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Chair

Mr. Brian Pallister

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● (1535)

[*English*]

The Chair (Mr. Brian Pallister (Portage—Lisgar, CPC)): I call the meeting to order.

We are here pursuant to the order of reference of Tuesday, May 15, 2007: Bill C-52, an act to implement certain provisions of the budget tabled in Parliament on March 19, 2007.

Welcome back, colleagues, and welcome to our guests today. We appreciate your being here. I understand there was some last-minute juggling, and we appreciate very much your ability to accommodate our changes in scheduling as well.

You've each been told that you have five minutes to make opening comments. I will give you a visual indication that you have a minute remaining, and then we'll unceremoniously cut you off at five minutes to give time for an exchange with the members of our committee.

Go ahead, Mr. McKay, on a point of order.

Hon. John McKay (Scarborough—Guildwood, Lib.): As you know, the appearance of all of the witnesses was a matter of some negotiation in the week we were here last. One provision was that the premiers would be afforded a separate panel, as distinguished and fine as the other panellists might be. The first panel is to go to the premiers, so I would ask you to invite the other witnesses to sit in the audience and wait while Premier Calvert makes a presentation.

The Chair: There is no point of order there, Mr. McKay—

Hon. John McKay: That is a point of order; it is a very significant point of order—

The Chair: We'll give you some explanation, however.

Some of the invited witnesses for the so-called “premiers panel” cancelled at the last minute. Rather than having a disjointed process in which we had one member testifying for an hour and then several others testifying for an hour, I thought it was most reasonable not only to accommodate the wishes of the committee but also to acknowledge the wishes of the committee in sharing the time reasonably well among all witnesses who were able to come today. That's why the arrangements were made as they were.

These people have been invited to come at this time, and I hope that committee members would understand the need for flexibility, Mr. McKay, in arranging panel structures as I have.

Hon. John McKay: Mr. Chair, with the greatest respect, that certainly goes against both the intention and the spirit of the negotiations that I had with Mr. Dykstra and all members of the committee. I think a premier is a witness like no other witness. I think that whether it's going to be three premiers, or two, or one, a premier deserves the respect of his office. Other witnesses have valuable and important things to say, and they should be said in the second panel. I think that Premier Calvert deserves the recognition of his office—

The Chair: Mr. McKay, again, you don't have a point of order, but most certainly Mr. Calvert has the respect of the committee, as do all the other witnesses. Nonetheless, I'm accommodating the resolution that was adopted by the committee unanimously last week. In fact when the proposal was made, it was with the assumption—as you well know—that there would be several members of such a premiers panel, and there are not. Therefore, I'm trying to accommodate the time as well as I possibly can by sharing it reasonably among all the witnesses. As any of our members may, you may wish to devote more time to questioning the premier if you so desire, sir; that is your choice. However, I rule that you don't have a point of order, and we'll proceed now with presentations from the witnesses.

We'll begin with the Honourable Lorne Calvert, Premier of Saskatchewan, for five minutes.

Hon. John McKay: Mr. Chair, I invite Mr. Dykstra to speak to this.

The Chair: Did you have a point of order, Mr. McKay?

Hon. John McKay: Yes. I invite Mr. Dykstra to speak on whether this is in fact a recollection of our agreement.

The Chair: Mr. Dykstra, you've been invited to speak. Would you like to speak?

Mr. Rick Dykstra (St. Catharines, CPC): I will, certainly.

Well, let me be direct about it. We did certainly agree that if we had premiers who were going to be coming as witnesses, they would be afforded time allocation on a panel to be able to do so. For the record, it was certainly what Mr. McKay and I spoke to.

The Chair: Okay.

Premier Calvert, please proceed.

Hon. Lorne Calvert (Premier of Saskatchewan): Thank you very much.

I am in fact very, very pleased to be sharing this panel, if not with my colleagues from the provincial governments, with representatives of child care and early childhood education in our province and representative working people. I'm pleased to appear before the committee today to discuss the equalization reforms that are contained in the most recent federal budget and what they mean, not to the Government of Saskatchewan but to the people of Saskatchewan.

I'd like to begin by reminding committee members of commitments that were made to the people of Saskatchewan regarding proposed changes to equalization, in a letter delivered to myself from the now Prime Minister of Canada, Mr. Stephen Harper. He said to me, “The Conservative Party of Canada will alter the equalization program to remove all non-renewable resources from the formula, as well as move the program to a ten-province standard.” That was in 2004.

From the Conservative Party platform in 2006, the Conservative Party will “Work to achieve with the provinces permanent changes to the equalization formula which would ensure that non-renewable natural resource revenue is removed from the equalization formula to encourage economic growth. We will ensure that no province is adversely affected from changes to the equalization formula.” That was the promise made to Canadians.

And repeated, of course, in a publication that was delivered to residents of Atlantic Canada, but I assume intended for all Canadians, which I read, is “That is why we would leave you with 100 per cent of your oil and gas revenues, no small print, no excuses, no caps.”

As I think we're all aware, the equalization program is one that is constitutionally mandated to achieve a simple basic federal commitment: to ensure that all provinces and their people have reasonably comparable levels of public services that are supported by reasonably comparable taxation. This federal commitment is based on the principle of fairness and equity, fairness and equity throughout Canada. It requires, therefore, that equalization be applied fairly to all provinces for the benefit of their people.

We believe that the reforms put forward in the recent federal budget do not achieve these fundamental principles of fairness and equity. In particular, the proposed new equalization system perpetuates the untenable situation of the excessive clawback rates on Saskatchewan's non-renewable resource revenues.

The reforms that are part of this budget, as committee members will know, reflect two separate calculations in determining equalization entitlement. The first is the formula-based determination of entitlement, and the second is an ad hoc application of a fiscal capacity cap.

The first is now a principle-based calculation that will permit full exclusion of resource revenues, which recognizes the unique characteristics of resource revenues, including that they're owned by the province and their benefits are one time only. That's exactly what we and other resource-producing provinces have been advocating. But the fiscal capacity cap is not. This provision in the budget takes 100% of a province's resource revenues into account, which has the effect of a 100% clawback of Saskatchewan's resource revenues. In other words, it leaves Saskatchewan people without any financial benefit from incremental resource development but with all the expense of managing and regulating the resource sector.

While this cap provides benefits to Saskatchewan in the current fiscal year, it's only because this current fiscal year is based on old data. Therefore, there will be no equalization for Saskatchewan after, for the foreseeable future.

I recognize that my time is short and I'm running out, so let me conclude with the hope that we can have a discussion between us, the hope that I can return to the people of Saskatchewan with a clear answer: one, where did the cap come from, because we never heard of a cap before any elections; and two, why has this promise to the people of Saskatchewan been broken?

Thank you very much.

● (1540)

The Chair: Thank you very much, sir.

We continue with Erin Weir, from the Canadian Labour Congress. Mr. Weir, five minutes to you.

Mr. Erin Weir (Economist, Canadian Labour Congress): Thank you very much.

The aspect of Bill C-52 that I'd like to speak to today is the tax-back guarantee proposed in budget 2007. The view I'd like to present is that, at best, this measure is a gimmick, and at worst, it places an inappropriate constraint on future federal budgets.

One could start from the premise that the federal government would have reduced income taxes by a given amount in any case, in which case it's really meaningless to say that the income tax reductions are being funded by interest savings from debt repayment rather than from general revenues. If a dollar of interest savings is used to finance tax cuts, that simply frees up a dollar of general revenues for something else. Conversely, if a dollar of general revenues were used to finance the tax cuts, that would leave a dollar of interest savings to finance something else.

So if one assumes that the tax reductions were going to be made in any case, this supposed connection between debt repayment interest savings and the finance into those tax cuts wouldn't have any practical effect. However, when this tax-back guarantee is understood in conjunction with the commitment to repay at least $3 billion of debt annually, the tax-back guarantee effectively mandates a corresponding minimum level of tax reductions in every budget, regardless of changing fiscal circumstances.

Now, it's conceivable that if future revenues ended up being less than projected, this tax-back guarantee would in fact force the federal government to cut spending in order to fulfill its guarantee. We see this as quite problematic, given the pressing needs for investment in public services, public infrastructure, and other priorities.

I suppose that I should just clarify that if this current government were to say that it would have a policy of using interest savings from debt repayment to finance income tax reductions, there wouldn't necessarily be anything wrong with that. What I find really problematic about Bill C-52 is that it purports to enshrine that policy in legislation forever and for always. If we regard the budget-making process as an optimization problem, speaking mathematically, the best possible solution would come about by giving democratically elected representatives maximum latitude to evaluate the resources available, the needs that are out there, and to allocate funds accordingly. The tax-back guarantee places an artificial constraint on that process and reduces the latitude that our elected representatives will have to allocate resources among various priorities.

Essentially, I would suggest that even if the federal government is committed to this notion of using interest savings to finance tax cuts, it's a bad idea to enshrine that policy in Bill C-52, and I would definitely recommend against it.

The other issue I would like to suggest is around this whole notion of the fiscal imbalance and increased federal government transfers to the provinces. That was definitely a major aspect of budget 2007 and Bill C-52.

I suppose the notion of the fiscal imbalance really speaks to the insufficiency of funds to finance public services at the provincial level. Yet what we've seen since the budget is that the Government of Quebec has used a substantial amount of increased transfers to finance tax cuts instead. And if that's what happens in other provinces, then we really won't have made any headway in solving the fiscal imbalance.

My plea today is that in increasing these transfer payments to provincial governments, the federal government consider attaching some conditions to those transfers to ensure they're actually put into the public services that the people of these provinces need and that provincial governments said they needed the money to fund in bringing forth this notion of the fiscal imbalance. In particular, I think it's important, in light of increased Canada health transfers, for the federal government to take a much more active role in trying to enforce the key principles of the Canada Health Act.

With that, thanks very much for allowing me to appear before this committee. I very much appreciate the opportunity.

● (1545)

The Chair: Thank you, Mr. Weir.

We'll continue with the Child Care Advocacy Association of Canada. We have Monica Lysack and Nancy Peckford here. Who will speak?

Ms. Monica Lysack (Executive Director, Child Care Advocacy Association of Canada): I'll speak.

The Chair: Okay. Over to you, Monica. Five minutes.

Ms. Monica Lysack: Thank you.

I'm the executive director of the Child Care Advocacy Association of Canada, and with me today is Nancy Peckford, from the Feminist Alliance for International Action, a member organization of our council of advocates. Thank you for inviting us to appear before you today.

I'll briefly remind you of some of the key points we have already raised through our submission to Advantage Canada and to this committee.

