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Chair

Mr. Brian Pallister

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● (1000)

[*English*]

The Chair (Mr. Brian Pallister (Portage—Lisgar, CPC)): Welcome to our witnesses.

I'll invite any of our members, witnesses, or guests today to turn off their cell phones or put them on some silent capacity.

The House of Commons Standing Committee on Finance is mandated by the House of Commons on an annual basis to consider and make reports upon proposals regarding the budgetary policies of the government.

This year the theme of our consultations is Canada's place in a competitive world. As Canada's future is in part characterized by rapid technological change and the emergence of new trading partners, the committee is looking to receive from Canadians their views respecting the means of ensuring a prosperous economy by adopting the latest technology, having the necessary skills, seizing market opportunities, and making certain that tax regimes are enabling us to attract workers and foreign investments in order to maximize our potential as a nation.

[*Translation*]

The Committee will hold hearings in Ottawa and will travel to other centres across Canada, from Whitehorse, Yukon to St. John's, Newfoundland. It will hear from more than 400 witnesses between now and the end of October. It will gather testimony from a broad range of groups and citizens, from daycare promotion associations to the manufacturers and exporters of Canada.

[*English*]

We welcome you here today. We thank you for the briefs you've submitted. I assure you that those committee members not present immediately will be here forthwith. They do review your briefs in detail, and also the testimony and the presentations you make and the questions we share responses with later on.

You have been asked to keep your presentations to just five minutes. I hope you understand the format. It's difficult for us to give you the time we would like to give you, but we will be hearing from over 400 groups and presenters, and so the five minutes is by way of an introductory commentary.

If you care to look during your presentation, I will give you a little hand signal that there's about a minute to go or a little less, and at that point in time I'd ask you to wind up your presentations to allow time for questions and comment thereafter.

We welcome you all, and thank you again.

We'll begin with the Writers' Union of Canada, Deborah Windsor, executive director. You have five minutes, Madam.

Mrs. Deborah Windsor (Executive Director, Writers' Union of Canada): Welcome and thank you.

The chair of the Writers' Union, Ron Brown, will speak on behalf of the union.

● (1005)

Mr. Ron Brown (Chair, Writers' Union of Canada): Thank you very much for inviting us. I am here as chair of an organization that represents 1,600 of Canada's best authors.

What do these authors do, actually? Well, we may not show up on *Oprah*, but we do tell Canada's stories that would otherwise remain untold. What would we know about Canada's Arctic exploration without authors like Ken McGoogan? Joy Kogawa reveals the hardships of Japanese-Canadians during World War II. Pierre Berton has praised the valour of our soldiers at Vimy Ridge.

But we're pretty good for the economy too. Writers help drive a cultural sector that contributes more to Canada's economy than forestry, farming, or mining. What do we get in return? A median income of just $12,000 a year. But I'm not here to ask for money.

There are, however, some changes that you can make. Writers' incomes fluctuate wildly. They're high when our books are published and low while we're working on the next book, yet just guess which income rate we're taxed at. To reduce that inequity, we're asking to change tax laws to allow back-averaging for writers' incomes in order to even that out.

We're also asking for copyright income deduction for what we earn on those books. This has proven workable and popular in Quebec.

We would also like to be secured creditors when publishers go bankrupt—it happens, you know. This would let us put a lien on copies of our own books that would otherwise be stuck in a publisher's warehouse.

We would like employment insurance extended to writers who are self-employed. Royalties don't last forever; neither do publishers.

And we would like heritage minister Bev Oda to honour her campaign commitment to double funding to the Canada Council for the Arts. These funds help develop writers' skills and promote their works. Every tax dollar invested in the arts brings five tax dollars in return.

These points and others are all in our brief, which I know you're anxious to rush out and read.

But I would like to close by giving you a scoop on a new literacy initiative the Writers' Union is starting. Last summer, Canadians were riveted by the plight of Africa's AIDS orphans when the Stephen Lewis Foundation brought the grandmothers to Canada. Therefore, the Writers' Union is asking Canada's children's book writers to donate books they have written to this AIDS orphanage. We will be coordinating and shipping these books to an AIDS orphans' school in Nyaka, Uganda. The first shipment will take place in November.

So what are authors good for? We reveal Canada's stories, we help drive a vital economic sector, and we try to help Canada's image abroad. With your help, we can continue to do all these; without that help, not so much.

Thank you very much.

The Chair: We continue with a presentation from the Bell Pensioners' Group, Pam Went, president. You have five minutes.

Mrs. Pam Went (President, Bell Pensioners' Group): Thank you, Mr. Chairman, and good morning, members of the committee.

The Bell Pensioners' Group is a federally registered, not-for-profit organization that advocates on behalf of the retirees of Bell Canada. We'd like to thank you for recognizing the importance of the pensioners' perspective by inviting us here today, because we are not always included or invited to the table.

To illustrate that point, last May the Conference Board of Canada held a pension summit and there were over 200 participants. The chair of the summit went on at length to say that it was very important to have all the stakeholders at the table, and yet over two days, not one presentation was on the perspective of the pensioner, and of the 200 participants, there was only one pensioner there.

We're grateful to have the opportunity to dialogue on a critically important topic: Canada's place in a competitive world. We agree that if Canada is to have a meaningful place in the world of the future, then citizens and businesses, and by extension the economy, must prosper. Canada's pension plan system is crucial to our future not only as individual citizens, but also because it supports our economy in very important ways.

Pension funds are now the largest institutional investor class among G-10 countries. The vast resources of these funds are available for the kinds of long-term infrastructure investments that are critical to Canada's long-term economy. If we peel that pension plan system back one more layer and look at private pension plans, like the one I have, it is also a critical pillar in the national pension system.

Private pension plans allow the transfer of risk from individuals to collectives, and by doing so they achieve what David Dodge has described as a more efficient allocation of savings. These large funds are able to take risks that individuals cannot. They have experienced, professional asset managers who are equipped to make informed decisions. They are also, usually, examples of very good corporate governance.

What will happen if these investment machines are no longer in place? Recently we have seen a decline in defined benefit pension plans. If this continues, the transfer of financial return and longevity risks back to individuals could be quite painful for our country. Individuals are less able to manage and absorb losses. This could result, ultimately, in increased financial assistance that would have to be funded by the taxpayer. Also, if there are fewer defined benefit pension plans available, the capital required for long-term infrastructure investment will not be available, and that will impact our growth potential.

If these are not good enough reasons to act now, consider this. In the 1990s, income from private pension plans grew in importance from 18% to almost 30% of total retirement income. This significant shift suggests that it is timely to re-examine the assumptions on which current legislation and regulations are based at the federal level, but also at the provincial level.

What can this committee do? In our brief we made five recommendations, but I feel that the first two are the most crucial.

First of all, you can ensure that Finance Canada is tasked and adequately resourced to follow through on a 2005 consultation paper entitled “Strengthening the Legislative and Regulatory Framework for Defined Benefit Pension Plans Registered under the Pension Benefits Starts Act, 1985” in order to determine what permanent changes are required, in particular, to action the recommendation that pension plans be solvent at all times.

We would also ask for your support for modification to key legislation such as the Canada Business Corporations Act, the CCAA, and the Bankruptcy and Insolvency Act to recognize that retirees are key stakeholders, and to ensure that pension benefit entitlements receive maximum protection should a pension plan sponsor fail.

In closing, pensioners are important stakeholders in the determination of our country's future. The Bell Pensioners' Group is available and willing to represent the views of the Canadian pensioner at any time.

Thank you.

● (1010)

The Chair: Thank you very much, Madam Went.

We'll continue with a representative from Health Partners International of Canada, Mr. John Kelsall.

Mr. Kelsall, welcome. You have five minutes.

Mr. John Kelsall (President, Health Partners International of Canada): Good morning. My name is John Kelsall. Unfortunately, the Honourable Jake Epp, our chair of the board, is unable to be with us today.

As we all know, Canada enjoys an enviable reputation as a prosperous and compassionate nation. We are mindful of our responsibilities in helping those less fortunate around the world to meet the most basic of human needs. HPIC is honoured to be part of the solution that Canada presents to some of the world's most daunting humanitarian challenges. We hope our proposal will result in a clear commitment to the creation of incentives that will radically increase our capacity to meet critical health needs in the developing world.

Our particular contribution is in the area of health care. HPIC supports hundreds of Canadian physicians and non-governmental organizations that work tirelessly in the developing world by providing high-quality medicines, vaccines, and supplies. These are generously donated by Canadian companies and assembled for shipment in our own facilities. Some of our major programs are operated on behalf of the Government of Canada, including our response to natural and man-made disasters.

At the invitation of the WHO, the World Health Organization, we met in Geneva with officials of the WHO to determine the most effective ways of providing medical aid. We're working to develop new guidelines for coordinated and effective emergency responses. HPIC has played a significant role in providing needed medicines, vaccines, and supplies in places such as Indonesia, Pakistan, and Sri Lanka. More recently, again in collaboration with the WHO, we were significant participants in the early response to medical needs in Lebanon.

The overall need, however, is greater than our capacity to provide medicines through philanthropic programs alone. While we readily acknowledge the Canadian health care industry's wonderful support, we know all too well the extent of suffering that occurs in many countries. The tax action we propose will substantially expand Canada's capacity to respond appropriately to a growing need from nations bearing the burden of poverty and disease. Some of the largest Canadian NGOs are currently sourcing their products in the United States and Europe, because the Canadian policy framework is less favourable to product donations. Often, developing countries are obliged to procure low-cost products of inferior, if not inadequate, quality. This is of great concern to the WHO.

In many ways, Canada's economy is tied to those of developing and in-crisis countries, including those in Africa and elsewhere. Our government actively supports their development to reduce poverty and to contribute to a more secure, equitable, and prosperous world. This includes measures to enable access to essential medicines and medical supplies.

To add gift-in-kind donations to the mix of solutions would provide evidence at home of the public and private sector partnerships the government seeks to foster. Therefore, HPIC's proposal invites the government to include, in its next budget, donation incentives that would encourage the private sector to provide, and if necessary manufacture, products that are most urgently required, perhaps including ARVs needed to combat the scourge of HIV/AIDS. It must be noted that there is currently no economic incentive for companies to give gift-in-kind donations out of inventory.

The strongest benefit of our proposal, we believe, is that it encourages companies to donate humanitarian aid for use in countries targeted by government programs, while reducing the real cost of aid underwritten by the government. Rather than spending money to purchase goods, government would incur a substantially lower cost by combining the cost of the incentive with CIDA funding for handling and shipping, where appropriate. The purchasing power of actual cash donations to buy product is minimal in comparison to the much larger volumes of goods that can be obtained for charitable purposes through product donations. The application of this incentive to medicines donated by the Canadian health care industry, which is the sector with which we are most familiar, would have the effect of generating $20 in product for every dollar of tax incentive based on wholesale values.

We are aware that such a change to tax policy for the purpose of increasing the donation of pharmaceutical products would create a demand for other products to be included. It is reasonable that the government would be concerned about the cost of such an incentive. Nevertheless, our position is that the government should consider for inclusion only those products that support the government's own priority programs in the developing world. Moreover, we suggest that consideration only be given to products that are easily valued and that are essential for saving lives.

● (1015)

This initiative would take the form of a cost-effective incentive in addition to the current provision, which allows a donor company to deduct the cost base of inventories but does not serve as an incentive to donate goods to charity. In the United States, there is a program of tax incentives; it is working very well and is adding huge value to that country's aid programs. As a result, proportionally speaking, the U.S. ships much more donated aid than does Canada.

I would just wind up by saying that this our fourth appearance, Mr. Chairman, before the finance committee. On each previous occasion, our proposal received positive comments from all parties and committee members. We're saying that it's time to act.

The Chair: Welcome back.

We'll continue with the representative from the Business Group for Improved Federal SR & ED Tax Credits. Nathalie Bourque, welcome; you have five minutes, please.

Mrs. Nathalie Bourque (Vice-President, Global Communications, CAE Inc., Business Group for Improved Federal SR & ED Tax Credits): Thank you, Mr. Chairman, and good morning to the honourable members of the committee.

My colleagues and I represent a group of Canadian business leaders from various regions and industries with a common cause: to improve the federal scientific research and experimental development tax credit, or SR and ED tax credits.

Canada has a serious problem with its low rate of productivity growth. The problem is compounded by our high degree of economic integration with the United States, which has considerably stronger productivity growth and is outperforming Canada in the race for investment.

Globalization may be an overused term, but as business leaders, we see firsthand how capable some emerging economies, such as India and China, have become in advanced technology development and manufacturing. Global supply chains have emerged, and individual Canadian companies must find their places in this new marketplace. Information and communications technologies are advancing so rapidly that R and D is being performed all around the world wherever highly qualified personnel are located. This is an unprecedented threat for Canada. It is also an unprecedented opportunity for Canada provided we, as a nation, can get the investment climate right for innovative companies.

This committee will be hearing a considerable body of advice from many quarters. Economists are debating the solutions to the productivity challenge. Included in the debate is the OECD, which recently completed a survey of the Canadian economy. The OECD has established that innovation is one of the key determinants of productivity growth.

As business leaders, our perspective comes from the boardrooms of some of Canada's leading companies, where we deal with investment decisions against the standard of adding shareholder value. We deal with questions about where to perform R and D, and the after-tax cost of performing R and D in Canada or elsewhere is a key factor.

As Canadians, we have a bias towards performing R and D here in Canada if we can justify it in the global context in which we operate. With the Canadian dollar rising from 70¢ to 90¢ in three years against the U.S. dollar, Canadian locations for R and D and manufacturing are increasingly difficult to justify.

● (1020)

[*Translation*]

The SR & ED tax credit is a well-established program that is well known to Canadian business. However, it is not enough to tip the scales in Canada's favour as the country of choice for R & D. Statistics on the private sector's performance with respect to R & D speak for themselves.

The main issue with the SR & ED tax credit is its unpredictability when a decision has to be made to undertake an R & D project. Many businesses do not know whether they will have sufficient tax earnings in future years to be able to claim the credit. Also, they tend to discount the value it brings when making the decision whether or not to invest in R & D.

Businesses may be unaware of the SR & ED tax credit because they are just starting out in the research field, or are investing in R & D in anticipation of future gains or during an industry slowdown. They may also be part of an international group and are joining with foreign companies for tax purposes.

