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Mr. Brian Pallister

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● (1110)

[*English*]

The Chair (Mr. Brian Pallister (Portage—Lisgar, CPC)): Order, please. We'll begin our discussion on the pre-budget consultations now so we don't have to just sit here aimlessly. Mr. Hejazi's videoconference connection is there, but not ours to him.

Oh, I'm told that we're not in camera so I can't proceed with a discussion on pre-budget consultations unless I clear the room. I don't want to clear the room because I'd like us to be able to hear Mr. Hejazi as soon as possible.

Is there any chance you hear me now, Walid? No? This is like talking to my teenage children, really very similar.

Hon. Robert Thibault (West Nova, Lib.): Technology is great, when it works.

The Chair: Yes, when it works.

Professor Walid Hejazi (Professor of International Business, Rotman School of Management, University of Toronto): Can you hear me?

The Chair: Yes.

Prof. Walid Hejazi: I can't hear you. Should I just proceed?

The Chair: Yes, please proceed for five minutes. We are in session.

Prof. Walid Hejazi: I was reading your lips, so I heard that you were trying to get my attention.

It's nice to see everyone again—virtually. Thank you for the opportunity to once again appear before this committee. I apologize for not being able to appear in person, but given the short notice, I was not able to adjust my obligations at the Rotman School of Management.

I am a professor at the Rotman School of Management. I have a doctorate in economics. As a professor, I do extensive research on issues related to international trade in Canadian competitiveness and have published extensively in this area. I have undertaken many studies for the federal government, including Industry Canada, Foreign Affairs, and CIDA.

In my opening comments I would like to address four points. The first relates to the benefits to Canada of the use of IFCs, international financial centres, by Canadian companies. I would like to talk about the impact on tax revenues. I would like to talk about the enhancement of Canadian competitiveness by the use of IFCs by Canadian companies. I'd also like to discuss the statement about why it would be misleading to conclude that these conduits or these entities are somehow a drain on Canadian tax revenue.

First, globalization has been a source of significant prosperity for Canadians. There is little doubt that the free trade agreements between Canada, the United States, and Mexico have significantly increased Canadian trade. This increase in Canadian trade has enhanced Canadian productivity, employment, and investment in Canada. Canada's prosperity has improved as a result of the surge in globalization.

Half of Canada's trade is intra-firm, which means that a significant portion of Canada's trade is between related parties. As Canadian multinationals move into foreign markets, the penetration of Canadian exports into those markets improves; that is, investment by Canadian firms into foreign markets complements or enhances Canadian exports, which enhance Canadian productivity, investment, and employment. The benefits of Canadian investment abroad are recognized by many in government, academia, and the private sector. When Canadian firms invest abroad, this is a good development for the Canadian economy. It has been reported by the *Globe and Mail* and many other media outlets that Canadian multinationals have recently made significant international investment or acquisitions abroad. It's important to the Canadian economy that this increase in breadth continues.

The relevant question here is whether these positive benefits that are associated with Canadian business investment abroad are sustained when the investment moves through an international financial centre. I have studied this issue in considerable detail and I have found that in fact there are two clear and very strong effects of Canadian investments that move through Barbados, as one IFC, on Canada.

First, Canada's trade with the global economy, broadly based, is enhanced when Canadian companies access the global economy through Barbados.

Second, the increased use of Barbados has allowed Canadian firms to diversify away from the U.S. economy; that is, allowing Canadian firms the ability to use Barbados as a conduit to the global economy has allowed Canadian firms to access less familiar markets such as those in Latin America and East Asia. These are significant benefits to the Canadian economy. I believe these results would also extend to other IFCs that have similar levels of transparency and disclosure as Barbados—for example, Hungary.

With respect to the impact on tax revenue, it is an empirical question; that is, it is not clear as to what the net impact is on Canada's tax revenues. I think it is quite incorrect to assume that tax revenues are lower as a result of the use of IFCs by Canadian companies. There are many reasons why one could expect Canadian tax revenues to be higher as a result of the use of IFCs by Canadian companies. The additional effects that result from the use of IFCs generate additional Canadian government tax revenue that must be taken into account. It seems to me that often these additional effects are ignored. The enhanced competitiveness of Canadian companies abroad results in greater earnings that result in a greater capital base for the Canadian economy. The enhanced revenues, whether repatriated to Canada, reinvested abroad, or even distributed to shareholders, increase Canadian economic activity, which ultimately raises Canadian tax revenue.