This budget represents a loss to communities, to families, and to children. Almost $1 billion in committed child care funding is being taken away. It's a cut of $27 million to the children of Saskatchewan alone. As we stated in our Advantage Canada submission, we offer the following points outlining how child care relates to building a strong, sustainable, modern economy, and why a focused investment strategy is necessary.

Child care helps develop a talented, creative workforce for the future. Child care provides children with the foundations for lifelong health, learning, and skill development. Good child care is good for children.

Child care also supports labour force development and opportunities now. The CCAC wishes to highlight the inherent contradiction between the federal government's workforce participation goals and its lack of commitment to early learning and child care services.

Child care supports employability for all, immediately and on an ongoing basis. When Canadian families do not have access to quality child care, our labour force and our employability suffer. With women now the majority in virtually all university programs, decreased labour force attachment among mothers exacerbates skilled worker shortages.

To build the child care system that Canadians want and need, the CCAC therefore calls on the federal government to adopt the following focused investment strategy.

First, restore and increase sustained, long-term federal funding to the provinces and territories. Federal transfers must be specifically dedicated to improving and expanding child care services based on provincial and territorial commitments to advance quality, inclusion, and affordability.

Second, enact federal child care legislation, Bill C-303, which recognizes the principles of a pan-Canadian child care system, makes the federal government accountable to Parliament with respect to child care funding and policy, and respects Quebec and first nations rights to establish their own child care systems.

Third, redirect the capital incentives for child care spaces with dedicated capital transfers to the provinces and territories to be used to build child care services that communities prioritize, own, deliver, and account for.

Fourth, provide effective income supports for Canadian families by incorporating the current taxable family allowance into the Canada child tax benefit.

As you may know, the CCAC is the voice for parents, four million strong. I'll close my remarks with this statement by a parent, Dale Summers, from Brampton. Dale says:

> Daycare is chronically underfunded, to the point as parents our child has 'dance-a-thons' (she is 16 months old), has to sell chocolate (pay up front) and we are forced to buy exorbitant priced pictures and movies (not allowed to record our own) to aid in the running of the daycare on top of the $1,000 a month we pay. The $100 from the government is an insult. You want to know why Canada's birth rate is in decline? Try the cost of daycare to start. Who can afford two or three children anymore?

Thank you. Nancy and I will both be happy to answer questions.

● (1550)

The Chair: Monica, you didn't think I was cutting you off there, did you?

Ms. Monica Lysack: No, I was finished.

The Chair: I'm sure we'll have questions for you in a minute.

We'll begin with the first round.

Mr. Goodale, you'll commence, I understand. Six minutes, sir.

Hon. Ralph Goodale (Wascana, Lib.): Thank you very much, Mr. Chairman.

With a panel of such excellent witnesses, it's hard to do justice to everything all at once, but let me focus my questioning for Premier Calvert.

Before the last election, in 2004 and 2005 the previous government of Canada made a number of adjustments to the equalization program that had the effect of providing Saskatchewan, in those two years, with a total of some $799 million in additional direct equalization benefits. We also increased federal transfers overall to an all-time record high, with another $100 billion in federal transfers booked to flow over the next 10 years.

In question period in the House of Commons today we were told that nothing in fact happened for Saskatchewan before February of 2006, and since then, we were told, Saskatchewan has never had it so good.

Mr. Premier, I would like to ask a number of questions, but let me start with two basic ones. First of all, what specifically was the promise made by Mr. Harper and the Conservative Party to Saskatchewan in dollar terms? We've heard a description of it in terms of the formula; I'd be interested to know what that formula change meant in dollar terms. How much was it worth, and where did that number come from? Who did the calculation of that particular number?

My second question is this. There is a claim circulating in Saskatchewan now that the 2007 federal budget provided Saskatchewan with some $878 million. Can you tell us where that number appears in the budget? Is it in fact all new money? What is it for? Is it annual funding every year, or a conglomerate of spending on several things over several years?

Hon. Lorne Calvert: Thank you, Mr. Goodale, for the inquiries.

I need to check with the chair. You folks seem to function on a little more disciplined time schedule than we do in our legislature. When you say six minutes, Mr. Chair, is that six minutes for the question, or for the question and the answer?

● (1555)

The Chair: It is six minutes for the question and response, sir, yes. We're following actually—

Hon. Lorne Calvert: I see. I'd like to say that I'm going to try to meet the time schedule. I may have to complete this answer in response to a further question.

The Chair: Very good, sir. Proceed.

Hon. Lorne Calvert: Let me first say to Mr. Goodale that we recognize progress was being made before the change in government, but it's not the progress we'd ultimately desire. The ultimate desire of the people of Saskatchewan has been to achieve an equalization formula wherein 100% of the non-renewable natural resource revenues would be excluded from the calculation. We have not achieved that.

It is in fact why many in Saskatchewan welcomed the promise made by the Conservative Party, the leader of the Conservative Party, and members of the Conservative Party in our province that this would be the case under a Conservative government.

Mr. Goodale asks, what does the value of this commitment amount to, and where did the number come from?

Well, through the calculations of economists and our own finance experts, the approximately $800 million figure that is generally assigned to this value is very bona fide in terms of the financial calculations. It will be done by economists and people in departments of finance across the country.

It was very much confirmed to us not by New Democrats in Saskatchewan or LIberals in Ottawa, but it was confirmed by members of Parliament of the Conservative Party at the time. I can begin with a number of quotes.

On March 23, 2005, Maurice Vellacott, member of Parliament, Saskatoon—Wanuskewin, said: “Over the past ten years, Saskatchewan would have been entitled to about $8 billion more”. Over 10 years, that's $800 million a year.

From Mr. Brad Trost, Saskatoon—Humboldt MP to the province of Saskatchewan: “To the province of Saskatchewan, this would mean $800 million a year according to Library of Parliament estimates”. Mr. Trost then very kindly explained what we might be able to accomplish with those kinds of revenues for the people of Saskatchewan.

Member of Parliament from Prince Albert, Brian Fitzpatrick, said: “Saskatchewan will continue to lose approximately $800 million per year in equalization”.

Up to and including a question from Mr. Stephen Harper, then leader of the opposition, to Mr. Paul Martin, then Prime Minister:

> The Prime Minister is also failing Saskatchewan on equalization. The government promised to reform the equalization program in 2004 for Saskatchewan.

Note these words:

> The government now says it will not get to that until at least 2006, costing Saskatchewan over $750 million in lost revenue.

The figure is confirmed by members of Parliament, in the Parliament. I'm told it's confirmed by the Library of Parliament. It's confirmed by our own Department of Finance and other economists in the country that to provide Saskatchewan with its fair benefit for those non-renewable natural resources would mean—and note this—about $800 million on an annual basis.

Mr. Goodale now refers to the current federal budget and benefits being provided to Saskatchewan, which we are told represent about $878 million. I heard it again today. I'm told this is supposed to be the best deal Saskatchewan has ever received. Well, I find that kind of an assessment to be very disingenuous.

The Chair: I'll let you elaborate in response to a subsequent question, sir, but we have to move on.

[*Translation*]

Mr. Crête, you have six minutes.

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

Mr. Calvert, I understand how dissatisfied you are. Nevertheless, Quebec and the Bloc Québécois are supporting the budget and we intend to support it all the way.

You have been a provincial premier long enough to know that for decisions of this kind, if the budget were amended tomorrow morning, an election would have to be called.

Do you have any alternatives that are not related to the budget? Could you suggest what can be done in the future to effectively make things clear for you?

[*English*]

Hon. Lorne Calvert: Clearly, the one step that has been taken is I think the recognition now that there is provincial ownership of resources. That's clearly been recognized. It has been recognized that 100% of those resource revenues, at least by option, should not be included. The most practical and tangible move forward is simply to eliminate this concept of a cap.

There is another alternative, which is to replicate, in Saskatchewan's case, something akin to the accord that has been signed with the Atlantic provinces of Newfoundland and Labrador and Nova Scotia.

We have always advocated first the fundamental change to the principle of equalization that recognizes that these resources are the property of the people of Saskatchewan or the property of the people of whichever province or territory, and that they are non-renewable resources because by definition they can only be extracted and their benefit can only be achieved on one occasion. If the people of Saskatchewan are not permitted to use these one-time resources to build infrastructure, to build for the educational needs, to build that capacity for a long-term prosperous economy now, that opportunity will never arise again.

I note that some many decades ago, the people of Alberta were afforded this opportunity through an arrangement with the then national government, to use those resources to build what has resulted in likely the strongest economy in North America. We have celebrated and rejoiced that Atlantic Canada, Newfoundland and Labrador and Nova Scotia, have been provided for their offshore resources an accord. It is better, we say, to get the principle right.

So if we've moved halfway in the recognition that 100% of resource revenue should be excluded, why then turn around and create exactly the same circumstance that existed before that recognition so that the people of Saskatchewan, unique in Canada, are left to export the value of their resources to other Canadians instead of allowing this province to do what others are being permitted to do?

● (1600)

[*Translation*]

Mr. Paul Crête: Thank you for your answer. I have many questions for you, but out of respect for the other witnesses...

Mr. Weir, in your presentation, you seem to be saying that provinces in charge of various social issues would not be able to cope with them adequately if the federal government did not impose standards.

Is this what you meant to say in your presentation?

Mr. Erin Weir: No, I do not think that you got my meaning.

I can answer your question more accurately in English.

[*English*]

Certainly I recognize that social programs, health care, and education are areas of provincial jurisdiction. However, the fiscal imbalance came about because labour and capital are far more mobile between provinces than they are between countries. As a result of that, there's much more tax competition between provincial governments than what the federal government faces, and provincial governments aren't raising enough tax revenue to finance public services appropriately.

So if the federal government transfers money to provincial governments in an effort to solve the fiscal imbalance, and the provincial governments just cut their taxes, then we won't have addressed the problem, which ultimately was a lack of funding for provincial public services. I'm not calling on the federal government to micromanage all of these provincial programs; I'm just saying the federal government needs to have some minimum standards in place to ensure that these increased transfers are actually devoted to public services. For example, I think it's important to enforce the key principles of the Canada Health Act. I don't see that as a major infringement on provincial jurisdiction. In fact, I think it's very much in line with what the population of Quebec wants from its provincial government.

[*Translation*]

Mr. Paul Crête: Let us take child care services as an example. Quebec has developed a child care system which, I think, is envied by Canadians everywhere. Quebec did this within its provincial mandate, because child care is a provincial matter. There was no need for the federal government to set any standards.

Is it not up to each province to decide what its priorities are? People can have different priorities.

[*English*]

The Chair: Mr. Weir, you have time for only a brief response, unfortunately.

