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Chair

Mr. Rob Merrifield

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● (1530)

[*English*]

The Chair (Mr. Rob Merrifield (Yellowhead, CPC)): I will call the meeting to order.

I want to thank the witnesses for coming forward. We're into our very aggressive and short period of time with pre-budget consultation. We certainly appreciate your coming in. We have a panel of seven to start in this first half of our meeting.

I will introduce you as I yield you the floor. In the interest of time, we'll give you five minutes, and we hope to keep you to that five minutes as close as possible. I'd ask that the witnesses respect that.

We'll start with our first witness. We have the Association nationale des éditeurs de livres. We have with us Pierre Le François, director general.

The floor is yours, for five minutes.

[*Translation*]

Mr. Pierre Le François (General Director, Association nationale des éditeurs de livres): Thank you, Mr. Chairman.

The francophone book industry is significant. It has been successful, but it is also fragile in many respects. It has a market worth three quarters of a billion dollars and represents some 10,000 jobs. It is successful: more than 5,000 titles are published every year. The quality is there and diversity, in terms of the books that are published, is encouraged.

However, it is also fragile because of the small Canadian market, strong foreign competition and the markup taken by the publishers which, overall, is extremely low—hence the need for public and government assistance.

With that in mind—and this is what the brief highlights—we feel that there are four major points to be considered.

First of all, the Canadian government and the federal Parliament should avoid further eroding copyright, which is the engine of creation and is therefore at the very centre of the publishing industry, in the name of what is known as the educational exemption, based on which there should be easy access to all available material over the Internet. Such an approach is of great concern to us.

Furthermore, it is important to strategically position the francophone publishing industry within the digital world, by ensuring that Canada takes its place along side the giants in the field, who are currently going to see one Canadian publisher after another in search of publishing content, with a view to putting that content up on platforms and making it available to users across the globe. We believe that Canada should do what is necessary to ensure that the publishing industry—both francophone and anglophone—benefits from the best possible technologies. A specific initiative is needed to support publishing at an individual level—in other word, individual publishers—and Canadian publishers, collectively.

Furthermore, there is a lack of visibility as far as Canadian books in Canada are concerned, for obvious reasons. Competition is very strong. Are Canadian books reaching Canadian readers through the bookstores, the media, the libraries and the schools? That is not easy to accomplish. Therefore, a considerable effort is needed as regards the promotion and marketing of Canadian books.

Finally, we have proposed the idea of a major national translation program aimed at all books, or as many books as possible, and general literature available in Canada, for all segments of Canadian society, in order that books in French, in English and in Aboriginal languages can be translated into the language of the other communities and, thus, be available to them. In so doing, it would be possible to develop the values and identity that are our strength.

Such a project would also have a significant impact on the economic development of the francophone publishing industry in international copyright acquisition markets. It would allow francophone publishers to introduce partially translated works to our Chinese, Slovak, Latin American or other readers, rather than providing just a notice in English. That would facilitate the expansion of a readership that already includes millions in terms of copyright markets in the francophone publishing industry—an industry which, given that Canada is a small market, should be encouraged, because expanding the industry's international market is an important means of enhancing the success of the francophone publishing industry.

Thank you, Mr. Chairman.

● (1535)

[*English*]

The Chair: Thank you very much. I certainly appreciate your contribution to the committee.

We'll now move on to our second witness. We have the chief executive officer of the Association of Universities and Colleges of Canada, Claire Morris.

The floor is yours for five minutes.

[*Translation*]

Ms. Claire Morris (President and Chief Executive Officer, Association of Universities and Colleges of Canada): Mr. Chairman, I would like to begin by thanking you for inviting us to appear before the Committee today.

[*English*]

Canada is a wealthy, highly developed country with enormous promise. However, over the next decade, Canada faces important labour market competitiveness and demographic challenges. Ensuring the country's long-term economic growth and continued prosperity will depend heavily on the education and skill levels of Canadians and their success in creating and applying ideas and knowledge.