Mr. Chairman, if Canada wants to catch up as regards innovation, this type of business must be encouraged. But the current program penalizes them. The solution is quite simple. The refund should be provided to businesses that have invested in R & D but are unable to convert the SR & ED credit into cash, as is the case for small business. A refund must be offered for all potential but unclaimed tax credits, as well as for all creditable R & D activities. In that way, the uncertainty surrounding the tax credit will be lessened, which will immediately enhance R & D economic activity here in Canada.

This solution could be implemented immediately, with no additional administrative costs for either government or the private sector. Canadian business will then be better positioned to attract R & D mandates.

Thank you for giving us the opportunity to appear before the Committee.

The Chair: Thank you very much, Ms. Bourque.

Our next witness is Ms. Penny Williams, on behalf of the Canadian Urban Transit Association. You have five minutes, Ms. Williams.

[*English*]

Mrs. Penny Williams (Representative, Canadian Urban Transit Association): Thank you, Mr. Chairman. As somebody responsible for the day-to-day activities of public transit in Windsor, Ontario, I'm thrilled to be here.

As many of you know, transit has been a focal point of public policy deliberations at the federal level from the last decade as legislators, like you, have increasingly recognized that, fundamentally, investment in safe, efficient public transit is an investment in our economy and the future prosperity of Canada.

Given the tightly focused mandate of the committee, I've chosen to be very direct in terms of our presentation and address the committee's specific items of reference put in place. The only preface to my remarks is to highlight that the federal investments in public transit are well positioned to address the finance committee's core concerns regarding Canada's health, the competitive tax regime, and the need to create sound infrastructure that will allow businesses to succeed. We are here to make the case that federal action and support of public transit delivers on all of these factors.

I will turn first to the committee's core question regarding specific federal tax measures that should be implemented in the upcoming budget to ensure that our citizens work for their benefit and for the benefit of the employers. Frankly, Mr. Chairman, we love this question. The entire public transit industry was supportive of the federal government's 2006 budget that allowed individuals to claim the cost of a monthly pass for commuting on transit. This innovative tax measure is a tangible first step in ensuring that citizens have the basic mobility required to work. Urban mobility is a key component in ensuring that workers can build individual prosperities and then benefit their employers.

CUTO would like to highlight two improvements to this tax measure. The first focus is on employer-provided transit benefits. This measure differs from the current tax credit in that employer-provided benefits would be non-taxable dollar amounts given by the employers to the employees to subsidize the costs of commuting by transit. This is a targeted tax measure that specifically aims at promoting transit use where employers and employees need it the most.

In the United States, exempted transit benefits from taxation has been in use for 20 years to encourage transit use. Starting in 1984, eligible employers could give workers up to $15 monthly in tax-exempt transit benefits. Transit ridership increased 25% for participating employers.

Highlights of recent studies undertaken by CUTO are contained in our written submission. You may wish to review this at a later time, but I want to point out two key findings. First, in terms of the annual economic impact, the study found that there would be external congestion cost savings of between $30 million and $112 million. The second key finding was projected reduction in commuter travel of between 1.7% to 6.3%.

A final technical point highlighted in our brief is the need to change the current eligibility of parents to claim the transit tax credit for dependent post-secondary children over the age of 19. The current tax credit does not allow parents to claim a tax credit beyond the age of 19. This age seems to be an arbitrary cut-off and does not recognize the reality of parents supporting post-secondary students.

Turning now to the committee's question regarding program spending measures that would be implemented to assure Canadian businesses are competitive, you all know that efficient and effective public transit is vital to the movement of people and goods in Canada's urban economies. Without public transit, many of our urban centres would be even more gridlocked than they are today. Investment in public transit is one of the best strategies for limiting congestion and keeping our economy strong.

In March 2006, Transport Canada released the results of a study entitled *The Cost of Urban Congestion in Canada*, which conservatively estimates the cost of recurrent congestion in urban areas between $2.3 billion and $3.7 billion a year. Transit efficiency has huge implications in our cities and our economies. In dozens of the studies around the world, higher transit ridership consistently correlated to greater overall economic success and a higher standard of living.

I invite you to review our written submission, which highlights studies published this summer by the Conference Board of Canada and Queen's University that make it clear that federal government investment should focus on modern transportation and a funding model to ensure that transit keeps the economies in our cities moving.

Finally, the committee has asked how we can ensure that the government is able to afford measures and ensure prosperity. Simply put, Canada cannot remain economically competitive on a global basis if we fail to adequately support public transit. When viewing public federal policy in the context of other OECD nations, it is significant to note that Canada remains the only OECD country without a long-term predictable federal investment in transit. As an example, in the United States legislation provides $52.6 billion for public transit over the six years 2004 to 2009. That's $9 billion annually.

● (1025)

In closing, the federal government has a unique opportunity to play a pivotal role in the lives of Canadians while addressing important economic objectives.

On behalf of CUTA members, I'd like to thank you for this opportunity.

The Chair: Thank you very much for your presentation, Madam Williams.

We'll continue with the representative from the Nunavut Association of Municipalities, Elisapee Sheutiapik.

Ms. Elisapee Sheutiapik (President, Nunavut Association of Municipalities): *Ullakut.* Good morning, Mr. Chair and members of the Standing Committee on Finance. Thank you for giving the Nunavut Association of Municipalities, NAM, the opportunity to appear before you today.

My name is Elisapee Sheutiapik. I am NAM's president. I am the mayor of the city of Iqaluit, which is Nunavut's capital. Here with me today is our CEO, Lynda Gunn.

NAM is a member of the Federation of Canadian Municipalities and serves the interest of 25 municipalities of Nunavut, 24 of which are not tax-based communities.

Nunavut's population is 29,000 people, approximately 85% Inuit. People of Nunavut refer to themselves as Nunavummiut, the people of Nunavut. Nunavut's footprint makes up one-fifth of Canada's land mass and is rated tenth among 64 resource-rich regions in the world by the mining industry.

You've challenged Canadians to make contributions to your 2006 pre-budget considerations on how to strengthen Canada's economy, economic health, and prosperity. You say we must be prepared and must be proactive, and that decisions must be taken today to ensure that we are able to do what is needed today. Today, NAM and its members are prepared to participate proactively with the rest of Canada in attaining that vision of prosperity.

Since we appeared before this committee last fall, we have proposed a strategic sustainable development plan to our community governments, which they have endorsed and have directed us to proceed with. To proceed, however, we need some key decisions by the federal government that recognize the unique challenges facing the communities of Nunavut.

In NAM's submission to the Expert Panel on Equalization and Territorial Formula Financing, we pointed out that the “expenditure needs gap” in the territorial formula financing, the TFF, is not just a measure in accounting ledgers; it can also be measured in inadequate housing, poor health, low education, and inadequate infrastructure.

The expert panel's report cited many examples of how Nunavut is even more challenged by conditions associated with poverty than its sister territories and said that an adjustment to the TFF is not sufficient to address specific gaps in programs, services, and infrastructure in Nunavut.

It concluded that:

> Without urgent concerted action to improve housing, health, education, and quality of life for people living in Nunavut, particularly Inuit people, there is little hope that things will change for the better. The Panel urges the Government of Nunavut, the Government of Canada, Inuit leaders, and a wide range of organizations, groups and agencies to come together to address these issues before the situation gets even worse.

While Nunavut is resource-rich, its people and communities will not receive significant benefits from their resource wealth under the current federal fiscal regime. All the public resource revenues from the Northwest Territories and Nunavut's resources flow directly to the federal government.

Canada's public accounts show that during the last five years reported, the federal government took \$830 million of northern resource wealth out of the north over and above federal taxes. In 2004 and 2005 alone, it took half a billion dollars.

The expert panel spoke to this issue as well, saying:

> The potential of resource developments in the territories is perhaps the best opportunity they have to achieve their dreams of self-sufficiency and self-reliance. Provinces with rich natural resources are able to benefit from those resources. The same principle of net fiscal benefit should apply to the territories.

Nunavut cannot afford to let its resources be taken without fair compensation. Moreover, it is NAM's position that the communities of Nunavut need a direct and fair share of revenues. International development agencies refer to a common phenomenon called the “resource curse”. It is the paradox that natural resources can generate enormous wealth, yet communities in resource-rich regions have poor economic growth, inadequate investment in health, education, and sanitation, and poor social conditions.

The resource curse is integral to northern resource development history: profits go to outside investors; business goes to outside services and suppliers; wages go to outside labour; public revenues go to central governments; and the vast majority of local people are barred from participation by poor education, poor infrastructure, and inadequate services.

● (1030)

Interestingly, one group that recognized the curse and is proposing means to eliminate it is within the mining industry. The International Council on Mining & Metals, of which the Mining Association of Canada is a member, has taken an initiative on sustainable community development in mining regions. Its chairman, who is also the chief executive officer of Newmont Mining, recently said: “...central governments have failed to use tax revenues from mining companies effectively to fund basic public services and empower local governments.”

The need to strengthen local governments in mining areas outlines the importance of a partnership approach. Local agencies are the best means of improving the services and facilities available to affected communities, but they cannot expect to suddenly have the capacity to plan and implement large community development plans. Most national governments must take the lead in supporting these bodies and be assisted by international donor organizations and companies. The companies can also help by planning their own projects, infrastructure, and social investment as part of their regional development. This can raise the chances that prosperity will follow through to the region, and also avoid a cycle of local dependence on companies and social programs.

In conclusion—

● (1035)

The Chair: Yes, thank you.

Ms. Elisapee Sheutiapik: —to that end, we need informed decisions in the next budget that address the critical service and facility gaps in Nunavut communities, fairly sharing Nunavut's resource revenues with Nunavut through its territorial and local governments, and financial support for ongoing community economic planning and implementation, leading to sustainable communities.

The Chair: Thank you very much, Madam

We move to questions. First round to Mr. McCallum, seven minutes, sir.

Hon. John McCallum (Markham—Unionville, Lib.): Thank you, and thank you all for very interesting presentations. I think since my time is limited I will focus mainly on issues of research and public transit. Certainly, in my riding I often say public transit is second in importance only to health care. Many of the citizens suffer from traffic gridlock, environmental concerns—this is in Markham. So I totally agree with Ms. Williams that it's extremely important.

But if money is limited, you can't do everything. The previous budget having been very rich, I fear that for the next budget money will be quite limited and choices will have to be made. You've really advocated both of two approaches to public transit, the first approach being tax credits of various kinds to encourage use, and the second approach being direct government investment to support transit.

In my riding I've pushed for and succeeded in getting additional funding for various kinds of public transit over the years, and I think that's been very effective. I'm skeptical about tax credits, nice though they are. If your primary objective is more public transit, the evidence, for example, is that on this path 95% of the people would be using it anyway. So 95% of the money goes into the pockets of people who are there anyway and has no effect on public transit. So I'd like to do both, but not having funds for both, I think the priority should be direct investment or support by the government for public transit investments.

So my question for you is—I don't know if you agree with me or not—if you had the choice of just one or other of these two approaches and not both, what would be your choice?

Mrs. Penny Williams: That's a hard question for somebody who operates on day-to-day activity, but certainly any investment in public transit is welcome.

We do have significant infrastructure needs: remaining in and continuing with the Canada Strategic Infrastructure Fund, remaining in and continuing with the funds that have already committed to public transit. Quite frankly, what we need is investment in the infrastructure, because we need to have the infrastructure there in order to have ridership growth.

The employer-provided taxes are specifically targeted to the employers and help the economy, which is one of the platforms. Because this tax investment helps people get to work, it certainly improves the economy.

If I had to choose between the two...they're both equally important. One is important to the economy of the cities, and the other is important to the environment by having the infrastructure there. It's a really hard choice. But we do appreciate any investment provided to public transit, because it helps the economy of the cities, it will help the environment, and it will help us be competitive.

Speaking for 120 different public transit systems...we'd all have our different views as to what is the most important aspect of this. The employer provided tax credit is important in order to grow the ridership, and we suggest that because of the recent investment in transit, the employer-provided tax would not be as expensive as it perhaps was in previous years.

In Windsor, I have a bus fleet age of 14 years. Until the investment from public transit came into being, I was running buses that were 35 years old. Now I'm able to reduce that fleet age to 10 years.

● (1040)

Hon. John McCallum: Thank you very much.

So you'd like both?

Mrs. Penny Williams: Certainly—

Hon. John McCallum: Let me now move on to research. This is another area in which I am in 100% agreement that if Canada is going to prosper in the future, research innovation and new ideas are absolutely crucial.

The issue here is that Canada has the most generous public support for R and D, at least in the G-8, if not in the OECD, yet the performance by the private sector in R and D, compared with other countries, can best be described as mediocre. So you're asking the support through this program for R and D to become more generous. We already have the most generous in the world, with results that are not wonderful.

So can you tell us why we should be confident that this would bear fruit, given the facts that I've just outlined?

Mrs. Nathalie Bourque: Around the world, there are some countries that are as generous or even more. I would take Japan as a major one.

Hon. John McCallum: Not in terms of the money put in. Canada is definitely number one in government R and D support relative to GDP among the G-8 countries, including Japan.

Mrs. Nathalie Bourque: We also have some biopharmaceutical companies that have transferred all their R and D all to Germany because they thought it was advantageous.

The point we're making is that with the dollar exchange having changed so dramatically in a short period of time, it's very hard for us to adjust.

The other point is that it's very hard to make business decisions when you're told that you can get some investment tax credits, but it turns out that once you invest and then try to claim the tax credit, you cannot make this into real money because they postpone it year after year.

We acknowledge that the federal government has made an important step in increasing the time to claim those credits from 10 to 20 years, but it has to be available at some point. As you know, and as we said, when you're negotiating with companies who have a choice of investing in Canada, the U.S.A., India, or anywhere else around the world now, they look at how much it will represent on the bottom line.

It used to be a lot more positive when our dollar was stronger, but now we are in a deficit situation and it's hurting R and D. This is why we're asking the government to make this into more monetary terms, instead of just against tax credits. It can be against other taxes that we pay. We're just suggesting that the government see a possibility to help the R and D companies that want to continue doing R and D in Canada.

