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Mr. Brian Pallister

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● (1005)

[*English*]

The Chair (Mr. Brian Pallister (Portage—Lisgar, CPC)): We are back. Welcome to our guests this morning.

Pursuant to Standing Order 108(2), in the orders of the day we have a briefing to study the implications of the notice of ways and means motion tabled by the Minister of Finance on September 25, 2006, concerning amendments to the Excise Tax Act,

[*Translation*]

particularly the elimination of the visitors' GST rebate program.

[*English*]

We have witnesses to give us testimony this morning.

Thank you for taking the time to be with us. You have been given five minutes to do a brief introductory statement. I will give you an indication when you have one minute remaining, or less, and then we'll unceremoniously cut you off at five to allow time for an exchange with our committee members. I give you that warning in advance.

We'll begin our five-minute presentations with the Hotel Association of Canada, Anthony Pollard, president. Welcome, sir. You have five minutes.

Mr. Anthony Pollard (President, Hotel Association of Canada): Thank you very much. I appreciate the opportunity to be back here again with you. It seems like it was only about six weeks ago.

My name is Tony Pollard. I am president of the Hotel Association of Canada. We represent all of the lodging industry across Canada. I'm not going to name out all the members because I'd eat up my five minutes in doing that.

As I said, I was here on September 19, when I pointed out that tourism is a growth industry worldwide. I also pointed out that Canada is losing market share in this growth market. I underscored the impact of the western hemisphere travel initiative—passport, dollar, energy—and I'm not going to get into all of that again at this point.

However, we are now even more threatened with the proposed elimination of the GST visitor rebate program. Just in terms of the size and scope of our industry, in the hotel industry we generated \$14.2 billion in 2005. The value-added is about \$12.8 billion. We employ 301,000 people right across Canada. The important point I love to remind the people in government is that the hotel industry alone generated \$5.7 billion in tax revenues, of which \$2.5 billion goes to the federal government, and I continue to reinforce that point.

Where are we today? Unfortunately, Canada is losing market share. We slipped from 12th place to 7th place worldwide. Our U.S. market is in a free fall. While international visits are increasing, they cannot make up this deficit on their own. Here's some new news for you: two days ago, on Tuesday, November 7, the World Tourism Organization released a study that shows that travel internationally worldwide is up by 4.5%, whereas Canada's travel is down 4.1%. We have the dubious record in the Americas of only being exceeded by Montserrat, Aruba, and Uruguay as being places where people travel to less than Canada.

Funding for the CTC, the Canadian Tourism Commission. Our colleagues from the CTC are here. I always like to point out that we need more money to support the Canadian Tourism Commission, that an investment of \$50 million would result in \$1.2 billion worth of new business, that a \$100 million investment would alone give the feds \$620 million of new revenue.

Let's get to the GST, the reason we're here today. At the outset, let me say that perhaps we as an industry could have done a better job of quantifying the impact of the GST visitor rebate program on our convention, tour, and group business. We are very much aware of and support the fact that the government is casting a discerning eye on all government programs that spend taxpayers' dollars. We support that completely.

Let me give you a couple of numbers very quickly. In 2005, total tour, group, and convention business in Canada generated in excess of \$1.28 billion. This proposed program cut is putting in jeopardy all of this business because it's making it 6% more expensive. The new Government of Canada prides itself on its competitive agenda, but I don't think they quite understand—I think they're getting it now—this impact.

Let me just tell you how. The government is shooting itself in the foot, because what they are doing is jeopardizing tax revenues of $496 million on the $1.28 billion that we generate just in the group, tour, and convention business if this exemption for business coming into Canada is eliminated. Of that $496 million, which is going federally, provincially, and municipally, $218 million of that goes directly to the federal government.

Let me expand on that very briefly. I'll be the first one to say that all of that $218 million to the federal government will not be lost, but even if half of it is lost, what it means is that you're trying to save $75 million, but forgoing $109 million as a result. I can name various cities and what it means, the impacts there. I won't get into that right now. However, let me just say that around the world foreign competitors are just showing so much delight and glee because we are 6% more expensive.

Ladies and gentlemen, our commitment to you and to the Canadian taxpayers is accountability. We are not asking for handouts, but simply your commitment to this program. This will, in turn, provide the government with funds for other critical programs you're undertaking.

Thank you very much, Mr. Chair and ladies and gentlemen, for this opportunity.

The Chair: Thank you, Mr. Pollard. It's nice to see you again.

We'll continue with the Retail Council of Canada, Kim Furlong, director. Welcome, and proceed.

Ms. Kim Furlong (Director, Federal Government Relations, Retail Council of Canada): Good morning, Mr. Chairman and members of the committee.

[*Translation*]

My name is Kim Furlong, and I am the Director of Federal Government Relations at the Retail Council of Canada.

● (1010)

[*English*]

The Retail Council of Canada represents over 40,000 storefronts from coast to coast and is the voice of retail in this country.

I would like to thank you for the opportunity to speak to you today about the elimination of the GST visitor rebate program and the impact it will have on the retail sector. Since the September 25 decision, we have surveyed our small, medium, and large members and have found two trends.

Members who understand the program well have adopted it in their sales promotion techniques. They are successful users and want to see the program preserved.

The other trend is that a number of our members only had a peripheral understanding of how the program works and are ambivalent about its efficiencies. This trend I believe can be explained by the level of visitors these members interact with. The members who would be most strongly impacted by this cut are the merchants located near convention centres, in airport terminals, and near land borders. Our duty-free members have suffered this year already with changes to the security measures relating to carry-on liquids. The elimination of the VRP would add to an already very difficult year.

In addition to points of exits and convention centres, merchants located in small tourist destination areas such as the Niagara Peninsula, Stratford, Lake Louise, Whistler, Jasper, Banff, and North Hatley, and in large urban centres such as Vancouver, Calgary, Toronto, Montreal, and Halifax, which attract a good number of visitors to Canada every year, would be impacted as well.

Our high ticket item merchants have also commented on the cut of the GST visitor rebate program. Many of these members advertise this program successfully and have found that the 6% advantage has had an impact on sales. From the tour planner who sells Canada as a destination because of a 6% competitive advantage, to the hotel chain that in turn also offers a discount to visitors, these people eventually will walk into our merchants' shops and are often keen to spend because they are on vacation. The use of the 6% additional rebate on an item is often enough to make the sale.

The bottom line is that the many industries represented at the table today are interconnected and work together to fuel the Canadian economy. The health of Canada's tourism industry is important to the retail sector because retailers benefit from the inflow of visitors to Canada every year.

The tourism industry is already facing many challenges, as you all know—gas prices, the Canadian dollar, the western hemisphere travel initiative. Eliminating the VRP is simply adding to the hardship of this industry. The VRP is important to our industry but equally as important is the ability of convention centres and tour operators to waive the GST so they offer more competitive products to our visitors.

Our coalition has met several times with Minister Flaherty's office and his officials since the decision to cut the VRP was announced. These conversations were valuable to both sides, I believe. We, as a group, were able to bring a perspective that this cut is larger than a simple program cut, and we have gained an understanding of the inefficiencies of the current model and its cost to the government.

As you will hear in the subsequent presentation by Christopher Jones of the Tourism Industry Association of Canada, the industry has come together and is ready to offer an alternative to a government-run VRP. The Retail Council of Canada supports a pay-per-use program where the user and not the taxpayer assumes the cost of the program. Our members have been very clear that they would like to see a streamlined and efficient process without adding any burden to doing business, and I believe that the alternative that has been designed by the VRP coalition achieves that objective.

[*Translation*]

I will end my presentation here. Please feel free to ask your questions in English or French. Thank you.

The Chair: Thank you very much, madam.

[*English*]

The next witness will be from the Tourism Industry Association of Canada, Christopher Jones, vice-president.

Welcome, Mr. Jones. Over to you.

Mr. Christopher Jones (Vice-President, Public Affairs, Tourism Industry Association of Canada): Thank you, Mr. Chair.

The Tourism Industry Association of Canada represents 400 members and approximately 200,000 tourism-related businesses in Canada, of which 80% are small- or medium-sized enterprises. We contribute about $26 billion to the GDP of this country annually. We employ in the tourism sector directly 625,000 people. In total about 1.6 million people, or 10% of Canada's workforce, work in tourism-related businesses.

I'll say a brief word about the coalition, because we're here in that capacity today. It makes up 14 national business and industry associations on both sides of the border, and this is a substantial part of the Canadian economy.

To jump to the quick, the implications of the cancellation of the existing program are pretty clear: the loss of a substantial portion of volume convention, package tour group accommodation, and trade show business; the loss of related spending on retail, meals, entertainment, and other ancillary items—for example, business services—by both convention delegates and foreign visitors.

We also believe that Canada will lose business in the international convention market, as the 6% premium will render us too expensive. A convention planner facing a choice between Toronto and Las Vegas will be more tempted to go to Las Vegas. We also know that tourists will opt for other tour packages to other destinations, as Canada will lose its competitive edge.

This comes on top of a number of challenges that have faced the industry in recent time. The Canadian currency appreciation has made us about 20% less competitive as a destination in the last year. The increase in fuel prices of the spring and early summer was certainly a disincentive to travel, and that's been reflected in the number of visitors to Canada from the U.S. Also, the uncertainty occasioned by the WHTI has confused quite a few U.S. travellers as to what the appropriate documentation is. Finally, I think Canadian domestic air travel costs continue to be somewhat higher than they are in the U.S., so those are also a disincentive.

So in a nutshell, essentially what's happened is that between 2000 and 2005 Canada has sustained a 28% reduction in visitors from the United States. That's substantial. If you look at cross-border drive-ups, same-day visits, they're down by 41%. There's been a substantial impact on border towns in this country. The communities of Niagara, Windsor, and Victoria, B.C., are all dependent on tourism. Our travel deficit—in other words, the amount Canadians spend versus what Americans spend in Canada—is now minus $5.5 billion. In other words, we're spending more in the U.S. Canada has slipped down in the world rankings of tourist arrivals from seventh in 2002 to twelfth in 2005.

To reiterate the point that Tony made, we're here to be constructive today. We accept that the existing program was administratively burdensome and was characterized by fairly high overhead costs. We would like to try to work out an accommodation here.

As a result, we've prepared a proposal that would see the private operation of the program. We've only had time to prepare this in English, given the short notice of this meeting. I've sent it out to the clerk. We'll translate it and get it to you guys as soon as possible, but you do have it in English.

I think it's imperative that we retain the existing exemption for group package tours, conventions, and trade show businesses, as these earn Canada substantial revenue in the international markets.

We also believe—and I want to make this clear—that Canada should continue to offer a rebate to individual foreign guests as this incents substantial spending by these visitors. Canada would be alone amongst major OECD tourist destinations in not offering a value-added tax type of rebate to visitors. We think that's not a distinction we want to have.

We think this program can be operated successfully at no operational cost to government, as our proposal lays out. As I say, we'll let you read this document at your leisure, and we'll be happy to chat about it with you.

Thank you.

● (1015)

The Chair: Thank you, sir.

Just to save your organization a little time, we'll have it translated here. You've provided us with the English, and we'll have it translated. Committee members, it should be available to you by Tuesday next.

We'll continue now with the president of the Union of Taxation Employees, Dawn Hardy. Welcome, and over to you.

Ms. Dawn Hardy (President, Local 90006 (PEI), Union of Taxation Employees): I'd like to thank the finance committee for inviting me to appear before you today.

My name is Dawn Hardy, and I'm the Local 90006 president of the Union of Taxation Employees.

The Union of Taxation Employees, a component of the Public Service Alliance of Canada, represents more than 22,000 members of the Canada Revenue Agency. My local has approximately 700 members who live in P.E.I. and work at the Summerside Tax Centre.

Other organizations participating in this panel will outline the impact on the hotel and convention industry. I will focus directly on the job loss for my members and the Summerside economy.

In the context of the government's overall workforce and budget, the impact on the workforce of the decision to end the visitor rebate program is relatively insignificant. But in the context of Summerside, in the context of P.E.I., and for the members who I am privileged to represent, it's significant. Somewhere between 60 and 80 people employed by the CRA will lose their jobs when the program is cancelled, and additional jobs will be lost in the private sector in Summerside. The local economy will lose between $3 million and $4 million in wages currently paid to my members who administer the rebate program.

This is not the first cut that we have been subjected to within the CRA in Summerside. In the last two years we have absorbed almost 40 employees due to the losses within the tax centre due to the relocation of our human resources compensation section, which has moved to Winnipeg. Moreover, our finance and administration section was moved to Halifax. I'm sure that all the committee members understand that absorbing federal government job cuts in P. E.I. is far harder than in locations like the national capital region, where workers can more easily move from one government job to another.

My plea to the committee is to urge the government to reconsider the decision to eliminate the visitor rebate program. Failing that, I would urge you to locate new or expanded CRA services in Summerside so that the local economy and financial security of my members will be protected.

Thank you.

The Chair: I welcome Alex Fritsche, on behalf of the Conference Board of Canada. We're glad to have you here.

Five minutes, over to you.

Mr. Alex Fritsche (Economist, Canadian Tourism Research Institute, Conference Board of Canada): Thank you, Mr. Chairman and members of the committee. I'm very pleased to be here today on behalf of the Conference Board.

Basically, I'm here today with the Conference Board to be an objective voice and an impartial adviser, to some extent, even though this is clearly an issue that also affects many of our members from provincial governments, city governments, and businesses in the tourism industry throughout the country.

At this point, what we're trying to do is understand what the potential impact might be of the elimination of the visitor rebate program, and perhaps even the likelihood of it going forward or possibly being revoked.

That being said, there is a definite potential for a serious financial impact on the Canadian tourism industry. The Conference Board of Canada has been instrumental in doing impact analyses on a number of issues that have affected the industry, most notably the WHTI impact on the tourism industry from the U.S. Right now, though, what we have to say is that there isn't quite enough statistical analysis done and not really enough data to thoroughly conclude that the impact would be minimal. It could potentially be quite large.

We believe the impact could be significant, because the convention business represents a significant chunk of the visitor rebate program and the competitiveness of that industry. Also, many foreign tour operators don't price in the GST when they offer their products to foreign visitors.

A lot of the feedback we receive from our panels that we follow in the U.S. and overseas markets shows that they're very concerned about the impact of the visitor rebate program and what it will do to their offerings into Canada. And as we've heard before, Canada is already suffering from a competitive decline.

As a country, Canada has become more expensive against virtually every major foreign competitor out there. We've seen that in the numbers. We've seen the numbers slip in terms of overseas arrivals, certainly the numbers of American arrivals. For instance, the U.S. cost of travel to Canada has gone up almost 50% over the past two years. A trip that used to cost, let's say, $700 may now cost $1,000. That's a significant increase.

