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Mr. James Rajotte

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● (1530)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call the committee to order.

We are continuing our study of the manufacturing sector, and we have two sessions today. The first session is with the Food and Consumer Products of Canada, and the second session is with officials from the Department of Finance. For the first hour, from 3:30 p.m. to 4:30 p.m., I would like to welcome the Food and Consumer Products of Canada. We have Gemma Zecchini, senior vice-president in public policy. We also have Blake Johnston, vice-president of government affairs.

You're the only witness for the first hour so you have the full hour. We usually allow a ten-minute opening statement, so you can take up to ten minutes for your opening statement and then we'll have questions from members.

I believe, Ms. Zecchini, you will be starting the presentation at this point.

Ms. Gemma Zecchini (Senior Vice-President, Public Policy, Food and Consumer Products of Canada): Thank you, Mr. Chairman.

I was joined by a few members before we started to entertain you today. I'm not sure that my entertainment skills are up to the occasion, but I certainly hope in some small measure to inform you about some of the challenges that are facing the food and consumer products industry in Canada, and I hope to have a genuine dialogue with members of the committee.

I'll start off by thanking you for inviting us. It's a great pleasure to be here. The issues you are exploring are of a great importance to our industry.

By way of a short introduction, the Food and Consumer Products of Canada is an industry association. We are the largest trade association representing food and consumer products in Canada.

In 2005, to give you some small measure of the scope of our industry, it employed about 325,000 Canadians, making it the largest employer in the manufacturing sector. We contribute about 12% of Canada's manufacturing GDP, about 6% of Canada's GDP overall.

I essentially want to do four things today. One is to give you a little bit of an overview, a snapshot, of some of the trends in our industry today and how the industry is faring. In sharing that information with you, I hope you will come away sharing some of our concerns about what the future holds for food manufacturing in Canada. What I would then like to do is focus on one key barrier to growth and productivity that we're facing in our industry. The good news about that key barrier to growth is that it is very much in the government's purview to be able to do something about. It's not something that is sort of monetary policy, international trade, or any of those things that bedevil governments but a lot of governments can't do anything about.

The third thing is a review of some specific asks that are germane to our own industry, the food industry in particular, and that represent in our view some low-hanging fruit for action.

The fourth thing I will do is end with an urgent recommendation to follow the advice of the OECD, which reported in 2004 that Canada should look to renewing and revamping its regulatory environment.

I hope after that we can answer some questions and have some dialogue about my presentation.

I think everybody has a copy of the brief in front of them, beginning about halfway down. I won't read everything through, but there are a few trends taken from the Conference Board of Canada's most recent industrial outlook. These are some of the trends that I think are most troubling in the food manufacturing sector.

As of the winter of 2006, as you can see, our investment is lagging in this sector. It lags behind manufacturing as a whole. It's about 1.9% of nominal investment, which is the value of goods and services produced, versus 2.7% in manufacturing. The ability to commercialize innovation is a key factor here, and I'm going to talk more about that as we go on.

Capital intensity in this sector is also lagging. In manufacturing as a whole, you have about $85,000 of capital stock per employee. In the food manufacturing sector, we have about $54,000 in capital stock per employee. As a result of that lag in investment in capital intensity, we have, unsurprisingly, labour productivity also down. Again, profits this year are expecting to climb marginally, about 2.6%, after having dropped about 20% last year.

These are some of the trends that bracket our industry. That, of course, raises some real concerns about the viability of the industry overall and whether or not the future of the sector is secure. Some of you around this table probably are aware of industries that have sort of gone the way of the dodo, Canada Textiles being one of them. Obviously, today, pulp and paper is also under threat.

Traditional food manufacturing is a low-growth industry. Natural areas, where it usually grows...it is because of population growth. We have a fairly stable population in Canada. We have an aging population, which also affects how much traditional food you can actually produce from growth.

● (1535)

When reviewing the transcripts from this committee, I noted you heard from a number of witnesses, including the Governor of the Bank of Canada, David Dodge, and he outlined for you a number of challenges that I will not repeat that are facing the manufacturing sector. A lot of those challenges were well beyond your control.

However, there are certain important levers of productivity and competitiveness that domestic governments do retain and that this committee can directly influence. While fiscal policy is important, equally important is a flexible and responsible regulatory system. That's a powerful instrument governments can use to put Canadian manufacturers in a better position to innovate and grow.

Mr. Chair, is there a problem following the text?

The Chair: No, no problem at all. It's very good, thank you.

Ms. Gemma Zecchini: When Governor Dodge was asked what role the federal government had in helping the manufacturing sector, one of the things he cited was a flexible regulatory regime. He said that was going to be critical, and we couldn't agree more.

Regulatory modernization has to get on the Government of Canada's economic and competitiveness agenda. We've heard this now from the OECD in 2004 in their report. We heard it from the External Advisory Committee on Smart Regulation in 2005. We've also heard it from various sectors in manufacturing who, while they all have different specific regulatory issues...overall the problems with regulatory frameworks are similar.

This represents for us the most significant barrier to innovation and growth, and an outdated and poorly functioning regulatory system is what stands in the way for most of what we as an industry would like to see in the future.

We're by no means alone in this regard. There are many barriers an inflexible system puts in our way. Just to name a few, we have complex and lengthy product approval procedures and processes. Sometimes the time it takes to get a product approved will be anywhere from two to four years. The window of opportunity for that product may only be 18 to 24 months, so the complex and lengthy approval process procedures are a real barrier.

We have unresponsive regulatory departments, through no fault of their own. The pace of innovation is much different today than it was when government departments and certain regulations were promulgated, so we're now facing thousands of product approvals, for example, and regulatory departments just cannot cope with the sheer volume.

We have a lack of jurisdictional and departmental cooperation. In some cases we have regulatory voids, in the sense that there is no regulatory framework to go through to be able to get a product to market. This frustrates the product launches and creates a drag on our competitiveness, our productivity, our investment, and our growth.

And it's going to be critical for the new global economy for us to have a flexible governance regime where we are not plagued by the tyrannies of small regulatory differences between trading partners, where we have an inability to adopt international standards and scientific evidence when they meet Canadian policy standards and objectives. At the same time we have regulatory multi-jurisdictional and multi-departmental processes that are not coordinated that are in need of being streamlined to keep pace with better and more rapid product innovation. In our sector alone, there have been significant advances in food technologies. These are creating unprecedented opportunities for product innovation, and our regulatory system is just not set up to meet them.

One of our CEOs commented recently that if, twenty years ago, he had been able to anticipate the state of Canada's regulatory approval system for food today, he would not have invested in Canada. And this is not a CEO from a multinational corporation; this is a CEO from a Canadian corporation.

We will need a modernized system that is results-focused and transparent, that minimizes the regulatory differences between trading partners, and that eliminates costly delays. This is going to be absolutely essential for our industry.

Without it, our sector will continue to languish, and it will leave Canadians without access to new products and, without that, without access to manufacturing jobs and economic prosperity.

One of the key things to remember is that while consumer expectations of our industry have evolved in step with product innovation elsewhere in the world, the Canadian regulatory system that governs food manufacturing hasn't. This is despite the fact that government is preoccupied with rising health care costs. There's a desire everywhere to embrace prevention, to give consumers the tools to manage their own health, and also—and I think this will be familiar to many of you—to help our farmers grow higher-value crops. That's something we hear. The inability to commercialize food innovation represents a barrier.

● (1540)

When the Food and Drugs Act was promulgated in the 1960s, you had maybe a few hundred products making their way to the market in Canada every year. It was a fairly negligible amount if you track that through the statistics provided by A.C. Nielsen. Today that numbers in the thousands, and in some cases the many thousands. So what you have is a regulatory system that was set up to deal with a couple of hundred products a year now dealing with a barrage of new products.

I'll just give you one example. In the natural health products area, there was an expectation that when the new regime was launched there might be somewhere between 2,000 and 4,000 applications for natural health products. The expectation is that there are probably 15,000 at the moment, with 10,000 in a backlog and perhaps as many as 45,000 to 50,000 products that might have to go through the process. The regulatory system is just not set up to respond to that.

I'll give you some specific examples of lost opportunity, since we're talking about health and the need to help consumers manage their own health. Food fortification is one. Most countries around the world have policies and regulatory frameworks for the discretionary fortification of food. Canada currently lacks such a policy. We started working on one in 1997 and 1998. It took five years to give birth to the policy. That was in 2003. The policy was born in 2003 and regulations were promised. Those regulations have yet to surface. So that's three years of waiting for regulations for food fortification. Our major trading partners have such frameworks. In Canada alone, if we take only the beverage manufacturing sector, we're estimating about $400 million of lost opportunity every year.

It is the same story with respect to health claims. If you want manufacturers to invest in higher value-added products, if you want them to invest in products that help manage consumers' health, you have to allow manufacturers to market those products accordingly and make claims about their health-enhancing benefits. Currently in Canada there is no regulatory framework for health claims. We have about five. Our closest trading partner has eighteen and twelve more in the pipeline. So we are still waiting for a process, and we are told that consultations are going to begin later in the year. We are just hopeful that the consultation process for health claims doesn't take as long as it did for fortification.

● (1545)

The Chair: Ms. Zecchini, we are over your time. Can you perhaps wrap up with a review of your recommendations?

Ms. Gemma Zecchini: Will do.

I won't go through the approvals for novel foods and food additives. The story is very much the same there. There's an example here of a Canadian company that lost over $5 million in revenue just waiting for an approval, which speaks to the issue of why Canada can't accept international standards for scientific evidence.

I'll just move quickly to the recommendations.