[*Translation*]

The Chair: Thank you very much, Ms. Bourque, and thank you, Mr. McCallum.

We now move to Mr. Crête.

You have seven minutes, Mr. Crête.

Mr. Paul Crête (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, BQ): Thank you, Mr. Chairman.

Thank you all for your presentations. I was impressed by the fact that ultimately, you were all asking for long-term commitments in slightly different areas. What you really want to know is what to expect in the future, in order to facilitate investment.

In my riding, they build subway cars, and I know that when it comes to urban transit, in both urban areas and elsewhere, it is important to know where we're headed. The economic impact is significant.

Ms. Williams, in your second recommendation, you talk about "establishing direct investment in the nation's public transit systems as a permanent program".

Can you explain what the impact of such a decision would be on the transit industry and how the situation would be any different from now, where business waits to see, depending on whether it's a good or bad year, if it can invest?

[*English*]

Mrs. Penny Williams: That's an excellent question.

We certainly are looking for long-term commitments. We certainly need the investment in public transportation.

CUTA has taken a look at our 2006-10 budget, and we need $20.7 billion. And we need to have a long-term investment so we can plan to increase the ridership, which will go to the core values of the economy and health of cities. We're really looking at the long-term investment, because we need to plan.

Public transit, too, is about more than just the operation of public transit; it's about the public transit business industry we also have— the builders of the subway cars and the builders of the buses and the suppliers. So it really goes to the economy of Canada.

Without a long-term, sustainable funding program, it's very hard for transit operators such as me to make long-term plans to grow the ridership and replace our vehicles and our infrastructure. So long-term, sustainable funding is really paramount to us. It not only goes to the economies of the cities, but also to the parts manufacturers and the builders of public transit vehicles.

● (1045)

[*Translation*]

Mr. Paul Crête: Thank you.

Ms. Bourque, I'd like to come back to your main recommendation. You're asking for absolute assurances that you will be entitled to tax credits. Clearly, that means that there is now some uncertainty.

Could you elaborate on that?

You've also talked about global competition in this area. In practice, I have seen officials explain the current legislation to business representatives, and I have noted that there is a lack of clarity there. One has the sense that there is a higher level of concern among Canadian businesses.

What specific measures are required to address that?

Mrs. Nathalie Bourque: Let me give you a simple example. Supposing you have revenues of $100 US. After paying everything you have to pay, you have $20 left. You pay taxes on $10 of that and you receive investment credits of $10; that means you are left with $20 in cash. With the appreciation of the Canadian dollar, those $100 US represent only $110, as opposed to the $130 that was the case previously. If you do the math, you end up in the red.

We engaged in R & D on the assumption that we would receive funding in the form of investment tax credits, and yet we're in the red, so we don't pay any income tax. I imagine the government is putting that money aside in anticipation of our future profits. Given that the carry-forward period can be as much as 20 years, it is currently very difficult for companies to know when they will receive the money. People working for biopharmaceutical, information technology, aerospace, defence and forestry companies have all told us that for every one-cent increase in the value of the Canadian dollar, the effect is between $50,000 and $2 million. So that gives you an idea of the impact it can have.

At the present time, amounts of between $10 million and $1 billion are on companies' books, but they are unable to claim these amounts from the government. Of course, if companies are preparing to engage in research and development in Canada but have an opportunity to recover part of those tax credits in another country, they will immediately consider going to that country.

For our part, we are in favour of the idea of continuing to develop our R & D in Canada. We have an excellent reputation globally. However, when we are preparing our records, we have to be sure that we will receive the money promised by the government. In our opinion, that could apply to other monies that we are required to pay out — for example, for employment insurance or another taxation system.

Mr. Paul Crête: In a way, that is a demonstration of the fact that productivity gains can be more than just a war over wages. Thank you very much.

Since time is moving along, I would like to move now to another witness.

With respect to copyright, you are suggesting the following in your second recommendation: “Introduce a copyright-income deduction for creators, modelled on that used in the province of Quebec.”

In the interests of all Committee members, I would ask that you describe the model currently used in Quebec that you would like to see implemented all across Canada.

[*English*]

Mrs. Deborah Windsor: Thank you for the opportunity to speak to this.

In the province of Quebec there is a tax credit for creators on copywritten material. When a creator creates a piece, let's say an author creates a book, there is no tax paid on the first $30,000 earned, I believe. It is solely a tax credit on copyright income.

A writer's income fluctuates and has peaks and valleys. It may take seven years to create a book, and then the book is published. Initially there is an advance and a great amount of returns, then a valley comes in and that window of sales decreases. So this copyright income tax deduction levels out the amount of income tax paid over the period of creation. It's working very well in Quebec.

● (1050)

The Chair: *Merci.*

The next questioner is Madam Wasylycia-Leis for seven minutes.

Ms. Judy Wasylycia-Leis (Winnipeg North, NDP): You're skipping the government? That's nice. I don't mind.

The Chair: We'll go with you.

Ms. Judy Wasylycia-Leis: Thank you very much. This is a wonderful coup. Do I get your time too?

I'd like to start with Pam and her very important presentation on pensions. You've identified something that has been talked about for some time, and that is the need to try to stop this movement from defined benefit plans to contribution plans. You've identified the consultation by Finance, and you've identified the support from David Dodge.

I'm wondering if we shouldn't be going further than your recommendation on page one, which is to get them to determine what changes are necessary. Don't we know enough about what changes the federal government could undertake now to put pressure on the private sector to stop this movement and ensure that employees have the benefit of defined benefit plans?

Mrs. Pam Went: I think we do know. We're recommending that the consultation be continued and completed, because it is important that all stakeholders in the process have an opportunity to input. There was a lot of input to the original consultation from the legal community, plan sponsors, and pensioner groups like my own. In the spirit of democracy, I think that should be continued.

If pensioners are invited to the table—and that's one of the points I'm trying to make—during that consultation, we will have a chance to make the story, our views will be accepted, and those changes will be made. Right now there is no one to represent those changes at the table when legislation is written.

There are many federally registered pension plan groups, like Air Canada, that are also willing to come to the table. We represent a lot of pensioners. We'd like to be there, we'd like to see it continued, and we know what to do.

Ms. Judy Wasylycia-Leis: If there were one step we could take immediately on the legislative front to deal with this issue, where would we begin to look? Can the federal government actually regulate in this area, or does it have to be through incentives?

Mrs. Pam Went: Actually there's a disincentive today for employers to maintain or even create new defined benefit pensions. The disincentive is around the treatment of surplus funds in a pension fund.

We believe the answer is to legislate that there must be solvency at all times. That's law in the Netherlands, and it's been successful. It would take several years to work into it, but I believe there's a way employers can be given incentives to do so by allowing them to use surplus funds in an appropriate way.

There are disincentives today. For example, surplus funds in the pension fund are separate and protected; it doesn't matter how much money is in the pension fund, it can't be touched.

In fact, if the surplus is greater than 10%, a company cannot put any more money into the plan, even if it wanted to. Even if a company felt that five years down the line it looked as if there was going to be a deficit because of decreasing interest rates, it can't do anything.

So there are a lot of reasons the employers or sponsors don't want to be in defined benefit pension plans anymore. They're putting money in there and they can't touch it.

We would propose something similar to what the Province of Quebec is legislating currently, and that is the creation of a reserve fund that would be available when times are bad and yet, in the short term, can be used as an asset of the company.

Ms. Judy Wasylycia-Leis: Thank you. That's very helpful, and your brief is excellent.

Everyone's briefs are excellent. I wish I could ask questions of everyone, but let me go to Elisapee. Again, it is a very important brief.

I'd like to focus on a solution in terms of the north and ask you, if we could do one thing, what it would be.

And then I will also ask you whether or not, as a committee, we should be taking on seriously the whole challenge about how outdated the northern residents deduction is, which was brought in during the 1980s. It hasn't changed at all in all these years. Is that an area we should be touching?

● (1055)

Ms. Elisapee Sheutiapik: I'm going to have Lynda answer that.

Ms. Lynda Gunn (Chief Executive Officer, Nunavut Association of Municipalities): I guess the one single most important thing your committee could focus on for Nunavut would be to follow the recommendations of the Expert Panel on Equalization and Territorial Formula Financing report, which was presented to the Minister of Finance. It's an excellent overview of all the challenges facing Nunavummiut today, and it does speak to the need to review the question of resource royalty sharing and how that should be managed in devolution talks. We hope cabinet will give the green light to the Minister of Indian and Northern Affairs this fall for the opening of Nunavut devolution talks.

With respect to the northern residents deduction, yes, that's an area that could very definitely use some review and updating; and in addition to that, a review of GST, because we pay the merchants for the goods in the south to be shipped to us, but then we pay for the transportation of those goods on top of that. That, too, carries a GST burden, so unlike other areas of Canada, we get a double whammy.

There is high unemployment in the north, and really, the federal government has created a dependency. Most of the people who live there are very poor. When you look at the cost of food, the food mail program with Indian and Northern Affairs also needs to be re-evaluated. The food mail program assumes that people are rich enough to carry a credit card or that they even have a bank account. There are no banks in most Nunavut communities.

People are faced with the challenge of how to pay valu-mart down in Montreal or Ottawa or Edmonton if they don't have a bank card or a credit card. First, how can they manage the payment? Second, if someone is living on welfare and their social housing is consuming their small amount of welfare money, there is not even enough money to buy food.

Looking at the cost of food, a thing of KOOL-AID in a Pond Inlet, Nunavut, store is $51. Cranberry cocktail juice is the same amount. You're paying for the weight, and then it's just not viable.

They've done things in the food mail—

The Chair: I'm sorry to have to cut you off at that point, but time has elapsed for this member.

Ms. Judy Wasylycia-Leis: Thank you very much.

The Chair: I have to move on to Madam Ablonczy. You have seven minutes, Madam.

Ms. Diane Ablonczy (Calgary—Nose Hill, CPC): I don't know. I'm so glad to have an impartial chair here.

Thank you to all of you for your presentations and the background material you've provided.

I'd like to ask a question of Mr. Kelsall. Please say hello to Jake Epp, a fellow Calgarian, for me. I always enjoy talking to Jake.

You mention, of course, this need for donations in kind, and to have those covered in the regime. Can you give me some idea from the consultations you've done and the talks you've had of just how widely you think this measure would be taken up by the suppliers of medical goods and services?

Mr. John Kelsall: Health Partners International of Canada currently interfaces with all five major sectors of the Canadian health care industry: the research-based companies; the generic companies; the over-the-counter group, NDMAC; the biotech Canada group of companies; as well as the medical devices and medical supply companies. All have indicated support that with such an incentive in place in Canada, which is currently in place in the United States, the volumes of needed specified medical aid would greatly increase in Canada.

Right now—I don't know whether you're aware of this—medical aid donations are treated, from a tax point of view, as if the product has been destroyed, and yet we have companies manufacturing for us. We send product overseas dated 2009, 2010, 2011, and yet the product, which is what you'd find in drug stores here today, is, according to the tax treatments, similar to being destroyed. All sectors have said that if Canada endorses this tax incentive system they will come to the plate.

● (1100)

Ms. Diane Ablonczy: You know, given the crying need, especially in the developing world, for medical goods and services, I guess I'm curious as to what push-back you get when you propose this.

Mr. John Kelsall: There is some push-back from some of the international agencies that prefer to have money with which they can go and buy. Here we are offering, with our partners, to provide high-quality Canadian medical aid, similar to what you'd find in Canadian drug stores.

I'll tell you just one little story to give an example. President Karzai will be here tomorrow. We have shipped medical aid to Afghanistan. The World Health Organization in Afghanistan has told us it's the finest medical aid shipment that Afghanistan has received from the international community.

I've been to Afghanistan. I've toured the hospitals. When I toured the hospitals, the doctors were saying that the Canadian medicines work. They actually heal people. And I asked what was going on. They said that when they receive money, they are required to tender to the low-cost generic producers in neighbouring countries, and that when the product comes in, it is low-quality, is often placebos, and often the capsules are empty.

I just met with one of the key ambassadors in Africa, who said it's well known in Africa today that the poorer the country, the poorer the quality of the product that it can purchase. It's a terrible situation that's going on.

Ms. Diane Ablonczy: Well, that's very interesting and very helpful. I'll most certainly be looking at that.

I wanted to turn quickly to the writers, because my favourite activity is reading. You all, of course, make that possible. We do appreciate the brilliance and the creativity that go into writing.

You mentioned specifically this need to be a preferred creditor when publishers go bankrupt. I just wonder how widespread that problem is. You mentioned it as third on your list, so I assume it's an important problem. I wasn't aware of it, so fill me in.

Mrs. Deborah Windsor: Okay. The catalyst for this was the fall of the Stoddart empire in publishing. When Stoddart went into receivership, they were not only publishing books but they had general distribution under their umbrella, and that was the distribution of all of the books as well.

We tried to identify what the loss in royalties would be to the writers for all of the books that had been in the stores or were in warehouses, because writing, as you may or may not know, is basically a consignment industry. The books go from the publisher to the stores, the stores hold them for up to 90 days, and they have an opportunity to return them after that. So the sale has not happened for probably about six months from the time the book leaves the distributor until it is seen on a royalty statement for a writer.

When publishers go bankrupt—and Stoddart being the main one—millions of dollars are lost to the writers. The shippers, the bookstores, the printers, the book binders, all of those people can secure their credit status; the writer cannot. Yet he or she is the foundation of the industry. So by securing that status, we are able to ensure that at least after the banks, after the book binders, the writers will be in that list somewhere with some credibility.

● (1105)

Ms. Diane Ablonczy: That makes sense.

I want to say I appreciate Mr. Brown's presentation. I think I could listen to you reading the poem book and enjoy it. It was very good.

Ms. Sheutiapik, I wonder if I could ask you this quickly. We know you have tremendous challenges in the north, with a lot of new developments and a new emphasis on protecting and securing our northern territory and your need for a long-term game plan for your area. I think it's very sensible to be going in that direction. You mentioned something called the resources curse. That interested me because certainly every other part of the country I know has benefited hugely from resources. Of course, we have many countries in the global community who would give their right arm for a fraction of Canada's resources.