On balance, we'd like to urge the government to be very diligent when they do go ahead and implement this cut in the visitor rebate program, because it does affect the competitiveness of the Canadian tourism industry as a whole.

● (1020)

The Chair: Thank you very much. We look forward to questions later on.

The next presenter is Karin Zabel from the Canadian Tourism Commission. Welcome.

Ms. Karin Zabel (Vice-President and Chief Financial Officer, Finance, Canadian Tourism Commission): Thank you for inviting us to appear before you today.

As a crown corporation of the Government of Canada, the Canadian Tourism Commission is specifically legislated to sustain a vibrant and profitable Canadian tourism industry; to market Canada as a desirable tourism destination; to support a cooperative relationship between the private sector and the governments of Canada, the provinces, and territories with respect to Canadian tourism; and to provide information about Canadian tourism to the private sector and the Government of Canada, the provinces, and territories. We do this in collaboration with industry and all levels of government.

Through the CTC, the Government of Canada has been at the forefront of working nationally with the tourism sector to maintain its competitiveness and market Canada as a destination of choice for international travellers. Our ultimate goal is to grow tourism export revenues. The commission focuses on attracting visitors from nine international countries where we generate the most revenue. These markets represent 64% of international revenue and 91% of international visits to Canada.

Tourism is an export industry. Marketing messages transmitted abroad to come to explore Canada helped bring $17.5 billion in foreign exchange into Canada last year. The Canadian Tourism Commission drives new dollars into the Canadian economy, which is why Canada has invested in one of the most competitive and fastest-growing industries in the world. Global consumers spend $623 billion U.S. a year on their trips to other countries. Within our own borders, Canada's tourism industry generates $62.7 billion in revenues. The taxpayer is well served. Thirty cents out of every tourist dollar goes directly to government. The federal government's share alone amounted to $9.3 billion last year.

However, consumers have more destinations than ever to choose from. Thirty-five years ago, Canada was second in the world's ranking of tourism destinations. As air travel became more affordable and more countries started getting into the tourism business, Canada and many others started to lose market share. We are now ranked at twelfth place in the international tourism revenue our country is bringing in. Despite the slide Canada has shown some growth. Overseas travel, for example, was up by 7% last year.

Competition is fiercest for the American traveller. The U.S. continues to be our most important international market. It accounts for 57% of Canada's international tourism revenue. While U.S. plane arrivals into Canada are still doing better than what we've seen in the last couple of years, overnight automobile trips from the U.S. have seen the sharpest decline. As of July, overnight auto trips from the U. S. were down 7.3%, while plane arrivals from the U.S. were down 2.7% for the year as of July.

Our research shows that U.S. awareness of Canada as a travel destination is weak. In America, the CTC and partners have about a 4% share of voice. Our collective investment in the U.S. market makes up just a fraction of what our competitors are spending. As a result, U.S. consumers are much more aware of destinations in Europe, Mexico, and the Caribbean. This uphill battle makes fostering tourism's growth all the more important.

It is within this context that the proposed cancellation of the visitor rebate program could impact the competitiveness of Canada's international convention, tour, and group business. This has the potential to make it 6% more expensive to do business in Canada. We believe the visitor rebate program has assisted in attracting meetings and conventions from the U.S. In 2005, we invested $4.6 million in the meetings, convention, and incentive travel market in the U.S. Our investment contributed to the American business traveller spending $1.5 billion in Canada last year.

Tours from other countries such as Japan and France will also be impacted by these changes. At this point, however, we are still assessing what potential impact this may have on our ability to attract tours, meetings, and conventions to Canada—a very important line of business for us. We continue to stress to international partners that Canada is still one of the world's top travel destinations, offering world-class facilities, services, and experiences.

The Canadian Tourism Commission's five-year strategy will reposition Canada and make it more relevant to the international consumer. Our objective is to see international tourism revenues climb by 10.9% to nearly $20 billion by 2011. To get there, we are attracting more high-yield customers from a wide range of lucrative markets. Our focus is on markets where we'll get the highest return on investment.

● (1025)

The consistent application of a brand that builds powerful personal relationships between international consumers and Canada is the heart of our strategic approach. With our brand as the base, industry partnerships, cutting-edge research, and the world's most advanced e-marketing techniques, we'll improve Canada's standings in the global tourism rankings by turning us into a must-see-now destination.

This concludes my opening remarks.

The Chair: We'll conclude our presentations now with Global Refund Canada Ltd. Kevin Boughen, over to you.

Mr. Kevin Boughen (President, Global Refund Canada Ltd.): Mr. Chairperson and members of the committee, thank you for inviting me to speak before you today.

I am Kevin Boughen and I'm president of Global Refund Canada Ltd. We are a subsidiary of Global Refund Group, incorporated in the Netherlands. Global Refund Group provides 80% of all tourist tax refunds in the world. Since its inception in 1980, Global Refund Group has grown to a point where we now service 30,000 travellers each and every day. We operate in 37 countries, across four continents.

In 2002, we began facilitating visitor tax refunds here in Canada and currently employ 60 people across the country. Over the past five years, we have invested several million dollars growing our Canadian operation. Today, Global Refund Canada offers instant cash refunds to visitors at all five of Canada's largest airports. We are the largest third party service provider in Canada, with 80% of this market. No other organization has the depth of experience and knowledge we have in this area. We know what makes visitor rebate programs work in all the various countries that offer them. And there are many common elements that distinguish the best-run programs.

What brings me here today is my understanding that government officials recommended that the Canadian program be eliminated because it was expensive to administer and vulnerable to fraud. Rather than eliminate the program, however, we believe there are several simple, easy steps the government can take to solve both of these problems.

Our proposal will accomplish three main things. First, it preserves the value of a visitor tax refund system that stimulates growth in the tourist numbers and stimulates growth in tourist spending. Second, it eliminates the costs for the government that are associated with its operational responsibilities. And third, it will significantly improve the security and minimize fraud.

There are two essential components to our proposal. The first is that the tourist, and not the taxpayers, should fund the system. Today, Canada stands as only one of three OECD countries with a taxpayer-funded visitor rebate program. By changing Canada's model to a user-pay, the government can shift the administrative burden to the GST refund operators, the tourists they serve, and thereby eliminate all its costs in operations.

Under the current system, the tourist can apply for a refund in one of any number of ways.

First, the tourist can apply directly to the government's rebate office in Summerside, P.E.I., and receive 100% of their GST back in six to eight weeks' time. Alternatively, if they're travelling by land, they can stop at a participating duty-free shop and receive 100% of their GST back in Canadian dollars instantly. A third option would be for them to visit a third party, such as Global Refund, at an airport. At the airport, they would receive an instant refund, but it would be discounted by a 20% administration fee. In most OECD countries and in our proposal, the only way a visitor should receive a rebate is by paying an administrative fee at the point of exit.

The second essential element we recommend is to enhance program security. In our view, when it comes to fraud prevention, the current Canadian visitor rebate program lags well behind the best practices used in other countries. Today it is far too easy for people to defraud the system by generating false rebate claims and using phony receipts. To strengthen the integrity of the program, we recommend that Canada take a page from the security playbook used in other OECD countries by adopting simple but important changes to document verification, proof of export, and visitor eligibility.

The most important of these changes is the introduction of secure forms, which are supplied by GST refund operators, provided directly to the visitors at the point of sale by participating retailers and hotels. These forms include security features such as bar codes and serial numbers to enable tracking and to provide an audit trail. Secure forms distributed by merchants offer a level of security that ordinary shopping receipts simply cannot.

Today, more than 230,000 merchants, from Louis Vuitton, to Nike, to Apple, use Global Refund as their facilitator of tax rebates for visiting shoppers. These merchants all provide secure documents required to provide a secure program.

In conclusion, tourism is an export industry. The decision to cancel the program arbitrarily revokes the tourism industry's export status, even though it continues to serve as a significant source of revenue. Singling out the tourism industry as the only export sector required to charge GST is punitive to our already challenged industry.

● (1030)

Our proposal can help revitalize an important tourism program while effectively removing the administrative costs from the government. At the same time, the security of the program is enhanced significantly to meet the standards set by other OECD countries. In addition to these important features, the program changes we are recommending would result in a significant increase in the visitor refunds being spent and cycled in the Canadian economy at the point of exit.

We ask the government to accept our recommendations and preserve the program.

Thank you.

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

Thank you all.

We'll move now to questions. Mr. McCallum, we'll begin with you, for six minutes, sir.

Hon. John McCallum (Markham—Unionville, Lib.): Thank you, and thank you very much to all the witnesses for being here today.

It was our initiative to bring you here. We think this is a very important issue. I wouldn't characterize this decision by the government as the most meanspirited—that would probably go to the cutting of literacy programs—but it's certainly the most economically boneheaded, and I think we have heard this in spades collectively from you.

Mr. Rick Dykstra (St. Catharines, CPC): I have a point of order, Mr. Chair.

The Chair: Mr. Dykstra, on a point of order.

Mr. Rick Dykstra: I was just wondering what the topic was today. Mr. McCallum seems to be on a different one.

Hon. John McCallum: I will endeavour to do so, Mr. Chair.

I would just like to say, in terms of this boneheadedness issue, that we also were recommended to do this when I was the Minister of Revenue and the chair of the Expenditure Review Committee. We rejected it for reasons that all of you have very ably explained. So I think that your collective testimony gives a really strong case for the government to capitulate on this decision, whether it's administered privately or under the status quo.

My question would be to the Conference Board, a neutral body. The point was made that this could be seen as removal of the export status of the tourism industry. I think not all Canadians understand that, but it is an export industry. Would that be a fair way to characterize this action?

● (1035)

Mr. Alex Fritsche: In the sense that tourism is an export, absolutely. It is an export that we export throughout the world, and right now we don't have a tax on that export.

Hon. John McCallum: So tourism would be the only export industry on which this tax is imposed. It's a 6% additional cost on the convention business, and we're one of the very few countries to do this. Are all of those statements correct?

Mr. Alex Fritsche: The 6% is a bit of an issue, because it doesn't necessarily apply to everything that people here pay, so the actual amount might be below the 6% rate. But it can certainly approach that depending on how—

Hon. John McCallum: At least 6% on the things that are subject to GST?

Mr. Alex Fritsche: That's right.

Hon. John McCallum: Now, one of the defences I was told when I was the Minister of Revenue, or one of the arguments in favour of this, is, well, only 3% of the people use this rebate. I never thought that was a good argument, because even if it's only 3%, your testimony has indicated that nevertheless it is very important.

In anticipation of that 3% argument, I ask any one of you—perhaps Mr. Fritsche, or Mr. Pollard, or Mr. Jones—how do you respond when people say, well, obviously this program isn't important; only 3% of the tourists use it?

Mr. Anthony Pollard: May I answer, Mr. Chair? Thank you very much.

The reality is that in the hotel business, particularly for the group convention and the tour business, we aren't talking about 3%. This is an exemption that is used globally by virtually every tour group coming into Canada, and this is something I believe the government overlooked when they made this initial decision. They were looking at the independent traveller coming in. However, with the group tour and convention business, this is something that's used virtually by everybody in that segment.

Hon. John McCallum: So put differently, it may be 3% of all of the people, but it's closer to 100% of that convention business, which is really the relevant issue.

Mr. Anthony Pollard: Completely, and as I pointed out in my statement, this is $1.28 billion worth of business, of which the federal government is receiving $218 million worth of taxes. The argument I put forward is that we're trying to save $75 million, but we're putting $218 million in jeopardy.

The Chair: Mr. Jones.

Mr. Christopher Jones: We would contest the 3% number on the basis that I think the government or the Department of Finance made the calculation on the assumption that every one of the 35 million visitors to Canada would be making a claim, when in fact we know that people travel as couples, families, and in groups. Often one individual makes the claim for the family or the couple.

There's also the issue that the government lumped in same-day visitors, whereas the World Tourism Organization, when calculating claimant rates for these value-added tax rebate schemes elsewhere, only looks at overnight visitors. So we think the number is actually closer to 11%, which is well within the normal international range.

Hon. John McCallum: Thank you. Do I have time for one quick question?

The Chair: There are a couple of other panellists. It's your choice.

Hon. John McCallum: I think we have enough on that. And I'm running out of time.

Mr. Boughen, under your scheme, somebody has to pay for the administration.

Mr. Kevin Boughen: Absolutely.

Hon. John McCallum: Are you saying the government will pay zero?

Mr. Kevin Boughen: Yes, zero.

Hon. John McCallum: Then who would pay for the services?

Mr. Kevin Boughen: The tourists pay, because when they show up at the point of exit, and they've spent $100 in GST, they're only given $80 of it instead of the $100. The other $20 goes to the operator to administer the program.

Hon. John McCallum: So the tourists, the convention businesses, would get less money than they would have—

Mr. Kevin Boughen: The visitor rebate program is not part of the convention business. It is independent travellers who are coming, buying goods, and taking them home.

Hon. John McCallum: So the government would continue to administer this for the convention business?

Mr. Anthony Pollard: For the convention business, the amount of administration is almost negligible. What happens is that a tour operator, conventioneer, wherever, outside of the country, using the proper CRA criteria, fills in the form stating that 75% of the people that are coming here are from outside of the country and are therefore exempt.

● (1040)

[*Translation*]

The Chair: Thank you, sir.

We will now go to Mr. Paquette. You have 10 minutes.

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

I would like to thank the witnesses for their presentations. I found them very interesting.

We are also very surprised by the Finance minister's proposal. We find it hard to understand why the government would impose another burden on the tourist industry, which is already experiencing serious difficulties. You referred, among other things to the Western Hemisphere Transportation Initiative, which will take effect sooner or later. It has been put off until 2009 for land border crossings, but it will still have negative effects on the tourist industry.

I would first like to ask Ms. Zabel if the Canadian Tourism Commission was consulted on this initiative by the Finance department. Was there any consultation? Was the industry consulted as well? If you were consulted, what was your recommendation?

[*English*]

Ms. Karin Zabel: I don't know if the industry was consulted, but we were not consulted.

[*Translation*]

Mr. Pierre Paquette: So no one was consulted on this issue.

Mr. Fritsche, do you know how much it costs to administer this program? No one has given us any figures. Since there are no officials here, can you tell us how much it costs to administer this program? Is there someone else who can give me an answer? Mr. Jones?

[*English*]

Mr. Christopher Jones: We were told by Department of Finance officials that the cost, including salaries and overhead, was in the order of $7.5 million.

[*Translation*]

Mr. Pierre Paquette: So it seems basically that this government initiative, which is aimed at saving some $7.5 million, will jeopardize a great deal of money. Can you give us your estimate of the impact that eliminating the GST rebate will have?