● (1115)

The increased use of IFCs by Canadian companies has coincided with the diversification of Canadian business activity outside the U. S.; that is, Canadian MNEs—Canadian companies—are using international financial centres to access less familiar and more risky markets. There are many reasons to believe that Canadian firms would be in a less competitive position in the new markets relative to U.S. or European companies.

The reduction in the cost of capital associated with financing structures that utilize IFCs allows Canadian companies to be more competitive. If Canadian companies did not have access to these financing structures, especially given that companies from the U.S. and Europe continue to have an access to fundamentally the same type of benefit, the competitiveness of Canadian companies would be significantly diminished. But there are many other reasons why Canadian companies would be less competitive, and hence the reduction in the cost of capital is very important.

Finally, I'd like to make a statement about why I think it's misleading to conclude that these entities represent a drain on revenues from Canada. Once again, I want to stress that there's absolutely no evidence to say that these entities have drained tax revenue from Canada. To the extent that Canadian multinationals are made more competitive, the revenues in foreign markets are enhanced, and whether these are repatriated to Canada or reinvested abroad, they do result in the enhancement of the Canadian capital base and Canadian economic activity, which are ultimately taxed by the Canadian government.

Thank you.

● (1120)

The Chair: Thank you, sir.

Now can you hear me?

Prof. Walid Hejazi: I cannot hear the audio from Ottawa.

The Chair: Okay. Thank you.

I'm going to ask that we get a cellphone here, and we're going to phone you directly and convey questions to you in that way. I'll ask —

Prof. Walid Hejazi: I'm going to step out of the room for a moment to ask someone to help. Is that okay?

The Chair: All right. Thank you. That's very good.

Prof. Walid Hejazi: Okay. I do hear you now.

The Chair: Excellent. We'll begin with Mr. Pacetti, for five minutes.

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): Thank you, Mr. Chairman, and thank you for appearing once again, Mr. Hejazi.

I have a couple of quick questions. I'd like to start with one of the points you made. You were saying that it's advantageous for Canadian companies to flow their investments through Barbados to have access to Latin American or Asian markets. Can you expand on that? I'm not sure why we need to flow the money through Barbados in order for us to make investments in those countries, so could you start with that one? I have a few other quick questions as well.

Prof. Walid Hejazi: That's a terrific question. Trying to understand why Canadian companies are using Barbados to access these less familiar markets is difficult to explain. It's difficult to explain why it's happening, but it is happening.

One thing I can say is that Canadian companies possibly would have not gone to these less familiar markets had they not had access to a conduit like Barbados, because in the past we've seen a surge in globalization to markets beyond the U.S. and we're seeing that Canadian companies are accessing these markets through Barbados.

● (1125)

Mr. Massimo Pacetti: I understand that. I understand there's a global market and they have access. But why not make the investment directly from a Canadian multinational? There could be risks, but you could set it up through different layers.

I don't understand why it has to go through Barbados, unless you're telling me there are other moneys coming from foreign revenues, where the money is taxed at a lower rate in Barbados, and then that money, because it's taxed at a lower rate, is used for investment in another foreign jurisdiction. But that's not what I'm hearing.

I still don't see what this conduit in Barbados is being utilized for. I understand this is global, but there are companies doing it out of Canada and making those investments directly out of Canada.

Prof. Walid Hejazi: Yes, there are companies doing that. But proportionately, the companies that are going through Barbados are going to less familiar and riskier markets, which I can discuss.

Mr. Massimo Pacetti: Why?

Prof. Walid Hejazi: I believe this is the reason. For all of the other multinationals that are operating in countries in Latin America and east Asia, these multinationals are coming from jurisdictions in Europe and the United States. These other multinationals have access to fundamentally the same types of financing structures. It means if Canadian companies do not go through a financing structure such as that, which is available through Barbados, they would be disadvantaged in the Latin America economies.

You have an American multinational, a European multinational, and Asian multinationals that are using these same types of financing structures. If Canadians were not allowed to use the financing structures, they would be disadvantaged relative to these other global multinationals.

Secondly, I think what's very important is there are many reasons to believe Canadian companies need this reduction in the cost of capital to go global. The infrastructure available to Canadian companies is not nearly as well developed as is the case for American or European multinationals.

I can give one particular example that has to do with the number of lawyers deployed globally. When a Canadian multinational moves into Latin America, they need to get access to legal counsel for compliance with Canadian law, and so on. It's very expensive for Canadian companies to do it because there are not nearly as many Canadian lawyers deployed globally relative to American multinationals. For the American multinational operating in Brazil, the cost to get legal counsel to make sure compliance is in order is far less costly than for Canadians.