Mr. Erin Weir: Yes, I applaud Quebec's excellent day care system, and I'd like to see the federal government implement standards that would cause other provincial governments to pursue that excellent model.

The Chair: Thank you.

We continue now with Mr. Ritz.

Hon. Gerry Ritz (Battlefords—Lloydminster, CPC): Thank you, Mr. Chairman.

Mr. Premier, welcome to Ottawa.

Ladies and gentlemen, thank you for your presentations here today.

One of the statements you made at the opening, Mr. Premier, was that this is a commitment to the people of Saskatchewan, and I couldn't agree with you more. Certainly budgets at the federal and provincial levels serve the people of your electoral districts and your province or country.

You've also been advising my caucus colleagues to vote against the budget, simply because of some changes you say need to be made. I'm here to tell you I would never do that, sir. The people of Saskatchewan, from my understanding and the letters I've received and the meetings I've attended, are very happy with this budget. On top of the $878 million we're talking about, which is new money for the province of Saskatchewan, there's $756 million in health care funding. There's $342 million of secondary education, the social transfers. We haven't seen that level of money flowing to the province of Saskatchewan for years. There's also a 6% annual increase built into those.

The member for Wascana talked about the $100 billion booked to flow. Did you ever see any of that money, sir?

● (1605)

Hon. Lorne Calvert: Is that the end?

Hon. Gerry Ritz: Well, it's a start. Did you ever see any of that $100 billion he claims was booked to flow?

Hon. Lorne Calvert: We saw some of that money.

Hon. Gerry Ritz: Okay, what?

Hon. Lorne Calvert: The first year of it is what we saw.

Since you've opened the floor to discussing the $878 million, let us have the committee understand with precision what this $878 million is.

Hon. Gerry Ritz: I think everybody is aware of what the $878 million is—

Hon. Lorne Calvert: No, they're not, Mr. Ritz. I've come here to—

Hon. Gerry Ritz: My next question to you would be, is there more than one way to deliver $800 million?

Hon. Lorne Calvert: Mr. Ritz, if you'll permit me to discuss the issue of the $878 million that you just raised, I would appreciate the committee to understand that 85% of that $878 million is one-time money, one-time funding, which is a far cry from an annualized $800 million.

The members are shaking their heads; I'd like them to show me the documentation that will tell this committee—

Hon. Gerry Ritz: It's an annual budget, sir. There will be another one next year.

Hon. Lorne Calvert: It is not an annual budget.

About 60% of that money does not flow to the people of Saskatchewan through their provincial government, and 20% of that money goes to a corporate entity for a project that isn't even approved.

I will document, then, in precision. We start with $878 million; of that, $250 million is through agriculture, which is Saskatchewan's share on a national basis. Surely we're not calling that new money. That's a share based on a 60-40 split that we can have another discussion about.

There's $180 million to the Iogen project, which is not yet approved.

There is $87 million to income tax reductions. Fair enough: our people benefit—but so does every other Canadian citizen.

There is $10 million to a national program that we appreciate in our province, the Canadian Police Research Centre, and $8 million to the people of Saskatchewan for the patient wait-time guarantee, which I expect is available to every other Canadian.

Hon. Gerry Ritz: We're specifically talking about Saskatchewan here.

Hon. Lorne Calvert: That's what I'm speaking about, the dollars to Saskatchewan people. When the members of Parliament from Saskatchewan come home and say this is the best deal we've ever got, I think the members of Parliament from the Conservative government could say that to any province in the country.

Hon. Gerry Ritz: We can, absolutely.

Let's go to my next question. Is there more than one way to deliver $800 million? I talked about huge changes in the health care funding, secondary education, and infrastructure. Those are things my Saskatchewan constituents are concerned about, and we're delivering big time on top of the other moneys you just outlined.

Hon. Lorne Calvert: Mr. Ritz, is there more than one way to keep a promise or break a promise? The fact of the matter is that a promise was made to the people of Saskatchewan by yourself, by others who campaigned in our province, and by your leader. The promise was that 100% of the non-renewable resource revenues would be excluded, for a benefit on an annual basis of about $800 million. That's a very clear and simple promise made.

Did the national government keep its promise? The answer is no. In making the promise, sir, did you, did any other member of the Conservative Party running for office in Saskatchewan, or did the Prime Minister say to the people of Saskatchewan that there would be a condition on this promise, called a cap?

You were asked today in the House of Commons. I did not hear your answer. Prior to the election, did you or any of your colleagues inform the people of Saskatchewan that there would be a cap on this equalization?

Hon. Gerry Ritz: Did the Province of Saskatchewan have input to the O'Brien report established by the member for Wascana?

Hon. Lorne Calvert: Mr. O'Brien did not make a promise to the people of Saskatchewan. Mr. O'Brien did not run for elected office in the province of Saskatchewan. My question is to our elected representatives in the national capital.

● (1610)

Hon. Gerry Ritz: I can see why you're dragging at 26% in the polls, sir; you're not listening.

Did you have input in the O'Brien report?

Hon. Lorne Calvert: This is the level of debate we have.

Did we have input? You bet we had input, and we recommended precisely what I'm recommending to the finance committee, to the national government, and which I recommended to the former government of Canada. You bet we did.

Did I have a debate with Mr. O'Brien, as he presented to the premiers? You bet I did. I said to Mr. O'Brien, where does this 50% come from, when he was recommending 50% inclusion. And I asked Mr. O'Brien how was it that he was recommending a cap, the same question I'm putting to you.

But Mr. O'Brien did not seek election. He did not say to the people of Saskatchewan, we will exclude 100%.

Hon. Gerry Ritz: On the definition in the equalization formula between a have and a have-not province, I see that GDP in Saskatchewan has gone up well over 10% in the last three years.

Can you explain to the committee how much it will go up in 2007?

The Chair: Thank you, Mr. Ritz.

We continue now with Ms. Wasylycia-Leis, for six minutes.

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

Thank you all for being here.

Premier Calvert, let me start with you, and just ask a follow-up to all of these questions on the equalization arrangement. Again, could you spell out the nature of the commitment? Was it in writing? Was it a public statement during the last federal election?

And while you're answering that question, have any of the 12 Conservative MPs in Saskatchewan come to the defence of the promise or come to stand up for Saskatchewan?

Hon. Lorne Calvert: The commitment was made not in one, but in two election campaigns. The commitment was made in campaign literature distributed across our province and across the nation, in both elections. The commitment was made publicly, verbally, in campaign speeches. It was spoken to in the House of Commons by members of the then opposition. And it was committed to me in letter form, and committed, if I may say, to each provincial and territorial premier in a letter from Mr. Stephen Harper to the Council of the Federation. There is no debate, in my view, about the promise made. A debate has ensued about whether the promise has been kept.

Have there been protestations by the Conservative government members from Saskatchewan? Not to my knowledge. If there has been a protestation, it has been very quiet. This is in contrast, if I may say, to the Atlantic caucus of Conservative members of Parliament, who I'm reading about in the national press. I'm reading about Mr. Peter MacKay meeting with the government of Nova Scotia, seeking an opportunity to improve the approach to Nova Scotia. I'm reading in the national press about the Atlantic caucus—so described—meeting with the Prime Minister.

I'm not seeing in any press, national or local, the same kind of activity from the Saskatchewan caucus, which is of real concern to the people of Saskatchewan.

Ms. Judy Wasylycia-Leis: Yet leading up to the time when the promise was actually broken by the federal government, I think—at least to my understanding from reading the press—that all 12 Conservative Saskatchewan MPs were out telling the public that natural resource revenues would be excluded from the formula. So it's a doubly hurtful situation.

Hon. Lorne Calvert: Indeed.

And again, I say, there was no mention of a cap.

Ms. Judy Wasylycia-Leis: Let me ask about the child care issue, which I don't want to neglect, because this is of fundamental importance to Premier Calvert, as he's already said, and to all of us here. The budget cut about $1 billion from child care. All it did was to transfer $250 million to the provinces—and that's over a few years, isn't it?

A voice: One year.

Ms. Judy Wasylycia-Leis: Over one year?

In this budget process, we can't do a lot to put money back in, because we'll will be ruled out of order. So I'm wondering if we shouldn't be trying to at least get the money the government has taken in taxation from the universal child care allowance, which is close to about $250 million. And couldn't we get the government, through this amendment to the budget bill, to direct that money toward the creation of spaces, so at least we would end up with half a billion dollars this year?

Would that be a worthwhile endeavour on your part, and what else would you suggest we do as a committee with respect to this budget bill?

● (1615)

Ms. Nancy Peckford (Member, Council of Advocates, Child Care Advocacy Association of Canada): I think that's very important. Doubling the commitment from $250 million to $500 million by taking the tax revenue from the UCCB would be very helpful. I think what's even more important is some accountability for these dollars. We saw in the media in the last couple of weeks how the $250 million is being put in the CST that is transferred to provinces and territories. Provinces thought they had significant money to work with. Now they've had that cut, so they're nervous about investing in long-term system building. It makes it very difficult for them to actually create the spaces that families need.

I think it's critical that we have legislation and that Bill C-303 be passed to ensure that the $250 million—and even better, $500 million—that's transferred to the provinces and territories be directed towards a system that will benefit children and their families.

Ms. Judy Wasylycia-Leis: I appreciate that.

I would like to ask one more question about child care. Are we cutting off our nose to spite our face by not funding child care at a time when we have a huge skills shortage? Are we in fact taking trained professionals, especially women with children, and forcing them to give up their jobs or leave the country or whatever to provide for their families and keep their professional integrity, and as a result having to turn around and bring in cheap labour from offshore? In my cynical moments I wonder if this is a conspiracy to in fact lower the standards, increase the gap between the rich and the poor, and create a cheap army of labourers who can go in and out as necessary.

[*Translation*]

The Chair: Thank you very much, madam.

[*English*]

Ms. Judy Wasylycia-Leis: Oh, sorry.

[*Translation*]

The Chair: Let us continue with the second round.

Mr. Thibault, you have four minutes.

[*English*]

Hon. Robert Thibault (West Nova, Lib.): Thank you.

Premier, I thank you for being here and congratulate you for being here to represent your people.

As a Nova Scotian, I am to no end offended by our premier not having taken the opportunity to address Parliament, through the committee, about the insult of the Atlantic Accord in this budget. The promise was made on the Atlantic Accord that it was above and beyond any other program and that it was until 2012 and then renewable for another eight years. Now that it has become an either/or program, I think it's a great offence. I wish our premier had the courage that you show in representing your people here today.