Challenge number one is that Canada must produce enough highly qualified graduates for the needs of the labour market. The talents, knowledge, and skills of master's and doctoral graduates are widely recognized as key drivers of the knowledge economy, as they transfer knowledge from universities to other sectors and inject innovation into the economy.

AUCC estimates that by 2016, an increase of at least 35% in the domestic production of master's and doctoral graduates will be required to meet the growing demand for these highly skilled people and to replace those who will retire.

The proportion of the Canadian population holding an undergraduate degree is at record levels, and the number of prospective graduate students in other countries intending to study abroad is increasing. Canada must attract more domestic students into graduate programs and attract more top international graduate students to fuel Canada's pipeline of highly qualified personnel and strengthen economic and diplomatic ties abroad.

AUCC recommends increased financial support for both Canadian and international graduate students in order to attract top students from abroad, keep talented students in Canada, provide opportunities to hone their research skills, and increase their contributions to the labour market through postgraduate internships and co-op placements.

Challenge number two is that the Canadian economy is increasingly dependent on international trade—a highly competitive, innovative, and knowledge-driven enterprise. Sustaining Canada's leadership in public R and D performance is key to meeting Canada's competitiveness challenge. In the university sector, public investments support the four foundational elements of research: new ideas, highly qualified research talent, cutting-edge research infrastructure, and institutional support for the research effort.

The least visible and least understood of these is the support for the institutional or indirect costs of research. These are real costs that universities must meet to create the conditions for research excellence. They include the costs of operating and maintaining research facilities, managing the research process from preparation of proposals to accountability and reporting, complying with regulatory and safety requirements, managing intellectual property, and promoting commercialization.

Numerous studies have demonstrated that for Canadian and American universities, these costs are at least 40% of their direct research costs. In the U.S., the median negotiated rate of reimbursement is 52%. In Canada, the overall rate of reimbursement in the federal indirect costs program is about 25%, placing Canadian universities at a significant disadvantage.

AUCC recommends renaming the current indirect costs program as the Canada research competitiveness fund, and supporting it at internationally competitive levels in order to maximize returns on public investments in university research and to derive full value for Canadians. AUCC remains committed to improving the visibility, accountability, and transparency of federal investments in this area.

[*Translation*]

The third challenge relates to the fact that over the next two years, more Canadians will depend on fewer workers. In order to tackle that demographic problem, Canada has to increase its labour force and enhance its productivity. That will mean increasing the educational attainment of the Canadian population as a whole and, in particular, guaranteeing university access to traditionally under-represented groups.

Canadians are increasingly concerned about the fact that the Canada Millennium Scholarship Foundation's mandate will be ending in 2008-2009, given that it now provides needs-based non-repayable student financial assistance of $350 million annually. The AUCC is recommending that the federal government continue to provide students with support that is at least comparable to what is now available, in the form of needs-based non-refundable financial assistance, with a particular focus on improved access to graduate studies for traditionally under-represented groups.

● (1540)

[*English*]

Mr. Chairman, AUCC is currently working on specific proposals to the government for investments in each of these three areas. I'll be pleased to share them with this committee once they're finalized.

Thank you.

The Chair: Thank you very much.

Now we'll move on to the Canadian Dental Association. We have the president, a good Albertan who lives very close to the beautiful riding of Yellowhead.

Dr. Darryl R. Smith, the floor is yours for five minutes. I just had to put that in.

Dr. Darryl Smith (President, Canadian Dental Association): Good afternoon, Mr. Chairman and honourable members. Thank you for inviting me to address you today. I am the current president of the Canadian Dental Association, and I live and practise dentistry in Valleyview, Alberta. If anyone doesn't know where that is, it's in the very northwest part of Alberta.

Traditionally, we submit a written brief in addition to this presentation, which we also intend to do this year. But because of the short notice for our appearance, we'll be submitting it after our appearance before you today. It will contain several recommendations that we feel will improve the oral health of Canadians.