There are many reasons to believe Canadians really need the reduction in the cost of capital to be able to compete with American and European multinationals.

Mr. Massimo Pacetti: I could take that, spin it another way, and say because there's a lot of debt dumping here in Canada, corporations are paying less tax here in Canada.

Is that not another way, instead of doing this complicated structure and flowing money through Barbados? Couldn't the companies organize their structures in such a fashion that they would do more debt dumping here, because there's a higher corporate rate, and then float the investment overseas or to foreign points?

Prof. Walid Hejazi: I'm not an expert on taxation. I look at Canadian competitiveness, and I know how tax structures fit in. But it is quite clear that the relatively high rates of corporate taxes in Canada have driven many multinationals to move abroad.

Having said that, I think this point is very important, and it goes to the heart of a taxation system. Many corporations operate within Canada. They generate income within Canada. We're not talking about those companies. For companies that operate within Canada and that generate income within Canada, all of the income is subject to Canadian tax.

Separate from that are many Canadian companies that are moving into the global economy. That's really what we're talking about. We're talking about tax rates that apply to capital that's driving globalization.

I think it would be irresponsible to treat these two kinds of capital in the same way.

Mr. Massimo Pacetti: Thank you.

● (1130)

[*Translation*]

The Chair: The next member in line to ask questions is Mr. St-Cyr.

You have five minutes, sir.

Mr. Thierry St-Cyr (Jeanne-Le Ber, BQ): Thank you, Mr. Chairman.

I understand quite well where you are coming from when you say that using Barbados, for example, as a financial structure for foreign investment is one way of improving the productivity of Canadian businesses that invest abroad. That said, in my opinion— and I am interested in getting your impressions— it is not so much the fact that using Barbados enhances their productivity, but more the fact that they pay less tax .

It is clear that companies that invest in higher risk countries, where the constraints are the same and where they must compete with other companies, benefit from a lower rate of taxation in Canada. They could invest directly abroad without using this financial structure. The parties are being somewhat hypocritical, that is the companies that are using Barbados because they claim they need to, as well as the government which is leaving this door open, arguing that our businesses need to be productive and competitive. In point of fact, this is nothing more than a roundabout way for companies competing in these markets to pay less tax.

In your opinion, do companies really want to carry out these types of transactions in Barbados because of that country's financial structure and the benefits it provides, or is the main reason why they use Barbados tax related? For example, if Canadian companies were not required to pay tax, would they even consider using Barbados for operations of this nature?

[*English*]

Prof. Walid Hejazi: I don't agree with what's underlying that question.

I think you really have to separate the operations of a company. You have companies operating within Canada and generating income within Canada. Those companies, whether they operate in Barbados or not, continue to pay tax rates on all of that income generated in Canada. Those companies are not going to use Barbados to in any way reduce the taxation for income generated in Canada. That's a very important point. I think that blurs the issue when people try to imply that somehow companies are using Barbados and other international financial centres to minimize taxes on income generated in Canada.

What we're talking about here is Canadian companies reaching out to the global economy. Canadian companies are not closing factories or operations in Canada; that's not what's going on. You have Canadian companies that are very successful, that have firm-specific assets, that are reaching out to the global economy to exploit those firm-specific assets and increase the market for Canadian goods, services—

[*Translation*]

Mr. Thierry St-Cyr: I see...

[*English*]

Prof. Walid Hejazi: Now when Canadian companies move into those foreign jurisdictions, in order for them to be able to compete, they need access to these financing structures.

There's one more thing I want to say. When companies from competing countries like the United States and Europe have access to these same financing structures, Canadian companies will not be able to compete, and that will hurt the average Canadian worker.

[*Translation*]

Mr. Thierry St-Cyr: I understand, but when you talk about financial structures allowing these businesses to compete globally, the main advantage is not their geographical location per se or the quality of the educational services or manpower training in these countries. The only positive feature of these financial structures is the lower tax rate they offer.

I just want to make it clear that we are talking about allowing companies that must compete with other countries to benefit from a tax rate similar to the one enjoyed by our American or European competitors operating in the same environment in these same foreign countries. You mentioned South America, for example. When we talk about competitiveness, what it really comes down to is the rate of taxation.

[*English*]

Prof. Walid Hejazi: I think that is a very narrow view of the issue. The idea that somehow preventing Canadian companies, Canadian multinationals, from getting the tax benefit associated with using the international financial centre is somehow going to generate more revenue for the Canadian government I think is very narrow

[*Translation*]

Mr. Thierry St-Cyr: I must stop you there because that is not what I said. I only asked for confirmation—I am not even saying that if we do away with these tax havens—We are not there yet, we are not yet looking at our recommendations. However, if companies look to these countries, it is primarily because they offer a tax advantage. There is no other reason. We have noted that these companies do not have actual operations centres in Barbados.