I think as a sector we can very much support the recommendations on fiscal policy with respect to corporate tax rates and capital cost appreciation made by some of the manufacturing sectors that spoke before us. But I think our most urgent priority as a sector is to make regulatory modernization a key component of the economic and competitiveness agenda of Canada. That requires pursuing a long-term, focused, government-wide initiative. And again, I'll just make the point that we are by no means alone in requiring that in order to move forward.

The two recommendations I will end with are specific to some of the issues I've raised from my sector alone, and they are to urge the government to move forward with regulations on food fortification and to develop a responsive regulatory framework for health claims.

That's where I'll end my remarks, Mr. Chairman.

The Chair: Thank you very much.

Mr. Lapierre.

[*Translation*]

Hon. Jean Lapierre (Outremont, Lib.): Thank you, Mr. Chairman.

Welcome, ladies and gentlemen.

I've read through your brief quickly and on listening to you speak, aside from the general demands of the manufacturing sector, our sense is that you're experiencing a particular problem because of regulatory structure that has not kept pace with growth in your sector.

I read somewhere that you are governed by 442 separate pieces of legislation. How many federal and provincial departments are you required to deal with, if you look at the research, development, product manufacturing and marketing side of your operations?

[*English*]

Ms. Gemma Zecchini: From a regulatory standpoint, the short answer is that it's Health Canada that regulates food. In terms of how many departments we deal with on a policy level, I would say that in addition to Health Canada's food directorate, we deal most closely with Agriculture and Agri-Food Canada. Of course, we also deal with provincial governments, as you pointed out.

There are over 400 pieces of legislation that apply to our industry, and some 4,000 regulations, and these are not coordinated. Oftentimes, the policy direction that Agriculture and Agri-Food wants to take and the regulatory priorities of Health Canada are not necessarily aligned.

● (1550)

[*Translation*]

Hon. Jean Lapierre: This sector is important and it creates jobs. Often, whether we're dealing with Industry Canada or with another agency, efforts are focussed on trying to help either the aerospace industry or the forest industry. Have there ever been attempts made in your sector to bring all of the players together and adopt some semblance of a policy, so that the right hand knows what the left one is doing?

[*English*]

Ms. Gemma Zecchini: There have been several failed attempts to try to get that on the agenda.

To your point, despite its economic clout, the industry is very much an orphan when it comes to a champion that coordinates all of its efforts. We don't have a home in Industry Canada. There is nobody at Industry Canada we can go to that will be a champion. Agriculture and Agri-Food Canada is often a champion, but they are typically very preoccupied with the issues around producers, so they're further up the supply chain, and that's what takes up a lot of their time. And then you have the regulator, of course, which is Health Canada.

In many respects, trying to get this issue on the political agenda in the last ten years has been very difficult, because the political agenda in health over the last ten years has been very much preoccupied with wait times and other health issues that in many cases are largely of provincial jurisdiction but that also have a national dimension. So getting on the radar has been very difficult, and that has eroded the industry. The industry has not grown, and that's why you're seeing some of the leading indicators that I've presented to you. I think what you've said and what you've suggested would very much help if we could coordinate the efforts.

[*Translation*]

Hon. Jean Lapierre: Given the rate of growth of the Canadian population, we don't have the impression that the demand for food is about to increase. Potential growth is somewhere in the order of 1.7 per cent or thereabouts. Since the population is aging, demand should be more or less stagnant.

Aside from the fresh food sector, does the food processing sector have a lot of potential in terms of exports to the US and elsewhere? That might help us reduce our dependency on the Americans, which currently is in the order of 85 per cent.

[*English*]

Ms. Gemma Zecchini: There's quite a bit of opportunity there. Of course, that requires investment. For a lot of our companies, one of the routes to trade is to compete for North American product mandates.

I'll start by saying that you're absolutely right about pointing out that growth in this sector, from a natural perspective, is stagnant. So where is the opportunity for growth? The opportunity for growth here is in health. Health is the future of food.

In the next ten or fifteen years, I think we will see tremendous changes in the food supply and in the foods that manufacturers produce or can produce. If you want to export that food, if you want to make it available to your population, you are going to have to compete for a North American mandate to produce it. If you can't commercialize the innovation, your chances of winning a North American mandate are unfortunately very slim if you're a company operating in Canada.

[*Translation*]

Hon. Jean Lapierre: In conclusion, I'd like to discuss labour with you. You talked about 325,000 workers. We know it's hard to find workers to pick fresh fruit and vegetables. Generally speaking, are you having labour problems, or is there only a problem in the case of seasonal fruit and vegetable pickers? Understandably it's difficult. Pickers are brought in from Mexico and elsewhere. Elsewhere within your industry, is it easy to find workers?

● (1555)

[*English*]

Ms. Gemma Zecchini: I think our industry, like many others, has been challenged in recent years in trying to recruit the best and the brightest. It's not something that is unknown to us, and I think we'll continue to have some challenges moving forward.

Of course, the ability to attract the best and the brightest to the industry, particularly in the modern world, is going to largely depend on whether or not you are seen as a cutting-edge industry on the edge of innovation or whether you're seen as a sort of waning industry. That is one of the image issues our industry has when we go to the marketplace to recruit.

The Chair: Thank you.

We'll go to Monsieur Crête.

[*Translation*]

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

Your testimony to the Standing Committee on Industry, Science and Technology is proving to be very interesting. There's only one problem. In your submission, you make some recommendations to Health Canada, but not to Industry Canada. You're making a plea for help, because there is no white knight defending the food processing industry.

Are you aware that today, the public looks upon the food and processing industries as two very unwieldy industries guilty of gross excesses?

Yesterday evening, I watched a report advising consumers that there was no guarantee the ground beef they purchased was free of E. coli bacteria. There's no question that these kinds of reports create problems. Two weeks ago, a warning was issued about spinach and last week, carrot juice was singled out. Consumers were advised to throw out any carrot juice in their refrigerators.

What are you asking? What can you as an industry do as well to rectify this situation?

The current situation is reminiscent of the situation faced by doctors. Consulting a doctors doesn't cost anything if one has medical insurance. However, people are prepared to pay $35, $50 or even $100 to consult a naturopath. That means that people don't have a lot of confidence in the traditional medical system. The same is true of organic food products. This sector has grown because people are turning away from the traditional industry. What can be done to reverse this trend?

[*English*]

Ms. Gemma Zecchini: What are we doing with respect to food safety or some of the image issues associated with our industry—is that your question?

[*Translation*]

Mr. Paul Crête: If you believe that you are doing everything you can from a safety standpoint, then it comes down to image and perception. Do you believe that this is the real issue here? Or are we dealing with some other problem? We all have a vested interest in healthy food and processing industries and in ensuring that they are viewed in a positive light by consumers. Currently, the public is feeling rather uneasy. Industrial agriculture has resulted in some excesses which scare people.

What are you doing right now, or what steps would you like to take to rectify this situation?

[*English*]

Ms. Gemma Zecchini: I'm not sure I'm prepared to speak to the issue of the problems created by modern industrial agriculture. I think probably—

[*Translation*]

Mr. Paul Crête: I'm not just talking about agriculture. I"m talking about the processing industry, which is also grappling with an image problem.

[*English*]

The Chair: We should give her a chance to answer. You asked her two questions.

Ms. Gemma Zecchini: I would say that when it comes to the food processing industry we don't duck our responsibilities, and we're certainly aware of some of our image problems particularly. We're also aware of some of the responsibilities we have to help not just correct image problems but actually be part of the solution.

As everybody on this committee will be aware, obesity is probably one of the great epidemiological issues in today's society: we live in a society of excess. The question, and I think I spoke to you folks a little bit about it, concerns the need for innovation. We are only going to get out of this problem if we innovate the food supply. Over a period of five, ten, or fifteen years, the food supply in Canada is going to change; it's going to undertake some remarkable transformations.

As I said, health is the future of food. The ability to take the innovation that's coming out through all of our great research institutions and commercialize it, so that we can help Canadians deal with a lot of the health issues they experience as a result of aging, as a result of obesity, is something our industry takes very seriously. If you're asking specifically what we can do about it, we can very much help be part of the solution.

When it comes to global supply chain issues, such as the spinach issue you talked about, BSE, or a number of others, those are things that are also going to require cross-jurisdictional cooperation. The BSE question is actually very apt.

I know one of my colleagues from the meat industry is in the audience. I hope I don't misrepresent, but I know that closer collaboration between Canada and the U.S, particularly on inspection practices and certain regulatory practices around food safety, would go a long way towards addressing some of those issues as well.

● (1600)

[*Translation*]

Mr. Paul Crête: I have a specific question for you. Yours recommendations 4 and 5 are directed to Health Canada. However, this is the Standing Committee on Industry, Science and Technology. Could you elaborate further on the meaning of these recommendations, to determine if we should speak with Health Canada or comment on this subject. What exactly are your asking for? It's not that clearcut, because of the somewhat specialized terminology used.

[*English*]

Ms. Gemma Zecchini: I'll try to clarify for you.

My brief refers to the fact that Canada does not have a regulatory framework for bringing fortified products to market. So, for example, if you wanted to add vitamin C or you wanted to add a vitamin or a mineral to a food product, right at the moment there is really no established regulatory framework in Canada to do it.

We have a policy in place that, as I said, was released in 2003. In order for food companies to commercialize their products and bring them to market, we require regulations; we need a regulatory framework for it. What I'm asking here is.... We've been three years trying to give birth to these regulations; it's probably time we did it.

The same is true for health claims. These are situations.... It's not that we want to undo regulation. We need regulation, and we need modern regulation that meets our ability to commercialize.

The Chair: Okay. That's seven minutes.

We'll go to Mr. Carrie.

Mr. Colin Carrie (Oshawa, CPC): Thank you very much, Mr. Chair.

I have three specific questions. Let me read them out, because I'd like you to answer them, if possible, in order.