I hear that another accord is being negotiated for Nova Scotia. I don't agree with it. I wish the Prime Minister would maintain his promise and keep the accord. Each and every year—until 2012 apparently—the province will be able to choose whether it goes into the new equalization formula or accepts the accord. If ever it accepts the equalization, it loses the accord forever. I think that is an insult.

It is a slight improvement. It was negotiated by three MPs from Nova Scotia. The Conservatives hold three out of 11 seats. In your province, I understand the Conservatives own 12 out of 14 seats. That's 12 out of 14. They must be able to negotiate a lot better than that. Exactly what are they negotiating? Do you know?

Hon. Lorne Calvert: I think that's a question better put to the Conservative members from Saskatchewan.

Let me say, generally, about the matter of the accord and the renegotiations that apparently are happening, I am supportive of my Atlantic colleagues seeking the best arrangements possible for their people. But surely we were set on a path to simplify equalization in this country. I fear what we've created is one equalization program for some provinces, now two, almost separate equalization programs in the Atlantic, and then Saskatchewan, being unique in the country—the only province, by the way, that is affected by the cap—without an accord.

● (1620)

Hon. Robert Thibault: Nova Scotia would be affected by the cap also, as well as Newfoundland.

Hon. Lorne Calvert: Yes, but affected in Saskatchewan's case will bring our total to zero.

If this is a matter of equity and if equalization is based on fiscal capacity, I would appreciate an explanation from the Conservative members of Parliament of how it is that my very good friends and neighbours to the east, in Manitoba, for instance, will receive $2 billion under this regime next year, and the province of Saskatchewan—similar population, similar geography, similar economy—will receive zero? That's the effect of the cap on Saskatchewan. It brings us to zero. This simply cannot be fair.

Hon. Robert Thibault: As we're running short, I want to point out one thing. This is a quote:

> ...anything less than substantial compliance with our commitment will cause us no end of political difficulty during the next federal election. ...there is very little "wiggle room" for the Conservative government and its Saskatchewan MPs on this issue.

This is Brian Fitzpatrick, a Conservative member from your province. Surely he's in contact with you and offering his assistance and partnership with you to fight this move with the federal government.

Hon. Lorne Calvert: The answer is no. And I understand Mr. Fitzpatrick has decided not to seek re-election.

The Chair: Thank you, Monsieur Thibault.

We continue with Madam Ablonczy now for four minutes.

Ms. Diane Ablonczy (Calgary—Nose Hill, CPC): Thank you.

I thank all the panellists for bringing important perspectives before this committee. It's very helpful.

I think the hot topic right now is you, Mr. Calvert, as Premier of Saskatchewan, and I think we all regret that there is this difference of opinion between the federal and provincial levels about transfers to the provinces. I think Canadians are kind of unhappy with having a sort of "he said, she said".

What I guess I hear you asking for is transfers from the federal equalization program that would give Saskatchewan a greater fiscal capacity than some provinces that are not receiving transfers from the program. Is that correct?

Hon. Lorne Calvert: What we are asking for, and have consistently asked for, is fairness, the fairness by which other Canadians have been treated over the course of time. I ask you, therefore, is it a fair measure of fiscal capacity, as governed by equalization pay-out, that our friends in Manitoba will receive $2 billion and the people of Saskatchewan will receive zero of these federal entitlements? Remember, these entitlements are provided by the people of Saskatchewan. They're being provided by the resources that belong to the people of Saskatchewan.

Ms. Diane Ablonczy: Mr. Calvert, I want you to have your say, but I also want to get to the issues that I think are important, because I think you're right, the issue is fairness. The fact of the matter is—and you know this and it has been bandied about—that if what you are asking for is given to Saskatchewan, it would be really unfair to other provinces who are not receiving any money from the equalization program. You know that. I know that. The equalization program, by its very definition of “equal”, is a program to allow provinces to have equal fiscal capacity.

The fact of the matter is that you say there was no mention of a cap when this was discussed in election rhetoric. But there was no mention that there would not be a cap either. I think it's fair to say that a reasonable person would not assume that any province, even one as deserving and wonderful as Saskatchewan, would be able to access a program in such a way that it would create unfairness in that program, that it would give Saskatchewan a higher fiscal capacity than provinces that are not receiving anything from the program.

Here we have—and I think you're proud of this—an economy in Saskatchewan that's very hot right now. In fact, your finance minister is proud of that. I'm sure you are. The equalization program is to help provinces whose economies are not so hot. And of course, in addition to the equalization program, there is a whole raft of federal transfers, which really enrich Saskatchewan. I won't take time to read them, but you're aware of that.

So my question is can you tell Canadians across the country why you would want to use a program that's supposed to make provinces equal to make you more equal, to have an unfair advantage because of that program?

● (1625)

Hon. Lorne Calvert: The question that begs to be asked is in the formulation of this program. How does one determine the parameters of fiscal capacity? Are you arguing that Saskatchewan's fiscal capacity is greater than Ontario's? Is that the argument? Have we a program in place that defines that where Saskatchewan is today has a greater fiscal capacity than the province of Ontario?

Reasonable people living in Yorkton, Saskatchewan, look next door to our neighbour and good friends in Manitoba. We see a similar economy. We see very similar population. We see a very consistent prairie experience. How can a formula that you would describe as “fair” provide for their citizens $2 billion, by which they are able to provide education, health care, and child care and so on—

Ms. Diane Ablonczy: So are you saying that the O'Brien formula, the ten-province formula, and the recommendations of this expert panel are somehow flawed, that they don't give a fair result? Is that what you're taking issue with, the panel's recommendations?

Hon. Lorne Calvert: If the outcome is that the resource revenues that belong to the people of Saskatchewan to build for their future are being taken from them—

Ms. Diane Ablonczy: But they're not being taken from them, Mr. Calvert. You know that.

Hon. Lorne Calvert: They are being taken from them. You need a course in equalization.

The Chair: Thank you, Ms. Ablonczy.

Thank you, sir.

We'll conclude now with Mr. McCallum. You have about three minutes.

Hon. John McCallum (Markham—Unionville, Lib.): Thank you, Mr. Chair.

I welcome the guests. I find this embarrassing, because we're not giving the premier enough time. We're also not giving the others enough time. I will, however, focus on the premier. I apologize to the other guests.

It has been said that a successful budget should be out of the new cycle in three days. I think this is approximately day 70.

An hon. member: It's a minority Parliament.

Mr. John McCallum: Mr. Premier, I also noticed that in the budget document it speaks to the point that this budget will bring an end to intergovernmental disputes and allow governments to focus on the things that matter to Canadians. The language in the speech was even more flowery, that we are into a brand-new era of no more wrangling.

You've been a premier for some time. Can you explain how anyone could possibly think that wrangling would ever be over in a federation, and how could this government, having broken its promise to so many provinces, conceivably have thought that at the time of the budget?

And since I'm somewhat embarrassed, you don't have to answer that question. You have about two minutes to close in any way you see fit.

Hon. Lorne Calvert: Let me close with my own apologies to our colleagues here from the child care community and from the CLC and working people. We share some of the very deep concerns that have been brought to this table and to this committee today from the child care community. The termination of the agreement that we had in place with the former government has significantly impacted our ability to deliver early childhood education in the province. So I regret as well that they haven't had as much opportunity.

In terms of building a strong Canada, there will always be disagreement. It is the nature of our country. Our budget, by the way, disappeared from the headlines in four days. It is the nature of Canada because we are a confederation of provinces and territories. When you can strengthen a province or a region, you are strengthening the nation. When you are handicapping a region or a province from building for their future, you're handicapping the future of the nation.

I believe this country is built on fairness, equity, and trust, and when a national government makes a promise to its citizens, when a national government makes a promise to the people of Saskatchewan, where I come from, you'd better keep your promise. It is how we build a strong federation; it is in that fairness, equity, and trust. And this, committee members, has shaken the trust in my province in this national government.

I would like to see this national government restore that trust. I would like to see the members from Saskatchewan who represent us in this Parliament spend more time explaining Saskatchewan in Ottawa and explaining Ottawa in Saskatchewan. But fundamentally, I would like to see, for the benefit of the people of Saskatchewan, this promise kept, because it makes a significant difference for our future.

● (1630)

The Chair: Thank you very much, sir, and to all panellists for your participation today.

We'll suspend only briefly while the next panel of witnesses comes forward.

Hon. John McKay: Mr. Chair, I think your ruling has actually done a great disservice to the other witnesses, and I would invite the committee to reflect on our agreement that we had a while back and ask the committee whether they would like to see the witnesses, Mr. Weir and Ms. Lysack, back at another time so that they can be properly interviewed by the committee. So I'm making that a motion before the committee.

My colleague Mr. Thibault is seconding it.

The Chair: Sure.

This panel is dismissed, however. You may make yourselves comfortable, apart from the rhetoric that's going to go on here momentarily. Thank you again.

Is there any discussion? Seeing none, I will call the vote on the motion.

(Motion agreed to)

● (1630)

(Pause)

● (1635)

The Chair: We'll invite the panel members to take their seats and recommence.

I'll also, to satisfy the terms of the motion we just discussed, invite the representatives from the Child Care Advocacy Association of Canada and the Canadian Labour Congress to come back. I won't ask you to present again, but I appreciate your making yourselves available to answer any questions committee members may have. Thank you for your willingness to be flexible with our committee.

For the members of the second panel, welcome; we appreciate your being here. I know you were instructed, but I will remind you that you have five minutes to make your presentation. I will give you an indication when you have a minute remaining, so as not to cut you off too quickly, and then we'll move to questions.

Beginning our presentations now, Chris Conway is here with Real Property Association of Canada.

Mr. Conway, welcome to you, and five minutes is your time.

Mr. Chris Conway (Manager, Government Relations, Real Property Association of Canada): Thank you, Mr. Chair.

My name is Chris Conway. I am the director of government relations for REALpac, the Real Property Association of Canada.

We represent most of the TSX-listed real estate companies, including real estate investment trusts, otherwise known as REITs.

Our members own approximately $150 billion in real estate across Canada, and we see ourselves as both the property market's lobby group and the capital markets group from real estate.

We also have several different vehicle types in our membership: real estate corporations, pension funds, life companies, banks, and large private owners.

Today I'll be speaking exclusively about REITs and the changes to the REIT rules contained in Bill C-52. I would like in particular to comment on the written technical submission we have sent to the committee for consideration.

By way of background, REITs have been specifically enabled in Canada since 1994 and have existed in the U.S. since 1960. REITs are becoming a global phenomenon, as many Asian and European countries now have REITs. Throughout the world, REITs are a very common and growing phenomenon for investors. This is because they allow small investors to access passive rental income from big-ticket real estate assets.