[*English*]

Mr. Alex Fritsche: As I pointed out earlier, it's difficult, because a lot of the administration happens overseas for the visitor rebate program; for instance, for the convention business as well as on the part of some tour operators. So it happens in the U.S. and it happens in, say, Germany or the U.K., and it never really runs through the system. But we don't really have very reliable figures to give exactly a potential impact figure. But there is the potential that indeed the impact could be significantly larger on the industry than the $78 million that the government would save.

Mr. Christopher Jones: I can add that if you take the convention sector—and by this I mean the stand-alone convention centres, not the ones that are located in hotels, and there were about seven that we surveyed—in 2005 they reported total spending of $119 million, of which the GST was $8.3 million. The individual delegates who were coming to these conventions were spending in the order of $76 million of that $119 million. So clearly there's a substantial amount of money being spent that, as I mentioned, given how tight the market is, is now threatened or imperilled by this decision.

[*Translation*]

Mr. Pierre Paquette: Mr. Pollard, would you like to add something?

[*English*]

Mr. Anthony Pollard: Yes, I would. It is very important for the entire committee.

[*Translation*]

Mr. Paquette, thank you for your questions.

[*English*]

There are two separate and distinct areas to what we are looking at in the visitor rebate program. There is one area for the independent traveller, and that's all the government has been focusing on in various announcements, with the 3%, 7%, and 10% take-up in that, and the savings of $78 million. The other part of this is the exemption component for conventions, groups, and tours coming into Canada. That part is the one that has always had the exemption component therein.

Ladies and gentlemen, I encourage you to make the distinction that it's not lumping everything together. The exemption component is critical for our business, and that is the one, as Mr. McCallum was stating, where there is virtually 100% take-up, but that part is exempt. That is the part that is very separate and distinct from the $78 million that we're talking about, with whatever percentage of people who are taking us up on that.

● (1045)

[*Translation*]

Thank you for giving me this opportunity to answer your question.

Mr. Pierre Paquette: Mr. Jones, given the situation, it seems that you are prepared to subcontract the running of the program in order to save the federal government money.

Do you feel that this is the ideal solution, or should the status quo be maintained?

[*English*]

Mr. Christopher Jones: We're mindful of the government's desire to make some savings here, so in a spirit of cooperation, we thought we would put forward a proposal that would see the privatization of the scheme and the reduction in the overhead or expense costs of the program. Had we been consulted at the beginning, our preference would have been to keep the program in place as it was, but we're faced with a shifting ground here and we're trying to react to that responsibly.

The Chair: The next questioner will be Mr. Del Mastro, for six minutes.

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

Ms. Zabel, I have a couple of questions. You basically summed up the mission statement of the Canadian Tourism Commission. In short, you said your ultimate goal is to grow tourism export revenues. What has gone wrong there? We're hearing about declining market share, and it sounds like you paint a fairly dire picture, but I assume the Canadian Tourism Commission has been in place for some time.

Ms. Karin Zabel: We've been in place as a crown corporation since 2001.

As I tried to reflect in my opening comments, the challenge of the sector is that we are in a very competitive sector worldwide. Many more people are interested in travel, and if you look at the world as the market, many more countries have recognized the potential of tourism as an industry. They are now also investing in the sector to attract tourists to their countries.

Mr. Dean Del Mastro: Would you suggest that perhaps the previous government was somewhat boneheaded for not investing enough money in tourism and promoting it globally?

Ms. Karin Zabel: I can't speak to government policy.

Mr. Dean Del Mastro: I would probably make that contention. As the kings of capitulation, they did in fact capitulate in forming a new action plan on tourism in Canada, didn't they? They made that promise three years ago.

Ms. Karin Zabel: I'm not sure.

Mr. Dean Del Mastro: For the record, they did.

Ms. Furlong, you made the point that a number of your members were ambivalent to the existence of the program. Why was that? Was it just not well explained to them? Did they come into business subsequent to it being implemented?

Ms. Kim Furlong: It's a question of their interaction with the level of visitors. People along the border—Niagara, for example—receive a large number of visitors, and the people in that area are very cognizant of the program and use it very successfully. People in other parts of the country who don't see an influx of tourists that is as intense have less understanding of the program.

Mr. Dean Del Mastro: Thank you.

Mr. Pollard, the events of 9/11, and subsequently the events surrounding SARS, had a pretty devastating effect on tourism in Canada, didn't they?

Mr. Anthony Pollard: I don't want to sound Torontocentric—I happen to live in Ottawa—but the city of Toronto alone lost $600 million. Right across the country, we lost $1.6 billion because of SARS. The unfortunate thing is that it was located strictly in Toronto, but business in Vancouver, for example, was down by $350 million.

So yes, there was the impact of that, and then the subsequent impacts of such things today with WHTI. The Conference Board of Canada has said that the losses because of the passport issue will in fact be greater than what happened with SARS.

Mr. Dean Del Mastro: I'll come back to that in just a moment, but I did just want to highlight that, because there have been statements made by opposition members that the impact of eliminating the GST visitor rebate would be in fact bigger than 9/11 and SARS combined. I think that shows true ignorance of the impact of 9/11 and SARS.

Mr. Pollard, does the western hemisphere travel initiative specifically present an opportunity for enhanced domestic tourism, enhanced opportunity to keep some conventions here in Canada, involving Canadian companies? And should we be investing some dollars into building domestic tourism?

● (1050)

Mr. Anthony Pollard: First of all, the Canadian Tourism Commission does invest some dollars into it. Typically, it's a responsibility of the provinces. I don't want to get into the BNA Act and sections 91 and 92, but that's what the reality is.

The fact of the matter is that it's a double-edged sword, though, because when you have a dollar sitting at about 89¢ to 90¢, it makes it a lot easier for a Canadian to go outside of the country than for an American to come up here. That's the reality that we're dealing with. But when you compound that with the proposed cut to the visitor rebate program, particularly for the convention business, which has effectively become 6% more expensive, it really exacerbates the problem.

Mr. Dean Del Mastro: Well, we'll continue working with the industry to find ways to build tourism in Canada. Thank you.

I have nothing further, Mr. Chair.

The Chair: Thank you very much, Mr. Del Mastro.

We'll move now to Madam Wasylycia-Leis, for six minutes.

Ms. Judy Wasylycia-Leis (Winnipeg North, NDP): Thank you, Mr. Chairperson.

It must have been a Liberal who compared the loss here to a tsunami or a 9/11. It's like nuclear bombs and income trusts.

I'm sorry, Mr. Chairperson. I just had to slip that in.

The real issue for us here today is that we're all interested in cost savings if they make sense. When you do a cost-benefit analysis, what is the outcome? Do we lose more than we save or not?

I haven't read all your briefs, but in previous testimony when we were on the road, we heard from Rod Taylor in Whitehorse, who said that for every dollar the government pays, we make $37 back. When we were in Toronto, Rod Seiling said this is like giving us an automatic 6% increase in our costs.

So my first question is whether or not that's accurate. By doing this, are we actually costing more to our economy?

Mr. Anthony Pollard: May I respond to that?

The fact of the matter is that the announcement was trying to save $78 million. The federal government alone is making $218 million a year on the convention business. You weren't in here when I made my presentation, but I fully agree. Is that entire $218 million at risk? No, because there still is going to be business coming here.

But let's say there's a 50% elasticity factor in that. We're still looking at $109 million in lost revenue to Canada from the convention business. You're trying to save $75 million while losing $109 million?

Ms. Judy Wasylycia-Leis: Just before I go to the other two on this, I don't want to lose the opportunity to also make the connection to lost jobs.

Dawn, can you tell us again what the potential loss in jobs would be to people working at CRA? What percentage of the total complement in Summerside is that? And what's your sense of the impact?

Ms. Dawn Hardy: As I stated earlier, we foresee a loss of between 60 and 80 permanent jobs, of the 700 members who work at the tax centre. We have about 524 permanent employees who work at the tax centre, and we're staffed to capacity. For our programs that run during income tax time, we also have contract workers—between 200 to 300 people—who come in and work on a less-than-year-round basis.

If these permanent jobs are lost in the visitor rebate program, those people will move into other operational streams of the Summerside Tax Centre. What that could mean is that there could be 200 people unemployed in Summerside. The impact is huge for our area.

Thank you.

Ms. Judy Wasylycia-Leis: Thank you.

Chris, and then Kevin.

Mr. Christopher Jones: I wonder if I could just briefly read into the record—it'll just take a second—the testimony from one tour package operator on the potential impact here. She says:

> I realize we're just one small example of the U.K. tour operator industry. However, this additional 6% will, most probably, result in our company being forced to cancel our winter charter flight series for Winter 2007-08, if sales are significantly impacted by the increase in ski tour package prices. That would mean 15,000 fewer U.K. ski visitors from our company alone. That's 150,000 bed nights and skier days, and a total revenue spent by our clients in Canada of $30 million, with an average stay of 10 nights and an average spend in Canada of $2,000 per person.

I don't think we can afford to see this reproduced across the country at this point.

● (1055)

Ms. Judy Wasylycia-Leis: Can you answer? This is an unusual set of hearings, because we have a ways and means motion in Parliament that normally isn't debated, it's just voted on, so the government can bring it forward any time. It is a money matter, so if it's defeated, it's a confidence issue. If we have to vote on this. Is it worth bringing down the government on this issue?

Voices: Oh, oh!

Ms. Judy Wasylycia-Leis: I'm sorry, but that's the reality of the situation.

Let me also ask Karin this. When I look at the estimates for the Tourism Commission, you had a huge drop from the 2005-06 year. The Conservatives have been arguing that the money we save here will go into tourism, yet you're dealing with what looks like.... Is it $78 million you get? And you went down to $76 million in 2006-07. That's a $2 million loss, so that's a significant drop.

Ms. Karin Zabel: Our funding this year is $78.8 million, and next year it will be $75.8 million.

Ms. Judy Wasylycia-Leis: That's a significant drop, so you're going to be hit from both ends.

I'm sorry, Kevin you wanted to jump in on this.

Mr. Kevin Boughen: Yes, I wanted to come back to the question of VRPs being smart economic decisions for the host country. Global Refund has a lot of experience with this. Usually we're entering countries; we've never had to exit a country. When we enter countries, we often have an independent economic model done to see the impact on GDP. Since this announcement, we have already started to have an independent analysis done for the Canadian economy, and we expect the results very shortly. If it's based on what I've seen on one we just did in New Zealand, for example, the VRP will have a positive impact on GDP. It is not money out of the country.

The Chair: We'll continue with Mr. McGuire now for five minutes.

Welcome, by the way.

Hon. Joe McGuire (Egmont, Lib.): Thank you very much. Welcome to everybody who is appearing here today, in particular Dawn, who comes from Summerside, in my riding.

I'm glad you clarified the number of jobs lost. It's not just the indeterminate jobs, it's the contract jobs and the casual jobs that are needed in the peak season to deal with the rebate. So you're now saying that some of these people will never get a job offer, because only the indeterminates will have any kind of bumping areas or could be absorbed by the tax centres in other areas.

Ms. Dawn Hardy: Job protection really only applies to permanent employees. In Summerside we have a very strong workforce. They've been there since the centre opened and they've shown their dedication. They can do the job. For these people, when their option is to find something in the private sector, it's quite a loss, because good, well-paying jobs are hard to find on P.E.I. It costs $2.3 million at this point to keep 60 people working on the visitor rebate program. When you take $2.3 million out of the economy, you can't say there's not going to be an impact, so as I said earlier, there's a huge impact on Summerside.

Hon. Joe McGuire: So the figure that Mr. Jones quoted the government is $7.5 million in costs, and less than half of that is occurring in Summerside.

Ms. Dawn Hardy: Exactly, $2.3 million of that.

Hon. Joe McGuire: So P.E.I. is getting a double whammy here. It's their second-highest industry, depending on how the fishery goes—which one never knows—or agriculture, for that matter, but it's the second largest industry. It will be impacted because of the difficulties everybody here has outlined. It will be a disincentive for tourists to come to Atlantic Canada, particularly to P.E.I., and we'll lose the jobs and the economic impact in the Summerside area besides.

I just wanted to point that out, Mr. Chair, that Summerside will get hit twice. And as Dawn says, the cost of operating this in Summerside is less than half the total administrative cost of the whole program.

I was just wondering this. I know 9/11 has been mentioned twice here by the NDP and the Conservatives, and I believe that quote was made by Randy Williams, not by a Liberal or a Conservative or any politician. It was made by the president of the Tourism Industry Association of Canada, who said in his deposition this is the biggest issue he's faced in his five years, that it's bigger than 9/11.

Maybe we should clarify why this is bigger than 9/11.

Mr. Christopher Jones: Randy Williams is the president of our association. He was making that observation in the context that post-9/11, airline traffic gradually climbed back to a pre-event level after a few years, and SARS had a temporary impact on visits to Toronto as well. I think the point he was trying to make was that this would be a permanent addition of 6% to the cost structure facing these people, and hence it may well have a longer-term impact.

● (1100)

Hon. Joe McGuire: We can get over the 9/11s that occur, but we're not going to get over the visitor rebate cancellation.

Mr. Christopher Jones: It's going to make life more difficult.

Hon. Joe McGuire: How many jobs would be saved in Summerside through your counter-proposal to the government?

Mr. Christopher Jones: I don't want to get too much into the details of our proposal, but it would see the creation of sub-licensees or rebaters at all the border points, airports, and marine embarkation points across the country. I can't speak specifically to Summerside. We understand the situation, and it's more than just the loss of those jobs. I might add that it's also the issue of the small craft and tourist shops selling product to tourists for whom the 6% is a significant amount, and that's going to be a disincentive to purchasing those things.

The business plan for this project hasn't been completely rolled out, but we have a good conceptual proposal here for you to consider.

Hon. Joe McGuire: As far as the reaction from the provinces is concerned, Mr. Chair, I was wondering what our witness has received in terms of correspondence from the provinces and territories in this country as to their position. I've gotten seven letters from tourism ministers and premiers decrying this move by the federal government.

I'm wondering what kind of response you got from the provinces you reside in and from provinces in general.

The Chair: You have a very brief time for a response, Mr. Pollard.

Mr. Anthony Pollard: The response we've had from various provincial governments right across the land, when I pointed out to them that there's a potential loss of $183 million to provincial coffers because of a proposed cut, is that obviously they are supporting our position for the maintenance of the program. I want to underline the fact, Mr. Chairman—

The Chair: I'm sorry, we've gone quite a bit over Mr. McGuire's time, but work it into the next response. I'm sure there'll be another question for you.