One is a Health Canada issue. I had a private member's bill in the last session, Bill C-420. There were problems with the bill, but we had a compromise solution whereby they would change schedule A and subsections 3(1) and 3(2) of the Food and Drugs Act and modernize the regulation. It's been over a year and they still haven't come forward. I've been on the phone with them just up to last week. They're still not moving on it.

So I was wondering specifically who you are dealing with over there and whether you had some information I could ask for. I'm very curious about this, because I've been approached by natural health food producers, herb producers, food producers who are really concerned about trade issues with the United States and how this is going to affect their industry if we don't get it solved.

The second question is on free trade agreements. We're talking about markets overseas. We've had some concern here about Korean free trade, especially with some manufacturing—the auto industry, for example. How would you say a free trade agreement with Asian markets would...? Would they help? Would they hinder you? Do you have any impact studies on where this issue is? That's question number two.

The third one is, what did the previous government do to help fix the regulatory regime, what should we continue with, and are there more suggestions for where we could move ahead as a new government?

Thank you.

Ms. Gemma Zecchini: I'll try to answer those in order.

On Bill C-420 and its legacy, I'm not sure where it's at, but I know that our industry supported it.

At Health Canada we deal with officials at various levels, from the deputy minister, to the head of the food directorate, to the head of natural health products. As to who specifically is charged with this file at the moment, I'm not sure.

Do you know?

Mr. Blake Johnston (Vice-President of Government Affairs, Food and Consumer Products of Canada): I can answer that.

Janet Beauvais is the director general of the food directorate. She's responsible for the main regulatory asks that we've presented for Health Canada.

● (1605)

Ms. Gemma Zecchini: On your second question about free trade, the recent suspension of the Doha Round of the WTO is certainly disappointing to our industry. We're now faced with finding alternative means to advance market access and fulfill our global growth strategy as a country. Canada must rapidly pick up the pace in negotiating the new bilateral free trade agreements. Negotiating some of those with Asian trading partners would be a very good idea.

Your third question was, where did we get with previous governments on the whole issue of regulatory reform? That issue has always been on a distant back burner with governments generally. We had a bit of traction with the last government because of the External Advisory Committee on Smart Regulation report. This was a sort of confluence of the OECD coming out and saying Canada is a great place to do business. However, we're getting to the point now where Canada needs to look very closely at whether or not the regulatory frameworks it has set up, which in some cases are fifty or sixty years old, are actually hindering Canada's competitiveness. That was the OECD in 2004.

At that point the External Advisory Committee on Smart Regulation was set up, which was a non-partisan committee. They reported back with a fairly fulsome report calling for regulatory reform and an overhaul of regulatory framework. That's as far as we've gone.

Mr. Colin Carrie: There's been a lot of press on the Korean free trade agreement. Have you studied this type of agreement? How much benefit would it be to your industry to open up markets like that? Have you done an impact study?

Ms. Gemma Zecchini: We have not.

Mr. Colin Carrie: With the BSE issue and slaughterhouse capacity, have we seen a big increase in our capacity to process beef here?

Ms. Gemma Zecchini: That's not something I can speak to. It's not a big focus of my industry.

Mr. Colin Carrie: We've heard a lot about the cost of energy and how it affects manufacturing. How have rising or fluctuating energy costs affected the industries within the food manufacturing subsector?

Ms. Gemma Zecchini: Energy costs and commodity input costs have put significant upward pressure on prices. We've been hit by energy costs as well. Food processing is a fairly energy-intensive business. Whether it's actually in the plant or during distribution, the supply chain is fairly energy intensive.

Mr. Colin Carrie: We've heard a lot about skill shortages. In your sector how bad are the skill shortage issues?

Ms. Gemma Zecchini: At the professional staff level our biggest issue is attracting the best and brightest on the basis of whether this is a cutting-edge industry. When you're recruiting out of colleges and universities, that's very much top of mind.

If you go further down the supply chain, my colleagues in the grocery industry will tell you they have some very significant human resource challenges from both a recruitment and a retention perspective.

The Chair: Thank you.

We'll go to Mr. Masse, for six minutes.

Mr. Brian Masse (Windsor West, NDP): Thank you, Mr. Chair.

Thank you for appearing today.

One of the things I want to touch upon is the Bioterrorism Act. How is that going to affect your members? This is a new unilateral imposition on Canadian companies shipping food products into the United States.

Ms. Gemma Zecchini: It's a good question. Depending on how it's handled, I think it has the potential of significantly slowing down shipments both to and from the U.S., which will have negative impacts, particularly when you're dealing with perishable food. So we are very concerned that whatever regime is ultimately brought on stream, we are not going to be unduly impacted in that regard.

● (1610)

Mr. Brian Masse: Mr. Crête noted the spinach and carrot juice problems. We seem to just take this on the chin, so to speak, in terms of the introduction of these fees.

Has there been any analysis by your organization to find out how it's going to have an effect overall? I think we have to have a backup plan. The imposition of this is being done unilaterally, and if we're not successful in changing that or having a court appeal successful... and that's what is going to be necessary. We've seen court appeals dropped for, say, softwood lumber, so even if we do go to court, we would have a period of time to win that, and then it's whether we'd have the will to do it. So is there going to be an assessment by your organization in terms of the cost associated, in a detailed analysis?

Ms. Gemma Zecchini: I think closer to the time we'll probably look at a cost from the point of view of what it will take for manufacturers to implement and what the implications are going to be. I don't think we're at a stage yet where we know enough about it to actually work out the monetary implications.

Mr. Brian Masse: That would be very helpful I think for us on this committee, because it's another cost that is associated, and I guess it goes to my next question. We know your industry hasn't been growing as large as other manufacturing industries, but where else is it growing? Is it growing in the United States? Is it growing in Mexico or in developing countries? Where is the industry growing in terms of food processing and management?

Ms. Gemma Zecchini: I think it's certainly growing a lot faster in the United States. It certainly is growing a lot faster in the EU, and I think we can probably take a lesson from the EU in the sense that because of the creation of the European Union—and that's not to suggest that everything they do is something we would want to emulate on all fours—they've had to look at all of their regulatory processes, but the actual act of creating this supranational body has required them to look at the things that work and the things that don't work, and particularly in the area of food. So I think in some ways they've definitely advanced farther ahead than where we are in the development of modern regulatory frameworks.

Mr. Brian Masse: What concerns me—and it's specific to the Bioterrorism Act once again—is that you have American companies that have subsidiaries over here that choose the expansion of operations in the United States because they put up non-tariff barriers like that, which really result in decisions made to expand plants over here as opposed to here, because you not only have the fees associated with that, but it's also the anomaly of whether the product can actually get to the market.

Given that, has there been any work...and how is the association geared up to maybe, for example, take advantage of east-west trade in our country? Is there more work that can be done there, and is there something the government can do to help that? We do control those barriers that we have amongst our own provinces.

Ms. Gemma Zecchini: Let me just start by saying that when multinational companies, even if they are U.S.-based multinationals...the way the supply chain works in North America, it's a North American product mandate. So there are a number of U.S.-based companies that will produce a product line just in Canada, for the reason that we may have a competitive advantage, whether it's in logistics or whether it's in commodity input prices, or whatever the reason might be.

On your point about the Bioterrorism Act, I don't think we can assume that this will affect Canadian companies more than it will affect multinationals, because I think some of the multinationals will be significantly impacted by this.

Mr. Brian Masse: I didn't mean to get into that. What's happening, though, in other jurisdictions like the auto industry, for example, is they're choosing to set up just in Michigan, not only just because of incentives but also because they're concerned about the shipments of their products across the border. So it's giving them an excuse to actually land the jobs that used to be expansion plants in our industries.

Ms. Gemma Zecchini: Right, because it's easier to serve a market of 30 million from their vantage point than to have a market of 30 million trying to service a market of 300 million in terms of shipment of goods.

I don't know whether those types of decisions have been made by my member companies as a result of the Bioterrorism Act. I can certainly endeavour to find out, and I certainly take your point that this is something that's worth exploring because the economic impacts are probably significant.

● (1615)

Mr. Brian Masse: Is there anywhere we can get a listing of your members' associations and how many people they employ and the trend of the last few years? Your manufacturing has gone down a bit as compared to other sectors. Has employment collapsed as well a bit, or is it sustaining? I'm just curious in terms of your employment numbers.

Ms. Gemma Zecchini: I think in terms of employment numbers, they have stayed constant. I don't think we've seen huge shedding. We've seen some plant closures because of the inability to win a North American product mandate. So we have seen that. But that's certainly not something we're seeing every month or every week. This is something we see fewer than ten times in a year.

If that would help the committee to understand the employment situation, I think we have a list of member companies by riding and employment. I think nine members of this committee actually have food manufacturing companies in their ridings.

The Chair: Okay.

Mr. Brian Masse: Thank you, Mr. Chairman.

The Chair: We'll go to Mr. McTeague for five minutes.

Hon. Dan McTeague (Pickering—Scarborough East, Lib.): Thank you for being here today.

I must acknowledge it's been a few years since I was dealing with this committee. In that period of time, I recall doing a considerable amount of work in the area of food and consumer products. So I take it your organization is relatively new, or have you been around for quite some time?

Ms. Gemma Zecchini: We've been around since the 1940s, since before the Food and Drugs Act.

Hon. Dan McTeague: And whom do you represent? Who are some of the major companies that you would represent?

Ms. Gemma Zecchini: We represent about 80% of what's on the grocery shelf. So we've got big giant companies like McCain. We obviously have all of the multinationals like Nestlé, Procter and Gamble, Unilever, Kraft, PepsiCo, and Coca-Cola. But we also have some of the Canadian companies: Janes Family Foods, and Dr. Oetker. It's really a combination.

We probably don't have a huge proportion of the smaller food processors; it's mostly medium to large.

