deal with multi-ingredient products.

When the regulations came into force it was estimated that there were 50,000 to 70,000 natural health products on the market at that time. All these products are supposed to have licences.

The Chair: Is there still a problem with CRA and your direct sellers in terms of what is a direct seller?

Mr. Jack Millar (Director, Direct Sellers Association of Canada): Mr. Chair, let me answer first on the last question.

The implementation of the NHP regulations is a case study of stupid regulation. It is a case study of the opposite of what smart regulation is supposed to be. A number of the members of this committee have been involved on the health file in the past, and it is becoming a major problem. There are a number of companies that are selling products around the world that they cannot sell in our market because of the holdup with respect to the natural health products directorate.

In terms of the GST, the best way to say it is that the current mechanism is discriminatory based on the business form that people choose to do business. This is the same issue, the same basic issue, as with business income trusts, which is that the tax system is biased to a certain form of business organization. And from a tax policy perspective, you do not want a tax system that biases how you structure your business.

And the thing in the—

The Chair: My question is, do you still have a problem with CRA and the direct sellers in terms of being recognized as independent contractors?

Mr. Jack Millar: The problem there is that the mechanism that's put in place does not recognize the business form of having independent contractors who are agents. So it's discriminatory against about 25% of the industry.

The Chair: So that hasn't changed from last year?

● (1005)

Mr. Jack Millar: No, it has not.

The Chair: That was the question. Thank you.

Mr. Anderson, just for the record, the OSFI is the Office of the Superintendent of Financial Institutions, not the Ontario office. Is that correct?

Mr. William Anderson: Yes, it is. That's correct.

The Chair: Thank you. Thank you for taking time out of your day.

I want to say for the record—and I forget to mention it sometimes —when the committee travels, we're only half a committee anyway, so you're not going to get a full panel of members. What you've said is on the record, and if members wish to, they'll be able to review the transcripts.

So thank you for taking time out of your day. If people want to talk, do it outside, please, because we're going to get the next panel in. Thank you.

The meeting is adjourned.

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