We continue to be grateful for the existence of the REIT exemption and the work the government and the Department of Finance have done to address initial Canadian REIT industry concerns arising out of the October 31 announcement and the draft language released in December 2006. Most of these issues were addressed in the budget motion prior to the introduction of the bill.

Our purpose in suggesting further minor items is to make sure the technical language contained therein allows the majority of existing Canadian REITs to continue operating and competing in the Canadian marketplace without regulatory uncertainty or accidental restrictions. As it is, the wording creates several operational problems. Wording changes are suggested to enable the budget bill language to better achieve what we believe to have been intended all along.

In preparing this submission, REALpac undertook significant consultations on behalf of Canada's REITs. We've reviewed many of the national law firms' and national accounting firms' public analyses of the REIT legislation. We've convened a meeting of REALpac REIT members and several of their advisers to analyze the technical language. We have drafted and circulated many successive drafts of possible changes to selected tax lawyers and tax accountants in national firms.

The result has been our written submission to the committee and suggested wording changes to the bill. Our intention is to seek these changes on a consensual basis prior to the bill's becoming law. We would be pleased to work with all stakeholders on these changes.

In addition to our technical concerns, there are two policy issues raised in our submission. The first is the foreign property ownership limits. The second is the lack of inclusion of hotels and nursing homes in the new REIT rules.

Regarding the foreign property rules, there is no solid policy rationale we're aware of for preventing Canadian REITs from owning more foreign property. All major industrialized countries allow unlimited ownership of foreign property. It appears that this is because allowing REITs to own foreign property brings in more tax revenue. The more a REIT can earn by holding properties abroad, the more it pays out in distributions to unitholders, which in turn are taxable, either domestically or through withholding tax for foreigners.

Hotels and nursing home REITs would not qualify under the new rules. We would like to point out that the U.S. REIT rules, now and for some time, have accommodated hotels and lodging REITs, and under the February, 2007 draft bills, health care and seniors' home REITs are now being included.

We have advocated two potential solutions. The first is either a slight relaxation of the REIT rules to permit hotel and nursing homes to qualify, or a fully taxable subsidiary model, such as exists in the United States. It now appears that Australia is also moving in a similar direction to allow these types of REITs.

REITs allow small investors to participate in large investment-grade real estate by purchasing REIT units. If hotel and nursing home REITs are not allowed to exist, not only are we less competitive with other jurisdictions, but we will remove the small investor from the picture.

Ultimately, it's important to have cross-border synergy in our capital markets. We do not want other countries' REITs being stronger than our own.

In conclusion, REITs allow a greater amount of capital and institutional investment to flow into real estate. We have a strong and stable capitalized public real estate market now with real estate investment trusts. There is a lot of money flowing into hotels, nursing homes, new office buildings, new industrial parks, and new multi-family developments. Making the changes we have requested will help ensure that Canadian REITs remain strong and competitive.

Thank you.

● (1640)

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

We'll continue with George Kesteven from the Canadian Association of Income Funds.

Welcome, Mr. Kesteven. You have five minutes, sir.

Mr. George Kesteven (President, Canadian Association of Income Funds): Good afternoon.

Thank you very much, Mr. Chairman and members of this committee, for giving me this opportunity to speak to you today on behalf of the Canadian Association of Income Funds.

The Minister of Finance's stated intention last October 31, with the introduction of the so-called tax fairness plan, was to level the playing field, stop future conversions to income trusts, and stop tax leakage, no matter how small. What the government has done does not amount to tax fairness, but rather the wholesale destruction of a valuable structure in the Canadian economy.

To date, the unintended negative consequences of this move have been the following:

First, to give a boost to the U.S. growth of master limited partnerships, MLPs—the U.S. equivalent of Canadian income trusts—by eliminating any competition.

Second, to destroy billions of dollars of investor value. Many of these investors invested based on a promise made and subsequently broken by Prime Minister Harper.

Third, to tilt the playing field in favour of private equity, foreign equity, and pension funds, none of which pay taxes to governments, federal or provincial.

Fourth, to make it difficult for Canadian trusts, especially resource trusts, to access capital. This makes them prime targets for takeover.

Fifth, to facilitate the takeover of close to 15 trusts in the last six months, with more than 20 announcing that they are currently on the block at fire sale prices.

Mr. Chairman, as Premier Calvert said earlier today, it is not tax fairness to break a promise made to millions of Canadian investors. It is also not tax fairness to impose a 31.5% tax when corporations effectively pay only 5% to 10%.

The playing field has not been levelled when the income trust sector has been severely disadvantaged, compared to the situation of corporations, by the elimination of non-resident investors and through the double-taxing of pension funds and RRSP holders. It is not tax fairness when Canadian investors have been disadvantaged and cut off from an investment vehicle that provides them with cashflow needed for retirement.

As far as the issue of tax leakage is concerned, it is our contention that federal and provincial tax revenues will not be increased in any way under this bill. Many governments will actually experience reduced revenues in the end.

Permit me to highlight for you the federal government's own documents of October 31, in which it forecasted zero tax revenue through 2011 from this tax. Copies of this have been provided to the clerk. It makes all the more curious the fact that the finance department has promised a new joint committee with the provinces to share in the revenue stream when none is expected over the four-year transition, and little if any is expected into the new regime as the sector is bought out or converts to corporate status.

With respect to Bill C-52 itself, we urge this committee to address clear gaps in the current drafting:

First, how will income trust be treated in legislative terms during the transition period? Currently these rules appear only in guidelines that are, in essence, a news release that can be changed at the whim of the government.

Second, there needs to be a legislative framework in Bill C-52 to facilitate conversion to corporate status on a tax-deferred basis, similar to the existing subsection 85(1) of the Income Tax Act, as well as the ability to eliminate the remaining trust vehicle in a tax-efficient manner.

We respectfully submit that the finance committee follow its own advice to the government of earlier this year in its report on income trusts by producing a separate piece of legislation that is comprehensive and that includes the guidelines and conversion rules, and is not so broad as to have application to partnerships that are not listed on the public exchange. Only then would all parliamentarians and Canadians have a clear opportunity to see this issue on its own merits, and properly address the income trust issues in this bill.

We continue to be committed to working consultatively and collaboratively with all levels of government to achieve a tax system that is fair for all.

Thank you.

The Chair: Thank you, Mr. Kesteven.

We conclude with a presentation from Robert Michaleski, from the Canadian Energy Infrastructure Group.

Welcome to you, sir. Five minutes is yours.

Mr. Robert Michaleski (President and Chief Executive Officer, Pembina Pipeline Income Fund, Canadian Energy Infrastructure Group): Thanks very much.

Thanks for this opportunity to speak with you this afternoon.

l am here on behalf of the Canadian Energy Infrastructure Group, or CEIG. The CEIG represents ten infrastructure companies that manage energy pipelines, storage facilities, and processing plants. We process, transport, and store a very significant portion of Canada's oil, oil sands, and natural gas production, and petrochemical feedstocks. Our assets represent long-term investments that provide steady, fee-for-service income, not unlike real estate investments. We are all income trusts or similar flow-through entities, proudly headquartered and managed in Canada. The proposed tax on income trusts has the potential to very profoundly impact this important sector.

Combined, the CEIG represents a market capitalization exceeding $12.5 billion, and represents about 6% of all Canadian income trusts. Our member firms deliver over a million barrels of oil per day to the market. That's half of Canada's oil production. We also deliver over 300,000 barrels per day of Canada's natural gas liquids production and transport 2.7 billion cubic feet per day of Canada's natural gas production. We play a central role in processing and storing gas and natural gas liquids. Our companies are critical to Canada's energy supply.

The income trust structure is ideal for Canadian energy infrastructure assets and has been a catalyst for the investment and growth in long-life physical assets that are critical to the development of new energy supplies in Canada and to establishing Canada as a world energy superpower. This business model is based on long-life physical assets with steady and reliable cashflows. Similar to the REITs, which have been exempted from this proposed new tax, energy infrastructure trusts represent stable, long-life, hard assets.

Energy infrastructure trusts also make substantial investments in asset development. Consider this: collectively, the CEIG membership has spent $1.1 billion on expansions over the past five past five years, has planned expenditures of $4 billion over the next three years, and has acquired $3.9 billion of assets, and $1.8 billion of those assets were repatriated from foreign owners. The trust model keeps critical energy infrastructure under Canadian ownership.

Further, the long-term nature of our investments requires a stable, long-term, competitive fiscal regime. At the time of the government's surprise October 31 announcement, our members had made long-term decisions and commitments on the basis of the existing taxation regime. Multi-year shipping and processing contracts, some of which extend 25 years and beyond, are in place, and long-term investment and financing decisions have been made in good faith based on a promise made by this government.

Like members of Parliament, the CEIG member companies are accountable to their own constituents. We made business decisions in good faith, believing that this government would keep its word. We are responsible to our unit holders, who are our primary constituents. These investors also made business decisions impacting their retirement savings and financial futures based on the promise that this Conservative government made to them prior to taking office and on the campaign trail, a promise that, with the introduction of the proposed policy change, has been broken.

Now, there is clear precedent for treating energy infrastructure uniquely. In fact, when the United States made the decision to tax income trusts, they specifically exempted energy infrastructure, recognizing how critical these assets are to energy supply and energy security, encouraging the development of master limited partnerships as flow-through entities.

Today, just as we are shutting down this valuable business structure in Canada, in the United States it is flourishing, with the market capitalization of the energy infrastructure sector currently exceeding $80 billion U.S. and growing.

These infrastructure assets connect Canadian energy producers to markets, so impacts on this sector reverberate through the energy industry, the industry often described as the engine of the Canadian economy. These changes will increase the cost of capital, curtail growth and the development of long-life assets, and, perhaps more importantly, create a competitive disadvantage with respect to foreign and tax-exempt parties. Already, in the energy infrastructure sector, U.S. flow-through entities trade at a significant premium to Canadian counterparts. Today the U.S. entities trade at a yield of 5.2%, compared to Canadian entities at 8%.

● (1645)

Now, the potential for takeovers of the critical Canadian energy infrastructure owned by CEIG members by foreign acquirers, such as the U.S. MLPs, private equity firms, and others, has risen dramatically as a result of this erosion of our competitive position. Such takeovers will result in a reduction in the total tax collected in Canada, precisely the inverse of the government's purported reason for implementing the changes on November 31 of last year.

Retaining the trust structure for the energy infrastructure is the right thing to do.

The Chair: Thank you very much, sir. I'm sorry to cut you off, but I'm sure there will be questions for you.