Hon. Dan McTeague: You may be able to anticipate my interest here, because there is something that has not been mentioned. It's something that manufacturers in my riding have raised in the past, and it hasn't had a lot of play in terms of the overall perspective of food manufacturers. It is the issue of there being very few players left to which to sell your products. It seems to me that if you have only two dominant players in Canada who actually sell groceries in this country, both of them demanding various trade allowances—slotting fees or shelf space—that would be inefficiency, and only those who have the deep pockets would be able to sell. Those who may have an innovative product or an efficient product would not be able to get it onto the shelf, unless they were prepared to pay these premiums.

The Americans have gone through a fairly substantial study and have tried to discourage this situation through a number of pieces. We know—although my information is somewhat dated as it's at least three years old—that on a per square foot basis, American consumers get more variety and diversity in foods than Canadians do, and some have attributed this to this measure.

In terms of manufacturing, how much of a disincentive is there to me, if putting my product on the shelf at a certain eye level requires my paying charges that may not be the result of efficiency, but that may keep me from being able to financially afford to get on the very shelves I need to get on to stay viable as a manufacturer, unless of course I go to a no-name brand....

Ms. Gemma Zecchini: It's certainly a challenge. I am not sure it's a total disincentive, but the consolidation in the retail sector has certainly been a challenge for brand-name food manufacturers. Of course, at the same time you've seen a proliferation of private label or no-name brands. In fact, Canada is probably the second largest market for no-name brands, and that reflects consolidation. At the same time, you're also seeing the expansion of mass merchandise retailers getting into food. So in Canada, for example, we will see Wal-Mart opening up superstores with a fairly large food component.

Regarding your point about getting squeezed on your margins, when you have a few giant players that have the ability to really squeeze supply chains, there is always a downward pressure on costs. So whether it's getting the price you pay to get your product on the shelf or getting squeezed by the very few people who can actually put your product on the shelf to keep your prices low, that obviously has a dampening effect. And that's why it's so important when you're facing that kind of pressure to have some avenue to grow where you can actually get out of that sort of price commodities cycle and actually make value-added products that consumers will actually pay a premium for.

● (1620)

Hon. Dan McTeague: How do I do that if I can't market while I have to put maybe 20% to 30% of my overall costs toward a payment fee or schedule? That makes it impossible for me to commit and become cost-competitive. I can understand if Procter and Gamble and Unilever have the money to spend on a per SKU basis, but I'm wondering what that does for innovation. What does it do for manufacturers if they want to bring out something new, if they have to in fact provide a new trade allowance in order to get their product on board?

I understand your concerns about regulation and the need for better capital depreciation, but I'm not going to be in business if I can't get my product to market, unless I give in or I sell over, of course, which perhaps explains the concentrated nature of the industry you represent. And I say so respectfully. I'm just trying to figure out how a food processor in Canada manages if, at the outset, they have to pay for an inefficient listing to stock their product on the shelf. That has absolutely nothing to do with innovation or efficiency.

Ms. Gemma Zecchini: I guess the answer to your question is that listing fees are obviously a challenge and are part of the cost of doing business. Some manufacturers will be able to absorb the cost of doing business more easily than others.

If you're a small manufacturer, part of the problem you're referring to is how you get on the shelf anyway, regardless of what the listing fee is. Do you have enough brand power to actually even get there? Those are some of the realities you face in an industry in which the retail sector is very consolidated, so I understand your point there.

For manufacturers, as I said, listing fees are one cost of doing business. There is a whole host of costs of doing business. At some point, you look at the whole market and you ask yourself if you're able to bring in higher value-added products. Can you commercialize those? What are the listing fees? What are the prices you can get for them? Once you add all those up, then you make a decision that you will produce this in Canada or you will not product it in Canada.

Hon. Dan McTeague: Would it be fair to say, then, that the issue of manufacturing in this industry must also be taken hand in hand with the issue of listing fees and other trade allowances? That's really my point.

Thank you.

The Chair: Is that a question to me?

Hon. Dan McTeague: Yes, it's to you, Chair. You're going to be writing a report here, and I just wanted to make sure that's the spirit of what I've just heard.

The Chair: Thank you, Mr. McTeague.

Mr. Van Kesteren.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you, Mr. Chair.

Thank you so much for coming out.

As you mentioned, I am one of those who has a plant in my riding, the Heinz plant, which has been there since 1905, I think. We had the opportunity to tour that plant, and the innovation is remarkable. They spoke about some of the things you spoke about too, some of those frustrations. As a multinational, especially a company being owned by a United States company, it was a concern of theirs too that the regulations you talked about were increasingly being a burden for them.

It's interesting. When you made your recommendations, you had the normal recommendations of lower taxes, capital gains, and those things, but repeatedly you gave us a picture of something that's somewhat unsettling, and that's what's happening in Health Canada. Can you give us some specific instances, some examples of some of the frustrations you receive right now, today? I don't know if anybody has asked you that question.

Ms. Gemma Zecchini: Why don't you take that one, Blake?

Mr. Blake Johnston: Thank you very much.

I'll give you two concrete examples, in a very quick way, that speak to the lost opportunity for our sector, and also for the health of Canadians and for the agricultural sector as well.

There's a Canadian-owned company that developed a fiduciary process to isolate what's called plant sterols, which are from the outside of soybeans. They're sometimes made from pulp and paper products as well. These are food additives that are used in the European Union and in the United States. They are both approved in the European Union and the United States, and they have a health claim on them. They lower the risk of cardiovascular disease if taken in very small amounts.

Large multinationals, such as Unilever and Dannon, have used entire product lines in Europe and the United States to deliver these to the population. They have such a wide acceptance that European insurance companies have started to rebate their policyholders who eat margarine containing plant sterols as part of their normal diet. They rebate their insurance costs for life insurance. They're a $300-million-a-year Canadian business, in the United Kingdom alone. In Canada, they're not approved for use as a food additive.

So we have a Canadian company that developed a fiduciary process to make plant sterols out of residue from pulp and paper. They had to invest in the United States. They built a manufacturing plant in Texas, of all places, and they sell their product around the world. But because Health Canada has yet to approve plant sterols for use as a food additive and approve them for a health claim, they can't even commercialize their own product in Canada. That's example number one.

The plant sterols that Unilever uses in Europe are made from soybeans.The implications of that are that at a time when Ontario soybean farmers are certainly looking for another avenue to sell their product, we can't commercialize that technology in Canada.

So the implications of the lack of a framework around health claims, and in this instance the lack of regulatory approval for the food additive, have repercussions both throughout the agricultural and value chain and also to us as manufacturers. There are numerous examples of that—hundreds of them—across the system.

● (1625)

Mr. Dave Van Kesteren: That's very helpful.

I have two other things.

Has Minister Strahl said anything in public about the frustrations you're experiencing right now with Health Canada?

Mr. Blake Johnston: I'm sorry, has the minister said anything publicly? Well, we've met with Minister Strahl and his officials on an ongoing basis since he's been sworn in. His department is focused right now on the next round of agricultural policy, the APF II, which is the federal-provincial envelope that will fund agriculture in this country for the next five years. Certainly, there are a number of discussions happening at that level about the need to integrate food policy so that Agriculture Canada is focused on results.

We talk about the silo issue we experience. Agriculture Canada has been a champion of our industry, but the regulations lie at Health Canada. So it's the connection. Do we have a food policy in this country, and what needs to happen for the light bulb to go? If we want to help primary producers, if we want to retain employment and grow the functional food industry from our sector and improve the health of Canadians, we need to coordinate across departments. And it comes to regulatory issues.

Mr. Dave Van Kesteren: Finally, the last question.

We're talking a lot about free trade with Korea. Has there been an impact study with that type of free trade arrangement with Korea? Have you done a study?

Ms. Gemma Zecchini: No, we haven't. We have not. But I think the issue was raised before. Given the failure of the Doha Round, Canada is going to have to look at how we enter into multilateral or bilateral trade agreements and where the advantages are for us in doing so.

The Chair: Thank you.

We'll go to our last questioner, who is Monsieur Vincent.

[*Translation*]

Mr. Robert Vincent (Shefford, BQ): Thank you. This will likely be my last question. It concerns free trade. How has your industry been affected by Health Canada's ban on the use of certain pesticides on products, whereas other countries use the same products and the food thus produced still manages to make its way into Canada quite easily. Increasingly, we have by-products that cost more than products from other countries. These countries use low quality products and chemicals and they face no restrictions at the border.

What difference does this make? Certainly there is an impact on prices. How does this affect your industry?

[*English*]

Ms. Gemma Zecchini: First of all, just to clarify, if the product is not approved for sale in Canada, it means more than that it can't be manufactured in Canada. It also can't be sold in Canada. So it can't be imported either.

With the types of things we're talking about here—fortified foods, novel food—no manufacturer can import them into Canada either. They're currently just not available to the population. They're not available for sale to consumers.

[*Translation*]

Mr. Robert Vincent: We've heard that you cannot spray your crops with certain products, whereas other countries can. Therefore, it would appear that different standards apply to Canadian producers and to producers in other countries. Is that in fact the case? Or, do the same standards apply to everyone?

● (1630)

[*English*]

Mr. Blake Johnston: I can take that one.

Are you speaking about agriculture pesticide rules for minor-use pesticides?

I'm certainly aware that there are differences in Canadian and American rules for the use of minor-use pesticides, but that's not an area of expertise that our association, as manufacturers or end-users of the product, would be—

[*Translation*]

Mr. Robert Vincent: Some countries use other products. Take Morocco, for example. I'm not talking solely about the United States. I'm talking about products from another world country where production costs are much lower and where additives or pesticides are still used. Product prices surely vary. Your pesticides are much more expensive than the ones used in other countries.

How does this impact your industry? I noted that your revenues were off last year by 20 per cent over the previous year. So then, how is this impacting your industry?