● (1135)

[*English*]

The Chair: Thank you.

Prof. Walid Hejazi: That's not the reason. They're using these structures to be able to compete with companies in foreign jurisdictions—

The Chair: No.

Prof. Walid Hejazi: As I said in my opening speech—

The Chair: No.

Diane Ablonczy.

Ms. Diane Ablonczy (Calgary—Nose Hill, CPC): What a tough guy that chairman is.

We welcome your testimony. I think this is new ground for many of us. As you know, there has been some public expression of concern about foreign investment in Canada. There has been a suggestion that we need to examine it and put a hold/stop on foreign acquisitions in Canada for however long it takes to examine the issue.

What would be the effect of that measure?

Prof. Walid Hejazi: That would not be a good thing to do. The issue is worthy of study. I'm a proud Canadian, as we all are, and we want the Canadian company to be the global leader. We want to know why Canadian companies are being bought up by American or European companies.

We need to better understand what it is about Canadian managers and financial markets, the Canadian economy, that's not allowing the Canadian company to take Alcan to the next level. Why does it have to bought out?

Putting a moratorium on foreign takeovers would send completely the wrong message. One thing about these types of policies that restrict foreign investment is that they're very long-lived. When we had the national energy program in FIRA back in the seventies, these effects were very long-lived; they have a lot of memory. So it would be wrong to restrict foreign takeovers.

Ms. Diane Ablonczy: It has been suggested that Canada apply a proper test of net economic benefit on these transactions. Do you have any comment for the committee on the adequacy of such a test, what might be a more adequate test, or whether there should be a test at all?

Prof. Walid Hejazi: That whole foreign takeover should be looked at by the federal government, but looking at the net benefit is a very difficult question. We know that foreign investment in the Canadian economy has been a good thing. When you put up barriers to foreign investment in Canada it hurts our economy, our competitiveness and productivity, and the average Canadian employee. So we have to tread very carefully here, because restricting foreign ownership has been shown in the past to be the wrong road to go down.

Having said that, I want investments to come to Canada that are going to benefit the Canadian economy. If we had a way of identifying that perfectly it would be terrific, but if we get it wrong the costs will be very high.

Ms. Diane Ablonczy: It has been suggested that one way to ensure proper benefit is for corporations looking to sell or buy in Canada to have meetings with stakeholders, other than shareholders, about the transactions.

Do you think that would be a positive way to get to the results you suggest are needed?

Prof. Walid Hejazi: As a professor, we talk to students about whether the shareholder or stakeholder model is most appropriate. When managers make decisions, should they be thinking only about shareholder wealth or should they be thinking more broadly? The evidence is quite clear that when you focus on shareholder wealth, the impact on Canadian prosperity is highest.

That's a philosophical question, and maybe I'm not the right person to think about it. But purely from a wealth perspective, focusing on shareholder wealth has been demonstrated to be the way that wealth and prosperity are maximized.

● (1140)

Ms. Diane Ablonczy: Would it be possible to put a moratorium or a halt on acquisitions in Canada without having any kind of impact on Canadian acquisitions abroad?

Prof. Walid Hejazi: That would be tough. You'd want your cake and to eat it too. You would want foreign companies to say, “Sure, you can come into the United States or Europe and take over our companies, but when we want to go into Canada you're not going to allow us to take over your companies.” That would quite quickly—especially with the surge in protectionist sentiment within the United States—have a negative effect on the Canadian economy.

Ms. Diane Ablonczy: Thank you.

The Chair: We'll continue now with Mr. McCallum.

We have several who want to ask questions. We started late; we will use that time at the end.

So four minutes, Mr. McCallum.

Hon. John McCallum (Markham—Unionville, Lib.): Just for the record, this isn't really a question. The moratorium in question was only for the largest transactions, for 90 days, and when one considers the delays like the Alcan-Pechiney transaction, which took 300 days to complete, I think the opposition is exaggerating this point.

I'd also mention that the Prime Minister's favourite business leader, Gwyn Morgan, said he really liked the idea that they have now in the U.K., where boards are required to look at the long-term interests of the company and not simply the short term. So this is an ongoing debate.

My question is this. Did I hear you say it was inbound foreign direct investment or outbound that's good for competitiveness of Canada, or productivity?