I just wanted to interject with one observation. I take it from the competitiveness concerns you've all expressed that this is obviously important to the tourism industry; that's self-explanatory. Would anybody want to go on record, then, as opposing reductions in the GST? If this rebate program is so important, and obviously from your testimony you believe it is, then it would follow from a competitive standpoint, wouldn't it, that a lower GST would assist your industry in some respects? I'm very interested in knowing if anybody is supportive of raising the GST at this point.

Mr. Anthony Pollard: Mr. Chairman, I would like to respond to that question by saying that by maintaining this program, federal government coffers are in fact going to be enhanced. As opposed to taking that route, I would encourage the government to maintain it. You'll actually generate more revenue. You don't need to get into the issue of whether we would support or not support a GST cut or what the implications of that would be.

The Chair: Thank you very much for that. That was a good political answer, Mr. Pollard.

We'll continue with Mr. St-Cyr now.

[*Translation*]

Mr. Thierry St-Cyr (Jeanne-Le Ber, BQ): I would like to thank all of the witnesses.

I want to concentrate my comments and my questions on how the effectiveness or ineffectiveness of this program is calculated. It is probably owing to my professional background that I'm interested in this aspect. As an engineer, I was often called upon to calculate the productivity of what we were doing. If I had used the same calculation method as the government is using, I probably would have lost my job pretty quickly. In my opinion, even if the figure of 3% is surprising, it is still anecdotal in nature. That is not the way to measure how productive this program is. That was made clear earlier. Generally speaking, only one person makes a claim on behalf of all members of the family, so you need to multiply that figure by three or four, so we are looking at 11%. Even there, we are omitting the key element of how much money is not actually claimed. It is unlikely that someone who spends a day here and who buys a $100-walkman would ask for a rebate of $6, minus administration fees.

I do not know whether you have the figures, but what proportion in terms of dollars—and not in terms of travellers—is claimed? That would give us a better idea.

I would like to bring up a second point regarding the program's effectiveness. It seems to me that, if we want to measure the effectiveness of the program, we need to measure not how much people claim but what percentage of people decides to travel for business or tourism because of the rebate. In other words, we need to measure the effect of the rebate from a marketing standpoint. Companies that offer mail-in rebates on products in stores know very well that a whole lot of people who buy a printer, for example, because of the mail-in rebate never claim it. But it is still a very effective tool for the vendor. In fact, it is doubly effective, since the product sells because of the rebate, but the rebate is never claimed.

Do the industry people have figures, not for the number of people who make a claim, but for the number who take this rebate into account when they choose their destination?

Those are my two questions. What dollar amount are we talking about? What are the marketing arguments involved?

● (1105)

Ms. Kim Furlong: I do not have any concrete figures, but I can tell you that members of the Canadian Retail Council often use the figure of 6% in their arguments when they talk about the rebate to people visiting Canada. When one of our members sells a product that is sufficiently expensive, for example, a handbag worth $3,000 or $4,000, the 6% rebate becomes a valid argument. Once the person has left the store, there is no way to know whether he or she will claim the rebate back home, but the sale has taken place. In any event, the money stayed in Canada.

[*English*]

Mr. Kevin Boughen: I'd like to speak to the numbers for a moment, because you made the point extremely well. First of all, just to talk about numbers for a second, if you look at the numbers that are provided by CRA, it's approximately one million transactions a year. If you look at the overnight visitors to Canada from out of country, which is how every OECD country measures the success of the program, you see 20 million. If you take the number of average travellers per unit as two, you get 10 million travelling units. If you take one million transactions and 10 million travelling units, you get a 10% usage rate. That's exactly what other OECD countries see.

So first of all, the numbers in Canada are in line with other countries already.

However, to your other point, 12% is not better than 10% necessarily, not worse than 9%. The point is that 10% of the travelling units are using the program. They're receiving $74 million and $74 million represents 10% of the GST. You can see that the other 90% is staying here.

Your analogy is fantastic from the standpoint of a program like this. You measure it as a promotional coupon. You are marketing the discount to 100%, 20 million people coming into Canada. You're marketing it to all the potential clients out there. The fact that 10% take you up on it is a great thing.

The Chair: Thank you, Monsieur St-Cyr.

We continue with Mr. Dykstra, for five minutes, sir.

Mr. Rick Dykstra: Thank you, Mr. Chair.

I have a couple of questions to different members of the panel.

Dawn, I'm interested in the response that you had in terms of job protection and its importance in Prince Edward Island. One of the things I want to ask you about is the substantial job cuts that have happened in the industry over the last number of years. I appreciate Mr. McGuire being here today, but he did fail to point out that you've lost over 213 jobs since 2004.

Ms. Dawn Hardy: I guess one thing I would like to know is where those numbers come from, because from my perspective, when I watch my membership list, there are 700 people on there, on both lists all the time. If you come in April and you do a scope of how many employees are there, it's income tax time: you might see a thousand people there during the income tax season. If you come back and look at us again in October, the number will decrease, probably by 213 people.

Mr. Rick Dykstra: The numbers here are provided by the CRA. I'd be happy to provide you with a copy of these if you'd like to see them.

Ms. Zabel, one of the things you pointed out was that you received some funding and that you made an investment a few years ago. I think it was about $15 million, and the strategy was an advertising/marketing strategy reaching out both here in Canada and, in large part, to the United States, where about $9 million of that investment went. One of the interesting parts of that is that I wonder if any thought went into trying to enhance the particular program we're talking about here today, rather than going to a marketing strategy. Why you would have chosen the marketing strategy over an investment or enhancement of the GST rebate program?

● (1110)

Ms. Karin Zabel: Well, our mandate is to market Canada, so the GST rebate program is not within our mandate. We wouldn't really be—

Mr. Rick Dykstra: You don't see it as a marketing program then?

Ms. Karin Zabel: Not directly, no.

Mr. Rick Dykstra: Okay.

I guess the other question I have for you is this. The work you've done, and the organization itself, is of course part of this government, but how much have you been cut since 2001?

Ms. Karin Zabel: I don't have the exact numbers since 2001, but I could certainly provide them to you. As I said earlier, our base funding currently is $78.8 million. We did receive some one-time funding in the last number of years to help us with SARS and 9/11, but I don't have those precise figures with me today.

Mr. Rick Dykstra: Do you think a reduction in your annual budget is a positive thing from a marketing perspective?

Ms. Karin Zabel: As I indicated, first of all, every government organization would obviously like more funding. We are in a very competitive sector. We believe our strategy will give us the highest return on investment within the budget we have, but certainly there is significant competition now from around the world.

Mr. Rick Dykstra: Chris, you pointed out a couple of things that I thought were very interesting, that the existing program is actually burdensome and administratively cost-prohibitive. Could you comment a little bit on that? I know you're not happy to be here today because of what happened to the program, but I think what this process has indicated is that we need a more focused endeavour if we're going to pursue it.

Mr. Christopher Jones: I think when we looked hard at the program, it was our sense that it could probably be delivered fairly efficiently by a third party entity. While we aren't pleased about the loss of jobs, we think that with the right incentives and the right restructuring, there could be some reduction in the overhead of this program, and that's laid out in our proposal. So we could understand how the government might look at the take-up rate of 3% and conclude that perhaps it wasn't money being spent as well as it could have been. We would dispute the number, but we think there is room for efficiencies and improvements in the program.

Mr. Rick Dykstra: Mr. Pollard, would you comment as well?

Mr. Anthony Pollard: Maybe I could just respond to the question you were asking before about the CTC budget. I happen to have the number in front of me. Would you like that figure now, Mr. Dykstra?

Mr. Rick Dykstra: Sure, that would be great.

Mr. Anthony Pollard: It's gone from $98.6 million in 2001 to about $75.8 million in 2007. So if you take into account inflation, the CTC budget is basically about $50 million less than what it was when the CTC was established in 1995.

The other point I'd like to make is that the visitor rebate program is most definitely one of the most important marketing tools we have for the group convention and tour business. I just want to underline that fact.

The Chair: I'm sorry, Mr. Polllard, as it seems I'm picking on you all the time, but coincidentally you're again at the end of Mr. Dykstra's time.

We'll move now to Mr. McKay, for five minutes.

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

Did any of the witnesses see this coming?

Mr. Anthony Pollard: No.

Hon. John McKay: Okay.

Some of you said we've gone from seventh to twelfth in terms of rankings. Have any of the ones ahead of us taken a similar stand and cancelled their visitor rebate programs?

Mr. Jones.

Mr. Christopher Jones: Not to my knowledge. In fact, Mexico has just added one, and many of the European countries that have a value-added tax have been widening the scope of items that are eligible to be claimed. In fact, it's moving in the other direction.

● (1115)

Hon. John McKay: If I were a tour operator and looking at potential places to go, and looking at the top 12, the only one failing to provide a rebate would be Canada?

Mr. Christopher Jones: The United States doesn't, simply because it doesn't have a value-added tax at the national level. I can understand how our government might have looked across the border, not seen one, and concluded we didn't need one, but then again, they don't have a GST. Essentially most of the major OECD countries that are significant travel destinations have one.

Hon. John McKay: Mr. Boughen?

Mr. Kevin Boughen: Just to clarify that, 100% of OECD countries with a consumption tax have a rebate program. No country has ever revoked a rebate program with a consumption tax. If Canada were to do it, it would be the only OECD country that is charging a consumption tax on a product that's not being consumed in the country, and it would be actually penalizing a tourist for carrying the product home with them on their plane as opposed to paying Federal Express to deliver it. If they pay Federal Express to deliver it, they don't pay the GST, if they carry it home, they pay the GST.

Hon. John McKay: Do any of the provinces provide a rebate program?

Mr. Kevin Boughen: Ontario.

Hon. John McKay: Ontario does?

Mr. Kevin Boughen: And all harmonized sales—

Hon. John McKay: I stand to be corrected, but I don't think Ontario is providing a similar revocation of the program.

Mr. Kevin Boughen: I haven't seen any cancellation of the Ontario program, but I would think that the HST would fall into this category, which in effect is a provincial consumption tax.

Hon. John McKay: Presumably it creates some confusion between those provinces that have HST and the others.

In terms of your fall-off in revenue, Mr. Pollard, your elasticity number is interesting. Your argument is that you're in effect losing $109 million in order to be able to save $78 million.

I just wanted to test that number with Mr. Fritsche from the Conference Board of Canada. What is your reaction to his numbers?

Mr. Alex Fritsche: I don't know the assumptions that Tony used when he calculated his numbers. We've looked at the issue to try to see what the potential impact could be, and to be perfectly honest, we haven't been able to come up with a conclusive answer. It's our contention, as Judy mentioned earlier, that if you're trying to do a cost-benefit analysis, it sure helps to know what the cost is. As an independent party, we don't have an idea right now of what the potential cost would be.

Hon. John McKay: Presumably there will be an impact on provincial revenues as well. If in fact the anticipated impact is to depress tourism, it's going to have an impact there as well, which is not in your $109 million figure. Is that correct?

Mr. Anthony Pollard: That's correct.

If I could just follow up on that, I've been working with Jim Daman in the Department of Finance. These figures that I use, by the way—this isn't mathematics by Pollard, this is Pannell Kerr Forster Consulting that developed these for us, an internationally recognized accounting firm. Jim Daman, in the Department of Finance, with whom I was working on these numbers, has not disputed them.

Hon. John McKay: Thank you.

The Chair: Thank you, Mr. McKay.

We'll move to four-minute rounds now, beginning with Mr. Wallace.

Mr. Mike Wallace (Burlington, CPC): I'll be very quick then. Thank you for coming this morning.

From my side of the table, we're cutting one half of 1% of the budget. There's lots of pain across the country. If I was to tell the truth, everybody who came in front of us said spend more money, we'll make more money. We heard that from absolutely everybody. You're not unique in that sense.

I have some sympathy for you. I was on the tourism board for the city of Burlington for a number of years and have some familiarity with the business. Can you tell me what the separation is in terms of percentage between conventions, tour groups, and so on that are external to Canada to internal? Do we know what the difference is?

● (1120)

Mr. Anthony Pollard: 30%.

Mr. Mike Wallace: 30% is external, so 70% don't get a GST rebate at all?

Mr. Anthony Pollard: That's correct.

Mr. Mike Wallace: That's correct. Okay.

The other thing that really surprised me is that my colleague from the other side of the bench, who was the minister at one time, talked about how his department, which he was responsible for briefly, told him that there were issues with this rebate and that it was something we may have had to cancel. Could any of you tell me whether you were consulted on that or not?

Mr. Anthony Pollard: No.

Mr. Mike Wallace: Mr. Pollard, you talked about... I told you that you would like my question. You also told us that—and let's use real numbers, not the inflationary numbers, just in case they're not exactly right—it was $25 million over the last little while for that crown corporation. Were you consulted on that?

Mr. Anthony Pollard: Yes.

Mr. Mike Wallace: You were consulted. What was your position on that?

Mr. Anthony Pollard: We need to enhance the funding for the Canadian Tourism Commission.

Mr. Mike Wallace: So even though you were consulted and you told the previous government that, no, you needed more money for it, actually more money was cut. Is that correct?

Mr. Anthony Pollard: It depends on what period of time you're looking at. In fact, in the year 2002, following 9/11, the Government of Canada did in fact support additional funding for—

Mr. Mike Wallace: It was for those emergencies. Okay.

The next question is for Mr. Jones, and maybe Mr. Boughen.

This program is being cut because—and you've all admitted it, although maybe not Dawn—there is an issue with the efficiency of use of taxpayers' money, which we're responsible for. You have come today, at the 11th hour, as far as I'm concerned, with programs that are privately run. How fast can we get this? Why have you not done this before? Why are we hearing it today and not prior to today?

Mr. Christopher Jones: In answer to that question, the announcement of the program was on September 25. We had just put the proposal for a private sector service delivery model together. So it's with you now.

I very quickly want to make the point, and it's not unique to the current government, that tourism has not been a central focus of the industry department for a long time. The automotive and the aerospace sectors have been the main focus of that department. This industry has been lost in the reeds, and we need a renewed focus on it. It's the number one or two industry internationally, at the moment.

Mr. Mike Wallace: My question, though, is this. If you had had a heads-up earlier than September—two or three years ago—that things weren't great in this program, you may have been able to develop that sooner. Is that an accurate statement?

Mr. Kevin Boughen: I just want to clarify that we are a private company. We're not funded by the government. We already have a user-pay system. We already charge the tourist 20% to do it. We've been doing it since 2002, and we're just suggesting that the entire market be run that way, at no cost to the government.

The Chair: We'll continue with, and possibly conclude with, Mr. Pacetti.

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): Thank you, Mr. Chairman.