For today, I would like to focus on one recommendation, which Mr. Andrew Jones, who is with me today, spoke to this committee about last year. We are calling it the personal wellness investment fund, and it presents a unique way that financial and tax policies can have an impact on dental health and on health in general. I'd like to start by explaining the context, and then I'll give you a few details about how we would see it working.

Imagine it is the year 2017 and you've just retired from a satisfying career with a large communication company. You are at a dinner, but just as you're taking your first bite you hear a nasty crunch and your 20-year-old dental crown drops into your lap. From your dentist's perspective, it's no problem. We already have the technology to replace a tooth with a dental implant. But you would have a problem even today. According to recent polling data collected by the Canadian Dental Association, you and 73% of your peers do not have a plan for dental care beyond retirement. Even if you happen to be in the 27% of people who have given it some thought, two-thirds of those people are counting on their former employer to continue to offer post-retirement dental coverage. Unfortunately, that benefit has begun to peter out. In 2006 alone, Bell, Sun Life, Sears, Nortel, and Manulife Financial all announced significant cuts to the dental plans they offer employees post-retirement.

Unfortunately, there also is little chance that a public plan will cover you either. According to recent statistics from the Canadian Institute of Health Information, although the proportion of public spending on health care has remained relatively stable, the dental portion has been shrinking steadily to the point that less than 5% of the $9 billion spent on dental care annually is now publicly funded.

In many provinces, this public funding is devoted entirely to children's dental programs, and in many cases there have been cutbacks to these programs as well. Unfortunately for seniors, with the exception of Alberta, which is showing some leadership in this area, only limited public funding goes to maintaining oral health beyond retirement. We also know that Canada is entering a period of accelerated population aging that will see the share of seniors aged 65 and over increase from 13% in 2005 to 23% in 2031.

We have a recommendation that's not a cure-all but would be a step in the right direction. The idea is for the government to create a process that would allow for tax incentives for people to put away funds earmarked for health spending. This would include any legitimate health expenses not covered under provincial health plans—dentistry, of course, but also perhaps prescription drugs, home care, and the like. We have referred to this fund as the personal wellness investment fund.

Our backgrounder lays out a few possibilities on how this fund might work, and details will be included in our brief. Essentially, we see it as an RRSP- or an RESP-like entity. Individuals with a registered fund could make contributions to it during their working years, either out of pre-tax or post-tax dollars, with a government top-up. These funds would remain dedicated for health care spending, presumably post-retirement, in the absence of an applicable insurance plan. Some might say that the fabric is already stretched thin. How are people going to put away for an RRSP, RESP, and a PWIF all at the same time?

As we see it, RESP contributions for most people will occur in the early part of their lives. By contrast, the PWIF would probably appeal more to those whose children have left home and are finished their schooling. So it could work out nicely from both a household spending and government planning perspective. At the time that RESP contributions draw to a close, a similar amount of money could simply be switched to a PWIF contribution.

As I mentioned earlier, CDA has many other thoughts and recommendations aimed at improving the oral health of Canadians. Because time is limited, we decided to speak to you today about just this one aspect. But of course we're happy to discuss any other areas of oral health funding, either today or at a later date.

Thank you.

● (1545)

The Chair: Thank you very much.

Now we have the Certified General Accountants Association of Canada. We have Bob Harvey, who is a member of the tax and fiscal policy committee.

The floor is yours, for five minutes.

Mr. Bob Harvey (Member, Tax and Fiscal Policy Committee, Certified General Accountants Association of Canada): Thank you very much, and good afternoon, Mr. Chairman and honourable members.

Thank you for the opportunity to appear today and to address issues that matter most to Canadians, all built around the theme of prosperity. Our brief contains a four-point plan, which I believe is available on the table, to build a more prosperous and competitive Canada.

My comments today will focus specifically on tax reform and interprovincial trade.

First of all, I'd like to congratulate the government on the recent Speech from the Throne and the economic statement. We are pleased to see that the federal government shares our views relating to tax reductions and improved internal trade.