Prof. Walid Hejazi: They have both been shown to enhance Canadian—

Hon. John McCallum: Well, when you say “been shown”—I'm an economist—it's easy to make these statements, that “The evidence shows unequivocally”—but economists aren't really quite as certain as you make them out to be.

Can you describe, in precise terms, what is your evidence or proof? I don't deny you're right, but I would like to know the proof that external foreign direct investment through Barbados enhances Canadian productivity. How do you know that?

Prof. Walid Hejazi: Well, my study has looked at the impact on Canadian trade, so my study—

Hon. John McCallum: You mentioned productivity. I don't want to hear about trade.

Prof. Walid Hejazi: I did. So the way I would respond to that is to say that in my study what I've done is I've linked the trade effects to the studies that have shown in the past that firms that increased their trade have also enhanced their productivity. So what I have been able to show, in fact, using a methodology similar to your AER paper on whether borders matter for Canada—

Hon. John McCallum: The gravity model.

Prof. Walid Hejazi: The gravity model. That was a great paper.

Hon. John McCallum: Thank you.

Prof. Walid Hejazi: It shows that when Canadian companies invest globally but go through Barbados, the impact on Canada's trade is enhanced. Then I linked that in the study to the evidence to show that when companies increased their trade they became more productive.

Hon. John McCallum: That's a good answer.

Prof. Walid Hejazi: That evidence is strong.

Hon. John McCallum: My next question would be on the benefits of going through Barbados. I don't know if you ever mentioned tax. You said you weren't an expert on tax. Are you suggesting the fact that so many choose to go through Barbados has nothing to do with tax?

Prof. Walid Hejazi: I didn't—

Hon. John McCallum: I would find that hard to believe.

Prof. Walid Hejazi: It has almost everything to do with tax, but the question then becomes this. Why do they go through Barbados as opposed to other international financial centres. Why are they choosing Barbados? There are many reasons they're choosing Barbados, but one has to do with transparency and disclosure. I think that speaks volumes about the Canadian business culture, the fact that Canadian companies are accessing the global economy but they're going through a jurisdiction that's subject to audit, where basically if you go through Barbados, there's transparency in disclosure in terms of the kinds of transactions that are moving through there.

Hon. John McCallum: Okay.

The Chair: Mr. Hejazi, I will just interject before we move on. I have just a couple of things. I think much of what you're saying, it seems to me, would be the logical conclusion one would draw that results from the trickle-down effect of paying little tax or no tax. You're saying it's good for the Canadian economy, Canadian businesses, if there's increased trade. You're saying companies are more productive if they trade more. You're saying these are advantages that will lead to Canadian companies being able to be global leaders, and so on.

It would seem to me that a natural consequence of paying less tax would be that it would contribute in a positive way to all those indicators. What I guess you understand, or I hope you understand, is that this isn't about just helping Canadian companies be global leaders. We also have a responsibility to make suggestions as to how we can have a fair tax system and how our country can derive revenues fairly from Canadian corporations and individuals.

It would seem there's a balancing act to be done here. Now, other jurisdictions have not taken the position that unlimited tax-free availability of deductions is a good thing for all their companies. They've taken steps to limit the degree to which deductibility can occur against their domestic tax obligations.

• (1145)

Prof. Walid Hejazi: Yes.

The Chair: Other countries have also taken steps...or do not allow tax-free repatriation of dividends, as Canada does. We have a special sweetheart kind of a deal for Canadian companies who choose to use Barbados and other jurisdictions ahead of these other jurisdictions.

Would you be making the argument then that these other countries who have thin cap rules and the like are making their corporations less competitive globally?

Prof. Walid Hejazi: I wouldn't argue that. Again, that's a difficult question for me to answer because I don't understand the intricacies of the tax systems across all of these different jurisdictions.

In terms of your question about tax fairness, I believe that making Canadian companies more competitive increases the prosperity of Canadians and therefore allows us to have lower tax rates.

The Chair: I follow that.

I can't help but react that this is a simplistic observation. It would follow from that observation then that no tax of any kind on corporations would benefit the Canadian economy ultimately, that no tax obligation at all would make our country more likely to have global leaders, probably as a natural consequence of a no tax obligation. But what we're trying to arrive at is what's fair and right.

Prof. Walid Hejazi: I'm not sure why you're saying there's no tax obligation—

The Chair: You're suggesting that a higher tax obligation makes a company less competitive. You've made that link several times.