I was curious, then, as to why you might use a term like that about something that other countries long to have. Also, could you tell us what you believe the needs are in the communications area and in the infrastructure area to assist residents of your area to really move ahead and build a strong future with the opportunities that are coming your way?

The Chair: Unfortunately—

Ms. Diane Ablonczy: Oh, no!

The Chair: —Madame Ablonczy's preamble used her time.

We move now to Mr. Pacetti, who I hope will ask a similar question and give you a chance to respond. But this is entirely up to him, you see.

Five minutes, sir.

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): Yes. I can give Diane a hand, if you'd like. Thank you, Mr. Chairman.

I was going to save the question for Nunavut, but my question is also.... In your brief or while you were making your presentation, you cited quite a few times that we should be supporting the mining industry. But I would assume that the mining industry is already well supported. How would that benefit, along with other infrastructures that Diane was citing, the Nunavut territory in terms of development? Would it actually create more jobs? By putting more money towards mining, would it necessarily create more jobs? If they felt there were enough resources there, wouldn't the mining companies already be there?

Ms. Lynda Gunn: We have a resource person with us, Russell Banta, who has been working with us on this file. I'd like it if he could approach.

The Chair: Sure, that would be fine.

Ms. Lynda Gunn: Thank you.

The Chair: Proceed.

Mr. Russell Banta (Representative, Nunavut Association of Municipalities): To answer your question directly, I think there may be a bit of a misunderstanding. There is no proposal for any fiscal support for the mining industry. Rather, the comment was that the mining industry, or certainly a prominent group within the mining industry, is recognizing the need for communities in mineral-rich areas to get some direct benefits from the resource wealth that they produce. This is in fact partly in reference to Ms. Ablonczy's point.

The resource curse doesn't happen in Alberta, where you have an educated population and you have infrastructure. It's worth noting, perhaps, that no two communities in Nunavut are connected by road, so there is isolation of every community. There is not adequate education. So the entry level that we think of for a population isn't there. I grew up in Alberta and we had education. As a farm boy, you could get work on the rigs because you could read and write. That's not always the case in Nunavut.

Mr. Massimo Pacetti: I have a quick question.

I missed the presentation from the Writers' Union of Canada, but in your brief you state that the cultural industry contributed $40 billion to the GDP. What industries in particular contributed to that—not industries; what type of sector in the cultural industry would represent the bulk of that $40 billion? Were we talking about movies? When you're talking about culture, it's wide and vast; it's amazing that a number of $40 billion has come up.

Mrs. Deborah Windsor: It is wide and vast.

The foundation of that would be the writers. You identify movies, but for every movie there is a writer; for every dance, there is a creator who creates the story behind it. For every book, for every novel, for every single discipline within the cultural industry, there is a writer. They are in fact the foundation.

You would have a mid-sized portion directed to the writing of books, and then a small portion of every other discipline would relate to writers. The bottom line, in answer to your question, is that writers are the foundation to it.

● (1110)

Mr. Massimo Pacetti: Thank you. That's my question.

You're requesting the employment insurance benefits to self-employed—that is, only for the writers who do have employment income and do pay into the employment—

Mrs. Deborah Windsor: Yes. The way that works is that if they—

Mr. Massimo Pacetti: That's fine; I just wanted to make sure.

The time is limited. I have one more quick question.

[*Translation*]

Ms. Bourque, you suggested earlier that some companies have credits of between $10 million and $1 billion on their books, but what is the total amount these companies could receive from the Department of Revenue?

Mrs. Nathalie Bourque: We were unable to obtain that information from the Department of Finance. The government is not required to publish that information, and therefore it is not available.

Having met with the representatives of four industries we work with—information technology, biopharmaceuticals, aerospace and defence, and the forest industry—we believe that the amounts are between $1 and $2 billion, and this is money that has not been paid to Canadian businesses by the federal government.

Mr. Massimo Pacetti: Thank you.

[*English*]

The Chair: I will use the chair's prerogative and ask a quick question of you, Madam Went.

I have had concerns expressed to me by lower-income pensioners and seniors in particular on a change that was made with respect to the death benefit from the Canada Pension Plan back in 1997-98. It reduced the amount from approximately $3,600 to $2,500. I recognize that in your organizational role you don't represent some of the lowest-income pensioners in Canada; nonetheless, I was interested in whether your organization has a view on that issue, and whether you felt that amount should be restored to its previous level.

Mrs. Pam Went: To be honest, I don't really have a position on that. As you mentioned, our focus is on defined benefit pension plans. We do have pensioners who are in that area, but instead of pursuing augmentations through the CPP, we have gone back to our employers and have been able to increase their pensions as a result of that change.

The Chair: Fair enough. Thank you very much.

[*Translation*]

Mr. Paquette.

Mr. Pierre Paquette (Joliette, BQ): Thank you, Mr. Chairman.

Thank you very much for your presentations. Unfortunately, it simply isn't possible to put questions to all of the witnesses.

Ms. Bourque, the Bloc Québécois is very interested in the idea of a refundable tax credit for research and development. It is even part of our plan to support the forest industry, because we are aware of the fact that Tembec is engaged in research and development, but makes no profit.

Have you attempted to determine how much it would cost—you had started to answer my colleague's question—over a period of several years, to implement this tax credit?

Mrs. Nathalie Bourque: I don't know how much companies are claiming on a yearly basis. However, according to businesses in the four groups that we consulted, arrears amount to between $50 million and several hundred million dollars. Based on our assessment, arrears represent between $1 and $2 billion for the federal government. However, at the present time, that information has not been released to the public by the Department of Finance.

Mr. Pierre Paquette: So, I gather you don't have any exact, or even, approximate figures on that.

Mrs. Nathalie Bourque: When we created this business coalition, we realized that from one company to the next—and that includes companies like CAE...

Mr. Pierre Paquette: But CAE is not on the list for the business group.

Mrs. Nathalie Bourque: Yes.

Mr. Pierre Paquette: Is Mr. Brown the CEO of CAE?

Mrs. Nathalie Bourque: Yes, Mr. Brown is still the CEO of CAE. We are very involved in that respect. We work with Nortel, Bombardier and companies such as Abitibi Consolidated and Tembec. There are a number of us. At the present time, there are 20 or more companies that are involved, both private and public corporations. Just in our group, we are already over the $1 billion mark, according to our estimates.

Mr. Pierre Paquette: If you have additional documentation, perhaps you could send it to us through the clerk. We would be very interested in looking into this further.

Mrs. Nathalie Bourque: We will be very pleased to send that to you, Mr. Paquette.

Mr. Pierre Paquette: My second question is for Ms. Went.

As you know, a committee in Quebec is currently looking at the future of defined benefit plans. This is one of the concerns you raised. One idea that has been proposed is to require that 10% of the plan's assets be funded as a cushion against interest rate or stock market fluctuations.

Do you see that as an attractive idea? If you have any other ideas, we would be very interested in hearing them.

● (1115)

[*English*]

Mrs. Pam Went: Thank you.

Just as a clarification, we don't suggest that the reserve fund should be 10%. The 10% is a limit that's put on right now in the Income Tax Act. What we like about the Quebec legislation—and the pension fund I represent is regulated federally, so it doesn't apply to us—-is that we feel the Province of Quebec has taken real leadership in proposing a pension regime that balances the requirements of the sponsors and the pensioners. So the sponsors don't want to have huge surpluses that they cannot utilize; the pensioners don't want deficits.

So what the Quebec plan is proposing is this reserve fund concept, where the money is set aside and will be available; however, in the short-term it can be on the books as an asset for the company. They can't use it but at least they can declare it as an asset. We think that really balances the needs of both sides.

If you look at the Quebec legislation, in almost everything they're proposing that's the case. For example, up until the most recent budget, under the federal law, the PBSA, a company that went into deficit on a solvency basis was given five years to repay that or to make it up. Temporary regulations have been proposed that will allow sponsors ten years. In Quebec they flirted with the ten-year rule, but in the legislation they're now proposing it's back to five. They've recognized that ten is too long. So we again applaud them for saying that's not the way to go, you want fewer years.

So they are, I think, of all the provinces...the only other province that is looking at their pension legislation in a very responsible way is the Province of Alberta. They are also playing a leadership role. It's sad to say the Province of Ontario is not. They're going the wrong way, as far as we're concerned.

The Chair: Mr. Del Mastro, you have five minutes, sir.

Mr. Dean Del Mastro (Peterborough, CPC): Thank you, Mr. Chair.

Thank you, everyone, for your presentations this morning.

I want to start with Mr. Brown from the Writers' Union. You proposed two particular proposals that I think run in violation of, or certainly would represent a fairly significant change in direction for, one, Canada's tax laws, and two, our EI program. I just wanted to ask you, first of all, how would you fundamentally determine if a writer is unemployed?

Mrs. Deborah Windsor: The question is not whether or not the writer is unemployed. The writer will always write. Our concern is when a writer takes on a secondary job in order to generate revenue for sustenance, basically buying time to write, and they're working at that job and they lose that job. The job is terminated for whatever reason for which normally an employee would be entitled to receive EI. They will have paid into it. They will have participated like any other Canadian. However, because of the fact that they write on their form that they are a writer, they are therefore designated as self-employed and denied the benefits.

Mr. Dean Del Mastro: Right, but there's a number of people in small business right across the country, for example, who that law would have to apply to. If you're in small business of any description and work outside of it, if that outside or secondary income were to cease, they would not qualify for unemployment based on that. I think there's a much larger picture that you're talking about. We certainly couldn't just apply it to that. The notion of carry-back taxes, I think that's also very dangerous, because you're looking at somebody saying, I've been working on this for five years. But if they really only worked on it for six months they're getting the benefit of being able to write that income off over five years. There's no way to police it.

Mrs. Deborah Windsor: No, there is no way to police it. However, the industry is one based on trust. The writers have to trust the publishers that their royalty statements are adequate. The publishers have to trust the bookstores that they are going to buy the books they want when they order their print run.

Mr. Dean Del Mastro: Okay, I appreciate that. Thank you.

I have a question for Ms. Sheutiapik. I attended a conference with ITK just this past winter, and one of the things they really highlighted, which I really feel is the future for the north, is the need to develop the Internet, to make the Internet broadly available in the north. A lot of people talk about that as being the best educational tool, and I think that really would benefit the north.

Perhaps you might have some comments on that, how we could help in that area.

● (1120)

Ms. Elisapee Sheutiapik: We have broadband. I think it's a matter of yet again the educated resource to follow through with that. I know that has been one of the challenges in the smaller communities.

I know Lynda knows the lady involved with the broadband, so maybe she would like to add to that.

Ms. Lynda Gunn: There's the Nunavut Broadband Development Corporation. They received Industry Canada funds, and high-speed Internet is up and running across Nunavut, and has been now for a year.

Mr. Dean Del Mastro: Oh, that's great. I think these are the types of things that will lead to future prosperity and the sharing of the wealth of the land.

Mr. Kelsall, I was very encouraged to hear of the work that your group is doing. I've actually volunteered with a group called Friends of Honduran Children. I don't think a lot of people well understand the contributions that our pharmaceutical corporations make. You might want to highlight that a little bit. I was really surprised by the amount of donations that we receive.

Mr. John Kelsall: Well, I can tell you, for instance, last year Health Partners International shipped over $39 million, in Canadian dollars, of wholesale value of needed medical aid to 116 countries of the world. In total, we have shipped in excess of $200 million of medical aid to 116 countries. It's all donated, not purchased—donated.

I would simply highlight the fact that our Canadian companies are at a tax disadvantage compared to their U.S. counterparts. A company—no names—that gave us $5 million of product last year donated $500 million U.S. south of the border. You see, there the government encourages private-public partnership and engages their private citizenry, their companies, their people, in helping provide aid overseas. In Canada, we have no such incentive.

The Chair: Mr. Del Mastro, your time has elapsed.

You cite these numbers: $5 million, and so on. Is this over-the-counter retail value you're basing it on?

Mr. John Kelsall: This is based on wholesale value, average selling price. In Canada, it's controlled at the provincial formulary level. So the prices are all known; they're all publicized. That's what they're paid.

The Chair: Right.

Mr. Savage, to bring up the rear.

Mr. Michael Savage (Dartmouth—Cole Harbour, Lib.): Thank you very much.

I want to thank all the presenters. As members, we all feel somewhat constrained by time. You don't have much time, but you spend a lot of time putting together your presentations and you are dedicated to the work you do. We appreciate that. I appreciate them all.

I want to talk with Ms. Windsor, if I could, for a second. You've made some very good recommendations about all cultural industries. I'd like to talk specifically about writers. Writers are, I would suspect, one of the most appreciated but least rewarded segments of society in Canada.

● (1125)

Mrs. Deborah Windsor: I have to agree.

Mr. Michael Savage: I'm sure you would.

The writers I know and have had a chance to know are among the most passionate and dedicated of people, but many of them make a subsistence living. The work that writers have done in our community....

A gentleman from Dartmouth by the name of Paul Robinson, who's a former member of the Canada Council for the Arts, has done an awful lot. He's a writer. He loves writing.

I don't know if you know Jane Buss, who is the executive director—

Mrs. Deborah Windsor: Very well.

Mr. Michael Savage: Jane Buss has one of the sharpest minds and loudest voices of anybody I've ever met.

These are impressive people, and we don't really do very much to thank our writers. Ms. Ablonczy mentioned that she reads. We all read. We appreciate writers when we read, but we really don't do that much legislatively or even individually. We go looking in the bargain basements to buy a five-dollar book instead of buying it at full price. That's how it is.

But the writers have made such an impact. My father was a premier of Nova Scotia and a mayor. If you were to ask him at the end of his life, as we did, what were among his favourite accomplishments, one of the ones he was most proud of was starting the Atlantic book and writing awards and getting to work with writers, understanding the passion they have for what they do, the passion they have for their country and their province, and how they put it into words.

We don't do very much for writers, so I take these very seriously. I think there are some very good points.

Having given that preamble—the chair will tell me it took four minutes—I have three quick questions. First, what is the average income of the writers in your union? Second, do you have a specific level of funding you would recommend for the Canada Council for the Arts?

Following up on Ms. Ablonczy's question, I'm not sure I heard exactly how many writers—not the other workers, though they are important—were affected by bankruptcies in the publishing industry. Did you get those?