[*English*]

Ms. Gemma Zecchini: The issues with our industry are not related to cheap imports. It is not a question of the industry withering as a result of foods being imported from other countries, that have been produced with cheaper commodities. In fact, in Canada, we have a fairly competitive regime for producing food in the traditional way. So we're really talking here about the next generation of food, enhanced foods, fortified foods, novel foods. These are the things that are going to change the food supply to deal with some of the problems that Mr. Crête was talking about. I'm fairly confident that we have a fairly competitive environment in Canada for producing traditional food. That's not where our problem is.

Mr. Blake Johnston: If I could just add to that, the point we're trying to leave members of the committee with is that the largest potential growth area for food manufacturing in the world is in the area of functional foods. Those are foods with higher scientific profiles. There has been value added to them. They're functional for a certain diet or a health goal that a consumer is going to face. That's the future of food.

Canada does not have a competitive regulatory framework. Countries that we're going to compete with for product mandates to manufacture those functional foods are investing heavily. The American government is funding the FDA to streamline the Food and Drug Administration in the U.S., the group that makes the decisions similar to Health Canada in Canada. They've just injected a massive amount of money to speed up their approval process for health claims, which we mentioned earlier. They're investing heavily. The European Union has just agreed on a joint policy, among all their membership, on health claims. Canada doesn't even have a policy yet.

So as we go forward, the companies we represent are going to be forced to make decisions about where they commercialize innovation. It is not going to be in Canada unless we have the regulatory system that allows us to compete with our competitors.

That's the large, top-line story we're trying to commit here.

The Chair: Thank you, Mr. Johnston.

Thank you very much for being with us today and thank you for your answers. We certainly had some very wide-ranging questions, and we appreciate you being open to them. I want to thank you particularly for your recommendations, which are very specific.

I have one point—and I won't ask you to respond—on the regulatory framework, on that recommendation. If you have anything further or specific on that, on a regulatory framework that you would like to see in place, your ideal regulatory framework, pass that along to us as well. We certainly appreciate you being here before the committee.

I want to thank members for their questions.

We will suspend for a minute or two and then have officials from the Department of Finance with us.

● (1634)

(Pause)

● (1636)

The Chair: Members, we'll begin our second hour.

We have two officials with us from the Department of Finance. Nancy Horsman is director of the business income tax division of the tax policy branch, and Kevin Shoom is acting chief, economic development, of the business income tax division of the tax policy branch.

I'd just like to remind members about why we invited finance department officials here. There have been recommendations, a series of them, made to us by various organizations to amend the capital cost allowance, to change the way we depreciate capital in this country, and also to expand the SR and ED tax credit program to make it more relevant for manufacturers. These are two of the recommendations we've heard.

For the benefit of the witnesses, we've heard a number of recommendations on CCA, the main one being moving towards a two year writeoff, if I recall correctly.

So that's the main reason you were invited, to give us some background so that we can make a very informed recommendation. We did have a brief provided on each of these subjects by Library of Parliament researchers.

I don't know if one or both of you will be speaking, but we would ask you to keep your presentation to under ten minutes. Then we'll go to questions from members.

Thank you for being here, and welcome to the committee.

Mrs. Nancy Horsman (Director, Business Income Tax Divison, Tax Policy Branch, Department of Finance): Thank you, Mr. Chairman.

I have been asked to provide you with some background on the scientific research and experimental development tax incentives and on the capital cost allowance system in Canada. I will give a brief overview of what these measures are and how they work, and then we'd be happy to answer any questions you might have from a tax policy perspective.

The concept of providing tax assistance for scientific research and experimental development, which we call SR and ED in the department, is grounded in the economic principle of externality. The basic logic is that when a business performs SR and ED activities, the benefits are not restricted simply to the business itself but also go to others in the economy. For example, once a new technology or process is developed, other businesses may be able to adopt it at little or no cost. The public benefit of the activity is actually higher than the private benefit to the individual business. In the absence of government support, there would be an underinvestment in the activity.

Canada's SR and ED tax incentive program is one of the most advantageous in the industrialized world. It provided over $2.6 billion in tax assistance to over 12,000 businesses in Canada in 2006. The tax policy objectives in supporting SR and ED activities are: one, to encourage the activities in Canada, given this externality that is brought about by SR and ED investments; two, to assist small businesses in carrying out these activities; three, to provide incentives that are as simple to understand and comply with and are as certain in application as possible and; and four, to promote SR and ED activities that conform to sound business principles.

The scientific research and experimental development tax incentives help Canadian businesses to develop new products and processes, improve productivity, enhance competitiveness and economic growth, and create jobs in Canada. To be eligible, SR and ED has to be performed in Canada by a business, and eligible activities may take the form of basic research, applied research, or experimental development. Most claims are for experimental development.

I'd like to give a bit of an overview of how the structure of the tax incentives work. They come in the form of deductions and credits. With respect to deductions, current expenditures and capital expenditures on machinery and equipment are fully deductible in the year incurred and unused deductions may be carried forward indefinitely.

Perhaps more important are the tax credits that are provided. There are two rates. The general rate is 20%, which means that the federal government provides a tax credit of $20 for every $100 of spending undertaken in Canada. Then there's an enhanced credit rate of 35% for smaller, Canadian-controlled private corporations on their first $2 million of qualified expenditures. The investment tax credits may be deducted against federal taxes otherwise payable, and unused credits may be carried back three years or carried forward twenty years.

In recognition of the difficulty they can face in accessing capital, smaller, Canadian-controlled private corporations that are not taxable may obtain a refund of their credits earned in a year. Current expenditures that earn SR and ED ITCs at a 35% rate are fully refundable up to a maximum of $2 million. That means a small start-up could be eligible for a refund cheque of up to $700,000 on its SR and ED expenditures. Also for these smaller, Canadian-controlled private corporations, investment tax credits on capital expenditures and on current expenditures in excess of the $2 million limit are eligible for a 40% refund.

It should be noted that provinces also provide various types of incentives for research and development activity undertaken in their own jurisdictions.

● (1640)

Together, all of these tax incentives provide a generous environment for Canadian research and development.

To illustrate, the 2005 tax expenditure and evaluations report provided estimates of the 2010 marginal effective tax rates on business investment. The marginal effective tax rate measures the extra return on an investment required to pay corporate-level taxes, expressed as a percentage of the total return on investment. According to the 2005 report, R and D tax incentives reduced the Canadian marginal effective tax rate for the manufacturing sector from 28.5% to 21.8%, a reduction of 6.7 percentage points. The marginal effective tax rate for R-and-D-intensive manufacturing firms decreased even more dramatically, falling from 31.7% to 3.4%, a drop of 35.1 percentage points.

I'd like to turn now to the capital cost allowance system. Generally, the cost of capital investment cannot be written off in the year incurred; rather, the cost must be written off at the capital cost allowance rates that are permitted under the Income Tax Act, and this is similar to the concept of depreciation used for accounting purposes.

The annual deductions that may be claimed under the CCA system will eventually result in virtually the entire capital cost being allowed as a deduction.

The approach that's been taken to setting the rate for a particular class of assets is based on the objective that capital cost allowance rates should reflect the useful life of assets so that they would provide adequate recognition of the capital costs over time. This approach helps ensure that investment choices are not distorted and are directed towards the most productive uses. There is an explicit exception to this approach in the provision of accelerated rates in certain instances, such as efficient and renewable energy equipment.

As you know, the government regularly receives requests for accelerated CCA rates for particular assets and for assets used by particular sectors. By advancing the timing of deductions, accelerated CCA represents a subsidy for investment with associated fiscal cost to the government, such that proposals therefore need to be evaluated by considering their likely effectiveness and their economic impact relative to the impact on government revenues.

To conclude, the SR and ED tax incentive program is an important element of the federal strategy of providing assistance for research and development. The Department of Finance continues to review the program on an ongoing basis to ensure its effectiveness in the context of the overall federal strategy of providing assistance for R and D.

Similarly, the department reviews capital cost allowance rates on a regular basis to ensure they reflect useful life and therefore contribute to the efficient allocation of resources in the economy.

I'd be pleased to answer any questions the committee may have on the tax policy aspects of the SR and ED tax incentives or capital cost allowance rate.

● (1645)

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

We will go to Ms. Stronach for six minutes.

Hon. Belinda Stronach (Newmarket—Aurora, Lib.): Thank you.

Perhaps you can clarify this, but I believe Canada leads—in a negative way, unfortunately—the OECD nations in terms of taxation on investment, which, as you can appreciate, is not a good thing because it directly affects innovation, it affects jobs, etc.

We've now heard from many different witnesses before committee, and many of them argue that the CCA rates are outdated given the rapid acceleration of technology relevant to their industry.

My second question, after the sort of general first one, would be on how often you adjust these rates and what the process is. We tend to hear they're not working for the industry, that due to the rapid rate of innovation within that particular sector, the equipment changes so fast and technology changes so fast that those rates are not compatible.

Mrs. Nancy Horsman: Maybe I should start by just clarifying.

Do we have the OECD numbers?

Hon. Belinda Stronach: It's either one or two. The U.S. and Canada are very high when it comes to taxing investment.

Mrs. Nancy Horsman: We can clarify that.

In terms of looking at CCA rates in general, we do review them on an ongoing basis. In fact, there have been several changes. In the 2005 budget, I think there were a number of increases in rates. So on an ongoing basis we do review the rates, and if we receive representations that the rates are out of line with the useful life of assets, we review them.

Hon. Belinda Stronach: Yes, but can you perhaps clarify what the process is to do that? Do you have an opportunity to hear from the stakeholder groups yourselves? We continuously hear complaints from industry.