Thank you to the witnesses. It's always interesting to have a panel, so we have different points of view. This one seems to be more or less on the same wavelength.

Before I ask my one and only question, Mr. Pollard, what do groups that come here for conventions get back? I don't think hotel and food is eligible. What would their GST rebate comprise?

Mr. Anthony Pollard: First of all, it's not a rebate, just so I'm very clear. It's an exemption, as a go-forward. So it's not something we collect and then rebate back. For the convention touring group, that's the way it is. It's based upon 6% for the rooms, but because food is not a component of it, that part is not included.

Mr. Massimo Pacetti: So everything else related to the rooms, the rental of the convention hall—

Mr. Anthony Pollard: It wouldn't include going to an attraction. It would be the convention hall, but it wouldn't be the component that is related to food and beverages, for example.

Mr. Massimo Pacetti: It doesn't include consumables. And the hotel rooms are exempt.

Mr. Anthony Pollard: Yes.

Mr. Massimo Pacetti: My question is a general question, maybe more along the lines of what Mr. Wallace just asked. If we took the $78 million in savings and put it back into the tourism industry, what would you feel? Would that suit your needs?

Perhaps we can just go around the table.

Mr. Anthony Pollard: Certainly any investment by the Government of Canada and the Canadian Tourism Commission would be welcomed. I have no difficulty with that, whatsoever. We understand the competitiveness agenda of the government, and we want to work with them to find a solution that can benefit all of us.

Mr. Massimo Pacetti: I'll ask Ms. Furlong.

Ms. Kim Furlong: We would welcome additional funding for the tourism industry, but the impact of eliminating the GST rebate program would still be there. My members would not be able to use it as a marketing tool to say, when someone walks into their shops, “If you buy this item right now, you can save 6% on it”.

Mr. Massimo Pacetti: So it's not an either/or for you.

Ms. Kim Furlong: No.

Mr. Christopher Jones: Rather than taking these decisions in isolation and doing one-off investments, if both governments had followed through on the elaboration of the national tourism strategy that Minister Rock announced in December 2003, then when it came time to decide on the kinds of investments to make or where to make cuts, we would have had a rational overall plan in which to fit those kinds of things. I'd like to see the elaboration of a national tourism strategy. I think that would help, and then we'd understand whether an investment in marketing was more appropriate than one in the VRP.

● (1125)

Mr. Massimo Pacetti: Thank you.

I'll ask Ms. Hardy and Mr. Fritsche.

Ms. Dawn Hardy: I just want to mention that in the years after this program came to Summerside, the tax centre employees who process the rebates forwarded suggestions to make the program better, and one of them was to market it. The marketing aspect of the program is missing. That would certainly increase the take-up on the program.

Mr. Massimo Pacetti: So it would be a mixture of marketing and —

Ms. Dawn Hardy: And advertising.

Mr. Alex Fritsche: To echo some of the comments of my colleagues here, the CBC would certainly appreciate more funding. It would definitely benefit the Canadian tourism industry and the economy as a whole. However, getting rid of the GST rebate program will constitute a definite competitive disadvantage for Canada that will not go away. In a market that's becoming increasingly—

Mr. Massimo Pacetti: I'm sorry to interrupt, but I just want to go to Ms. Zabel. Our time is limited.

Ms. Zabel.

Ms. Karin Zabel: We certainly believe that additional funding would help us improve our competitive position. We would invest additional funds in the U.S. market, which is our toughest market at this point.

Mr. Massimo Pacetti: Thank you.

Mr. Boughen.

Mr. Kevin Boughen: In our experience, VRP programs are economically smart. Shifting the money to marketing will not address the fundamental issue that it's a consumption tax and you're exporting a product that's not being consumed in the country.

Mr. Massimo Pacetti: Thank you.

I can see we have consensus around the table. What that is we're not sure.

Thank you, Mr. Chairman.

The Chair: Thank you very much to the panellists for being here this morning. We appreciate the work you're doing on behalf of your organizations. Thank you for your time and your responses to our committee members' mostly civil questions. We're very appreciative of your time and effort.

We will suspend briefly until the minister arrives.

● (1125)

(Pause)

● (1140)

The Chair: Welcome, Mr. Minister. We're pleased to have you here. Committee members, I know, are pleased to see you as well. I'll read some comments here and give the media a chance to leave here.

Pursuant to the order of reference of Monday, October 30, 2006, BillC-28, A second Act to implement certain provisions of the budget tabled in Parliament on May 2, 2006, the chair calls clause 1.

(On clause 1—*Short title*)

The Chair: I'll invite the minister to make some introductory remarks, and I would also, if he would be so willing, ask him to work into those remarks a possible date that Canadians might expect to hear a fall fiscal update.

Mr. Minister, welcome.

Hon. Jim Flaherty (Minister of Finance): Thank you, Chair.

I express my thanks to the committee for all of the work that has been done on pre-budget consultations. I know that the committee has travelled extensively and done a great deal of work, and I look forward to reviewing the report of the committee as part of budget preparation.

On the point that you mentioned, Mr. Chairman, I'd be honoured to appear before this committee to provide Canadians with the state of our nation's finances on Thursday, November 23. I will deliver the fall economic statement of Canada's new government. As you know, we have established strong economic fundamentals through implementing significant tax relief, debt reduction, and efficient spending, and by focusing on the priorities of Canadian families and businesses, but we must build on our success and seek new ways to unleash our potential. For these reasons, I will also be providing Canadians on that day with our economic plan for Canada. This new economic platform is a strategic long-term plan designed to improve our country's prosperity, both today and in the future. Canada's new government is getting things done for Canadians, and you will see further evidence of that on November 23.

I would like to turn to Bill C-28, Chair, and then in a few minutes, I understand, we'll look at finance estimates.

Once passed, Bill C-28 will implement certain tax relief measures that Canada's new government announced in budget 2006, but that were not included in the initial budget implementation bill last spring. I will say at the outset, Chair, that Canadians pay too much tax, and the tax burden on individuals, families, and businesses is still too great and must be reduced. Our government made significant progress on this front this past May. Budget 2006 provides more tax relief for individuals than did the last four federal budgets combined.

● (1145)

[*Translation*]

Once passed, Bill C-28 will implement certain tax relief measures that Canada's new government announced in budget 2006, but that were not included in the initial budget implementation bill last spring.

Mr. Chairman, Canadians pay too much tax. The tax burden on individuals, families and businesses is still too great and must be reduced. Our government made significant progress on this front this past May. Budget 2006 provides more tax relief for individuals than did the last four federal budgets combined.

[*English*]

All told, we left some $20 billion more in the pockets of individual Canadians in budget 2006. As the measures in Bill C-28 demonstrate, the tax relief will have widespread benefits.

The question is often asked, Chair, why we've reduced taxes and why we reduced the tax burden on Canadians. It is not simply for the sake of reducing taxes. The actions taken by this government will serve to build a stronger, more competitive and productive Canada, both for today and tomorrow. Our goal is, first of all, to focus on the priorities of Canadians; second, to maintain a balanced budget; third, to reduce debt; and fourth, to spend on programs that are both efficient and effective. We will also create a real tax advantage for Canada that encourages and rewards investment, hard work, and savings.

I won't go into excessive detail on the bill, but allow me, if I may, Chair, to take a few moments to explain how the measures in Bill C-28 contribute to our goal.

First of all, the Canada employment credit recognizes that working Canadians are the foundation of Canada's economic growth. It rewards them by helping to offset work-related expenses that are not covered by the employer, expenses such as uniforms, books, or home computers. The credit will allow each and every working Canadian to claim a credit on up to $500 in employment income in 2006, starting last July 1. This coming January 2007 the amount of income eligible for the credit will double to $1,000.

Together with the new Canada employment credit is a new deduction for tool expenses. This new measure provides for a deduction of up to $500 to tradespeople for the cost of tools in excess of $1,000 that they must acquire as a condition of employment. Mr. Chairman, the tools deduction combined with the Canada employment credit will provide tax relief to about 700,000 employed tradespeople in Canada.

This bill also contains proposals to help meet the demand for skilled workers, particularly in the construction trades. The new apprenticeship job creation tax credit will encourage employers to hire new apprentices to learn a trade. As a result of this proposed measure, eligible employers will be able to receive, to a maximum of $2,000 per apprentice per year, a tax credit equal to 10% of the wages they pay to qualifying apprentices in the first two years of their contract.

In this year's budget, we also proposed a tax credit so that people who use public transit with monthly passes in Canada will have about two months free public transit per year. This initiative will be instrumental in cutting the commute, cleaning the air, and driving our economy.

Similarly, Mr. Chairman, Canadians have been very supportive of our efforts to help upcoming generations secure their futures. In recognition of the expenses involved in putting our children through school, Bill C-28 includes a new non-refundable tax credit to help cover the costs of textbooks for students. Also to help students, Bill C-28 will fully exempt from tax scholarships, fellowships, and bursaries received by a qualifying post-secondary student. Currently, the situation is that only the first $3,000 is exempt. This measure, with respect to scholarships and fellowships and bursaries, will help provide tax relief to more than 100,000 post-secondary students.

As you can see, Canada's new government has taken significant action to help Canadians prepare for their future, but there is more. In budget 2006, we introduced our physical fitness tax credit for up to $500 to assist parents with the costs of programs that require regular physical activity for our children.

We have also delivered significant positive initiatives in support of our pensioners and seniors. In our first budget, Canada's new government proposed to double to $2,000 the maximum amount of eligible pension income that can be claimed under the pension income credit. This is the first time the credit has been increased. Not only will this measure provide greater tax assistance to those who have saved carefully for their retirement, it will remove approximately 85,000 pensioners from the tax rolls completely.

● (1150)

Since then, of course, we have gone further, through the tax fairness plan I announced on October 31, permitting income splitting for pensioners beginning in 2007, and increasing the age credit amount by $1,000, to $5,066, effective January 1, 2006, or this past January.

For businesses, budget 2006 introduced a reduction in the general corporate tax rate to 19% by 2010; the elimination of the corporate surtax for all corporations in 2008; and the end of the federal capital tax in January 2006, two years earlier than had been scheduled. These tax reductions have already been legislated.

We also announced on October 31 a further 0.5% cut in the general corporate income tax rate starting January 1, 2011, under the tax fairness plan, which will reduce that rate a further 0.5%, to 18.5%.

For small businesses, which are 95% of all Canadian businesses, Bill C-28 contains further tax reduction measures from the budget. These proposals will increase the small business income threshold to $400,000 starting next January, and will reduce the small business income tax to 11% by 2009.

There is more on this bill, Mr. Chairman, but I think my remarks so far serve to illustrate the government's course and where we intend to go in future budgets.

I now invite any questions you may have about Bill C-28. With me today are officials from Finance Canada who are here to help address any technical issues members of the committee may want to clarify.

I gather, Chair, later we'll deal with the estimates part?

● (1155)

The Chair: That's correct.

Hon. Jim Flaherty: Thank you, Chair.

The Chair: Thank you, Mr. Minister.

Just for clarification, we will carry on with questions now until approximately 12:25 and take a brief break of, I hope, ten minutes, at which time we'll invite the officials and the minister to join us for a light lunch. Then we'll reconvene and conclude. I'm hopeful that the minister will agree to stay slightly longer, until approximately 1:15.

We'll commence now with questions, and we'll go with six-minute rounds.

Mr. McCallum.

Hon. John McCallum: Thank you, Mr. Chair.

It's a pleasure to see you, Minister, and to have an opportunity for a little engagement here. I have six minutes and a number of questions. I will try to be precise and concise. I hope you can reciprocate.

My first question is on income trusts. I'd like to ask you a fairly technical question. I'm referring only to existing income trusts, not to what happens to future income trusts.

I'm wondering why you didn't allow a transition period of ten years rather than four years for the bringing into play of the taxes. The Americans did that, I think purely because of the time value of money. The effect on capital values for investors who had, after all, invested in good faith would have been very substantially reduced. The negative effect would have been very substantially reduced had you gone for a longer transition period.

So why did you choose four years rather than ten years?

Hon. Jim Flaherty: Or three years or five years or two years or no years. Obviously a line—

Hon. John McCallum: Well, ten years is what the Americans chose, so that's a bit of a benchmark. You chose four.

Hon. Jim Flaherty: Yes, and the Australians chose three years.

Hon. John McCallum: Right.

Hon. Jim Flaherty: I'm not being flippant about it, Mr. McCallum. There had to be a line drawn somewhere.

Certainly it was determined early on that we would have a grandparenting period because that would be fair, and this was a plan directed at tax fairness, making sure that we were protecting the Canadian tax base and making sure that we were not imposing an unfair burden on individuals and families by reason of corporations being able to avoid paying corporate tax in Canada.

We looked at the Australian experience, at the experiences in the U.K., and at the United States in particular. The Australian experience had been at three years. Our market was somewhat bigger than that, so we chose four years. It could have been more, it could have been less. There's not the wisdom of Solomon to that, but we felt that was about right, based on the experience in Australia.

The Chair: Let me quickly interject.

Committee, we are dealing with Bill C-28 here. The minister has already announced that he'll be coming back in two weeks for the fall fiscal update. If you have questions of a general nature, not pertaining to this particular bill, I would encourage you to bide your time and use the opportunity presented to you in two weeks to deal with these issues.

At this point, of course, I will continue to give the latitude I am accustomed to giving. But I would encourage members to deal with the substance of Bill C-28 as much as possible today. That's what we're here to discuss.

Hon. John McCallum: Thank you, Mr. Chair. I hope that was not included in my six minutes.

I will move on, but I would simply note there was a press release in the minister's document about income trusts that his department submitted.

I'm moving on anyway.

The Chair: Mr. McCallum, I will note that I didn't call you to order earlier, for that reason. However, I am putting this on the record at this juncture as advice to committee members in further questions.

Hon. John McCallum: You will note friendly compliance on my part.

Mr. Minister, I now would like to ask you a question about the funding provided under apprenticeship job creation or tradespeople's expenses. Are any of those funds that go to Ontarians under those programs counted as part of your meeting the terms of the Canada-Ontario agreement?

Hon. Jim Flaherty: The Canada-Ontario agreement provides that the Government of Canada transfer more than $5 million to Ontario or Ontarians over the course of the agreement. That was entered into by the current Government of Ontario with the former Government of Canada—Mr. McGuinty and Mr. Martin as the Premier and Prime Minister, respectively.

Our government extended that. The Prime Minister has extended that by a further year to six years. Some transfers are transfers to the people of Ontario and not directly through the Government of Ontario.

● (1200)

Hon. John McCallum: So the apprenticeship funding, for example, would you consider that to be a part of your commitment under the Canada-Ontario agreement?