Prof. Walid Hejazi: When you're playing in a field where multinationals from other countries have fundamentally the same tax structures available to them, now you're going to come along and tell me—

The Chair: I'm not telling you anything...I will tell you this: other countries don't allow repatriation of dividends totally tax-free back to their jurisdiction, as we do. Other countries don't allow unlimited write-down of interest deduction. When a domestic corporation locates in Barbados or elsewhere, they do not allow...through thin cap rules, they limit the amount of the deduction in their jurisdiction.

The point I'm trying to make to you, sir, is that this argument about us being globally competitive and that it's a threat to our country and our companies here if we somehow impose a tax obligation, or restrict the use of unlimited deductions or unlimited tax repatriation of dividends, strikes me as hollow when other jurisdictions have such restrictions. Other jurisdictions we compete with have these restrictions.

Is that not correct?

Prof. Walid Hejazi: It seems to me that you've had many tax experts appear before the panel who could answer that question much better than I can. I'll leave it to them to answer that specific question.

However, what I can say to you is that policies that make Canadian companies less competitive in the global economy hurt those Canadian companies, but more importantly and more fundamentally, they hurt the average Canadian worker. That point is clear.

The Chair: I've heard you make that point several times. Of course, the average Canadian worker will be the one who has to pay the taxes if they don't.

I'll go to Mr. St-Cyr now. Mr. St-Cyr, over to you, for four minutes.

[*Translation*]

Mr. Thierry St-Cyr: I would like to pursue this matter further because although I am not an expert on the subject either, I am nonetheless convinced that companies use tax havens purely for taxation purposes. That seems rather obvious to me.

To answer your question about other international centres and why most Canadian companies use Barbados, I would have to say that the main reason is the tax treaty that Canada has signed with Barbados which allows Canadian companies to transfer home to Canada tax free any profits made in Barbados. Obviously a company will not use a tax haven that does not have a treaty with Canada because it would not be able to transfer home tax free any profits made.

Earlier, I asked if the main reason was not purely tax related. Let me put it another way, to help the committee understand the issue at hand.

Some Canadian companies are setting up legal entities in Barbados. We are talking about corporate entities, not actual places of business. These companies do not have employees working for them, no decisions are actually made. Corporations are created and business is transacted in various countries around the world, for example, in South America or Latin America. The corporations earn profits and after paying a tax of one or two per cent in Barbados, they transfer the profits home to Canada, where these profits are tax exempt because of the tax treaty in place.

If the Canadian government were to tell these same corporations that, instead of this arrangement, it was prepared to offer them the same rate of taxation as Barbados, namely 1% or 2%, while the rest of their operations would not be taxed, do you think that even one company would continue to use Barbados and to contend with all of these problems? Would even one company be willing to continue doing this?

• (1150)

[*English*]

Prof. Walid Hejazi: First of all, it's incorrect to refer to Barbados as a tax haven.

[*Translation*]

Mr. Thierry St-Cyr: We have already had that discussion. I asked you a very simple question. Would even one company continue to use Barbados if there was no longer any tax advantage to doing so?

[*English*]

Prof. Walid Hejazi: I understand the question and I'll answer. I'll start by answering that it's incorrect to call Barbados a tax haven. The OECD has taken Barbados off that list. If I'm going to answer a question, I want to answer a question that's correct.

The Chair: Mr. Hejazi, to clarify, the OECD hasn't taken Barbados off such a list. It has taken them off a list of uncooperative tax havens. It has not taken them off the list of tax havens.

Prof. Walid Hejazi: That's not my interpretation.

[*Translation*]

Mr. Thierry St-Cyr: In any event...

[*English*]

The Chair: Go ahead, sir.

Prof. Walid Hejazi: It's an international financial centre, not a tax haven. That's point number one.

Point number two, the example you described is not my understanding of what happens. Barbados provides many resources to Canadian companies that go through Barbados. It's not a hollow shell, as you described. Barbados has a legal structure. Barbados has a network of bilateral investment treaties. Barbados has tax treaties, for example, with Venezuela and China. Barbados allows Canadian companies to access many markets globally that they would not be able to get access to had they gone through what you refer to as a tax haven.

[*Translation*]

Mr. Thierry St-Cyr: So then, if Barbados offers all of these services and if it is so amazing from a business standpoint, why then are these corporations and companies all shell companies? Hundreds of plaques can be seen at entrances to office buildings listing the name of various Canadian companies. There are more companies listed that actual employees on site. If Barbados is so good for Canadian companies, why don't they send employees to work on site? Why are we always seeing shell corporations? Obviously, the only reason for this setup is to minimize the tax burden of these companies.