Mrs. Nancy Horsman: Every year during the pre-budget consultation process, associations and others provide their views to the finance committee. Those views are made available to us as well, and we do review them and review the rates on an ongoing basis.

Hon. Belinda Stronach: Who would make the final decision on whether the rate gets changed?

● (1650)

Mrs. Nancy Horsman: The Minister of Finance.

Hon. Belinda Stronach: Thank you.

Do you have something to add? We have some time left.

Hon. Dan McTeague: Mr. Chair, how much time do I have?

The Chair: You have three minutes.

Hon. Dan McTeague: In the course of the recommendations that you have looked at in the past, when was the last time you made substantive changes to the taxes we're talking about here, particularly as they relate to depreciation? Was that done in the last three years?

Mrs. Nancy Horsman: The way the system works, there are a number of classes of assets. Each has a different rate that applies to it. We would review those on an ongoing basis.

Do you have the 2005...?

Hon. Dan McTeague: Just to give you an example, assuming I'm a dentist or a chiropractor and I have equipment, clearly that's not something the Minister of Finance is going to look into specifically, and you're not going to catch these things subtly. But clearly we have a situation in which manufacturers are now suggesting that one of the reasons they find themselves in some difficulty is that we're not keeping pace with the modern and innovative realities of their business. As a result of that, they are extremely frustrated and are suggesting that Canada lags behind because either the department or the agency seems to be incapable or unable to respond to these changing times.

From a pragmatic point of view, I'm wondering—and I think this is also in line with Ms. Stronach's comments—what your department does specifically to ensure that our tax policies are in line with the kinds of changes we're seeing around the world.

Mrs. Nancy Horsman: The general approach to tax policy in recent years has been to try to keep rates low and to eliminate distortions in the tax system. The way to do that is not to have targeted tax incentives to particular industries. Rather, it's to try to make the CCA rates reflect useful life, as I said, and to keep the overall tax system neutral in terms of what investments are made, so that those investments are made for business reasons and not for tax reasons.

Hon. Dan McTeague: Accelerated depreciation, though, with a new product, a new modality, a new widget, would require more intense review by your department. How do you do that when new technologies...? Do you have experts within your own department who will go over and say that this new product that does wonderful things, that was invented only last year in Germany, is a great product, will do wonderful things, will have an ancillary effect throughout the economy, but that product will probably wear out in three years, not five years? As a result of the way in which you've structured the Income Tax Act, the effect of depreciation is actually a loss to the manufacturer who is trying to stay current with other industries.

Mr. Kevin Shoom (Acting Chief, Economic Development, Business Income Tax Division, Tax Policy Branch, Department of Finance): Perhaps I could just spend a couple of minutes talking about how we do our reviews.

Quite often we will receive representations from particular businesses or from industry associations. When we receive these, we of course take a look at what the current rules are and how they will apply.

We quite often meet with the people who bring these requests to us in order to understand things better and learn as much as we can about the technology and the assets they're talking about. We can then supplement our analysis by looking at other factors, such as the accounting treatment of these assets.

We also look at studies on economic depreciation rates—studies that take a more academic approach—and we will often follow up with these groups and get whatever technical knowledge we can find. Sometimes this means we also have to consult with other government departments that have more expertise.

Hon. Dan McTeague: Does that include Industry Canada?

Mr. Kevin Shoom: Industry Canada is where they would have the appropriate expertise. We also consult with Natural Resources Canada, for example, in the area of efficient generation technologies for renewable energy. It would depend on the particular request.

The Chair: Okay.

Monsieur Crête.

[*Translation*]

Mr. Paul Crête: In your submission, you state that the Scientific Research and Experimental Development Tax Incentive Program is one of the most advantageous in the industrialized world.

Can you compare for us this program with those in place in various other countries?

[*English*]

Mrs. Nancy Horsman: We haven't done an international comparison, but we're aware of some that have been done. For example, the OECD has done a study.

● (1655)

[*Translation*]

Mr. Paul Crête: Could you obtain that study for us?

[*English*]

Mrs. Nancy Horsman: We can give you the OECD study.

[*Translation*]

Mr. Paul Crête: You mention tax assistance in the order of $2.6 billion in 2006. How many billions of dollars in taxes do businesses pay?

[*English*]

Mrs. Nancy Horsman: It's about $30 billion to $35 billion.

[*Translation*]

Mr. Paul Crête: You're talking about $2.6 billion out of a total of $35 billion. Fine.

WIth respect to the capital cost allowance system, you cite efficient and renewable energy equipment as one instance in which CCA rates apply. However, we can't forget tar sands development costs which have also benefited from a 100 per cent write-off from the outset.

You stated that you periodically receive requests for CCA rates to apply to particular assets. Have you compiled a list of these requests showing which ones were rejected, and which ones were allowed? For example, the printing sector systematically applies every five years, but the government always stands firm.

Do you have a list of areas in which progress has been made, and of areas in which we are still at the same stage?

[*English*]

Mrs. Nancy Horsman: We can certainly give you a summary of the changes that have been made. In terms of what people have asked for, I'm not sure we would have a list of that.

[*Translation*]

Mr. Paul Crête: Whatever you can come up with would be useful.

Your submission contains the following interesting statement:

> Such proposals therefore need to be evaluated by considering their likely effectiveness and their economic impact relative to the impact on government revenues.

How do you evaluate the impact of such proposals on the overall economy? In a given sector, are we seeing certain CCA rates apply and has this had a measurable net impact on the economy?

When you talk about a particular sector, you're talking about tax expenditures as well as revenues and increased productivity that benefits both society and the business in question. Have you done evaluations of this nature?

[*English*]

Mrs. Nancy Horsman: The approach is more like what I was saying before, which is to try to develop a neutral framework in which businesses can operate within the useful economic life.

We know the economic impact of distortions is a less efficient tax system, because it affects the business decisions that people make. Did we measure the economic benefits that might occur if a certain targeted tax measure resulted in additional investment? No.

[*Translation*]

Mr. Paul Crête: Getting back to the subject of tax incentives for research and development, is there an R&D tax incentive available to companies — especially small companies — that do not earn any profits or pay taxes?

I'll use the forestry sector as an example. For some time, this sector has been struggling to make a profit, even though it is in desperate need of funds to modernize its operations. The same holds true for other sectors as well. Is there any kind of incentive available for sectors that do not pay any taxes? Could it be spread over a period of two, five or ten years?

[*English*]

Mrs. Nancy Horsman: For the scientific research and experimental development tax incentives?

[*Translation*]

Mr. Paul Crête: Yes, and I might be asking you the same question about the capital cost allowance.

[*English*]

Mrs. Nancy Horsman: Certainly, as the presentation shows, in the SR and ED, there is a refund aspect to it for smaller, Canadian-controlled private corporations.

[*Translation*]

Mr. Paul Crête: But what if the company is not earning any profits?

[*English*]

Mrs. Nancy Horsman: Yes, it's refundable.

[*Translation*]

Mr. Paul Crête: So, even if the company isn't earning a profit, R&D expenditures are refundable.

[*English*]

Mrs. Nancy Horsman: For qualified expenditures.

[*Translation*]

Mr. Paul Crête: I see. What would you recommend to make the overall R&D incentive scheme even more effective?

Mrs. Nancy Horsman: Could you repeat the question?

Mr. Paul Crête: What would you recommend as a means of making the current system better and more effective?

Mrs. Nancy Horsman: It's not our job to make recommendations. All we can do is explain the measures in place.

Mr. Paul Crête: It's not your job to make recommendations, but perhaps you shouldn't be telling me this at this time.

Some hon. members: Oh, oh!

[*English*]

The Chair: Monsieur Crête, when you're the minister she'll tell you.

● (1700)

[*Translation*]

Mr. Paul Crête: Nevertheless, we would appreciate a comparison of programs in place in other countries, as this would help the committee to make some important recommendations. Compared with other countries, is the sum of $2.6 billion out of $35 billion a higher, or somewhat lower percentage?

Mrs. Nancy Horsman: That's a high percentage.

[*English*]

Mr. Kevin Shoom: The Canadian R and D tax credits support a much larger proportion of business expenditures on R and D than the comparable U.S. R and D tax credit.

[*Translation*]

Mr. Paul Crête: Are tax credits still tied to innovation?

The Chair: You have time for one last question.

Mr. Paul Crête: Are tax credits still tied to innovation? Can a company qualify for R&D tax credits without innovation factoring into the equation? Canada is lagging behind in so far as productivity and innovation are concerned.

Mr. Kevin Shoom: We accept the Organization for Economic Development and Cooperation's definition of research and development. This definition is used by the majority of the world's countries. No one sector has a monopoly on activities eligible for tax incentives. Quite simply, R&D must be carried out in accordance with certain criteria, one of which is ensuring scientific and technological continuity.

[*English*]

The Chair: Mr. Shipley.

Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC): Thank you, Mr. Chairman.

Welcome, and thank you for coming out to our committee.

Earlier in your presentation you talked about the capital cost allowance—what that actually means and the definition of it. One of the things you talked about was the useful life of an item. Can you tell me who defines that?

Mrs. Nancy Horsman: I think it's related to what Kevin was talking about earlier. Based on representations from industry, the research we do, and the analysis we do in consultation with industry and other departments, we determine what an appropriate rate would be.

Mr. Bev Shipley: During these discussions that have come about and the concern about it...it's a whole review brought about not only by yourselves but by the industry and those within it.

Do you know why it is different? When you look at capital cost allowance schedules there seems to be a wide variation. So I'm going back to the first question I had on who defines it. There seems to be a wide variation from country to country, mostly with the United States because it's the largest trading partner in a lot of the cases. Can you tell us why there may be that sort of difference, when there's collaboration between industry and your ministry?

Mrs. Nancy Horsman: I'm afraid I don't really have that kind of analysis at hand, but we could certainly have a look at that.