Mr. Martin and Mr. Norlock, welcome to our committee.

Just a reminder: in response to the passing of Mr. McKay's motion, we do have representatives here who were on the first panel. I would encourage questions to them as well.

We'll begin the six-minute round now with Mr. McCallum.

● (1650)

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

I've said for some time that this was a finance minister out of his depth. It became abundantly clear that this was true when he himself reversed on interest deductibility. Income trusts are another saga confirming this thesis, and I heard another one today. I can't believe the government would restrict the overseas investments by REITs to 25% of their assets.

I understand that Australia has one REIT that's as big as all of Canada and that grows overseas, and here we have a government that says you can't invest overseas. But by investing overseas, don't you get more revenues for the government?

So is there any rationale for the government to limit the investment overseas in this way? Can anybody think of any reason? Maybe one of the Conservative members will come up a reason during their turn. It just strikes me as entirely irrational.

Mr. Chris Conway: We looked at the data ourselves, and we can't find any rationale for it. There are a handful of countries, mostly small tax havens—Costa Rica, Puerto Rico, that sort of thing. We can't find any rationale. It does bring in more tax revenue for Canada.

Really, to our mind, there is no justification for it other than a potentially historic precedent in the Income Tax Act, which has been changed in other areas, I think in terms of RRSPs.

The Chair: Mr. Conway, I'm curious about something. REITs can be registered for RRSP purposes, right?

Mr. Chris Conway: Yes.

The Chair: So in the past, when there were restrictions on foreign investment, REITs that invested over a certain percentage wouldn't have been eligible for RRSP investment. Is that correct?

Mr. Chris Conway: We haven't until now had a number of REITs with a lot of foreign property ownership. However, there's the case that Mr. McCallum raised, Westfield, the Australian REIT that has a market cap the size of the entire Canadian market. We have a number of REITs now that are in a position where they're looking to go abroad. We're speaking specifically about owning property abroad, so I don't know how it would have impacted specifically on the foreign ownership rules in terms of the units of the REITs themselves—

The Chair: Previously, you're saying, most REITs didn't invest much in foreign property, but this rule will limit the potential for them to do so. It's not going to impact on the existing REIT industry, it's just going to restrict the possibility of more investment offshore. Is that in effect what you're saying?

Mr. Chris Conway: Well, the way I've had it explained to me is that they can buy us but we can't buy them.

What may in fact happen is that a number of the Canadian REITs could be purchased by foreign REITs as a result of this. It may limit their competitiveness. Some Canadian REITs may not exist if this continues. It is getting more competitive globally. As foreign REITs are running out of properties to buy in their countries, they're going abroad, looking to Canada now. There's a lot of discussion that Canada is a very competitive market for real estate prices.

The Chair: Just to be clear, up until now there was no restriction on the amount of offshore investment a REIT could make?

Mr. Chris Conway: Not to my knowledge. There was no—

The Chair: Yet Canadian REITs didn't invest offshore, and you're suggesting that somehow this change in the rules is going to have a dramatic and negative impact.

Mr. Chris Conway: We're a relatively young market. I mean, 1994 was when Canadian REITs really came online. In the United States, for example, REITs began in 1960. So some countries have had time to get further ahead. They have more sophisticated structures—taxable subsidiary structures, for example, stapled REITs.

We're kind of getting to the tipping point now where we would need to look at these types of rules. Our REITs are now looking at going abroad.

The Chair: Thank you.

Mr. McCallum, I'm sorry about the interruption. I just wanted some clarification.

Hon. John McCallum: No problem.

Notwithstanding the chair's intervention, I remain convinced that I have not heard a single justification for what would appear to be an irrational policy. It seems like government is quite happy when foreigners buy our energy trusts or REITs but not when our energy trusts or REITs buy overseas.

This brings me to a question for Mr. Michaleski. I understand that drilling in Alberta is down substantially. How are the energy trusts doing, and what would be the implication of the passage of the budget bill for this activity? How would that affect the Alberta economy?

Mr. Robert Michaleski: Well, we do represent mostly infrastructure and pipelines in the province of Alberta and elsewhere, so we are impacted by the decline in drilling that will take place. Energy trusts will also be impacted by the decline in drilling because that also translates into likely lower production levels, or a lesser ability to maintain production from those entities.

As far as the budget itself is concerned, I don't think there's a direct relationship. We're speaking primarily to the impact of the budget on the trust sector in general, and I think the answer to that question is that we'll see a negative impact because there likely will be less drilling as there are less funds available for that sector, which will then translate into less product for us to move in our systems.

● (1655)

Hon. John McCallum: I've heard it said that this tax of 31.5% is so punitive that the income trusts simply won't remain and that the revenues from this high tax will be zero. Would any of the panellists comment on that?

Mr. George Kesteven: I'd be happy to comment on that. I think your assertion is absolutely correct, because no corporation in Canada pays 31.5%. That's a statutorily declared number based on this legislation. They're paying anywhere from 5% to 15% as an effective cash tax rate, so why would anybody stay in a vehicle by 2011 where they're going to be paying 31.5% when as a corporation they'd be paying 5% to 15%? So you'll see the obliteration of the sector if the 31.5% goes ahead.

Hon. John McCallum: So would any rational government do this? It's obvious that a 31.5% statutory rate should be compared with a 5% to 10% actual rate paid by corporations. So why would they do this if it were not to deliberately destroy income trusts? My impression is that it's not to level the playing field so much as to destroy income trusts.

Mr. George Kesteven: Absolutely, that's what it will do. The impact will be the destruction of the vehicle, yes.

Mr. Robert Michaleski: I think, if I may just add, it's highly unlikely that you're going to see any entity stay on as a trust. The likelihood is more a conversion to corporate, but even more so, I think the likelihood is that they're going to be sold to the highest bidder before 2011.

Hon. John McCallum: Right. It seems to me that this is almost a comedy of unintended consequences, were it not for the fact that so many people have suffered so seriously. It seems to me that tax fairness is in fact tax unfairness when ordinary people can no longer invest in these entities and you have to have very deep pockets to buy the underlying assets.

Advantage Canada has disadvantaged Canada when energy trusts, which had previously been net foreign acquirers, are now all being bought up. And perhaps most strikingly, stemming tax leakage has turned into creating tax leakage. Income trusts, largely through personal tax, I guess, were paying lots of tax revenue to the government. Now if BC is sold to a combination of pension plans and private equity concerns, the tax revenue to the government will be next to nothing.

Particularly on that last point, I wonder if perhaps Mr. Kesteven could comment on how one could possibly argue any more that this government action would be stemming tax leakage when in fact it appears to be creating less revenue for the government.

The Chair: Mr. McCallum has used his preamble, Mr. Kesteven. There's no time for a response. I'd invite you to work a response into your next question, if you would.

We'll continue now with Mr. Crête.

[*Translation*]

Mr. Crête, you have six minutes.

Mr. Paul Crête: Thank you, Mr. Chairman.

I found your presentations interesting. First, let me clarify a point. The Bloc Québécois has no intention of challenging the current year's budget in the short term.

Among other things, you invited the Standing Committee on Finance to set up special legislative measures. If the budget is adopted and the legislation is implemented and if you are invited to propose measures that could be applied later, perhaps during the next budget consultation process, do you think that your propositions will still be timely? What would your preferences be?

[*English*]

Mr. George Kesteven: I think it's important for people to realize that capital markets are dynamic, they're not static. And what's going on with this particular legislation is not only poor public policy, but it's atrocious implementation. The atrocious element of the implementation is that it continues to create more and more uncertainty, because as income trusts, we don't know what we're going to be allowed to do for the next four years, and that's where the problem comes into play.

If this bill passes as its existing structure is set up, there are going to be problems with going forward, because the income trusts don't have enough guidance to know what it is they're allowed to do and what they're allowed to be, essentially. For instance, one of the clear indicators is that we don't have a road map for conversion to a corporate structure. There isn't any detailed enabling legislation in this legislation to tell us what to do, how to do that, what we're allowed to do, when we're allowed to do it, and what the tax implications would be. So that's where there's a problem. That's why it's so urgent that we get clarity in this legislation going forward, so that the capital markets know what to do and how they should respond.

● (1700)

[*Translation*]

Mr. Chris Conway: I would say the same thing as Mr. Kesteven said. Capital markets are usually very quick to react. Regarding real estate investment trust funds, for instance, we noted some hotels and retirement homes were about to be purchased. In some cases, the estimates caused a sharp drop in price. Some groups made applications to purchase. We will very likely see things change in six months or in a year or two. Perhaps there will no longer be any REITs for hotels or retirement homes in Canada. This is what is happening now.

Mr. Paul Crête: The Conservative government may have changed its mind. That is what probably caused the situation. However, we must also make sure that we have the best possible tax base. This is why, regardless of the fact that the government changed its mind despite its previous commitment, we must choose the alternative that will provide the best tax base.

Mr. Weir, do you have any comments on this?

Mr. Erin Weir: Yes, of course.

[*English*]

I recognize that this committee has relatively little ability to change amounts of money in the budget, and I recognize that the Bloc is committed to supporting this particular budget. And I suppose that's why I've tried to focus my presentation on issues that can be dealt with by this committee and that can be dealt with after the budget. The first thing is to get this tax-back guarantee out of Bill C-52. That aspect of the bill really purports to tie the hands of future Parliaments and really reduces the ability of elected representatives to make decisions about how to allocate resources in the future. So that's one concrete thing I would ask for—some amendments in that area.

The other concrete thing is—

The Chair: I'm sorry, Mr. Weir, I have to cut you off. Mr. Crête's time has elapsed, plus.

We'll continue now with Mr. Del Mastro, for five minutes.

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

Thank you, panel.

What a remarkable statement to begin with by Mr. McCallum. Today the leader of the opposition came out and demanded a complete moratorium on foreign investment and takeovers in Canada. Mr. McCallum started off by saying that he can't believe anybody would move to limit foreign investment. My goodness, sometimes the double-speak from the Liberal Party is absolutely shocking.

Having said that, I would like to ask a couple of questions.

Mr. Kesteven, recently we've seen that markets in Canada, whether the TSX or even the income trust index, have moved up sharply. Investors, especially those who followed good, sound investment principles, with well-diversified portfolios, are doing very well.

In fact, you said that no stability was brought forward, no clarity. The finance minister went to great lengths to bring clarity. The only lack of clarity is coming from the Liberal Party, as it continues to put forward motion after motion on this.