Hon. Jim Flaherty: I don't have the agreement in front of me, Mr. McCallum. I can't specifically recall whether the apprenticeship dollars were included in that or not.

Hon. John McCallum: The official is nodding.

Hon. Jim Flaherty: Yes.

Hon. John McCallum: So then the agreement under apprenticeships that benefits all Canadians equally you are counting as part of money paid to Ontario to address specific unfairnesses to Ontario. I don't understand the logic of that. The Canada-Ontario agreement was Ontario specific, because Ontario was treated unfairly in immigration and other things. And now you provide money to every province in the country—people or governments of those provinces—and you count as money under the Canada-Ontario agreement money that goes to all, and not money that is specifically directed to Ontario. I don't understand the logic of that.

Hon. Jim Flaherty: Nor do I understand the logic, Mr. McCallum, of some governments in Canada thinking they should get twice as much as every other provincial government in the country.

In fact, the Province of Ontario, under the Canada-Ontario agreement, in infrastructure, for example, is getting $300 million more than every other province in Canada. That agreement had various provisions in it, but the culmination—and this was signed by Mr. McGuinty and Mr. Martin—was that these sums would be transferred to Ontario or Ontarians. That's according to the agreement they entered into, not me.

Hon. John McCallum: The essence of what you've said is a critique of the Canada-Ontario agreement, which implies that you have not lived up to that agreement. You are giving to Ontario money that goes to every other province. Therefore, that should not be counted under the Canada-Ontario agreement.

Is my time already up?

[*Translation*]

The Chair: We will continue with Mr. Paquette. You have six minutes.

Mr. Pierre Paquette: Thank you, Mr. Chairman.

We can talk about income trusts here because Bill C-28 contains a clause amending the Income Tax Act to bring the taxes imposed on dividends more in line with those that apply to interest and income from these trusts.

I would first like to ask you whether this measure, which was announced before your decision on income trusts, is still relevant. Why do we need to do anything about dividend taxation now that income trusts will be taxed at the same level as companies?

Hon. Jim Flaherty: I would like to thank the member for his question.

[*English*]

The effort we made in budget 2006 with respect to the dividend tax credit was designed to try to remedy the income trust challenge. It was insufficient. That became plain as more and more companies in Canada announced that they were going to convert to income trusts this year, including the two large telecommunications companies.

We still want to proceed with that change in taxation of dividends in budget 2006 and in Bill C-28 because we have designed the program going out four years from now so there will be a level playing field by the time we get to 2011, including this dividend change between corporations and income trusts. Then it will make no difference in Canada, from a taxation point of view, whether a corporate entity chooses to do business as a corporation in the traditional sense, or as an income trust.

[*Translation*]

Mr. Pierre Paquette: When the Liberals asked you questions on this over the past few days, you answered that the government's decision—which we support even though the government did make a promise in this regard during the election campaign—was based on tax fairness and the fact that the tax burden needs to be distributed fairly among taxpayers. Do you not think that you should go further than what you have announced, in particular in dealing with tax havens? Two different auditor generals have mentioned that the use of tax havens by Canadian companies and taxpayers was chipping away at the tax base in Canada, and that is the argument that you used when you took action to deal with income trusts. Do you intend to do something about the use of tax havens as a tax-avoidance measure?

● (1205)

[*English*]

Hon. Jim Flaherty: Thank you for the question.

We are interested in broadening the tax base and in tax fairness to Canadians, broadly defined. I'm aware of the Auditor General's comments and views on the issue of tax havens, and it is a matter that we are reviewing.

[*Translation*]

Mr. Pierre Paquette: Do you think that there will be anything on that in the next budget? Can we expect action to be taken quickly?

[*English*]

Hon. Jim Flaherty: You'll appreciate that I'm not going to talk about what may or may not be in the next budget.

[*Translation*]

Mr. Pierre Paquette: I want to ask you one last question if I still have some time, and I am being very straightforward here.

There has been considerable criticism of the fact that you announced the income trust decision on a Tuesday rather than a Friday. If you had made the announcement on Friday, at the start of the weekend, small investors may have panicked less. They would have had time to better understand the real effect of the decision you made, particularly regarding existing trusts, since there is a three-year transition period. Why did you decide to do this on a Tuesday rather than a Friday, or why did you not just decide to impose a moratorium on trading in income trust shares?

[*English*]

Hon. Jim Flaherty: My primary concern was not the day on which the announcement would be made.

[*Translation*]

Mr. Pierre Paquette: You know as well as I do that people panicked temporarily. If the announcement had come on a Friday, people would have had two days to read the papers and call their brokers and that way they would have made well-informed decisions. I am sure that there are people who took advantage of the fact that the price of income trust shares nosedived and is now going back up. It seems to me that those windfalls could have been avoided.

[*English*]

Hon. Jim Flaherty: The most important thing was that the announcement be made after the markets and the after-market trading were over for a given day. There was some advantage to doing it on the last day of the month, which will help for accounting purposes for some, and to have secrecy and confidentiality because of what had happened the previous year under the previous government. I'm comfortable that we accomplished those goals.

The Chair: Madam Wasylycia-Leis.

Ms. Judy Wasylycia-Leis: Thank you, Mr. Chairperson, and thank you, Mr. Flaherty, for the time you're spending with us this morning.

While we're on the income trust issue, how much did department officials estimate the status quo on income trusts was going to cost the treasury?

Hon. Jim Flaherty: Currently, this year, the number was between $400 million and $500 million, anticipating another $300 million with TELUS and BCE, were they to convert to income trusts as they had announced they intended to do; and then the corporate income taxes that would not have been paid by those two companies, which they have spoken about publicly, in their own estimates, were together in excess of $1 billion next year.

Ms. Judy Wasylycia-Leis: Can you give us any sense of which corporations were looking at conversion, or how many?

Hon. Jim Flaherty: Do you mean corporations that had not announced? I'm not going to get into names, but—

Ms. Judy Wasylycia-Leis: Was it significant? What I'm trying to understand is that the status quo obviously has led to possibly $1 billion or more in loss to the treasury, but if we had maintained the status quo, was there any threat of it driving us into the red?

Hon. Jim Flaherty: Over time, yes. There was a clear and present danger that Canada was going to become an income trust economy. That has been stated by others since we made the announcement, and we have substantial support for that, including among businesses in Canada that became income trusts and are existing income trusts. Many of their executives have said to me, and have said publicly, that this was not in the best interests of our country, going forward.

What we were seeing in 2006 was not only an increase in the number of income trusts, but also an increase in the quantity being engaged, being in conversion. Also, we saw this domino effect, that when TELUS announced it would become an income trust in the telecommunications sector—and this was spoken of openly by people in the industry—BCE felt that it also had to convert. Then we knew, if one of our financial institutions converted subsequently, there would be great pressure on other financial institutions in Canada to imitate that conversion, which would mean that increasingly, as I say, the mode of doing business in Canada in the corporate world would be through income trusts and not through the traditional corporate model, which we and others felt was not in the best interests of our country in the long haul.

● (1210)

Ms. Judy Wasylycia-Leis: I think even before the Liberals made their botched announcement a year ago, economists were saying that the status quo on income trusts was going to cost us a great deal and there would be massive losses in tax revenue. Were you not aware of this before you made your election promise? Did you not get the information soon enough? Could you tell us when you first became aware of this problem?

Hon. Jim Flaherty: Certainly it was some months ago, after we became the government, that we started to see the acceleration of conversions. That concerned me some months ago. Then, as I mentioned a moment ago, the quantity of the conversions—the amount of money involved, the size of the conversions—was accelerating as well. Then we had the conversions moving into a new sector of the Canadian economy that is capital intensive, namely the telecommunication sector, first with TELUS and then imitated by BCE. I had directors telling me that they felt compelled and were getting advice that, as directors of publicly traded companies in Canada, if they did not convert they were not serving the best interests and were violating their duty to maximize value to shareholders. That was a matter of increasing concern to me, that this was the wrong model for Canada. It was the wrong way to go. It was the wrong thing to do.

It was not in the best interests of Canada for next year or the year after that, and certainly not for the next generation. It was counterproductive in terms of our agenda to have a more competitive, productive Canadian economy, to keep our standard of living and quality of life, and to keep our social services. These massive transfers that we make to the provinces come from tax revenues to the Government of Canada, and that erosion of the tax base would have meant that, to pay for those services, the health transfers, the post-secondary education transfers, the social transfers, and infrastructure, we would have had to tax more and more individuals and their families in Canada, which I also felt was not in the best interests of our country. It was not fair.

The Chair: Thank you, Madam Wasylycia-Leis.

We continue with Madam Ablonczy now.

Ms. Diane Ablonczy (Calgary—Nose Hill, CPC): Mr. Del Mastro.

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

Thank you, Mr. Minister, for appearing before the committee today.

I would like to drag the debate back to Bill C-28, as that's what we're here to discuss today. One of the things that have come up time and time again for the committee when we've been in our pre-budget consultations is productivity. We were at third place overall in productivity, and now we're in seventeenth. Can you talk about the importance of giving a timeframe and reducing corporate taxes to 19%, and then 18.5%, and also the elimination of the corporate surtax, with respect to improving productivity in Canada and investment?

Hon. Jim Flaherty: That's an excellent question, I must say. I'm glad Mr. McKay likes the question as much as I do.

Mr. Dean Del Mastro: Well, he should listen to the answer, because he needs to learn.

Hon. Jim Flaherty: Quite frankly, Mr. Del Mastro, I think there's a consensus in Canada among people who look at the Canadian economy, including Roger Martin at the Rotman School of Business in Toronto, others who have analyzed the Canadian economy in our think tanks and so on, and members of various political parties. People who have looked at this issue say we have productivity challenges. How do we address that?

One way of addressing it, clearly, is to reduce the corporate tax burden, which we are doing. It's important that it be done in a predictable and certain way, so that corporations know what their tax rates will be going forward and can plan accordingly. We want to encourage investments in machinery and equipment, certainly, and in new technologies. For those long-term commitments, corporations need tax certainty in order to assess the appropriateness of making those kinds of long-term investments, which we know increase productivity.

Increasing productivity is not about people working harder in Canada; Canadians work hard. It's about working smarter, if I may put it that way. It's about all of us being more efficient through the use of technologies. We just have to look at how much more efficient we all are today through the use of software that we didn't have before. As an easy example, we know that cars are being produced today with technology that results in those plants being more productive than they used to be.

● (1215)

Mr. Dean Del Mastro: Thank you.

You mentioned a number of things. First of all, you indicated that you think Canadians pay too much in taxes. I'll certainly tell you that the people in my riding feel that way. They feel excessively taxed. They appreciate the individual tax savings, important savings that, as you highlighted, are greater than in the last four budgets combined. In addition to the employment tax credit and the tool expenses tax credit, you underlined something else: benefits to people who currently work.

I think the measures we've taken to decrease the tax burden on seniors are really significant. You mentioned that we've removed 85,000 pensioners completely from the tax roll. Can you talk about the measures in Bill C-28, as well as the ones you announced on October 31? What benefit will those be to the 23,000 pensioners in my riding?

Hon. Jim Flaherty: The specific provision that's in Bill C-28is the increase of the pension tax credit by $1,000, which is a doubling of the tax credit. That is a commitment we made in the election campaign. Interestingly enough, although I didn't realize it when I first looked at it, it had never been increased since it was brought in at $1,000 more than 20 years ago, as I recall, so it's about time, in fairness to seniors. We're trying to create tax fairness in Canada; in fairness to seniors, that needed to be updated.

Then there is the age change we made for low- and middle-income seniors on October 31. Increasing that limit on the age credit by $1,000 will be significant. In Canada it assists low- and middle-income seniors primarily; there is an income limit on it.

Then the huge change, the massive change, in tax policy in Canada is that we changed the rule on income splitting for pensioners. I don't minimize the significance of that. It's a very significant tax change in Canada. It will benefit pensioners directly in a very real way, starting January 1, 2007.

Regardless of our political party, we all know as members of Parliament that among our constituents we have folks living on one pension. They are Canadians who worked during a time when it was not common for both partners to work outside the home, as it is today. They're living on one pension of, say, $40,000 a year, and they're paying tax on it at $40,000 a year. They'll be able to split it now to $20,000 a year each. That means tax savings of about $2,500 for those two people living together on $40,000. I think most Canadians would say that's fair, that it's the right thing to do.

The Chair: Thank you, Mr. Del Mastro.

We continue with Mr. McKay now. We're going to have to go to three-minute rounds, Mr. McKay.

Hon. John McKay: Minister, now that you've had the really tough questions, we'll get to the easy ones.

For Mr. Del Mastro's purposes, he should note that Bill C-28 contains the dividend gross-ups that were announced in the November update of 2005, and they do affect income trusts.

I want to direct the minister's attention to this panoply of tax credits that he's put into his budget. Frankly, I think the accountants and CGAs of this world should be erecting monuments to you, because you've certainly increased the Income Tax Act of Canada by several chapters.

Now, on the public transit passes tax credit, can either you or anyone in your department point me to a study that supports the cost-benefit analysis of this particular tax credit?

● (1220)

Hon. Jim Flaherty: I don't have a study here with me, if you're asking me to produce a study. We looked at various materials when we were preparing the budget for 2006. I don't have much doubt that if a person can save two months' worth of transit a year—for example, in my community of Whitby, taking the GO train into Toronto—they're happy to do that.

You have to be a monthly user. This tax credit was not designed for casual users of public transit; it was targeted at people who commute. That's why the qualification is there for a monthly pass.

Hon. John McKay: With greatest respect, Minister, you know this is going to cost you about $900 million, and because your department has already told you, you know that there might possibly be a bump-up of about 5% of users. How can you justify a reduction of revenues to the government worth essentially $900 million, and only get this kind of return? And that is optimistic at the outset. What has changed from the previous departmental studies that would now enable you to make this part of your budget?

Hon. Jim Flaherty: I don't think I need to remind this member what the traffic is like in Scarborough every morning, with the cars sitting on Highway 401, and the air pollution that they create, and the greenhouse gas emissions—

Hon. John McKay: You and I agree on that point.

Hon. Jim Flaherty: You're asking me to put a price on that. What price do you put on that kind of air pollution and greenhouse gas emissions in Canada?

Hon. John McKay: But why not buy more transit? Why not buy more buses, more GO trains, and more subways? That's where you get the benefit.

Hon. Jim Flaherty: Exactly, and we announced it in the trusts that we created for public transit in March.

The Chair: Thank you.

We'll continue now.

[*Translation*]

We will now go to Mr. St-Cyr.

Mr. Thierry St-Cyr: Thank you, Mr. Chairman.