Mr. Kevin Shoom: I could offer a couple of comments. When we do our analysis, because we try to base it on useful life, we look at considerations such as what the engineering life of the asset is and how long it could last physically. Then what gets added into that is questions of obsolescence—whether a product is becoming obsolete because of new products coming onto the market. As well, we look at whether a particular asset requires frequent upgrades and the extent to which those impinge upon the return the asset generates.

We here in Canada have tended to follow this idea of having rates reflect useful life fairly closely. In recent years, certain other countries have a similar approach. Some other countries—the United States being an example—do not take the same approach. The U.S. have tended to use their tax depreciation allowances more as a tool of economic development.

As Nancy said earlier, we have taken an approach whereby we try to provide a broadly neutral and efficient tax system that will then allow us to lower our tax rates and have the system be competitive on a broad basis. The United States, by comparison, has fairly high corporate tax rates with targeted tax incentives.

● (1705)

Mr. Bev Shipley: So they use theirs, and some other countries maybe beyond them use it as an economic development issue, rather than as basically a component of their tax regime. You're basically telling us that they have higher corporate tax than we have and lower depreciation or capital cost allowance than we have.

I think we always get, with our industry, to what makes them viable and what is sustainable. Are you saying, then, that basically the economic development part of it is secondary to the financial part of it? Or is it that there's a balance now that has to be determined between capital cost allowance and economic development within the industry?

Mr. Kevin Shoom: It's a question of how the tax estimate system can be most conducive to economic growth. In recent years in Canada we've taken the approach that the tax system can best facilitate economic growth, investment, and advancements in productivity by providing an efficient tax system that is broadly neutral and by lowering tax rates, to the extent we can afford to do so. This approach was adopted by many countries about two decades ago. There were various tax reforms around the world. Canada was part of that movement at the time; the United States was as well. Since then, the United States has tended to move back towards a system with more targeted incentives. In Canada, successive governments have remained relatively consistent in the approach.

Mr. Bev Shipley: Am I out?

The Chair: You have twenty seconds.

Mr. Bev Shipley: Oh, crumb!

I was just going to say, then, that we've had pretty much every industry and manufacturing company in here talking about capital cost allowance and its importance and significance; that's all. I'm just wondering whether it is a collaborative consultation that we're having with the industry and your ministry about adjusting those. I looked through your comments to see what the next step is going to be to help us through the manufacturing industry's dilemma with capital cost allowance.

Mr. Kevin Shoom: The request many industry groups have been advancing for accelerating capital cost allowance.... Because they are not making, and we haven't been hearing, the argument that the capital cost allowance rate for manufacturing needs to be higher in order to reflect useful life, it hasn't come to the kind of dialogue we were talking about earlier, wherein they would want to try to convince us, based on a useful life argument, of their position. Instead it's more a question, I think—and they are pretty clear—that they would like higher CCA rates for manufacturing as an incentive.

The Chair: Thank you, Mr. Shipley.

We'll go to Mr. Masse.

Mr. Brian Masse: With regard to your comments on our SR and ED incentive being one of the most advantageous in the industrialized world, how do we compare with everyone else? Are we right at the top? What data or analysis do you have?

Mr. Kevin Shoom: The international comparison data suggest that we are one of the most generous countries—in the top handful. It's difficult to provide an accurate comparison across countries, because the criteria differs so much. There are so many variables to take into account. But when we look at the rate at which the credit is offered here and the base on which the credit is provided, both of these compare very favourably with virtually every other industrialized country.

● (1710)

Mr. Brian Masse: Are these your studies or third-party studies? What studies are you referring to?

Mr. Kevin Shoom: We can make that judgment just by looking at the criteria used in various countries. We haven't quantified it in detail. Studies have been undertaken by, for example, the OECD, using measures that try to roll up the various components into a single number.

Mr. Brian Masse: In comparing Canada with the United States, what type of discussion happens in the department with respect to, for example, the auto industry? Until recently, there was the technology partnership program, TPP, that was available to them. Our tax incentives weren't enough to compete with what's being done in the United States. We've seen recent decisions to expand plants over there instead of in Canada. At what point does the department undertake an examination to find out whether their approach is successful? Are we looking at the Canadian broad-range approach we've been stuck in for twenty years? When does it happen?

Mrs. Nancy Horsman: There are more than just tax considerations in the situation you're talking about. If the government decided, for instance, to provide support to a particular sector, the first question would be how best to provide that support. In the recent past, the way we've approached the tax system is to make it as neutral as possible. That's the most efficient way to run the tax system and it results in the most productive and competitive conditions.

Mr. Brian Masse: In the case of, say, an exemption for renewable energy equipment, it would be a political decision to introduce an approach different from the broad-range one. At the end of the day, it's a political decision.

Mrs. Nancy Horsman: Renewable energy is a special case. It relates to the externality argument we were talking about in the context of the SR and ED. There's a public benefit to be had by encouraging people to use those energies. It's not just a benefit to a company or industry. That's why an exception was made in that case.

Mr. Brian Masse: A number of different manufacturing concerns could argue the same thing. There are questions of fair competition from our competitors in aerospace, textile, auto, where there's more than just the tax incentive. There are actually a whole series of tools and credits that other nations are providing.

With regard to the decision to move into the renewable energy equipment, how far is this outside the normal process? Is it a real net benefit for Canada compared with other nations? How do we compare this exceptional situation with what might exist in the United States and other countries? Is it a really good exception that we have developed, or is it one that's just a little different from the current public policy?

Mrs. Nancy Horsman: I'm not sure I understand the question.

Mr. Brian Masse: Specifically, we have this one exemption. How big is this exemption compared with what's happening in the United States with their renewable energy, or compared with other nations?

Mrs. Nancy Horsman: I'm not sure if we have the information available to answer that question, but we could get it for you.

Mr. Kevin Shoom: To give you a sense of what we provide in Canada relative to what the typical treatment would be, the treatment provided in Canada currently for efficient and renewable energy generation is an accelerated CCA rate of 30%. That's been temporarily increased to 50% until the end of 2012, I believe. If we did not provide those provisions, some of those assets would fall under a 15% CCA rate; others would fall under an 8% CCA rate.

Mr. Brian Masse: That's what I was looking for.

Thank you.

● (1715)

The Chair: We will go to Mr. McTeague briefly and then to Monsieur Lapierre, but I want to get a clarification.

Mr. Shoom, I thought I heard you say that the U.S. has higher corporate taxes than we do here in Canada. Can you identify the corporate tax rates in the U.S. and Canada for us—the effective and marginal rates you were referring to?

Mr. Kevin Shoom: I was referring to statutory rates, but we can certainly address both those questions.

Mrs. Nancy Horsman: Should we just provide you with a table? We have it somewhere in all this paper and we can provide it to you.

The Chair: Mr. McTeague, you have one brief question, and then it is Monsieur Lapierre.

Hon. Dan McTeague: Thank you, Chair.

Thank you, Monsieur Lapierre.

I wanted to home in on a point you referred to: when setting the rate for a particular class of assets based on the objective rates, you should, as a general principle, reflect the useful life of assets. I was beginning to tell you about the difference between a dentist and a chiropractor with the same piece of equipment. One particular set of circumstances would see someone get depreciation over ten years and have 10%. Another might do it in five years. Another may only be able to use that machine for three years. How do you define the useful life of an asset, given the different needs in different industries?

Mr. Kevin Shoom: The useful life for a class of assets is intended to be roughly a weighted average of the assets that are included there. We typically define our assets by the asset itself, rather than by the industry in which it's used. There would be an assumption that there should be some comparability to the lives of particular assets whether they're used in industry A or sector B. We would then try to get a sense of the representative life of that asset.

We acknowledge that this means the CCA rate applied to any particular asset may be too high or too low, depending on the actual experience for that particular asset. The way to compensate for that is through provisions related to recapture and terminal loss. When an asset does not depreciate as quickly as the CCA rate provides for and is then disposed of—let's say it sold for more than what it was written down for—then there is a potential that the difference will be taken back into income, reflecting that there were CCA deductions in excess of the depreciation actually realized.

On the other hand, when an asset depreciates much more rapidly than provided for, there can be a terminal loss, such that the additional deduction necessary to reflect the experience of that asset occurs at disposition.

The description I've given you becomes more complicated when you take into account that we group assets in pools. Some of these provisions would occur when a pool gets exhausted or if an asset is being depreciated on a stand-alone basis. The government introduced a provision several years back to try to make the system more reflective of differential experiences for actual depreciation by providing what we call a separate class election for manufacturing and processing equipment. If a business is concerned that an asset is going to depreciate more quickly than is reflected by the 30% rate provided for those assets, it can put it into a separate class. Then if it disposes of the asset after, say, four years, it can claim a terminal loss at that time, rather than allowing the difference to go into the general provisions for the pool.

The Chair: You have less than two minutes, Mr. Lapierre. I'm sorry.

[*Translation*]

Hon. Jean Lapierre: I seem to recall reading a study reporting that Canada's spends a smaller proportion of its budget on R&D that do most G8 countries on average. Practically speaking, that's R&D carried out by the private sector. But the private sector is lagging behind. There were problems with R&D being done by university institutions and that lead to the establishment of the Canada Foundation for Innovation.

If our measures were as good as we claim they are, then Canada would at least rank among the average G8 countries and be leading the parade, not bringing up the rear. Isn't there a problem of some kind with our system, which doesn't seem very encouraging?

● (1720)

[*English*]

Mrs. Nancy Horsman: While it is true that Canada ranks low in terms of business R and D as a percentage of GDP, since the inception of the SR and ED tax incentives the growth in this ratio has been strong in Canada relative to other countries. More generally, the question of why the ratio is low has to do with much more than just tax measures. For example, there is a working paper the department published that points to our industrial structure as one of the elements.