The government has put this in the budget; we intend to move forward on it. We have the support of the Bloc, of every single province in the country, and of people such as David Dodge from the Bank of Canada, who said the long-term effects of not acting.... Let me quote him, because I don't want to be inaccurate. John, you're going to enjoy this:

> By giving incentives that led to the inappropriate use of the income trust form of organization, the tax system was actually creating inefficiencies in capital markets, inefficiencies that, over time, would lead to lower levels of investment, output and productivity.

That may be what the Liberal Party wants, but it's not what our government wants.

So having said that, the finance minister laid out all the criteria for the period leading up to 2011. What part of this isn't clear enough? I would like to get clarity, so that people can understand and do proper planning. I would like to understand what part of that is not clear.

● (1705)

Mr. George Kesteven: Two particular elements are ambiguous. One element deals with the fact that we think we're being told to become corporate entities, but there's no structure in place. This is similar to subsection 85(1) of the Income Tax Act, which defines a share-for-share exchange on a tax-deferred basis. We have no detailed legislation to back this up and provide the road map for this issue.

Secondly, the wording of the legislation is ambiguous, such that it basically says—and we like to call it tax legislation through news release—that if the government deems to change the rules midstream, they have the right to do so. Obviously we would think that due process is supposed to be involved in changes to the Income Tax Act. We would expect this would be part of the legislation as well.

We are very concerned about the ambiguity in those two elements.

Mr. Dean Del Mastro: Thank you.

Mr. Michaleski, you had a broader question on the oil industry. I would like to ask you a broader question on the oil industry, since that window has been opened.

The Liberal Party brought forward a private member's bill, C-288, that proposed to bring in Kyoto measures by 2012, which is a very short timeframe. The broad speculation, particularly in Alberta, is that this would absolutely devastate the oil industry there, since they would not be able to meet this timeframe. Would you care to comment on that?

Mr. Robert Michaleski: I'm not going to profess to be an expert on environmental or Kyoto-related matters, sir. I'm speaking on behalf of our infrastructure group. But I think anything that causes damage to the industry will certainly have an impact on us longer term, in the sense that likely there will be less product for us to transport to export markets. So clearly anything that's going to cost the industry more will translate into less production and less transportation, and that will have a negative impact on us.

The Chair: Mr. Del Mastro, you have about 45 seconds left, so keep it to Bill C-52, if you can.

Mr. Dean Del Mastro: Okay.

Ms. Lysack, I appreciate that you have come back before the committee again. The government made a very significant commitment in this budget for funding space creation. We have not seen that funding, certainly not in the Ontario budget anyhow. I'm curious: has there been any thought afoot to suggest that we may take early learning and roll it in under education?

I've got schools closing in my riding, and I don't understand why early learning isn't part of education. Why aren't the provinces making this a bigger priority? We have certainly given them a lot of capacity. Do you have any thoughts on that?

Ms. Monica Lysack: Actually, I think—

The Chair: There are five seconds remaining. You can have a brief time to respond. That question deserves a long response, but just a few seconds, please.

Ms. Monica Lysack: I think you've reduced the capacity by about $1 billion. Certainly provinces and territories have the opportunity to make choices about that. In Saskatchewan, for example, early learning and child care is under the Ministry of Education.

The Chair: Thank you very much. That was a good job of briefly doing justice to the question.

Mr. Martin, welcome, sir. Over to you.

Mr. Pat Martin (Winnipeg Centre, NDP): Thank you, Mr. Chair. I appreciate it. Thank you for this opportunity.

Thank you to the witnesses.

I have followed the whole income trust issue with great interest over the years. In fact, in 2005 I put forward a motion that the government should do exactly what it has done.

Let me quote an article from the *Winnipeg Free Press* in June 2005. Someone said:

> Whole industry sectors are becoming tax fugitives by restructuring themselves as income trusts. We need to be clear with Canadians about the implications of income trusts. When corporations do not pay their taxes citizens pick up the tab in the form of higher taxes, more service fees, and cuts to social programs.

It's long been held that these flow-through entities are a way of wholesale tax avoidance. Wouldn't it be safe to say that most corporations restructuring themselves as income trusts do so to avoid taxes? Am I completely off base here, or is that pretty much it?

● (1710)

Mr. George Kesteven: Absolutely incorrect.

Mr. Pat Martin: That's been the experience in my reading. Most of the companies that I came across said this certainly is a motivation.

We've seen Murray Edwards, as an investor in the oil patch, commenting on this very thing. There was another name I was looking for. At the shareholders meeting when they were voting on whether to restructure, they were more or less saying, “We can't believe that the government allows us to do this, but seeing as it's legal now, we better do it, because it can't last forever.”

Even Mr. Edwards was saying that the government will have to nip this in the bud sooner or later, because it's simply bad public policy.

Mr. George Kesteven: There is a tax transfer that occurs. Taxation doesn't take place in the hands of the corporate entity; it takes place in the hands of the unitholders who receive the distributions.

In most cases, they pay at a high marginal tax rate, perhaps as high as 46%. I would hardly say that tax leakage is occurring, when they're paying a 46% tax rate on those distributions.

Mr. Pat Martin: I don't think you could win the argument about tax leakage, sir. We have the charts put forward by the Library of Parliament about exactly how this happens. We have a fairly good understanding of this.

As they say, the first casualty of war is the truth, and that's what I'm more concerned about. There's an unprecedented lobbyist campaign going on. I don't know who's paying for it, but some of the highest-priced lobbyists in the country sit there in the back rows of meetings like this with their meters going.

I can only assume that Mr. Boudria is not doing this because he's interested in income trusts.

There's an overwhelming lobby of self-interest going on here to hang onto this last tax refuge. We can't understand it as ordinary Canadians.

Even as a trade unionist who used to sit on a union pension investment fund.... Everybody knows that in the long run, it's bad. It's short-term gain for long-term pain. It sucks the lifeblood out of business.

If everything flows through to the unitholders, if the whole purpose is to suck all the profits to the unitholders and avoid paying taxes, who is going to reinvest, grow a company, and create jobs?

Mr. George Kesteven: The governance model for the income trust is significantly different from that for corporations. You're comparing apples and oranges. The governance model in income trusts is such that, yes, the majority of the cashflow is paid out to the unitholders.

If management wants to pursue an acquisition opportunity, a development opportunity, or a major capital obligation, they must go back to the capital markets and fund that directly out of the markets. They have direct accountability to the capital markets.

In a corporate model, they retain the cashflow as retained earnings. In a lot of large corporate entities, this essentially becomes the hobby fund of management. They don't necessarily have the same direct accountability—

Mr. Pat Martin: If they are going to grow their business, I think they'd be better off.

Mr. George Kesteven: They don't have the same direct accountability to their shareholders. The unit holders of a trust actually are in a very good position because governance is very strong, such that management must come back to the market when they want capital.

Mr. Pat Martin: Do I have a moment left?

The Chair: You have about 40 seconds, sir.

Mr. Pat Martin: Very briefly, regarding the CLC brief, I'm very interested in the analysis of the 2007 federal budget by the Canadian Labour Congress.

The issue of foreign takeovers came up. I understand that today the leader of the Liberal Party is calling for a moratorium on foreign takeovers. For the last year, the NDP has been calling for such a moratorium. There were 11,500 takeovers under the Liberal regime. Not once did they find anything wrong with anything that anybody did in terms of foreign takeovers. Is that healthy for the economy?

The Chair: You'll have to give a very brief answer there, Mr. Weir. I'm sorry, but Mr. Martin, as has become customary this afternoon, has used his time in preamble.

Mr. Erin Weir: The Canadian Labour Congress sent a letter to the Prime Minister recently making the argument that there should be thorough and rigorous reviews of these foreign takeovers, which certainly hasn't happened under this government or the previous one, as he suggested.

The Chair: Mr. McKay, sir, you have four minutes.

Hon. John McKay: Thank you.

That was an incredible demonstration of Mr. Martin's and the NDP's tax literacy, I appreciate. The only thing I agreed with him on was that it was hard for him to understand.

Some hon. members: Oh, oh!

Hon. John McKay: Let me go back to Mr. Kesteven. In the dummied-down version, why is it that the moves by this government will actually end up creating not only tax leakage but tax hemorrhaging for an entire industrial sector?

Mr. George Kesteven: What's happening, and we're starting to see this emerging already in the capital markets, is that as valuations have been taken down 20% or 25%, the assets start looking pretty cheap. There's a lot of capital out there, particularly from the private equity side of the market—foreign private equity. What they will do is come in and set up a corporation with a debt structure that allows them to create an interest tax shield. In other words, they get to deduct the interest costs attached to the debt financing they use to buy the income trust. In that way, they accomplish the process of acquiring the assets, acquiring control of the entity, without paying any corporate tax.

That's what's starting to occur. We're starting to see it take place. This is what happens when you see a fiscal regime suddenly jolt into the capital markets and cause a valuation shock. That's what we're seeing over the last six months.

● (1715)

Hon. John McKay: In effect, it's the creation of the perfect storm, because by depressing the value, you make the Canadian income trust sector cheap. Meanwhile the Americans look at it and say: oh, it's bingo time; let's go and buy these guys. They load up on the other end of the spectrum, using debt in order to be able to do so, and kill the tax.

The Chair: Just for clarification, then, is there something stopping a Canadian group from getting together and buying an income trust, using the same write-off of interest charges to create a no-profit method? Is there some restriction on Canadians' doing this?

Mr. George Kesteven: There's nothing to prevent them from doing so, but there aren't Canadian buyers to the same degree. Keep in mind that the U.S. capital market is many multiples the size of the Canadian capital market. We don't have the depth here to be able to buy up all of these companies.

The Chair: Okay, so you're suggesting that a lack of capital in Canada for potential investment reduces the likelihood that a Canadian ownership structure would be created as a result of the change. Is that right?

Mr. George Kesteven: Right. That's also—

The Chair: I'm sorry, John. Go ahead.

Hon. John McKay: When you see the gutting of your market and the incredible shrinkage of your capital base—surprise, surprise—you can't get involved in any of these new regimes; and when you have legislation by press release, as Mr. Conway indicated, you don't know the road map. You don't know where you're going for the next four years, so how can you possibly be responsible to your unitholders and acquire, let alone expand, your business?

Is that a fair comment?

Mr. George Kesteven: That's exactly it. It's very difficult to maintain your fiduciary duty to your unitholders when you have a very unstable fiscal regime, which is what we're facing right now.

Hon. John McKay: We put forward—the Liberals in conjunction with the Bloc—a phase-in period. We're politically realistic, but our theory was that it would bring back two-thirds of the capital market, using our idea. In the Bloc proposal, it's a ten-year phase-in period.

What would your reaction be to this disastrous economic policy-making by this government?