My first question deals with the measures taken concerning microbreweries and wineries. I am going to concentrate on microbreweries, since there is one in my riding.

Initially, there was supposed to be measures for breweries producing less than 300,000 hectolitres a year. Now the exemption has been broadened to cover all Canadian breweries. What was the reason for that change? Did it result from pressure from the major Canadian brewers?

[*English*]

Hon. Jim Flaherty: That's a good question.

We had views expressed by breweries generally on how that should be structured. Our primary focus has been on the smaller breweries in Canada, which have been remarkable entrepreneurial success stories.

I knew this from my prior life as the Minister of Finance in Ontario, where we provided incentives for the smaller breweries. They responded by expanding and employing more people. It was successful. That's why we looked at exemptions. You can do it either way. You can draw a line at the size of the breweries, or you can do it for all breweries and exempt only a certain amount of...what do they call them, hectolitres? Whatever it is now, it used to be gallons.

[*Translation*]

Mr. Thierry St-Cyr: My second question deals with the textbook tax credit. Obviously, everyone would like to see assistance for students, but this non-refundable tax credit does not seem to me to be the best way of doing that. Students will be able to defer the credit until they have finished their studies, but it is while they are still at school that they need this money. Why did you not choose instead to give a refundable tax credit or a GST exemption on textbooks, which would have been preferable and easier to administer?

● (1225)

[*English*]

Hon. Jim Flaherty: As you know, exemptions for GST come up all the time as an issue. There's a general reluctance to have exemptions from GST because it's a tax of general application in Canada, but I take your point.

Students sometimes have cash challenges and they don't have much money in their pockets. There are different ways of structuring that. I suppose one could do grants directly to students, but that might be viewed as interfering in an area of provincial jurisdiction also. I'm prepared certainly to look at suggestions of how to make that effort more effective.

The point is to assist students, and if there's a better way of accomplishing that goal, then I'm happy to review that with you.

The Chair: Thank you, Monsieur.

We continue now with Mr. Wallace.

Mr. Mike Wallace: Thank you, Mr. Chairman.

I want to come back to the transit pass piece. It's very important to my riding in Burlington. I want to be clear so that when I'm communicating with my constituents once this has passed, I can say what is happening.

Right now a GO train pass from Burlington GO train station to downtown Toronto on a monthly basis is $247, which comes out to about just shy of $3,000 a year—$2,964. If I'm reading this correctly, which I need verification for, they're able to apply a tax credit of about 15.25% in 2006 and 15.5% in 2007. Am I reading that correctly? Can somebody tell me if that's accurate?

Hon. Jim Flaherty: I'm sure you're reading it correctly.

Mr. Mike Wallace: But is it accurate? Thank you, Mr. Minister

Mr. Brian Ernewein (General Director, Tax Legislation Division, Tax Policy Branch, Department of Finance): My verification of your accuracy depends only on my arithmetical skills. To get to the right answer I'd have to multiply $3,000—I've taken that number and not the precise number you used—by 15.5%. That gives me something in the order of $475, I believe.

Mr. Mike Wallace: You're telling me I can tell my constituents that if they choose to take public transit into Toronto, which is very busy in my area and growing, they will save on their taxes almost $500 a year? Is that an accurate statement?

Mr. Brian Ernewein: On the numbers you provided and assuming they buy these through monthly passes, that would be right.

Mr. Mike Wallace: There is another interesting thing. I was fortunate enough to be on the western tour with the finance committee, and the gentleman from the Greater Vancouver Transportation Authority thanked the government for the tax credit. He's claiming that month over month it's gone up—10% in June, 10% in July, 13% in August. Is this what you were you hoping to achieve with a tax credit, to get more people to use the transit system?

Hon. Jim Flaherty: Of course, and there's the environmental benefit of that. As was raised earlier, at the same time we have to invest in transit infrastructure, particularly in the large urban areas in Canada, including the Lower Mainland in British Columbia and of course the greater Toronto area, the greater Montreal area, Halifax, Edmonton, and Calgary as well. There are lots of good ideas there in terms of transit infrastructure. We did do substantial funding through the trust that was established in March. We have to move forward on all fronts with respect to making public transit more attractive to Canadians.

Mr. Mike Wallace: Are you seeing any other organizations, Greyhound or anybody else, going to a monthly pass to try to attract people to use their services, to actually use a more public system to be able to take advantage of the transit credit? Do you know if that's happening? Have you heard of that?

Hon. Jim Flaherty: As I recall, you told me.

Mr. Mike Wallace: You're not supposed to say that.

Hon. Jim Flaherty: Oh, sorry. I'm kidding, of course.

There is a proposal that I've seen involving some of that private sector, relating to some communities in southern Ontario—I know of that—and probably elsewhere in Canada. We are keenly interested as a government in environmental issues and making sure that we are, for the first time, attacking air pollution smog in Canada through the clean air bill. An important part of that is encouraging people and making it reasonable for people to be able to get out of their automobiles and use public transit.

The Chair: Before we conclude with Mr. Pacetti, committee members and staff, on Tuesday, November 21, there will be a lock-up in Room 307 West Block, from 10 o'clock until noon, to deal with the draft pre-budget report, which the minister will, of course, want to see. From 3:30 that afternoon until finished, in Room 237-C Centre Block, we will deal with the preparation of that report.

As well, on Thursday, November 23, in Room 253-D, we will have the fiscal forecasters panel, as agreed by a previous motion, from 3:30 until 4:30. At 4:30, we will again be honoured with the presence of the Minister of Finance for his fall fiscal update.

We'll conclude now with Mr. Pacetti.

● (1230)

Mr. Massimo Pacetti: Thank you, Mr. Chairman.

Good afternoon, Mr. Minister. We didn't have you here the last time we discussed the budget, so it's good to have you here now. I have just two quick questions here, if you can help us out.

We had your Finance officials before the committee on Tuesday. They were supposed to provide us with some estimates. I understand that you're looking forward to our pre-budget consultations, so I'm wondering if you could at least instruct your officials to release some of the estimates that they have on some of our requests, or to confirm or help us out on some of the items that we requested from them. I would really appreciate it. They had indicated that they would be releasing some of that information based on what your instructions were, so it would help if you could help us with that.

Hon. Jim Flaherty: I'll review that. I'm not sure of the particulars. I knew there were some requests that were not matters with respect to which—

Mr. Massimo Pacetti: We're going to be deliberating the report on Tuesday. I'm not sure when your officials were going to speak to you, but we'd like to have the information before Tuesday, if possible.

Hon. Jim Flaherty: I'm sure I can deal with it today and get you an answer.

Mr. Massimo Pacetti: My comments are in general. In your brief, you start out by saying that Canadians pay too much tax, and then you state that it's important for the debt to be reduced and that you want to help Canadians. But I'm not sure I understand all these little trinkets that we put into the budget. There are a lot of things like $20 here for students, $40 there for transit passes. In Montreal, they just increased the monthly transit passes, so it's not going to go far toward really helping Canadians. We're not sure where the fitness credit is going to go. But from our pre-budget consultations, we had people requesting all kinds of things. So it just seems to be a little bit of a band-aid approach.

I don't want to talk to your party, but it doesn't seem like it's a conservative approach. Where are we going with this? It's going to cost more money to administer. It's going to cost more money to inform Canadians. Why not just reduce taxes instead of increasing them?

Hon. Jim Flaherty: I take it the concern is that I'm not being conservative enough.

Mr. Massimo Pacetti: You can make whatever assumption you'd like, but you start by saying that the taxes are too high, yet you don't reduce taxes. If I may, I could say the same thing for trusts and the way the trust funds were handled. We went about it the proper way last year. We consulted with Canadians, and Canadians told us what we were to do. We took the advice of what external people told us.

There is a reason for trust funds. There are a lot of smart people in your department. You can't tell me that just cutting trust funds is the way to go. There are ways to handle tax leakage. That is the problem, if I'm not mistaken, but you can't just disrupt the stock market and have people panic. A $25 billion reduction in one day just doesn't make any sense. How much money did the tax department give up in capital gains just in that day?

If Bell Canada and TELUS do decide to go into trust funds, there are capital gains there. There are capital gains that the Finance officials forfeited but could have received. There are other—

The Chair: Mr. Pacetti, your time has been used in preamble. I'll allow the minister to make a response, if he wishes to.

Hon. Jim Flaherty: I'll reply just on two points. About overall tax cuts, there is $20 billion—not million, but billion—in tax reductions in budget 2006 over two years. That's more than the last four budgets combined by the previous Government of Canada. Those are very substantial tax reductions, and I would not minimize them.

Secondly, with respect to income trusts, I say respectfully to the member that the consensus in Canada was that the previous government bungled its handling of that issue last year. We made every effort, when we were confronted with the issue and the changes this year, to avoid that kind of market activity, the kind of investigations that were occasioned by the conduct of the previous government, and I'm pleased to say we were successful.

● (1235)

The Chair: Thank you, Minister.

We will suspend only briefly. I will recommence in ten minutes.

● (1235)

(Pause)

● (1245)

The Chair: We will recommence.

Pursuant to Standing Order 81(5), supplementary estimates (A) for the fiscal year ending March 31, 2007, we are dealing with vote 1a under Canada Revenue Agency and votes 1a, 25a, and 30a under Finance, referred to the committee on Monday, October 30, 2006.

By unanimous consent, the chair calls vote 1a under Canada Revenue Agency and votes 1a, 25a, and 30a under Finance.

Minister, I'll invite you to make some opening remarks. We'll move immediately to questions. Please excuse our committee members for the food that is before them, but we want to take advantage of your presence here today, of course.

The minister has agreed to stay until 1:15, and I thank him for doing this. That should allow us time for some questions.

Minister, over to you.

Hon. Jim Flaherty: Thank you, Chair.

This is the about Supplementary Estimates (A).

[*Translation*]

These supplementary estimates call for a spending increase of $945 million for the Department of Finance.

[*English*]

Of this amount, $3.1 million is for the Office of the Auditor General, $0.3 million for the Canadian International Trade Tribunal, and $9 million for the Financial Transactions and Reports Analysis Centre of Canada, commonly known as FINTRAC. The remaining $933 million relates to the Department of Finance itself.

Approximately half these funds are being carried forward from the last fiscal year, when the department's expenditures were less than the allocated budget, and this is in keeping with long-standing Treasury Board policy. The other half of the increase relates to initiatives undertaken to increase public awareness of budget 2006 initiatives and changes in tax policy, including the reduction in the goods and services tax.

You will also note that the remaining $931 million refers to increases to the projections for statutory authorities. These increases are built into approved legislation and are identified here for information purposes. They flow mostly from formulae for federal and territorial financing and the cost of servicing the public debt. This amounts to a 1.2% increase in projected statutory payments.

I'll stop there, Chair, so we have more time for questions.

● (1250)

The Chair: Thank you very much, sir.

We'll use four-minute rounds and begin with Mr. Savage.

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

Thank you, Minister.

I'd like to chat a bit about post-secondary education and research, if I could. You had budget documents from the spring that correctly indicate that since the deficit was tamed Canada has invested in research. In fact, it has reversed the brain drain, which is a quote from the book, and gone to the top of the G7 in terms of publicly funded research.

There's a commonly held view, which was certainly expressed to us as we travelled Canada, that the next frontier in university is access and the issue of ensuring that Canadians who have not been able to get to university for reasons of income, or others, receive some assistance in doing so, and that it's good for the country and it's good for them.

Do you have any views on the federal government having a role in ensuring access for Canadian students?

Hon. Jim Flaherty: Thank you for the question, Mr. Savage. It's a very broad question.

There's no question that the federal government has and takes a role in post-secondary education, in terms of research and development, Canada research chairs, and so on. I'll have more to say about that two weeks hence. That relates to access, of course, and as the universities and colleges say to us, every dollar we get is a good dollar, and we use it for the benefit of our students ultimately.

With respect to tuition itself, if you're thinking along those lines, that is an area of provincial jurisdiction.

Mr. Michael Savage: I'm not thinking of tuition so much. Statistics show us that enrolments haven't gone down while tuition has gone up, but among low-income Canadians, aboriginal Canadians, and persons with disabilities, enrolments have gone down. We have set up instruments like the Millennium Scholarship Foundation, Canada access grants, and the Canada learning bond, which are playing a very significant role. The millennium scholarship, which had some stumbles earlier, is now widely supported across the country and by the provinces with the exception of CFS.

You mentioned earlier that direct grants were straying into an area of provincial jurisdiction. Are you suggesting the federal government should not have any role in direct grants to students?

Hon. Jim Flaherty: No, I was speaking about setting tuition rates, which I think most people agree is a provincial matter.

Mr. Michael Savage: The 10-year mandate of the Millennium Scholarship Foundation, as you know, is running out in 2009, and there was a strong cry from people who appeared before us to replenish that money to the tune of some $3.5—

I'd like to ask you about the fitness credit. On January 15, the Conservative Party responded to David Hardy from Fitness Industry Canada by saying the Conservative government would consider extending such a plan, that is, the physical fitness plan for children to promote physical activity, to cover gym memberships for all ages, should the fiscal framework allow such a measure.

Is the $13 billion surplus sufficient, in your view, for the fiscal framework to allow such a measure?

Hon. Jim Flaherty: Well, it depends on what choices one makes, of course, which is what budgeting is all about.

That issue was raised before the special panel I appointed to review the children's fitness tax credit. They just reported within the last couple of weeks. It's a very good report; I've had an opportunity to read it. Now we have to give it proper consideration in terms of how we formulate the credit that will come into force January 1, 2007—it's quite close. So we're focusing on children and the physical activity of children because of the concerns with obesity, of course.

In Canada, yes, we can look at a broader tax credit in the future, but it has to compete with many other priorities.

[*Translation*]

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

Mr. Pierre Paquette: On December 19th, Mr. Harper made a commitment to eliminate the fiscal imbalance. He repeated that commitment in the throne speech, and you repeated it in the budget speech. What kind of work has the department done on this? How far along is the process? What do you see happening between now and the next budget? We expect to see significant measures in the budget that you will be introducing in late winter or early spring. I would like to have an explanation from you on that.

● (1255)

[*English*]

Hon. Jim Flaherty: Yes, a great deal of work is being done in the Department of Finance and other relevant federal departments on issues relating to moving from fiscal imbalance to fiscal balance. The process is being followed, as was outlined in budget 2006. Various ministers have been consulting with their colleagues in other governments in Canada, and I've had consultations, of course, with the other ministers of finance. I'm going to ask the other ministers of finance to come together and meet with me. We'll meet in December of this year, obviously.

[*Translation*]

Mr. Pierre Paquette: Has the December meeting with the other ministers of Finance been set up already or are you saying that you wish there would be one?