Hon. Jean Lapierre: Is it the fact that we have so many branch plants?

Mrs. Nancy Horsman: For example, in sector A, R and D may be comparable to other countries, but when you put it all together, because of our sectoral variation, we rank low.

That's one factor. But the point I'm making is that the tax system is not the only factor that influences it.

Hon. Jean Lapierre: Then if we could use the tax system as other than neutral, maybe we could correct the lag we have.

Mrs. Nancy Horsman: Right now the SR and ED incentives are $2.6 billion, and they are provided to over 12,000 businesses in Canada, which is quite advantageous in an international context.

The Chair: Thank you.

We'll go to Monsieur Arthur, then to Monsieur Vincent, then that will be the end of questions.

Mr. André Arthur (Portneuf—Jacques-Cartier, Ind.): Thank you, Mr. Chair.

A printing press is eternal. It's like a snowplow. Properly maintained, it will last forever. Then you connect it to a computer and it becomes scrap in a few months, or at least in a few years. How did you manage to be identified by the printing industry and its suppliers as their main problem? You do not get it.

Mrs. Nancy Horsman: I guess I'm not sure of the exact....

Mr. André Arthur: Do you not understand that the printing industry says that the capital cost allowance that they are submitted to is ruining their industry in Canada? Are you not familiar with that?

Mr. Kevin Shoom: We have been engaged in discussions with the printing industry in recent years. As I understand their arguments, they talk about the technological change that has occurred in their sector such that certain processes, which used to be much more mechanical, let's say, have now become more digitized and computerized. Some of their assets, as you indicate, such as the large offset printers, may still last for quite a long time, and they may have a digital interface added to them. Other parts of the printing process have undergone significant change and they don't look anything like they did a couple of decades ago.

We're continuing to take a look at the information the sector has brought to us to determine whether we think there might be a useful-life argument to make to support an adjustment such as they would like to see.

Currently, a lot of their equipment would be considered manufacturing and processing equipment and would be eligible for a 30% CCA rate.

Mr. André Arthur: At this point, though, they indicate that most of the equipment the printing schools use is much more modern than the printing equipment they use in their shops, because they cannot use the tax system to modernize their own shops. So their students go to good schools, study on good equipment, graduate, get to a printing shop, and barf on the equipment and leave because this is completely out of....

This is a fact.

The Chair: I know. You're making a good argument, but let's keep the language....

Mr. André Arthur: “Barf” is not allowed here? Okay.

● (1725)

[*Translation*]

In French, it's rather more... They curse their equipment and abandon their jobs. Are you aware of the situation?

[*English*]

Mr. Kevin Shoom: We're continuing to evaluate the concerns they've raised. One of the questions we are interested in discussing with them is whether the separate class election provisions, which we talked about earlier, are of assistance to them, and, if not, why they wouldn't help. Our analysis suggests that a separate class election can cover a large part of the gap that would result if our CCA rates are too low for a particular piece of equipment.

An additional consideration is that right now our system is fairly simple with respect to manufacturing and processing equipment. We provide a 30% rate to this very large category of assets, and that rate is set so as to ensure that it's sufficient to reflect at least the average experience of assets in that class. It would be an interesting question as to whether to start pulling out particular sectors or subsectors if the analysis showed there may be a useful argument for them.

Mr. André Arthur: At this time, today, is there any process of exchange of information with the printing industry, or is it treated as part of a larger universe with you people, concerning the CCU?

Mr. Kevin Shoom: We've met with the printing sector and we've done our own analysis specifically related to printing assets. We've been doing that.

Mr. André Arthur: How optimistic are you of giving them the chance they need to keep being competitive in Canada? How optimistic are you at this time?

Mr. Kevin Shoom: It's really not for me to say. For any analysis that we would do, it would be up to the minister to decide whether to make a change.

The Chair: Thank you.

We'll go to Mr. Vincent.

[*Translation*]

You have five minutes, Mr. Vincent.

Mr. Robert Vincent: Thank you, Mr. Chairman.

I met with industry representatives in my riding to discuss R&D. I learned that while the program is considered to be sound, filling out forms is a never-ending task and having to hire an accountant to complete the required paperwork in order to obtain R&D funding is a very laborious process.

Is there some way that you could synthesize or simplify the process so that more industry people could obtain funding?

[*English*]

Mrs. Nancy Horsman: We're certainly very interested in simplification of the tax system, and we know that our colleagues at the CRA are also interested in simplification, and we are actively looking at ways of simplifying the administration and compliance of the credits.

[*Translation*]

Mr. Robert Vincent: What does that mean in actual fact? What's going to happen? Should we be telling our industries that you're going to look into this? What concrete steps will you be taking? The process seems laborious. People must jump through hoops to accomplish anything. Even when people manage to make some kind of headway, they receive a notice advising them that documents are missing and that their application is incomplete.

Is there some way of streamlining the process so that small businesses, which still cannot afford to hire several lawyers or accountants to handle their affairs, can manage to fill out the applications on their own?

[*English*]

Mr. Kevin Shoom: We're not going to deny that filling out a nine-page form or whatever can be a bit of a burden. Unfortunately, because research and development is a very complicated question, and verifying that is difficult and the incentives are so generous, certain administrative processes need to be in place that the Canada Revenue Agency has decided to put into effect.

That said, CRA is also very sensitive to the needs of particularly smaller businesses. They've developed a variety of initiatives to try to help out small businesses and deal with some of these things. I can quickly identify a couple of them.

They have public information seminars, for firms that are interested in applying, talking about the program generally, going through eligibility criteria, what expenditures are eligible, and how to file a claim.

They have industry-specific seminars that reflect that there are particularities about research and development, when conducted in particular sectors, that require a more in-depth analysis to see how the activities in that sector relate to the question of whether it is R and D.

They have put in place a first-time claimant service. A business can get in touch with a representative from the SR and ED directorate, who can provide them with information tools and assistance to help complete the first-time claim. There is a pre-claim project review service—

● (1730)

[*Translation*]

Mr. Robert Vincent: You're reading your text. That's not what I want to know.

The process is so complicated and costly that any company that can afford to apply doesn't really need your money. Companies have to be wealthy in order to benefit from R&D incentives. Unfortunately, that's not always the case. So then, what can be done to streamline the process?

[*English*]

Mr. Kevin Shoom: There are two perspectives to this—the administrative perspective at the agency and then the perspective from us, at the Department of Finance, who are responsible for the policy and the legislation.

Where things relate to the administrative policies, the agency is always interested in hearing from stakeholders about where the administrative burden is difficult. They'll entertain any suggestions to reduce that. There is really not a lot that we at Finance can do about that, because administering the Income Tax Act is their purview.

On the legislative and policy side, where there are elements of the legislation that cause administrative burden, that is something that we at Finance would be responsible for analyzing.

[*Translation*]

Mr. Robert Vincent: The problem is not solely one of an administrative nature. Business must have a certain amount of capital in order to qualify for these incentives. They've told me that if they had this kind of money, they wouldn't be bending over backwards to get the paltry sums being offered to them. In any case, they wouldn't have to pay tax on the 20 per cent they would receive. Basically, they don't qualify for any kind of tax credit.

The Chair: What is your question?

Mr. Robert Vincent: Earlier, we heard that private sector businesses make fewer requests because they never manage to qualify.

First of all, do you plan to lower your criteria? And secondly, will you be streamlining your application forms?

[*English*]

Mrs. Nancy Horsman: I'm not sure I understand what you're saying about....

They have to have a certain amount of what in order to qualify?

[*Translation*]

Mr. Robert Vincent: Companies must be in a position where they can allocate a certain amount of money to R&D. You cover 20 per cent of R&D costs, but often, the companies do not have the other 80 per cent required. They cannot benefit from the financial incentive because they don't have the money required up front.

[*English*]

The Chair: Do you have an answer?

Mrs. Nancy Horsman: I'm still sort of trying to process the question.

The Chair: They have to have cash at the research end. Technically, they have to make a profit in order to apply for the credit. I think that's partly what he's getting at.

Mrs. Nancy Horsman: The only answer, I think, is that for smaller, Canadian-controlled private corporations, there is refundability. That's because those types of companies have greater difficulty in accessing capital than do public corporations, but there is the refundability element. Refundability means they can receive a cheque for the amount of spending they undertake.

● (1735)

The Chair: Thank you very much for coming before us.

I do just want to make sure we follow up with respect to the corporate tax rates between Canada and the U.S., if you can get us a comparison from the finance department. Also, we do have the capital cost allowance classes provided by our researchers, but do you have something comparable between CCA rates here in Canada and CCA rates in the U.S.?

I think a question that was started by Ms. Stronach and a thread throughout is how the finance department decides the criteria by which if someone comes forward—and this goes to Monsieur Arthur's question—and says the useful life of an asset is....

A computer can last for ten years, but from an economic point of view, it's really only useful for about one or two years, if that. So what are the criteria? If you can help us understand that, it would be very helpful in terms of useful life versus actual economic life.

I think, just responding, you've heard the concerns. The concerns from the manufacturing sector are that we're at a disadvantage vis-à-vis the U.S., particularly with regard to CCA rates. If there were better CCA rates, there'd be more capital investment in the manufacturing sector across this country, and it would be better for the environment because you'd have newer processes and newer machinery. We need to get a fundamental answer, and unfortunately we don't have time, but I think that sort of ties in some of the threads from various committee members.

If we could get a formal response to me and the clerk, we'll distribute that to all the members.

We thank you very much for being here. There's a lot of interest in these issues, obviously. Thank you for your time.

We'll ask members to stay. We do have a future business meeting, which we will try to keep very short.

We're going in camera, so we'd ask anyone who is not a member or associated with a member to kindly depart.

[*Proceedings continue in camera*]

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