Mr. George Kesteven: Clearly the 31.5% tax is designed to eliminate the sector, whereas the alternatives we've heard would either allow for adaptation over ten years or would allow...and I'd never advocate for higher taxes, but that's the way it goes. Certainly the 10% would allow the sector to survive; we wouldn't be eliminated as a sector. The vehicle would continue.

Going back to what Mr. Martin said, if I may for one moment, in line with what you're saying, Mr. McKay, the capital markets are demanding an income vehicle. That's why you're seeing such a level of interest. That, quite frankly, is why this issue won't go away. You have 2 million to 2.5 million Canadian unit holders who hold these units, many of them retirees, who need the income stream to supplement their income. That's the capital market's objective. It's gone away from capital gains to wanting an income stream.

It's because of that demand that there's this degree of interest.

Hon. John McKay: Oh, but they have pension splitting now. I'm sure they're thrilled about that.

Mr. George Kesteven: Based on the reaction I've had, certainly in my day job, that's not going to offset the losses that people have incurred in their capital in terms of the income trusts.

Hon. John McKay: If there were a ten-year phase-in period, would you predict a rebound in the capital market?

Mr. George Kesteven: Yes, I would suspect we would see some rebound in the capital markets, because it would allow for adaptation as opposed to destruction. Clearly, though, within that ten-year timeframe, we'd need clarity.

Hon. John McKay: Thank you.

The Chair: Just on a side issue, Mr. Kesteven, but it is an issue that concerns a lot of us, the nature of a lot of the investors who put their money into income trusts, we at this committee heard testimony from a number of witnesses who did that.

I'm a chartered financial consultant by background, and it's clear from just a cursory questioning of the witnesses that they're low-risk investors, that they had no business being, frankly, in income trusts, or at least to the degree they were, numerous were, 100% in income trusts. I think this has compounded some of the heart-breaking testimony we've heard. Do you want to comment on that?

I come from that industry, so I'm saying I don't think we're entirely lily-white in the investment industry in the sense that many Canadians who lost money, at least in the short term, on the income trust downturn following the announcement did so as a consequence of a disproportionate percentage of their investments being put into something that they took to be low risk. You alluded to them wanting to have a higher return. Everyone wants a higher return, of course. Do you want comment on that?

● (1720)

Mr. George Kesteven: Absolutely. Obviously there are bad financial advisers out there, and there are good ones. I'm not going to sit here and say that the investment community is lily-white on this either, but it is important to note that the government intervened and broke a promise here.

We have people I know of who invested in the company I work for because they believed Stephen Harper's promise not to tax income trusts. So they believed, going ahead, that would be fine, that there would be no adverse fiscal regime changes, and there have been.

To quote one of my investors, "Gee, I guess I wouldn't have been screwed so badly by the government if only I'd diversified more." I think that's the summary feeling that's out there.

Sure there are cases where probably people held too high-risk a portfolio, too high a proportion. I'm not going to deny that. But by the same token, there was a sudden sea change in the fiscal regime, contrary to the government's own promise.

The Chair: Where is the income trust investment index now, where it was October 30?

Mr. George Kesteven: I don't know about the indexes, but I do know in terms of market capital we're down somewhere between $17 billion and $22 billion to October 31, so the losses are still there, in terms of capital loss.

The Chair: You alluded earlier to takeovers, and so on. Some of the takeovers I've read about were at premium prices, not at fire-sale prices. I'm wondering if you'd like to clarify a little bit on that.

Mr. George Kesteven: When you calculate that premium, it's important to note whether that premium is to the current market price or to the pre-October 31 price. I think in many cases you will find that, yes, there's a significant premium to the current market price because these trusts have been devalued by what took place on October 31.

If you go back, though, and you look at the pricing relative to the pre-October 31 pricing, you will find very small premiums.

The Chair: Okay, thank you.

Hon. John McKay: As a follow-up to that, please—

The Chair: No. We'll go to Mr. Plamondon now.

Mr. Plamondon, you have three minutes.

Hon. John McKay: I thought I had a follow-up.

The Chair: You may be able to get in later in the order, Mr. McKay, if you speak to your colleague Mr. Thibault.

Mr. Plamondon.

[*Translation*]

Mr. Louis Plamondon (Bas-Richelieu—Nicolet—Bécancour, BQ): Ms. Lysack, earlier we discussed the child care system in Quebec, which is working very well. This is what we call the $7-child care system. People all over Canada said that they wanted to implement this model, with a few changes in some cases. The federal government and the provinces seemed to want this.

How do you explain the fact that the implementation was not as quick in the other provinces as it was in Quebec?

[*English*]

Ms. Monica Lysack: Well, I certainly believe that Canada could learn much from Quebec and the way that Quebec implemented their system. It's hard to understand why other provincial governments would not move as quickly on this when we saw the effect in Quebec —a 40% economic return in the first year because of increased taxes, because women, who have tended to be under-employed, had the opportunity to go to work and know that they had good, reliable, high-quality child care arrangements for their children.

[*Translation*]

Mr. Louis Plamondon: Thank you.

The Chair: Thank you very much, sir.

[*English*]

We'll continue now with Mr. Dykstra.

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

I find it interesting that my good friend and colleague Mr. McKay indicated that we legislated this through a press release. I'd argue it's probably a little better than legislating it through an e-mail, but I guess we'll leave it to others to work on.

Mr. Michaleski, I've listened to and heard the presentations of many of your colleagues, including Mr. Kesteven, who's obviously been here before. I certainly respect why you're here and the points you want to make.

I have financial report after financial report telling me it's not as bad as you say it is. Why are they all wrong and you're right?

● (1725)

Mr. Robert Michaleski: I'm not sure what financial reports you're referring to, sir.

Mr. Rick Dykstra: I'm referring to comments that were made today in the *National Post* by Mr. Ben Cheng, who said, “The knee-jerk reaction to the coming income trust meltdown in 2011 is overdone”.

I'm referring to the sale of the Vancouver-based Gateway Casinos Income Fund, which yesterday or a couple of days ago had an agreement that would see the gaming company sold to New World Gaming of Australia for $1.3 billion. The unit price of $25.26 looks anything but cheap, being 25% to 26% above the latest market value.

I could go on. These stories are ones I'm sure you've read. You guys continue to come here, and you come back to one theme or one comment.

At the very beginning of your presentation, you said it's our job to represent our constituents.

Mr. Robert Michaleski: That's correct.

Mr. Rick Dykstra: It's your job to represent your constituents, who are your investors.

Mr. Robert Michaleski: Yes, absolutely.

Mr. Rick Dykstra: A decision's been made, rightly or wrongly, in your opinion, but a decision's been made. It would seem to me that your job, as you stated very clearly to me and to this committee, is to make sure you do the best you possibly can for your clients.

Mr. Robert Michaleski: Yes, and it's why I'm here. It's why I'm here seeking an exemption with respect to dealing with infrastructure.

I don't think we're different from our competitors south of the border, the U.S. MLP market. I think it's a vibrant market, and we compete with that market. It's why I'm here. We need to be able to operate in a situation where we can compete with the people south of the border and with the tax exemptions, because I think it's what we'll need to do.

With respect to people saying it's not a bad deal, I'll echo Mr. Kesteven's point. We're trading at a discount to today's market value. If you went back to October 31, you'd see the premium is not going to be there.

On the other part of that question, sir, the entities that are acquiring Gateway Casinos and others are U.S. or foreign private equities. They're not going to pay any taxes here in Canada. I think it's a shame.

Mr. Rick Dykstra: The other point I'd like to make is this, and I'm sorry for being direct with you on this. When Mr. Del Mastro asked you specifically about the environmental impacts, you made the point that whether it's Liberal legislation in terms of wanting to stay on with Kyoto or whether it's the approach we've taken, you don't really know much about the environment and you're not prepared to comment on it.

It would seem to me, based on your earlier comment about making sure that looking out for your constituents would be a priority, it's obvious that whichever party forms the government, there's going to be an impact on the environment. We happen to be the party that's forming the government now, and we're obviously going forward on a plan.

The Chair: Thank you, Mr. Dykstra.

We'll now conclude with Monsieur Thibault.

Hon. Robert Thibault: I have one question, but I want to make a couple of points of clarification first.

One is that a decision hasn't been made. An intention's been announced in a bill, it's now being considered by Parliament, and it's at committee for that reason.

Second, if we look at a deal like the casino deal, we can say it's a premium on the latest market value. But what would those market values have been if nothing had changed and the income trust had continued to evolve as it did? Surely, yes, you can say the index has come up a little in the last months. But if you do that proportionate to the TSE general index on stocks and bonds, it doesn't compare.

As far as Governor Dodge, yes, he said there were problems with the income trust sector. But he also said it was an excellent vehicle for certain sectors and it needed some repairs—not a nuclear bomb, but surgical improvements.

The question I have for Mr. Kesteven is this. Do you know of individuals who would have increased their exposure in the income trust sector because of the promise by the Prime Minister and the Minister of Finance, and were therefore burned more?

Mr. George Kesteven: Yes, tragically, I do.

In my day job as an investor relations manager with PrimeWest Energy I've known a number of people who bought additional units in PrimeWest in October, previous to the announcement, specifically based on the fact that—and I quote—“the Conservative government is now in place and they've promised to leave the income trusts alone”.

So clearly, there are individuals...and some of them have lost substantial amounts of money based on what occurred.

Hon. Robert Thibault: If I have time for Madam Lysack, the promise that was made, the deal that was negotiated by the previous government with the provinces, was going to create spaces over time, an investment. Has the money, the $100 per month taxable given for children under six, had an effect of increasing spaces? How many, and do you have examples of that across the country?

● (1730)

Ms. Monica Lysack: No. In fact, the quote that I read earlier from the parent is that families do appreciate income support, but it's not child care; it's not a child care program. There are probably other more effective ways of distributing that $100 a month, like the Canada child tax benefit, where those with the greatest need receive the greatest benefit.

But the $100 a month, while an income program, is not a child care program.

Ms. Nancy Peckford: I can certainly supplement that by adding that in terms of average annual pre-tax income of both women and men, we're looking at women in Canada with an average pre-tax annual income of $24,000. For men, it's $39,000. So when you look at the average monthly child care costs in Canada, which vary from province to province from $600 to $1,600, you're looking at a substantial amount of income being devoted specifically to child care—not even the costs of raising a child, but the costs associated with caregiving when you have one or both parents at work.

So it simply is not sufficient, given those numbers.

The Chair: Thank you all for your participation again today. We appreciate the time you've taken to be with us, in particular those of you who were involved in both panels. We do appreciate that you've accommodated our committee, as well.

We are adjourned until tomorrow.

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