[*English*]

Hon. Jim Flaherty: I do wish to have the meeting, and we intend to have the meeting, in December. I hope everyone can get together. In the past couple of weeks we've been trying to find a mutually convenient date; it's not so easy with 14 ministers, or a bit of a challenge, but we want to do that.

And you're correct that we want to move forward in the new year with initiatives, we hope with consensus—not unanimity, which is unlikely—on issues of fiscal imbalance and equalization.

[*Translation*]

Mr. Pierre Paquette: Do you intend to produce a document before the budget, or will the measures you plan to take to deal with the fiscal imbalance be contained in the budget?

[*English*]

Hon. Jim Flaherty: In terms of public documents and the issues being discussed, it's no great secret there is a health care agreement between the provinces and the government that is being honoured, a 10-year agreement with a 6% fixed escalator built into the base, so it's more than 6% going forward. And post-secondary education, which Mr. Savage raised, is one of the primary areas of discussion in the ongoing discussions, and of course, infrastructure and some kind of sustainable long-term plan for infrastructure is also a major part of the discussions with our colleagues.

[*Translation*]

Mr. Pierre Paquette: You increased the budget for the Financial Transactions and Reports Analysis Centre by nearly $9 million. Does that take into account the extra responsibilities that the centre will have if Bill C-25, the money laundering bill, is passed?

Mr. Jeremy Rudin (General Director, Economic and Fiscal Policy Branch, Department of Finance): The estimates contain funding to do more to fight money laundering, but the money being sought today is aimed at meeting existing pressures on FINTRAC. When the new act is implemented, the department will have to ask for additional monies for that purpose.

[*English*]

The Chair: *Merci beaucoup, monsieur.*

We'll continue with Madam Wasylycia-Leis.

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

Mr. Minister, your department estimates that the extension of the war in Afghanistan will pose additional costs of $1.9 billion over the remaining three years in that region. My first question is, do you agree with that estimate?

Hon. Jim Flaherty: Yes.

Ms. Judy Wasylycia-Leis: Yesterday the Prime Minister said that we really can't afford, or he can't afford, to keep his promises, your promises, to veterans of this country. How much fiscal pressure is the war putting on program expenditures?

Hon. Jim Flaherty: The cost of the reconstruction and the military effort in support of the reconstruction in Afghanistan is part of the fiscal framework. It has been built into the fiscal framework and therefore is not putting pressure on other initiatives, which are also part of the fiscal framework. We did this together when we planned budget 2006.

● (1300)

Ms. Judy Wasylycia-Leis: Do you see that you might have the fiscal flexibility to actually keep your promises to veterans, then, in the near future?

Hon. Jim Flaherty: It's a very good question.

In terms of veterans programs, we will review them, of course. As part of the preparation of budget 2007, we made a very substantial change just on October 31 with pension splitting, because many veterans have only one pension coming in, or unequal pensions coming in, and this will give them an opportunity to save significant amounts of money so that they can live better.

Ms. Judy Wasylycia-Leis: We had Mr. Jack Frost, who's the president of the overall national Royal Canadian Legion, before our committee, and he made a very simple request, that we extend survivor benefits from 50% to the going rate in other areas, of 65% or 66%. Is it going to cost a lot to do that? Why can't we do it now?

Hon. Jim Flaherty: I don't have the figure off the top of my head, but I'll take it under advisement, certainly, and consult with the Minister of Veterans Affairs.

Ms. Judy Wasylycia-Leis: Thank you.

Specifically in the Department of Finance, you have a direct responsibility for FINTRAC. The budget has been increased with the supplementary estimates by about $8 million. We know by the description that's to deal with the additional charges, the costs, with Bill C-25.

I would like to know how much of that you will actually put towards the increased regulations, being regulatory costs that will have to be incurred by small financial institutions. I'm thinking of credit unions and other small institutions that help send money overseas, a whole raft of tiny little organizations that are going to face enormous costs. How much of this will go to help them, and what specifically are you planning to do to ease the burden on them?

Hon. Jim Flaherty: I think the answer to your question is none. I think the money that's allocated for FINTRAC is for the operations of FINTRAC.

Mr. Jeremy Rudin: The amount for which approval is being sought today is for existing pressures on FINTRAC. Bill C-25, of course, has not been passed yet, and so it will be after the passage of the bill that we'll have to come back and ask for any additional appropriation for FINTRAC for its additional costs in relation to new responsibilities arising from Bill C-25.

Ms. Judy Wasylycia-Leis: This is an issue we heard about during our hearings on Bill C-25, and I think it's incumbent upon us to deal with them. Can you at least give us some indication of how you plan to deal with them? In particular, is there the possibility—

The Chair: Thank you.

Ms. Judy Wasylycia-Leis: Can I just finish that question?

The Chair: No, I'm afraid not.

We'll continue with Mr. Dykstra now.

Mr. Rick Dykstra: I'm not going to give up some of my time to Judy, I'm sorry.

The minister mentioned the work of the committee that went across the country to listen to presentations with respect to the child fitness tax credit, under the leadership of Dr. Kellie Leitch. Could you comment further on what was the outcome of those hearings and the nature in which we'll move forward with that credit?

Hon. Jim Flaherty: The committee consisted of three people. They did a great job and gave a lot of their time for their country. They were paid for their work, a grand total of $1 each, and they were willing to do that. All three of them are busy, professional people. One is the head of the Y in Canada and the other gentleman was an investment dealer from British Columbia. They gave of their time freely to consult with Canadians. To me, that's the right spirit for those kinds of endeavours.

They wrote a terrific report that's quite detailed, focusing on physical activity for children. They get into cardiovascular testing, and that there should be an element of that in the activity. They heard a lot from Canadians, of course, about other activities that children engage in that aren't necessarily physically active and whether there should be some consideration for that in tax policy. Certainly that's something that can be looked at. But this credit was designed and announced in the budget for physical activity because of the concern we have, which I think many Canadians share, with the sedentary behaviour these days of children and the associated long-term health consequences. Those are also reviewed in the report in some detail.

It's a great report. It's available through the website of the Department of Finance, and I encourage people to take the opportunity to read it. As I say, I've read it, but I have to now, with my colleagues, consider it and decide what steps to take before January 1.

● (1305)

Mr. Rick Dykstra: One of the points that Mr. McKay made, and I don't know if you got a chance to finish it up, was on the $234 million that we're investing in public transit infrastructure. I also want to tie that in a bit to the $800 million that was announced in the budget with respect to affordable housing across the country. The way we're actually handling the distribution of those funds is through a capital trust or a housing trust fund.

Could you describe the rationale behind that?

Hon. Jim Flaherty: The rationale behind it is that we use a third party trust mechanism and then the provinces access the trust moneys for the purposes the trusts are designed for, one being the public transit trust, which is already being used to acquire rolling stock, which is important and expensive. In particular, environmentally friendly rolling stock is quite expensive in Canada. Also, the affordable housing trust is designed to try to alleviate housing needs of low-income people in Canada. That's very important in an increasingly urban society in our larger cities.

The Chair: Thank you, Mr. Dykstra.

We'll continue now with three-minute rounds. Mr. McCallum.

Hon. John McCallum: Minister, this group spent many hours and days crossing the country and listening to Canadians. And more to the point, I would say hundreds of Canadians, if not thousands of Canadians, put together briefs and information that they wanted to convey to the government through us. My concern is whether those Canadians will effectively be listened to, because I note that your new economic plan for Canada will be presented on November 23 and we're only meeting on November 21 to do our report, which will report on those views of Canadians. I would imagine that two days before your presentation that economic plan for Canada will pretty well have been crystallized, and you won't have much opportunity to hear the input of all these hundreds of Canadians that we have heard.

How are you going to take these views into account when there are only two days between our doing our report and your doing your plan?

Hon. Jim Flaherty: The plan, of course, is directional and thematic and something more than that. It's not just that, but it's primarily that. It's not designed to be a mini-budget or a substitute for the budget. The budget process in which this committee plays such an important role continues to be the important budget process that it is. And I will take into account, I assure you, the report from this committee and what I've heard from this committee.

I've already heard from various members about different things that were heard in different places, including from Diane Ablonczy, my parliamentary secretary. We will be carefully reviewing the report of this committee as we prepare the budget, which I view as the implementation of the economic plan—what steps does one take in order to implement the economic plan. I think the report of this committee will be very helpful in that regard.

Hon. John McCallum: Thank you.

My last question returns to this issue of a panoply of little tax credits versus broad-based tax relief. I have always favoured, and our previous Liberal governments have favoured, broad-based tax relief, partly because generally it's agreed that this is better for productivity than the panoply of tax credits. It's also less costly to administer.

As well, as I've said before—and I know you don't like this very much—there's an element of social engineering when the government says you get money if your children play soccer or hockey, but you don't get money if your children play the violin or do dancing. My contention is that it's up to families, not government, to make the decision as to what is best for their own children. That's another reason to be in favour of broad-based tax relief versus little tax credits.

Can you or your officials tell us—this is my specific technical question—the cost of implementing these tax credits, which would not occur with broad-based tax relief?

● (1310)

Hon. Jim Flaherty: I can go through each tax credit, since each tax credit is costed, but I don't think—

Hon. John McCallum: The administrative costs, I mean.

Hon. Jim Flaherty: Oh, the costs of administration. I don't think I can give you that answer.

I'm sorry I'm not living up to your standard as a conservative. I know that you and Mr. McKay are concerned that I'm some kind of failed conservative, in your eyes. I'll try to do better going forward.

Some hon. members: Oh, oh!

The Chair: Thank you, Mr. McCallum—and thank you for trying to do better, Mr. Minister. We appreciate that too.

I'll use my chair's prerogative here to venture one observation. I think it's unfortunate, many times, that the message we send as parliamentarians to Canada's youth is that you should sit and sometimes act less appropriately than one might hope. That we don't often exercise in front of the Canadian people is kind of self-evident; this process we've just been through has required us to sit and listen for six weeks.

I want to particularly speak in support of and to thank you for the tax credit encouraging children to become more active, encouraging families to pursue that. I think for lower-income families in particular this tax credit will be more significant, more meaningful.

So I want to speak positively to that—and put a plug in for bowling while I'm at it. We can argue about the various things that should be included, and of course that's part of the criticism of the plan, but including nothing is not the answer.

That doesn't require an answer, Minister. It's just a positive comment.

Monsieur St-Cyr.

[*Translation*]

Mr. Thierry St-Cyr: Thank you, Mr. Chairman.

This morning, before you arrived, we were discussing the GST rebate for foreign visitors who make a claim once they are back home. There were not many people who supported that measure, which was announced earlier in the fall along with other measures. It seemed to me that even our Conservative colleagues were not showing great enthusiasm for that proposal. Did you look at other possibilities for reducing the administration costs of that program, while maintaining the competitive advantage that it provides to the tourism sector in Canada?

[*English*]

Hon. Jim Flaherty: I would describe that tax exemption as inefficient to achieve the goal. If the goal was to encourage tourism in Canada, the evidence wasn't there in any strength that the exemption was doing that. In fact, it was a very expensive tax to collect, and it was not claimed by most people who came to Canada.

As well, it was not reciprocal. Canadians do not have a similar benefit when they visit the United States, for example—except, as I recall, in the state of Louisiana, where one can get a reciprocal treatment for consumption tax.

So it was an inefficient tax that was expensive to administer. That does not mean that we ought not to support tourism in Canada, because we do, substantially. And perhaps we should do more.

The Chair: Thank you, Monsieur St-Cyr.

Mr. Del Mastro.

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

Mr. Finance Minister, I have just a quick question. I want to go back to something that was mentioned by Mr. McCallum a little while ago pertaining to the Canada-Ontario agreement.

I appreciate, first of all, that the agreement is fully funded, but did that agreement preclude the government from giving benefits to Canadians living elsewhere? Mr. McCallum seemed to be indicating that because we are funding programs elsewhere, we're somehow not living up to our Canada-Ontario agreement, but to me the two are completely unrelated.

Hon. Jim Flaherty: Obviously, I share that analysis. The agreement was not exclusive of benefits that might be extended to other people in Canada, clearly, but there are very substantial benefits for Ontario in that agreement. It's a generous agreement to our home province of Ontario. As I noted in the example earlier, there's $300 million for infrastructure that no jurisdiction in Canada will receive other than the province of Ontario.

Mr. Dean Del Mastro: Right. Thank you.

The Chair: Mr. Pacetti.

Mr. Massimo Pacetti: Thank you, Mr. Chairman.

Mr. Minister, we're all over the map because we don't get you here regularly, but I want to ask you a question on the estimates.

I don't know if it's possible, because I'm a bit uncomfortable voting on all these millions and billions of dollars, but can we get a little more detail from your department on some of these, on how much is operational? One of the questions in particular was the FINTRAC question. You answered a question saying the money was not for the future for Bill C-25, but can we get some kind of detail on the $8.9 million? My direct question is on what Mr. McCallum was asking: how much in terms of administration costs, whether it's through Finance or CRA, are these new tax initiatives going to cost? That's my question. I think it's a fair question. and I think it could be answered right away. because we asked it the last time we were looking at the budget. I think that's a fair question.

For some of the other items where it's a little bit more complex, there's not that much information here. I'll leave it up to your officials as to what type of format they can provide in it, but maybe for operations and administration salaries we could find out what we're looking at in terms of additional moneys.

Thank you, Mr. Chairman.

● (1315)

Hon. Jim Flaherty: We'll try certainly, and we'll get you the best answer we can if this is not sufficient.

The Chair: Thank you, Minister, for your time today. We appreciate your being here.

Committee members shall now vote.

CANADA REVENUE AGENCY

Department

Vote 1a—Program expenditures—To authorize the transfer of $18,166,000 from Human Resources and Skills Development Vote 10, *Appropriation Act No. l, 2006-2007* for the purposes of this Vote and to provide a further amount of..........$66,943,698

(Vote 1a agreed to on division)

FINANCE

Department

Vote 1a—Operating expenditures..........$7,648,400

Canadian International Trade Tribunal

Vote 25a—Program expenditures..........$360,859

Financial Transactions and Reports Analysis Centre of Canada

Vote 30a—Program expenditures..........$8,990,349

(Votes 1a, 25a, and 30a agreed to on division)

The Chair: Shall the chair report vote 1a under Canada Revenue Agency, and votes 1a, 25a, and 30a under Finance to the House, as agreed to on division?

Some hon. members: Agreed.

The Chair: Before we adjourn, I wish the committee members all the best back in their constituencies, as we pay tribute to our veterans who made the ultimate sacrifice on our behalf. I look forward to seeing you again a week from Tuesday.

The meeting is adjourned.

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