[*English*]

Prof. Walid Hejazi: I'm not sure the last time you visited Barbados, or when you went to a Canadian multinational business there. I have gone to more than a few. I have talked to many employees. I've talked to many Canadian employees who have moved to Barbados and are active in accounting, legal services, and so on. This description of it being an empty shell...I'm not sure that's accurate.

The Chair: Dean Del Mastro.

Mr. Dean Del Mastro (Peterborough, CPC): Thank you, Professor Hejazi, for appearing again before committee. I value your input on this issue.

I wanted to go back to the comments of Mr. McCallum and those of my colleague, Madam Ablonczy, and the questions she asked specifically pertaining to foreign investment and foreign takeovers. I wanted to suggest that your comments on that are very much in line with what we've heard from other analysts around the country. Specifically, the *Financial Post* remarked that, “Rarely has a political news release contained as many bad economic ideas as the Liberals compacted into their call yesterday for a national frenzy over foreign investment”. The *Edmonton Journal* said, “In what can only be construed as a lame attempt to exploit public angst about foreign takeovers....” The *National Post* said, “ Unfortunately, a more typical case of politicians meddling in a world of which they know little....” I wanted you to know you're not in exclusive company on that.

I want to come back to thin cap rules and debt dumping. I recognize you've indicated a couple of times that you're not a tax expert per se, and that's okay. We talk about double dipping, which the minister has specifically said is an area we would like to pay a little bit of attention to. I agree with you that it's important that we enable our companies so they can operate efficiently and effectively and so they can expand into global markets. That's good for Canada and good for Canadian jobs.

Having said that, if we are allowing them to bring what I would term illegitimate debt back into Canada, or if we allow them to operate outside of thin cap rules, effectively they don't pay any Canadian tax or they dramatically reduce their Canadian tax burden on Canadian income earned in Canada. If we are to look at that solely as a means of trying to get more in step with the 75% of OECD nations that do have thin cap rules, do you have any suggestions on that? Obviously we have to be very surgical in how we're doing this. The last thing I want to do is hamper Canadian industry from being able to succeed, but I also want tax fairness. Do you have any suggestions on that?

● (1155)

Prof. Walid Hejazi: I start by saying I'm not a tax expert, but having said that, my study and the underlying hypothesis of my study relates to taxation as it applies to Canadian business income generated globally. So everything I've said doesn't really apply to Canadian business income generated within Canada, and if Canadian companies are using these international financial centres to reduce domestic business income, then this is something you should look at.

Mr. Dean Del Mastro: Thank you, sir.

Obviously, as you indicated in your statement, the fact that they are able to generate money abroad, that they are able to compete abroad, the fact that they're able to access riskier markets and do so in a manner that doesn't put the company at great risk does have the effect of bolstering their operations within Canada. What we want to make sure is those bolstered operations and those additional revenues generated in Canada are not necessarily offset by illegitimate debt that's brought into Canada. So I appreciate your opinion on it.

Go ahead.

Prof. Walid Hejazi: Can I pick up on one thing? This idea that when Canadian companies generate income globally there is no tax paid on it is not quite accurate, because when a Canadian business repatriates that income to Canada you get a dividend cheque—you, as a Canadian. Employees get dividend cheques. They get it in their RRSPs. So the average Canadian gets a larger dividend cheque and the taxes are levied against the higher dividend cheque. Therefore it's not clear what the net impact is on tax revenue.

Mr. Dean Del Mastro: Am I done?

The Chair: Thank you, sir.

Monsieur Thibault.

Hon. Robert Thibault: *Merci, monsieur le président*, and thank you for appearing once again.

You said in answer to an earlier question that the advantage that Canadian corporations have in using financial centres like Barbados is to do business in risky markets, areas where we don't have a lot of experience or we don't have the facilities within Canada to finance them properly.

You mentioned also that we're competing in those markets against the United States, Europe, and Asia, which do have different systems in their nations, in their home countries, where they don't necessarily have to use centres like Barbados and can do the investment directly.

Could you outline what those differences are? Is it our taxation system? What are the differences between Canada and the U.S., Asia, and Europe?

Prof. Walid Hejazi: Actually, I would argue that many of the companies from these other jurisdictions, from Europe, from the United States, and from Asia, also have tax treaties with countries like Barbados and including Barbados. So many of these companies from these competing jurisdictions are not going into Latin America and into east Asia directly; they're going indirectly through these international financial centres.

The point that I think is very important is that changes in the structures available to Canadian companies will make them less competitive relative to American and European multinationals that have access to fundamentally the same types of tax structures.