Mrs. Deborah Windsor: The answer to your first question is that the average income of Canadian writers from their writing income—whether it be books, magazines, whatever, because they are multipreneurs to generate an income—is, based on a study done last year by Canadian Heritage, $13,000 a year.

I think the next question you asked was about the actual amount of funding to Canada Council—

Mr. Michael Savage: Do you have a specific recommendation for the funding level you would like to see?

Mrs. Deborah Windsor: Yes, we would like to see it doubled, as was promised by Minister Oda.

I missed the third question.

Mr. Michael Savage: The last one asked how many writers were directly affected by the bankruptcies in the publishing industry.

Mrs. Deborah Windsor: In the Stoddart case, I knew that the books were lost, so we put out a call to ask writers how many had been affected, and if they could prove it by their royalty statements. We found more than 700 that one fall, for millions of dollars.

Mr. Ron Brown: To follow up, I've been personally affected three times by those situations.

Mr. Michael Savage: Thank you very much.

Mrs. Deborah Windsor: Thank you. It's nice to know another Haligonian is here.

The Chair: You have a minute, if you wish to use it, Mr. Savage.

Mr. Michael Savage: No, I think I've made my point. I love writers, and I think we need to do more for them.

The Chair: That was much appreciated. Thank you all.

I want to emphasize how much the committee, and all of us, appreciate you and the time you've taken to prepare your presentations and the work you do on behalf of your organizations and the people who count on you. We thank you for being here. We very much appreciate it.

We will now suspend for a couple of minutes.

Ms. Judy Wasylycia-Leis: Could I have a point of order first?

The Chair: There is a point of order from Madam Wasylycia-Leis.

Ms. Judy Wasylycia-Leis: We had a reference to a study that I think we should get as committee members from the Nunavut people, and that is the Expert Panel on Equalization and Territorial Formula Financing. The report is called *Achieving a National Purpose: Improving Territorial Formula Financing and Strengthening Canada's Territories*.

The Chair: Speaking of people we count on who are unappreciated, our researcher will make sure we all get that. Thank you very much.

Again, thank you all.

We will suspend for about five minutes and allow the next panel to replace these folks in those chairs while our committee gathers some food.

● (1125)

(Pause)

● (1140)

The Chair: The finance committee will recommence our deliberations on the pre-budget consultative process.

We welcome our guests today. We assure you that we can eat and listen at the same time, and we will welcome your presentations.

You will have five minutes. If you so desire, take a look up here and I'll give you a little hand signal when you have about a minute to go, just to let you know in advance, so you should draw your presentation to a conclusion.

I invite any guests who have cell phones with them to turn them to shock, if they wish.

We'll begin our presentations with Gerry Barr, from the Canadian Council for International Co-operation.

Five minutes, sir.

Mr. Gerry Barr (President and Chief Executive Officer, Canadian Council for International Co operation): Thank you very much, Mr. Chairman.

As you said, my name is Gerry Barr. I'm the president and CEO of the Canadian Council for International Co-operation. It's a membership body that takes in about 90 of Canada's leading civil society organizations working around the world. The council is also one of the principal organizations in Canada active in the Make Poverty History campaign that now engages the energy of many hundreds of citizens' organizations and more than a quarter of a million Canadians, who are pressing the government to take key steps targeted at eradicating global poverty and, here in Canada, at ending child poverty.

Of course, it's not the first time our organization has been before the committee to urge Canada to play its proper role as a foreign aid donor, commensurate with the strength of Canada's economy. Canada also needs to improve the quality of its aid, and that's why we welcome enormously Bill C-293, voted forward yesterday in the House of Commons for committee consideration. There is support in all parties for the idea that Canada should now commit both to more and better aid.

We hope that MPs will send that message powerfully once again when the time comes to vote on Motion-223, introduced this week by Caroline St-Hilaire of the Bloc Quebecois, which calls for a concrete financial strategy to achieve the aid target of 0.7% of gross national income in foreign aid spending and new aid legislation. So it is a very pertinent motion to the reflections of this committee, and it's coming up soon.

When you look at Parliament today, plainly there is a will to do better on all sides of the House, but is there a way? I think that's really where this committee and of course the Minister of Finance come in. CCIC is seeking a commitment from the current government to a strategy that would raise Canada's aid contribution to 0.5% of GNI by 2010; to increases in the international assistance envelope, targeted at official development assistance purposes of 18% annually; and subsequently to achieve the internationally accepted target of 0.7% of GNI by 2015.

Our organization estimates that Canada's ODA performance in 2006-07 will be $4.5 billion—in reality, unchanged from last year—notwithstanding a planned 8% annual increase. Canada's aid to GNI performance for 2006-07 is estimated at 0.32% and is likely to decline to 0.3%, producing a plain downward trend in Canada's donor performance overall. The decline results from a strong growth in the Canadian economy that will easily outreach the modest projected increases of 8% annual growth in Canada's aid budget. In fact, the current strategy of 8% annual increases in Canada's aid budget is unlikely to improve Canada's current GNI performance much by 2010.

During the last election, Mr. Harper took on a personal target for increasing aid spending to the level of average donor performance by 2010. At the time Mr. Harper made that commitment, the average donor performance was 0.42%. There are ways to achieve that target. We'll set them out in a brief, which I'll be able to provide to the committee in several days, once the estimates have come out.

● (1145)

Parliament has a goal of 0.5% by 2010, which was articulated about a year ago in June when it gave consensus support to this committee's 12th report to the House. It seems likely that, thanks to Madam St-Hilaire, Parliament will again offer an opinion on the subject—and we judge that this will be successful too. That is the optimum public consultation for this committee, and I urge you to pay heed to Parliament when it speaks on this.

Thank you.

The Chair: To continue, from the Canadian Space Industry Executives, we have Mr. John Keating, the CEO.

You have five minutes, sir.

Mr. John Keating (Chief Executive Officer, COM-DEV, Canadian Space Industry Executives): Thank you, and good morning. *Bonjour.*

At the outset, I want to thank the members of this committee for giving us the opportunity again to participate in these important deliberations regarding upcoming budgets.

My name is John Keating. I am the CEO of a company called COM-DEV. With me today are some other members of Canada's space team: Paul Cooper, from MDA, in Toronto, Montreal, and other parts of Canada, best known for the organization that built the Canadarm 1 and Canadarm 2, RADARSAT, and the soon-to-be-launched RADARSAT-2; Ken Gordon, from Telesat, Canada's leading satellite service company, the guys who provide the silent glue that holds our telecommunications infrastructure together in Canada; and Dave O'Connor, from Magellan/Bristol in Winnipeg, designers and builders of Canada's new small type bus. Together with many other firms across the country, we are Canada's space team, providing technology and infrastructure to facilitate the ongoing growth of our economy and strengthen our social and economic union.

You will have received a copy of our submission to the committee, which outlines our perspective on the current situation facing Canada in this area. We've also circulated to members some examples of why space is important to Canadians. Space technologies are largely taken for granted. They are, however, absolutely essential to our everyday lives. I'd summarize our brief as follows.

Canada and Canadians are justly proud of our achievements in space. As the third nation in space, Canada has a magnificent track record. Although our program is small in comparison with other nations, we've established ourselves as world leaders in key niche technologies. Our success has been built on a common understanding that space offers unique solutions. With Canada's vast land mass, a three-ocean coastline, and untapped mineral and environmental riches, space is a strategic capability that has been and will be instrumental to Canada's success.

However, as you will have read in our brief, the government-industry partnership that contributed to our current position has been allowed to break down. At a time when our competitors around the world are benefiting from very substantial investments in national and international space programs, Canada has seen its investments in space technology and research decline, in real terms, by 40%. Meanwhile other nations in Europe, the United States, Japan, Russia, and developing countries such as Brazil, India, and China are all investing heavily in new space programs to meet strategic national priorities.

So what does this mean for Canada's space sector? First of all, I'm proud to report—I have to tell you—that my own company, COM-DEV, is doing very well. We've just announced a terrific third quarter. Our revenues are up 32% over last year. Margins and return on equity are at high levels, our backlog is very healthy, and our prospects going forward into the next year are very robust. So we're doing very well. Others in this sector are posting similar performance. So given these results, why should we be here today expressing our collective concern about the decline in the Canadian government's space investment?

The reason is that we're successful today in part because we are reaping the benefits of the technology developed five to eight years ago. The space business has long cycles indeed. On a global basis, growth and innovation in this sector are driven by technologies created in national programs. In Canada's case, these include such programs as RADARSAT and the Anik F2 broadband communication satellite.

Although the government's investment in space accounts for only a small part of annual space expenditures—in Canada, it's only 10%—it's a strategically important part. Government programs enable the development of leading-edge technologies and provide an opportunity to prove that technology by being the first user. Industry, then, aggressively markets this technology to the rest of the world. This has been the secret of our success. That's why our modest space program has consistently created world-leading technologies and scientific excellence. Today we see a declining investment in Canada and dramatically increased investment elsewhere in the world. The dilemma for us is how do we in Canada stay at the forefront of technology development when the investments required are only to be found offshore?

As our submission states, the Canadian space program urgently needs government attention. We need leadership at the Canadian Space Agency, and we need direction. That direction can only come through a consultative process leading to a new and invigorated national space plan. We need a plan for Canada, one that's targeted in our national interests: in security, coastal and Arctic sovereignty, environmental monitoring, resource management, and advanced communications infrastructure. All of these objectives can be provided through secure indigenous Canadian technology alternatives.

● (1150)

Speaking for the leading players in Canada's space industry, we urge members of this committee to confer with the Minister of Finance and the Minister of Industry to recommend that action on Canada's space priorities be brought forward for consideration in budget 2008. There is much work to do. We in industry are ready to work with the government to define the way forward. Failing to act could well result in the loss of strategic national capability and our independent access to space. These are necessary to meet the clear and urgent needs of Canada, both now and in the future.

Thank you very much for listening to me.

The Chair: Thank you very much, Mr. Keating.

We'll continue with the Business Tax Reform Coalition, the president, Roger Larson.

Five minutes, sir.

Mr. Roger Larson (President, Canadian Fertilizer Institute; Member, Business Tax Reform Coalition): Thank you, Mr. Pallister, and members of the committee.

I'll clarify my role. I am president of the Canadian Fertilizer Institute and a member of a coalition called the Business Tax Reform Coalition. The members of the coalition include the chemical industry in Canada, plastics, steel producers, the Conseil du Patronat du Quebec, forest products, the petroleum sector, the information technology sector, the mining industries, etc. We're a coalition of 13 large trade associations spanning a number of sectors. We are competing directly globally from a small open Canadian economy.

Our members have production of over $350 billion, exports of over $250 billion, and direct employment of 1.7 million people. Our jobs are high paying, jobs that Canada will need in the 21st century to sustain our standard of living. Members of our coalition do what Canadians do best, taking the resources that our country provides and applying highly skilled Canadians to provide the economic base of our country.

The Business Tax Reform Coalition would like to note that the government is on the right track in improving Canada's tax competitiveness with the reduction of the corporate tax rate to 19% and the elimination of the capital tax. We also want to thank the finance committee for its foresight in developing this year's theme, Canada's place in a competitive world.

We welcome this opportunity to specifically identify how a competitive tax regime might help address competitive issues. Our members collectively represent the challenges that Canadian industry faces in an increasingly competitive world. We have a high Canadian dollar, sustained high energy prices and intense competition from emerging economies like China and India. While these are external factors, they challenge industry and government to focus internally on measures to adjust to these forces and to allow Canadians to compete in the global marketplace.

Capital is mobile. Production chains are global. Industry needs to do its fair share in terms of business strategies, and government has a role to play in ensuring that its policies and fiscal regulatory framework encourage investment in Canada and equips Canadians to compete in the global marketplace. On this front, much has already been done and is being done. Canada has invested in skills upgrading. Canada has invested in education. Canada is exploring immigration opportunities to address skills shortages. And Canada is investing in infrastructure to facilitate goods movement in global supply chains.

Nevertheless, Canada does not present a clear competitive advantage to potential investors, and as a consequence, we are losing out in attracting the newest and best technologies needed to permit leadership and growth, job creation and environmental performance. What is missing is investment in new equipment, technology, and machinery. Capital investment per worker in Canada is lower than it is in the United States and in other countries in the OECD. Canada has become a net exporter of capital and must compete for investments with other jurisdictions around the world.

Current investment in the manufacturing sector is insufficient to cover assets, retirement, and depreciation. We need to restore Canada as a place to invest in new manufacturing equipment and technologies and secure Canada's role in global supply chains. We need to develop a competitive tax regime and send the right signal to potential investors around the world. We're recommending that we introduce a two-year accelerated capital cost allowance for machinery and equipment, and we're asking that the government schedule a reduction in corporate income tax rates to 17% for all manufacturing and open a clear advantage for Canadians.

Thank you, Mr. Chairman.

● (1155)

The Chair: Thank you, Mr. Larson.

We will continue with Pekka Sinervo from the Coalition for Canadian Astronomy. You'll have five minutes, sir.

Mr. Pekka Sinervo (Representative, Association of Canadian Universities for Research in Astronomy (ACURA); Dean of Arts and Science, University of Toronto; and Co-Chair, Coalition for Canadian Astronomy): Thank you.

Good morning. On behalf of the Coalition for Canadian Astronomy, it is a pleasure to speak before the committee today.

I serve as one of the three co-chairs for the coalition, representing the Association of Canadian Universities for Research in Astronomy. I am also the dean of arts and science at the University of Toronto. In attendance with me is Michael Jolliffe, the industry co-chair of the coalition.

I would like to touch on a few key points from our written submission.

The coalition strongly believes government must strategically invest in scientific research to ensure that Canada remains competitive in the global knowledge-based economy. We understand that government must constantly make decisions as to what it must fund and what not to fund. We believe strategic scientific investment is at least as important as investments in traditional manufacturing or resource industries. This funding must be seen as an investment in Canada's economic future and a public good, just as vital to our economy as roads, ports, or other infrastructure.

We know the government faces pressure from many interest groups to fund many different scientific initiatives; however, astronomy is the only discipline that has a clear plan that brings together Canada's scientific, academic, and industrial resources to achieve continued scientific excellence. We are asking the government to fund the remaining elements of our long-range plan for astronomy and astrophysics, what we call the LRP. This would require an investment of $235 million over the next seven years.