The recently announced tax relief plan is a welcome departure from the ad hoc targeted tax cuts and special provisions directed to particular groups or sectors, to which Canadians have grown accustomed. This $60 billion plan is long overdue. The government has the fiscal room and can afford to reduce the tax burden on Canadians. Moreover, economists, business leaders, academics, think tanks, and well-respected national organizations have all been calling for lower taxes, including broad-based tax relief, for several years now.

There is consensus. We know that lower personal and corporate income taxes are the key ingredients to more investment, increased productivity, better jobs, and a higher quality of life, so the government's tax relief plan is a step in the right direction. However, CGA-Canada does not believe it goes the distance.

After years of tinkering with tax legislation, we are still left with a system that remains unnecessarily cluttered, complex, inconsistent, and it is not serving its purpose efficiently or effectively. We need tax reform, and we need a panel of experts to do the work, to consult widely in a public forum, to debate the issues, and to offer informed, independent advice to the government. The appointment of an expert panel is the centrepiece of our submission.

An expert panel would be indispensable to improving Canada's taxation and regulatory regime, to developing and advancing Canada's tax advantage in global world markets, to ensuring that national prosperity and economic growth are the end result, and to reshaping our system so that it is fairer, simpler, more efficient, and competitive. Canadians deserve nothing less.

The issue of internal trade has been a longstanding concern to CGA-Canada. We have examined this issue from all angles. We have written policy briefs and spoken to the issue before parliamentary committees. CGAs themselves have used the agreement on internal trade to eliminate certain restrictions such as access to public accounting.

We have reached the following conclusion. In this era of ever-increasing globalization, where Canada's exports totalled $524 billion, representing 36.4% of our gross domestic product in 2006, it is ludicrous that the movement of goods and services across our provincial boundaries still remains a challenge. We are encouraged by the federal government's pledge to play a leadership role in the strengthening of the economic union. We also welcome measures adopted by the Committee on Internal Trade and the Council of the Federation.

CGA-Canada believes all governments must work together to create a fully functioning and effective domestic market, where goods and services move freely. It would be easier and less costly to do business. It would remove obstacles to growing Canadian businesses. It would make our economy more productive and more competitive. In short, it would be of tremendous benefit to all Canadians.

Here is the remedy we propose: establish a set of open trade principles and an internal trade tribunal, and implement panel findings through an enhanced and enforceable dispute resolution mechanism. CGA-Canada has joined forces with several other national organizations to seek improved interprovincial trade. We are anxious to work with the government towards this goal.

To conclude, we wish to urge the committee to consider the recommendations put forth in our submission, namely, appoint a panel of experts to review the tax system so that it is simpler, transparent, and fair, with low internationally competitive tax rates, and to tear down trade and labour barriers within Canada. Other elements of our four-point plan include capitalizing on Canada's knowledge advantage and further supporting small and medium-sized enterprises and entrepreneurs.

● (1550)

We believe our plan is reasonable and achievable and would provide a solid base to build a more prosperous and competitive Canada.

Mr. Chairman, thank you for your time. We welcome any questions the committee might have on these or other recommendations contained in our brief.

The Chair: Thank you very much.

We'll now move on to the Canadian Trucking Alliance, David Bradley, chief executive officer. The floor is yours for five minutes.

Mr. David Bradley (Chief Executive Officer, Canadian Trucking Alliance): Thank you very much, Chairman and members of the committee. I thank you for the time.

In my brief few moments I'll concentrate on two issues: one is a matter of environmental significance; the other is a matter of tax fairness and competitiveness.

We are on the verge of an era of the smog-free truck in Canada. By law, the 2007 model-year engines reduce the emissions of particulate matter by 90%, a precursor of smog that is linked to respiratory disease. In 2010, by law, the other major precursor of smog, NO_x, will be reduced by 95%. I can tell you that it's not too far-fetched to say that the air coming out of the exhaust of the new trucks is cleaner than the air in most of the cities in Canada at the present time.