● (1200)

Hon. Robert Thibault: Are there changes we can make within Canada that wouldn't reduce the relative competitivity of our corporate sector, international corporations, relative to the Americans and Europeans, and that wouldn't make it necessary to use these international centres? Can we become an international financial centre?

Prof. Walid Hejazi: We could, and in many states in the United States there are elements of that. But let me just say one thing. I want to tie this back to the foreign takeover debate that we raised a few minutes ago. If a Canadian company was somehow disallowed from accessing the global economy using these tax structures, in my opinion that would contribute to the hollowing out of Canada, because now that company would immediately, for tax reasons, become more valuable as a U.S. company than as a Canadian company.

So we have to tread very carefully. But to answer your point directly, Finance Minister Flaherty—and I think this is very important in helping our understanding—talked about having a panel of experts to discuss many of these different dimensions, to exactly look at what are the benefits that go to the average Canadian from these tax structures, and are there ways to make adjustments that would not reduce the competitiveness of Canadian companies? I think this is something we need to look at, and I do hope the panel of experts does take on that question.

Hon. Robert Thibault: I have a final question. In terms of the elements of double dipping, or double deductions, and debt dumping, can abuses within the structures that create those types of things be resolved without reducing Canada's competitivity internationally?

Prof. Walid Hejazi: Given my understanding, I think that would hurt Canadian companies. The reason I say that is the following. The Canadian company will take the first dip, the interest deduction in Canada, and they will not take it in the second country, say, the U.K. What ends up happening is that Canadian tax revenues do not rise; U.K. revenues rise. Canadian companies are made less competitive because they're not able to compete.

Again, I go back to this point for multinationals from other countries that have access to the same financing structures. As long as multinationals from other countries have access to, for example, the double dip, if we take it away from Canadians, we're making those Canadian companies less competitive. That's something we need to think about.

The Chair: Thank you, Mr. Thibault. *Merci, monsieur.*

Mr. Wallace.

Mr. Mike Wallace (Burlington, CPC): Thank you, Mr. Chairman.

I appreciate your presenting today. It was very interesting.

I don't have a long question; most of the questions have been asked. One thing you did mention—and I'm not sure you're qualified to comment on it, but I would appreciate it if you are—was Alcan, as an example, and how people seem to be somewhat upset that a foreign takeover is happening, that a foreign buyer is interested, and why we haven't been able to take it to the next level.

With respect to my question, sir, as an economist, do you find there's a reason Canadians aren't more aggressive in investing in Canadian companies? Instead of us complaining when foreign organizations buy our firms, why aren't Canadians coming forward to buy these firms and keeping things Canadian?

Prof. Walid Hejazi: I wish we had two hours to speak about this one topic. I think it's a very important question, and it's one I've discussed on many other occasions.

Basically, what is it about Canada that prevents the Canadian managers from taking over those companies? There are many hypotheses—they have not been quantified—but we think they have to do with managerial talent within Canada. For example, if you look at the number of MBAs that graduate in Canada relative to the size of the population, we lag behind that of the United States significantly. That has an effect 10 to 20 years down the road, when you look at the stock of managerial talent.

Secondly, when you think about how thin financial markets are in Canada relative to how thick they are in the United States or Europe, if you look at the amount of bank credit, for example, relative to the size of the economy, Canada lags behind that of other G-7 countries significantly. In terms of raising the capital that's required within Canada, that really limits the ability of Canadians. The whole infrastructure that underlies what would be needed for Canadian entities to rise up to buy these Canadian companies is really lacking.

I could go on, but again, I think this panel of experts should consider that topic as well. That's a very important issue.

● (1205)

Mr. Mike Wallace: Thank you.

Thank you, Mr. Chair.

The Chair: Mr. Pacetti, to conclude.

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

Just quickly, when we're talking about Canadian income or income earned in Canada or income revenue, is any of that being taxed in Barbados at the low rate, or is the only income taxed in Barbados foreign income?

Prof. Walid Hejazi: I don't know the answer. But my understanding, from discussion with people on the spirit of the law, is that the income being taxed in Barbados is income generated globally, not income that's generated in Canada.

Mr. Massimo Pacetti: Other than tax shifting of course.

Thank you.

Thank you, Mr. Chairman.

The Chair: *Merci beaucoup, monsieur.*

Merci, Monsieur Hejazi. We appreciate your patience in getting the technology up and functioning. Thank you for that. We very much appreciate your time today.

Prof. Walid Hejazi: I want to say thank you. You were more aggressive this time than last.

The Chair: Of course. Thank you.

We'll suspend for a minute while we get reconnected.

[*Proceedings continue in camera*]

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