As our brief demonstrates, astronomy pays huge dividends to our economy, providing hundreds of jobs, several hundred million dollars in business revenue, and countless advances in technology and expertise that have propelled Canadian industry to world leadership in many diverse fields.

However you measure it—scientifically, academically or economically—astronomy is a Canadian success story. Historically, Canada has received a 2:1 direct return on all of its federal government investments in astronomy research. The knowledge gained in supporting astronomy leads to new business opportunities in sectors far removed from the field.

One quick example is AMEC, Michael Jolliffe's firm, which is a world leader in the design and development of telescopes and their enclosures because the federal government committed to an international partnership in the mid-1970s. AMEC's work on various telescope projects and spin-offs from these projects—including, believe it or not, theme rides—have now returned over $300 million to Canada's economy, not including a pending $100 million contract that depends on continued support from the federal government.

AMEC is just one of the many Canadian companies benefiting from Canada' s involvement in astronomical pursuits. These benefits to Canadian industry will be realized only if we continue to have top-level astronomers in Canada.

To that end, the coalition's success has also generated an explosion of interest in astronomy at the university level with the creation of new astronomy departments, doubling the number of students in astronomy in graduate and post-doctoral studies.

As well, astronomy has a disproportionate number of Canada research chairs. This has all occurred because of the support of the federal government.

Science has changed. Just like most other aspects of the economy and society, scientific pursuits are now international and they are big, costing in the hundreds of millions of dollars and with life spans of tens of years. Canada's astronomy community has adapted to this changing reality; unfortunately, government funding mechanisms have not.

The government needs to rethink its approach to scientific funding to ensure that those disciplines with a proven track record of success are given sufficient priority. Without priorities, Canada will be, at best, in the middle of the pack in numerous disciplines. With priorities, Canada can emerge as a world leader in a few select areas. We believe the latter delivers more benefits to Canada and to Canadian science and the economy.

Our submission describes how the astronomy community has overcome some of these funding challenges and presents a model for how Canada can make effective long-term investments in science to ensure its leadership in those areas where we have that capacity.

We believe our coalition is a model for other disciplines, offering a coordinated approach to scientific research that involves all relevant stakeholders.

Finally, returning to the bigger question, why should astronomy funding be part of this budget?

Investments in astronomy allow Canada to remain competitive through the development of new technology, the creation of a skilled workforce, and the emergence of a future generation of astronomers in our universities. Canada is perfectly positioned to capitalize on the investments made to date.

● (1200)

Our plan, the LRP, will deliver the economic returns to Canada that it should and will allow Canada to remain competitive. This is not a vague or vaguely defined proposal. Our plan is focused and coordinated. Research, development, and innovation are the heart of a competitive country. Funding the LRP is one of the best ways of ensuring Canada's long-term competitiveness.

Thank you very much.

The Chair: We will continue now with the Association of Fundraising Professionals.

Rob Peacock, please proceed.

Mr. Rob Peacock (President, Association of Fundraising Professionals): Mr. Chair, committee, good afternoon.

On behalf of the Association of Fundraising Professionals, or AFP, I want to thank the standing committee for allowing us to speak today, but before I really talk, I want to thank the committee for its support of the elimination of the capital gains exemption on marketable securities in this year's budget. This committee supported that provision for several years and it's actually under your committee's leadership on this issue that it was finally helped to come to complete fruition. All of us at AFP and the charities across the land are so grateful for your leadership on this issue. It has been incredibly important for the voluntary sector.

AFP is the largest community of fundraisers in the world, with over 28,000 members represented in 180 chapters in five different continents. AFP works to advance philanthropy though ethical fundraising, with the development in 1964 of the *Code of Ethical Principles and Standards of Professional Practice.* I am the past-chair of the association in Canada. In Canada, we have more than 2,700 members working in 14 active chapters. The Toronto chapter, in fact, is the largest chapter of fundraisers in the world.

While it may not seem at first glance that this provision, as well as those that AFP is proposing today, have everything to do with competitiveness, the focus of his year's pre-budget consultation helped immensely, providing for the programs and services offered by the voluntary sector directly affecting education, health care, training, and social services.

In fact, I know the dean here at the University of Toronto. This is my alma mater. They were in a recent $1 billion campaign at the University of Toronto, and it was in fact the beginnings of the capital gains exemption that really helped propel that particular effort, which transformed philanthropy as we know it in this country.

Understand that the programs and services offered by the sector are not small and insignificant. Some 87,000 charities in Canada, which receive more than $10 million in contributions and so forth, affect over $100 billion worth of our economy. In fact, it's estimated that the sector accounts for nearly 7% of our country's gross domestic product, which is greater than many business sectors, including agriculture and the automotive industry. The proposals that increase the capacity of charities to provide these programs are critical. Unfortunately, the same kinds of barriers and obstacles that used to apply to gifts and securities need to be applied to land and real estate. That's why we're here today.

The Survey of Financial Security 2001 shows that more than 16% have assets of land beyond their principal residence. Many of these donors want to give gifts of land and real estate. Eliminating the capital gains tax creates a strong incentive for donors to give gifts. Most charities will simply sell the land and use the funds or the property in support of their programs and services. This incentive will help benefactors in propelling them to give thoughtful consideration to those types of requests that come forth from the charities that are seeking funds.

Given the evidence from our experience with gifts of securities, AFP does not believe that any sort of trial period is needed for eliminating the capital gains on gifts of land and real estate. If this committee will recall, it took nine years before this past winter for the committee, with the budget, to eliminate completely the capital gains. That was done forthwith, with the recommendations of both the standing committee for virtually eight of the nine years, as well as the Senate banking committee, which in 2004, in the pre-budget consultations, recommended in an interim report that we do have elimination of the capital gains on both land and property.

Winding up, Mr. Chair, we would also propose that the government give thoughtful consideration to a government-sponsored day called national philanthropy day.

We thank you very much. We also support our other sister organizations who are also asking for the capital gains exemption for private foundations.

Thank you.

● (1205)

The Chair: Thank you very much, Mr. Peacock.

We continue with Michael Cleland, from the Canadian Gas Association. Sir, you have five minutes.

Mr. Michael Cleland (President and Chief Executive Officer, Canadian Gas Association): Thank you very much, Mr. Chairman. Let me join with my colleagues in thanking the committee for taking the time to hear us today. We appreciate that very much.

Briefly, let me introduce the Canadian Gas Association to you. We're the association that represents the industry that delivers natural gas to Canadians in their communities. Put another way, we deliver about 26% of the energy that Canadians use; we deliver to close to six million homes and businesses from one side of Canada to the other.

Mr. Chairman, in addition to our written submission we have provided some slides that we hope the committee might find useful in its deliberations. In those we lay out four specific proposals. I'll return to the details of the proposals in a minute, but they're basically under two broad themes. The first theme is fuel choice; the second theme is what we call integrated energy systems.

Let me put that in perspective. Looking forward, I think the challenge we face in Canada in our energy system is threefold: we need to increase the reliability of the system, we need to ensure the affordability of energy to Canadians, and we need to deal with environmental impacts across the board. In order to do that, we take the view that we need to look at the energy system as a whole. By the energy system, I mean the whole network, from production at the upstream end through to end use.

There are a couple of things to think about in this regard. What Canadians buy is not energy; they buy the services that energy provides, and we need to start by focusing there, whether it's heat, whether it's light, or whether it's process heat for industry. We have a system that is becoming increasingly integrated, increasingly diverse. Those are two things we need to encourage. We need to think about how that system is most effective and efficient at delivering the services Canadians look for.

The particular interest of my association is the downstream end of that system. Let me talk a little bit about the role of natural gas in that context. As I say, natural gas accounts for something over one-quarter of the energy Canadians use. Most importantly, natural gas has several attributes that lead to that position in the marketplace. Natural gas is the form of energy best suited for delivering heat—for delivering things like hot water, for delivering process heat to industry. We've been very successful over the years at making our way in that marketplace.

Looking forward, we think there are opportunities that could and should be supported by public policy to sustain that position and, in the process, to improve the functioning of the energy system because of natural gas's inherent environmental advantages, because of its affordability advantages, and because of its inherent reliability in its capacity to deliver energy to Canadians when they want it—on demand—with very little fear of disruption.

As I said, we focused on two themes: one we call fuel choice. It is basically to ensure that Canadians have the chance to make the smart environmental and economic choice.

The essential point here is making sure that the gas distribution infrastructure is available to support those choices, and to ensure, when we have energy efficiency programs—which I'm assuming the government will support, looking forward—that those programs also support fuel choice as a viable and appropriate and environmentally preferable option.

The second theme is what we call integrated energy systems. These are systems that bring together different technologies, that deliver a number of energy services, that allow the two grids—electricity and natural gas—and new technologies such as renewables and energy-efficiency technologies to work together.

There are two proposals there: support to demonstration programs to support integrated energy systems, and support to looking at how the capital cost allowance system, specifically class 43.1, can be made more efficient and more effective in ensuring those choices are made.

Mr. Chairman, with that I'll wrap it up. Thank you very much.

● (1210)

The Chair: Thank you very much, Mr. Cleland. Thank you to all of you for your presentations.

Gentlemen, before we move to questions, I have a notification to the committee. Don't run away at the end of this panel's presentation time. We're going to take a couple of minutes at the end just to review our western Canada travel schedule and address any questions you may have on that, just to make sure everyone is clear on it.

We will continue now with questions. We'll begin with a seven-minute round, and Mr. McKay will take the lead.

Hon. John McKay (Scarborough—Guildwood, Lib.): Thank you, Chair, and thank you all for your presentations.

My first question is to Mr. Barr. Thank you for your kind remarks; they are greatly appreciated. Hopefully that bill will receive substantial support going through the House.

It's code language to say that we need a strategy to arrive at 0.5% by 2010 and 0.7% by 2015. If you were to buy a straight-line basis from, we'll say, the 2007 budget, which will be the next budget, through to 2010, how many dollars would it take, from the 2007 budget to 2010, to achieve your target of 0.5% on an equal, every-year basis?

Mr. Gerry Barr: I can give it to you, certainly, in percentage terms: it's 18% a year.

Hon. John McKay: It's 18% of what?

Mr. Gerry Barr: An 18% increase in the aid budget annually, going forward to 2010, will put you at 0.5%.

Hon. John McKay: So the aid budget is roughly $4 billion?

Mr. Gerry Barr: It's about $4.5 billion.

Hon. John McKay: So it's $4.5 billion times 18%. My math is not up to doing that. It's a lot of money.

● (1215)

Mr. Gerry Barr: It's a lot of money. It's less money than other files, and—

Hon. John McKay: Is that a compounding 18%, so that it's 18% on top of the increase?

Mr. Gerry Barr: That's right; it's 18%, rolled in each year for the years between now and 2010.

Hon. John McKay: So the cheapest year would be next year, and then it would be increased the following year, and increased.... So you're going on an exponential basis.

Mr. Gerry Barr: Effectively so, if you're thinking about cumulative costs. On the other hand, it's very important to remember that the economy is also growing through this period, and that in fact is the reason why the 8% strategy, which Mr. Chrétien initiated and which has been unchanged since, through a range of governments, is inadequate. It's an 8% annual increase rolled into the base, so you have the cumulative costs, yet the economy is growing so rapidly that—

Hon. John McKay: That was based upon an economic increase of about 4% annually, I think, so it was basically double the average. You'd be proposing tripling or quadrupling the average increase in the economy in order to achieve your 2010 target.

Mr. Gerry Barr: Yes, that's right. I would never say it's not costly, but I think it's very important to note that if you think about the donor community around the world, of which Canada is an important part, the donor community is tracking very decidedly towards this objective. Canada is not; it's going in the other direction, or standing still at best. Out of 22 donor states, 16 have either committed to achieve the 0.5% target by 2010, or the 0.7% target by 2015, or to do better. So it's 16 out of 22, and Canada is not among them. It really ought not to be the case.

Hon. John McKay: I'm an eternal optimist, Mr. Barr, with respect to the commitments. I hope they would be achieved, but I know those are very large sums of money that the government would have to commit to, and it probably couldn't do quite a number of other things it would wish to do.

Anyway, I take your point and I think it's a valid point. I know there's a great deal of enthusiasm, and it does in fact seem to be the right thing to do.

I have limited time and I want to move to other questioners, but thank you for that.

Turning to the business tax reform folks, every year you come in here and ask for relief from capital taxes and you get that, you ask for a reduction in corporate income tax and you get that, you get accelerated capital cost allowances, etc. And every year the performance is the same in R and D. It seems to me, frankly, that the Canadian business community goes south on R and D. We have the best publicly funded R and D in the world. We also find out that foreign-based companies do more R and D than Canadian companies in Canada.

There seems to be some disconnect between the business community's rhetoric and the business community's delivery. You see things like the drive to convert from corporations to trusts. All that is is an attempt to drive out your earnings so that they're not available for things like R and D.

Can you explain to me why there appears to be this huge disconnect between the rhetoric of the corporate community and the delivery of the corporate community?

Mr. Roger Larson: I'm not an expert on research and development, but I'll try to address your question. Perhaps members of our coalition can supplement after this presentation and give you further information.

I can speak on behalf of my own industry, where our research and development is quite often done on a cooperative basis with the government, with the Department of Agriculture, where we do fund research and development quite significantly. We have a global institute, an international plant nutrition institute, which our industry members fund. It does do agricultural research on a global basis. The Canadian members of that organization put in several million dollars a year in R and D.

I want to take a bit of a different tack. I think the business coalition has very much recognized the moves that governments have made over the last few years in terms of addressing capital taxes and addressing corporate income taxes. We've talked about tax gaps. We've talked about the need to foster investment in Canada. Jay Myers from Canadian Manufacturers and Exporters appeared before this committee recently, and he talked about the fact that investment in Canada has actually declined 5%, if you include depreciation and inflation adjustment, since 2000.

As one of the manufacturing industries in Canada, I can say that we are facing a rising Canadian dollar and high energy costs, and we have to fight for investment with other parts of the world.

● (1220)

[*Translation*]

The Chair: Mr. Paquette, you have seven minutes.

Mr. Pierre Paquette: Thank you, Mr. Chairman. Thank you for your presentations. Once again, we are just as frustrated as you are not to be able to request clarifications from each of you.

My first question is for Mr. Barr, because we talked about the legislation passed yesterday. We also talked about the motion tabled by MP Caroline St-Hilaire with respect to 0.7 per cent of GNP-GDP.

On the other hand, there is one topic we have not talked much about in recent years, and I think it's time we did. I'm referring to Canada's role in such institutions as the International Monetary Fund and the World Bank. These institutions have been severely criticized for the programs they've implemented, programs that do not focus on human rights and poverty eradication. I'm thinking, in particular, of the structural adjustment program.

Does Canada have a role to play in reviewing charters that date back to the end of World War II, with a view to refocussing them on the real objectives for which they were originally developed?

Mr. Gerry Barr: By passing legislation to that end, Canada would be in a better position to act at the international level in areas such as poverty eradication and human rights, and in so doing, would enhance its accountability with respect to international aid.

[*English*]

It would be a great help to Canada to have a legislative framework that sets out very clearly the objectives of Canada's aid spending. It's the first step for accountability. It's the first step for clarity, for understanding how we are spending aid and to what effect. It would improve enormously the quality of our aid contribution. It would determine, I think, in some measure, the role we play on the international stage with the international financial institutions.

You can't have this kind of vision of aid spending and accept, as, for example, the British are—they are increasingly accepting less—the sort of lumberyard of conditions being applied to developing country economies for loans and international assistance. We need to do that whole thing better, and the approach we have to take to it is to focus on aid effectiveness and human rights. That is the way to get at poverty globally.

[*Translation*]

Mr. Pierre Paquette: Thank you.

I very much appreciated the brief presented by the Coalition for Canadian Astronomy. It contains very precise figures which are clearly predicated on the long term plan that has been developed. However, no figures are provided for the Canadian Space Program.

First of all, you are asking that a new Canadian space program be developed, but you don't actually state whether the Canadian government should be required to invest money in this new program once it has been established. Your second point has to do with the reallocation of the Canadian Space Agency's current resources. I have a feeling that the government will focus on the second point, and forget the consequences of the first.

Is that just an oversight? Will you be providing us with information subsequently, or are you not able to tell us the specific amount of public funds that need to be invested in space research?

● (1225)

[*English*]

Mr. John Keating: Thank you for giving me the opportunity to speak on the subject.

Actually, the reason we didn't come to the committee with specific numbers in mind is that we don't see this as being an issue of money being provided to an industry to do something. We view it completely differently. What we're saying is that space provides value to all Canadians in a plethora of ways: in terms of security, in terms of environmental protection, in terms of helping our industry, our agriculture, and enabling communications.

What we're saying is that it's up to the government, along with the stakeholders of all the various government departments and the interested stakeholders on a national basis, to ask what we want to do. You start with that first; then you ask what it might cost. Clearly, from a finance committee perspective, eventually you need to address that, but it's way too early in the process to do it.

What we know is that the investment Canada has made over the last 40 years in space has had dramatic effects on the value of life of Canadian citizens and has developed a world-beating industry where, from my own company's perspective, we export 90% of everything we make and create high-paying, high-value jobs.

The truth of it is, though, that even if I weren't here representing the industry, what I would say is that Canada has lost its way in terms of defining a national space plan: what does Canada need and what sort of programs does it need to put in place? What would come from that is funding.

It would be, I think, foolish of me to say it ought to be *x*, or *y*, or *z*, because I don't know what the stakeholders would determine. I have, as we all have, lots of ideas about how we could make this country safer and healthier and improve the well-being of all of us. If we implemented all of my ideas, we'd spend billions of dollars. Clearly, that's probably inappropriate and Canada can't afford to do it. But we're willing to engage in a dialogue among all the stakeholders and put forward suggestions for potential programs and hopefully from that do something that is within the affordability envelope of Canada.

[*Translation*]

Mr. Pierre Paquette: It would have been wiser to emphasize the point that the Government of Canada has responsibilities with respect to investment. Once a plan has been developed and a specific amount has been determined, the government should step up to the plate, considering that it is responsible for supporting space research and development, and that the Space Agency is located in the Montreal region, which is the heart of the Canadian aeronautics industry.

If I have any time remaining, I will have a question for Mr. Peacock...

The Chair: Unfortunately, your time is up.

Mr. Pierre Paquette: Poor Mr. Peacock!

[*English*]

The Chair: You're not the only one, I assure you, who has billions of dollars of expensive ideas in this room. It is a common problem.

Mr. John Keating: [*Inaudible—Editor*]...just a small piece of it.

The Chair: We'll continue with Mr. Dykstra, for seven minutes, sir.

Mr. Rick Dykstra (St. Catharines, CPC): Thank you, Mr. Chair.

I want to continue the discussion or the questioning with Mr. Keating.

When I first saw your name on the agenda, I wondered how space and finance would relate to each other. You've intrigued me in drawing the security, the sovereignty, the environmental, and the economic issues together. I guess what tweaked my interest was when you talked about the investment the Canadian government has made over the last number of years—probably, I guess, over the last twenty, I think you said, or thirty—and the benefits and the rewards that have been reaped from it. I wonder if you could indicate the number and scope of the folks who are in the field. How many people work in the industry in Canada?

Mr. John Keating: There are about 7,000 people working in this industry in Canada. Clearly they are highly skilled, with high-paid jobs. We have in Canada the highest rate of export in space industry on a global basis: about 50% of everything we do is exported. The great majority of those people are highly skilled. In my particular case, 60% of the thousand people who work in my organization have some form of post-secondary technology education.

Mr. Rick Dykstra: Where would we have stood twenty years ago in terms of those kinds of numbers?

Mr. John Keating: I don't know the specific numbers, but the industry has developed over those twenty years. I'm representing industry, obviously, but to me what's more important is the fact that there are valuable and important things for Canadians to do. We're interested in Arctic sovereignty. How do we watch for that? We're interested in coastal surveillance. How do we do that? We're interested in protecting the environment. How do we do that?

Space provides very efficient ways to do that, and that's the thrust of our presentation: consider the efficiency and the value brought there. As a byproduct of that, we create a great industry that's world-leading and we have great export success.

● (1230)

Mr. Rick Dykstra: If you had to pick a couple of areas that we would focus on as a government in terms of space.... We just had a Canadian land this morning from a trip out to space again, so it's obvious that we are international, that we are well known for our ability to compete at the cutting edge. But if you had to pick some areas that this budget or the next budget could include, where would you focus? You talk about the round tables and getting to where we need to be. Where should we start in terms of getting there?

Mr. John Keating: There are lots of choices. What would I pick? There's a range of things. I think we ought to have an emergency communications network. If you look at what happened in New Orleans, communications right now is a disaster for those people. We don't have one in Canada. We could use a satellite-based communications network.

We should have maritime surveillance. We should know what's happening off our coasts in terms of pollution, in terms of drug interdiction or illegal fishing. We should be able to monitor that and have the capacity to do that. Satellites could keep an eye on natural disasters, on flooding, on forest fires, on pine beetle infestations. We should be helping our agriculture become more efficient.

So there's a range of things. If we want better relationships with the U.S., clearly some programs that support joint cooperation or exploration might be useful. And certainly from a government perspective, they ought to be thinking seriously about their reputation in terms of the environment. They may not agree with the specifics of the Kyoto accord, but I think they need to send a signal to the world that Canada does care about global environmental climate change.

We can do something. We can build satellites that monitor that. We've in fact built a satellite that looks at greenhouse gases and ozone depletion. Why don't we invest in that? It's a great thing for Canada, it's a great thing for the world, and it builds great-paying jobs and export success.

Mr. Rick Dykstra: I have one other question that I want to ask Mr. Peacock, so I'll try to be quick here.

Mr. Keating, earlier Mr. McKay referred to R and D and to how business related to that, and I wondered about your industry's percentage of investment into research and development.

Mr. John Keating: The number we report is that about 8% of our revenue is spent on research and development, but in truth, as I said earlier, the vast majority of the employees are working in research and development; we just get other people to pay for it. The Americans, French, Germans, Chinese, and Indians pay us to develop technology in Canada.

Mr. Rick Dykstra: I see.

One of the interesting dichotomies I'm sensing, but I don't think is probably the case, is in terms of your presentation, Mr. Barr, on our responsibilities from a world perspective, and Mr. Peacock's presentation on an internal Canadian perspective. I see a divergence between where we need to go with the fundraising that needs to be done here in this country for those who need it and our responsibilities internationally throughout the world. I sense that we're going to see a fight, especially with the numbers we talk about in terms of reaching 0.7%, or at least a divergence of direction.

I wonder if you could both comment on whether that is going to be the case, or on how you intend to work together.

Mr. Gerry Barr: Oh, I don't think there's any serious divergence at all. We're all part of the voluntary sector and we're all part of civil society, trying to address a whole range of needs and social justice issues around the world and in Canada as well. We're very much on the same stage. There is a different application, that's for sure. There is a challenge in front of Canada about how effectively it's able to respond globally.

Domestic philanthropy way out-scales international development assistance. The whole flow of international development assistance globally is about $70 billion annually. That's not very much for a planet, for literally billions of people who are struggling to get out of poverty.

So I don't think we've hit the ceiling yet. We'll have to go an awfully long way before we do.

Mr. Rob Peacock: When you put it in context with Mr. Barr's comments, with the $100 billion in revenues coming into Canada, it is a small disproportion. I think the saying “charity begins at home” is very much still honoured by most people who give for the common good.

● (1235)

The Chair: We'll continue with Madam Wasylycia-Leis. Seven minutes, Madam.

Ms. Judy Wasylycia-Leis: Thank you, Mr. Chairperson.

Thank you to all of you for your presentations.

I want to start with Gerry Barr. First of all, thank you for coming year after year after year to try to ensure that Canada lives up to its international obligations. We're still a long way from doing that.

I want to focus on a very disturbing story that I heard on CBC Ottawa this morning suggesting that Canada must funnel its foreign aid through international agencies like the World Bank or the United Nations Development Programme, and that we do not know where the money is going, how it's being used, and what effect it has. The article went on to say that we're apparently putting $300 million through CIDA to Afghanistan, but we don't have a clue about where it's going. And of course there are all kinds of stories suggesting that some of the warlords are getting a bigger share than the people who actually need it.

I want to ask you what the situation is and what we can do about it. Would it not be the case that Canada has the right to demand some sort of accounting if it puts money into international development?

Mr. Gerry Barr: I would begin quickly with the back end of your comment and say, absolutely, it has the right, and it must do it.

I think this morning's story focused particularly on freedom of information requests and the potential that there would be a block to the response to those requests because other countries were involved in the same pooled funding that is being used.

I would make the point—I'm sure Mr. McKay would want me to make the point—that if his bill goes through, it will virtually guarantee a detailed, coherent, and synthetic report of all of Canada's annual aid activity based on the criteria that are set out in the bill. Parliamentary oversight would be enormously enhanced, and you would have the answers to these questions as a result of the oversight processes that are envisioned in the bill.

Ms. Judy Wasylycia-Leis: I would just add, though, that taking into account the governments'—both Liberal and Conservative—poor track record for actually acting on bills passed by Parliament, I think we would want to demand that the Government of Canada—with or without legislation—have some accounting about money it now puts in, especially in terms of Afghanistan, where we are being led to believe that our role is significant and meaningful, yet around which there are serious questions.

Mr. Gerry Barr: Yes, absolutely. I couldn't agree more, and particularly in circumstances in conflict zones, where one needs to be super careful about the application of resources.

Ms. Judy Wasylycia-Leis: Thank you.

Mr. Gerry Barr: By the way, the information is certainly available; it's only a question of whether it will be made public.

Ms. Judy Wasylycia-Leis: I want to go to Mr. Larson and follow up on John McKay's questioning. You'll notice that he's gone through quite a metamorphosis from when he was in government. It's good to see what a few months in opposition will do.

I want to ask his question the way I've asked it many times before at this committee, which is this: don't you think we should get some cost-benefit analysis before we give another break to the corporate sector? I want to draw your attention to the fact that corporate income tax, as a share of overall government revenue, has dropped considerably over the last five years from 15% to 11%, and the money we get from personal income tax has gone from about 45% to 65%. I think it's pretty hard to justify another break for corporations at a time when, as John said, we haven't seen the benefits from giving those kinds of corporate tax breaks. Over the last little while, we've seen profits go up astronomically, and by all accounts corporations in Canada have set record-level profits, business organizations included. They have dropped their investment in Canada and they have received huge tax cuts from the government.

I don't disagree that there are some areas we might want to look at carefully in terms of research and development and protection of certain Canadian industries—maybe aerospace or astronomy—but should we do this blanket kind of thing when we don't have any evidence that it actually helps our economy and leads to greater competitiveness?

● (1240)

Mr. Roger Larson: The answer to your last question is yes, we should give blanket tax incentives—

Ms. Judy Wasylycia-Leis: No cost-benefit analysis?

Mr. Roger Larson: No, I think the cost-benefit analysis has been done, and it's been clearly shown that any time there were incentives to invest, jobs have grown in Canada with that investment. The result has been a greater tax take.

Perhaps one of the reasons personal income tax contributions—and I have to pay some of that tax too—have gone up is that people have been employed, and they've been making good incomes and are able to pay increasing taxes.

It becomes a devil's game to say, well, if you increase taxes on corporations and they reduce investment and employment goes down, then we really are in a very difficult situation.

Ms. Judy Wasylycia-Leis: No, but in most advanced industrialized countries, they look at a balance, and I would suggest to you that our balance is out of whack—that in fact there's got to be a responsibility on the part of the corporate sector and a reasonable share. We've dropped to less than $27 billion out of a government budget of $220 billion. Is that fair? Should it all be on the shoulders of Canadians, which in fact means that individual Canadians get more of a burden because the government has to cut back, since as John McCallum keeps saying, the cupboard is bare and the pie is limited?

Mr. Roger Larson: I think governments have actually been able to afford to increase their spending.

But I can speak for my own industry, where we did get a tax adjustment a couple of years ago, and potash mining was able to get full deductibility of provincial royalties and a reduction to 21%.

The response to that was announcements by potash companies in Saskatchewan to invest over $400 million and two million tonnes of additional potash production. This is going to keep us as the world's number one producer and exporter of potash—and that's jobs, very good paying jobs in Saskatchewan. These jobs are $65,000-a-year-plus jobs. I think there's clear evidence throughout other sectors as well that what we've asked for works for Canadians—

Ms. Judy Wasylycia-Leis: But maybe that's why we should look at it on a selective basis.

The Chair: Thank you, madam. Your time has more than elapsed.

We'll move to the second round with Mr. Savage.

You have five minutes, sir.

Mr. Michael Savage: Thank you, sir.

Considering the timing of your appearance, I have to congratulate Mr. Barr on the work I know his organization, the CCIC, did on the vote yesterday,

As well, I commend the leadership of our colleague John McKay. I think that's very important.

I don't have a question for you. I support the 0.7%. I did when I was in government. I advocated for it when I had an opportunity and will continue to do so. I know it's a challenging goal. I know it's not easy; I think it is important.

I had that discussion with Mr. Martin when he was the Prime Minister, as you know, and I think for very genuine reasons, he felt that we couldn't commit to it. I think we should. I notice he's now spending a lot of his time in Africa doing some significant development work, and I commend him for that.

I have two questions. First of all, Mr. Sinervo, we've met before and talked about issues to do with research. I wonder if you could comment in both of your capacities at the University of Toronto, and also regarding who you're representing here today. Canada has invested a lot in research in the last five years and has gone a long way in publicly funded research to the top of the G-7 and G-8, but it leaves some holes. I know that you and your coalition have campaigned hard and made a good case for more funding.

One area I would like to you ask you about is the indirect cost of research. As you know, in the economic update last year, the government committed to fund up to 40% of indirect costs, seen as sort of the full indirect cost package. But that didn't pass, and it wasn't brought in on the 2006 budget. Can you comment on the importance of getting to the 40% mark on indirect costs?

Mr. Pekka Sinervo: Thank you, Michael.

The government has in fact made huge changes in the way it actually approaches research and development. The investments in various mechanisms—CFI, Canada research chairs, and the indirect costs—have been extraordinarily important for the university sector in particular.

As dean of arts and science, I'm responsible for recruiting approximately 50 academics a year to my university, and approximately half of them are outside of Canada. Approximately 30% of our graduate students come from outside of Canada. Approximately 20% of our undergraduates now come from outside of Canada. We see these investments as actually being extraordinarily important in Canada's position within the world as a leader in research and development, and in fact attracting talent to Canada. Most of these people stay and actually contribute to the economy. These are extraordinarily intelligent people.

That's the university sector that is actually playing that particular role. Indirect cost was a very significant element of that investment. I think the 40% goal that was set by the former government was an appropriate goal. It has clearly made a huge difference getting halfway there, and that's approximately where we're at, at the moment.

On the astronomy file, it has made a significant difference to have even the 20% of indirect costs, to really be able to capture all of the productivity and the impact that the university sector is able to add with that.

● (1245)

Mr. Michael Savage: I don't want to cut you off. I appreciate the answer. I think you're right.

I do want to ask Mr. Cleland a question from the CGA point of view.

Natural gas is well established in Canada, though not in Atlantic Canada, where it's a new and fledgling industry—the distribution of natural gas. We have gas systems now set up in New Brunswick and Nova Scotia. I don't know if you can answer this question, but in a province like Nova Scotia, with predominantly fuel oil for home heating and predominantly thermal generation of electricity, it would seem to me that natural gas would be important. I think it is important.

First of all, I'm not sure if you could comment on the state of the industry. Is it coming along as well as we had hoped initially? But secondly, are there any specific federal initiatives in greenfield markets like Atlantic Canada that should be employed?

Mr. Michael Cleland: I think the short answer is that it's not coming along quite as well as we might have hoped. A new market is a tough place because you have to put a lot of pipe in the ground. In a place like Nova Scotia, as you're well aware, it's rock. It's expensive to get that pipe in the ground, and you're working with customers who don't understand your industry or its benefits.

In terms of specific federal initiatives, there is one that we've put in our proposal. We think improving the capital cost allowance treatment of natural gas pipe puts it on a level playing field with other industries, such as electricity, and makes it more likely that we can get the cost of that down and get the kinds of benefits we think gas can deliver.

[*Translation*]

The Chair: Mr. St-Cyr, you have five minutes.

Mr. Thierry St-Cyr (Jeanne-Le Ber, BQ): Thank you for appearing before the Committee today to present your views.

My first question is for Mr. Peacock, who is with the Association of Fundraising Professionals.

Earlier this week, representatives from Philanthropic Foundations Canada appeared before the Committee. I imagine that you work fairly closely with them. Indeed, my understanding is that you work for them. I would like to get some clarification with respect to your recommendations.

When they appeared before the Committee, their primary recommendation was abolition of the capital gains tax on publicly traded securities that take the form of donations to private foundations. They talked about applying the capital gains exemption to securities donated to private foundations.

However, you have talked about completely eliminating the capital gains tax on donations of both land and real property to charitable organizations.

Why this difference? Do you support their demands all the same?

[*English*]

Mr. Rob Peacock: We totally agree with the capital gains exemption for private foundations. In fact, I just inserted that at the end of my remarks. We do support them.

I think it's the Canadian Association of Gift Planners that may have been here earlier this week, so we're in total agreement. We're taking it a much larger step further. With my comments to the committee earlier this year, I actually tabled the whole notion that in addition to the capital gains on marketable securities, the committee recommend to the government that in the budget we also include land and property.

Part of that is because in 1995 ecological lands were brought in and could be donated. In 2000, the capital gains exemption was provided for ecological lands. What we said in our position paper to the committee, and are saying here today, is totally congruent and consistent with what we've been saying since 1995.

So there are four aspects of giving, and I'll try to make this very brief. If you open up all the different opportunities to provide, I think we need to provide an opportunity to give on a level playing field. So on giving capital gains exemptions for marketable securities for private foundations, there is no reason private foundations couldn't receive the same kind of tax treatments, and so forth. That would just increase capacity.

Individuals who hold private land and/or property—of which there are billions of dollars' worth—should be provided with an opportunity to give to charity as well. So no matter what kind of security and/or ownership you have, we'll be treating everybody the same. This is not dissimilar to what happens south of the border in the United States. So nobody is disadvantaged.

● (1250)

[*Translation*]

Mr. Thierry St-Cyr: Fine, thank you.

My second question is for Mr. Larson from the Business Tax Reform Coalition. The Bloc Québécois has always favoured targeted tax relief that has a productive effect on society, particularly accelerated amortization of capital assets. On the other hand, lower taxes across the board reward both good and bad investors, particularly since corporate taxes have already been cut significantly. The corporate tax rate dropped from 28% in 2000 to 21% in 2004.

If the Committee were to make only one recommendation to the government, either to reduce asset depreciation or lower the federal tax to 17%, which one would you recommend?

The Chair: Could you please make it a ten-second answer?

Mr. Roger Larson: Yes, thank you.

[*English*]

Amortization of capital cost allowance...because this is not a tax reduction; it is a deferral of taxes. We will still end up paying the taxes. The only tax adjustment we're asking for is one that won't take place until 2011.

The Chair: Mr. Del Mastro.

Mr. Dean Del Mastro: Thank you, Mr. Chair.

Mr. Larson, Jack Mintz of the C.D. Howe Institute concluded that taxation reduces the economic gains from work, investment, saving, and risk-taking, undermining a country's overall competitiveness. Further, research by the Atlantic Institute for Market Studies demonstrated that high taxes discourage economic growth and investment, and today's competitive, wide-open economy requires precisely the opposite approach.

Perhaps with this in mind, and recognizing that a lower tax rate would encourage significantly greater foreign investment, would a lower tax rate necessarily mean lower tax revenues? In fact, doesn't it often lead to exactly the opposite—higher tax revenues—even though the rate is lower?

Mr. Roger Larson: Thank you.

Yes, I agree with you that lower tax rates equal more tax revenue, because of the investment that will take place, the growth in the economy, and the increased number of jobs that will flow through that.

If I can just supplement and return to one of the previous questions very briefly, on R and D, in my industry the president of the international institute of plant nutrition that I referred to is a Canadian, and the vice-president for Asia programs for that institute is a Canadian. These people are both professors at the University of Saskatchewan as well, and they have invested in R and D in partnership with the agricultural community in Canada. I think it's important to recognize that much R and D is in fact global, and what we're talking about when we talk about investment is the application of that technology. Quite often we are using global technologies to foster our investments.

● (1255)

Mr. Dean Del Mastro: Thank you.

I have another point that I really need to get to here. In fact, a lot of the shift we see in overall taxation revenues.... We know that the revenues of the government have actually expanded quite greatly over the last number of years, and there has been a redistribution, but I think we could argue—and perhaps you'll agree with me—that that this is partially due to the fact that personal incomes have increased, hence personal income taxes. Also, in a strong economy that is built on corporate investment, we have seen consumption taxes rise.

So all these other areas of taxes tend to go when corporate investment is encouraged in the country.

Mr. Roger Larson: Yes.

Mr. Dean Del Mastro: Thank you.

Mr. Keating, I have a real quick question for you. What types of programs used to exist that no longer exist in R and D for your industry?

Mr. John Keating: The industry has grown. It's not that any specific programs have gone away, it's just the amount of money available that's going to programs is going down in real terms.

It's what I call a policy of benign neglect: we don't know what's going on; we just ignore it; we just fix the budgets and eventually it'll sort of disappear. And I think that's a huge mistake.

Mr. Dean Del Mastro: So do you have any numbers as to what the budget used to be versus what it is now, approximately?

Mr. John Keating: Yes, well, there are some detailed numbers, but it's more complex than that because you start with an A-base budget, which was $320 million, and over years and years the effective buying power of that is reduced. Second to that, this money is taken out for other things. In fact, I think maybe even some of the generic work that's going on at the moment is talking about taking money out of the budget, which is amazing to me. The net result is the amount of money available to actually execute on programs, launch satellites, and do good things is less than it used to be.

Mr. Dean Del Mastro: Thank you.

Just quickly, Mr. Peacock, I would support further reforms to donation legislation with respect to capital gains exemptions and so forth. One of the things I'd be concerned with if we were to move in this direction—and I think it would also encourage greater donations, aside from tax laws—is if we were to be a little bit clearer as to how money is used by charities: how much for salaries, how much for administration.

Would you support this type of reform in your industry?

Mr. Rob Peacock: In fact, right now the Association of Fundraising Professionals is working on a white paper to create the benchmarking and accountability necessary. I would advocate that you are so on with that comment and floating it, and I would suggest that you continue to clamour, because it's going to be increasingly necessary. There are no problems right now, but if I also may suggest, sir, the complexity of benchmarking and measuring and accountability within the not-for-profit sector is more difficult than in any other sector.

Five million dollars was spent—and I'll be just one second, Mr. Chairman—at the University of Indiana's international centre for philanthropy on this subject over the course of the last four years, and inconclusively—it came to no type of recommendation. It is very complex. That's a whole other story.

● (1300)

The Chair: On behalf of our committee members, I want to thank all of you for your presentations today and your participation in the process. You've given us much food for thought, and we appreciate the job you're doing for those of your associates you represent.

There are a couple of things, and then we'll let you go. First of all, with one week of consultations down and five more to go, I hope very much that you like the format we're using this year. It is a little bit different from previous years. With the diversity of witnesses, I think it allows for more interaction and a little more stimulation for all of us.

Secondly, we have slightly increased the number of people on the panel to allow for fewer meetings. Recognizing that all of us have other things we must be doing as well as this committee, we are going to be going with that format of approximately six meetings per week. As you've probably observed, I'm trying to keep them tight to our schedule, beginning on time and ending on time. I know you have other activities you must engage in. If you have any comments or suggestions on other approaches you think we might take, I would gladly take those at an individual time after this meeting.

I also know you appreciate the work our staff does in coordinating this. For example, when we had the vote yesterday, our staff immediately notified each of the witnesses who were scheduled to come later, and coordinated it so you would be able to participate in the panel without having to take a break and then come back, as has happened too often in the past. I know you join with me in thanking our staff very much for the work they do.

Voices: Hear, hear!

The Chair: Finally, I also want to congratulate your staff members. I know they have numerous responsibilities as well.

We have had a full complement of people on this committee at each of these sessions. That is commendable. Many of these people have come great distances, and they have all put tremendous work into their presentations, as we know. It is important that we continue with that solid appearance and participation in our meetings. I thank you for that.

Part two of this is to tell you that the draft is ready for the travel itinerary. I appreciate the fact that 10 of us will be involved. This is strictly the western Canada travel that I'm referring to now. You will have a chance to review it.

I want to point out that I've endeavoured to make sure we land at our venue for the following day early enough in the day that we are able to have dinner and get comfortable in the community. You'll notice on the schedule that the latest we will arrive—and this is of necessity, because we have to take a regularly scheduled flight out of Whitehorse to Vancouver—is approximately 9:30. That is for the Vancouver arrival. However, each subsequent day we will arrive earlier at our venue. So we will arrive before 8 o'clock in Fort McMurray, around 6 o'clock in Saskatoon, and at 5 o'clock in Portage la Prairie. I think this will take into account the natural fatigue that comes with an intense schedule such as we're undertaking.

I would also comment finally on Portage la Prairie. I've asked that the meetings conclude at noon so you are able to connect out and return home for your Thanksgiving weekend. At Portage la Prairie you will be able to get out at noon. There is a small reception planned for you in Portage la Prairie, and half the town will be there. I want to make sure you're aware of that. I welcome you to enjoy the hospitality of my home town.

Mr. Pacetti.

Mr. Massimo Pacetti: For Saskatoon, since we have only two groups, why don't we just go from 9 to 12 and have the afternoon off, or go from 10 until 1, instead of breaking for an hour and a half for lunch?

The Chair: We will take that under advisement. That's a good suggestion, and it certainly resonates well with us at that stage of the week.

Mr. Massimo Pacetti: I'm looking for time off.

The Chair: I also want to mention that your per diem cheques are in the mail. They'll be in your offices on Monday.

If there any other questions, direct them to the clerk's office. If there are any suggestions, I would sincerely appreciate them. Congratulations on the great work you're doing.

We're adjourned.

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