However, there are some challenges. One, these new engines are much more expensive to purchase, in the order of 7% to 10%, but as importantly—this is an example of the state of the technology—there's a fuel efficiency penalty associated with the new engines. So while we're becoming ultra-clean, at the same time our performance in terms of GHG is being denigrated, and that really is a reflection of the fact that we did not have a broad-based policy going forward when looking at these issues.

We can't, obviously, survive with a reduction in our fuel efficiency, so what has happened in the industry is that they've put off purchasing these new smog-free engines. There was a huge pre-buy in 2006, and we anticipate there'll be another one in 2009, unless something changes.

We can invest in equipment. We must now invest in equipment that's attached to our tractors and to our trailers that will allow us to recoup and enhance our environmental performance. They, too, don't come cheaply.

However, in marrying the two technologies under something we're calling the enviro truck initiative, we can, if only half of the new heavy trucks that are purchased in Canada each year, meet the enviro truck criteria. We would not only see the virtual elimination of smog emissions from heavy trucks in Canada, but we would see fuel efficiency increased on a net basis by 22%, we would save almost 1.5 billion litres of diesel fuel per year from these trucks, and greenhouse gas emissions would be reduced by 4 million tonnes.

This is not a pipe dream. These are real gains that can be made. However, as I indicated, the investment climate present in our industry does not lend itself to it; the cash simply isn't there for us to be able to move in any sort of a concerted way to the new equipment. If this is all about the environment, what we should be seeking to do is to accelerate the penetration of those new vehicles into the marketplace.

We're suggesting that this be done through a program similar to the vehicle efficiency initiative that was introduced in the last budget for light duty fuel-efficient cars, or something similar to the Energy Star program, which has worked extremely well for the appliance sector.

While we're not sure what the cost per tonne is for those other programs, the cost per tonne for our program is somewhere in the order of $55 to $75 per tonne of GHG removed, which we're told is really very attractive compared with some of the other programs I mentioned previously.

The second issue concerns the fact that the government has been talking about the need for the provinces that have yet to harmonize with the GST to take their sales taxes, particularly the sales taxes on business inputs, and harmonize those with the value-added goods and services tax, something with which we agree wholeheartedly.

However, at the same time, the federal government still has some vestiges of its own archaic regressive tax system in the form of excise taxes. I'm particularly speaking of the excise tax on commercial diesel fuel, which was introduced in the mid-1980s for the express purpose of reducing the deficit, or helping out with the government's fiscal imbalance.

While we have an imbalance now, it's the other way, and that tax is not serving any policy purpose other than to generate revenue. We're arguing that if there is an effort to harmonize provincial sales taxes with the GST, this would also be the time to eliminate the regressive excise taxes on commercial diesel fuel and harmonize those as well with the goods and services tax.

● (1555)

Things such as lowering corporate income tax rates and those sorts of things are very helpful, obviously, and certainly in terms of Canada's competitiveness worldwide are helpful. However, in a low-margin industry such as trucking, they are not particularly helpful; we're not generating huge profits.

But to have these sorts of taxes continue to be levied upon our business—and upon the second-largest component of our operating cost—without any concern for profitability is regressive, and we think it's time to make the change.

I thank you for the time. We've submitted our materials previously. I'd be happy to answer any questions you might have.

The Chair: Thank you very much. That was very interesting, indeed.

We'll move on to the David Suzuki Foundation. We have Pierre Sadik, senior policy advisor, a sustainability specialist.

The floor is yours for five minutes.

Mr. Pierre Sadik (Senior Policy Advisor, Sustainability Specialist, David Suzuki Foundation): Thank you, Mr. Chair.

Thank you to the members of the committee for inviting me here today.

The belief that there is a trade-off between the environment and the economy still exists in some quarters, but this belief is in steady decline. Instead, there is a growing realization that our economic prosperity is closely linked to the protection of the environment as well.

We live in a market economy, and whether we like it or not, more and more the economy also determines the quality of the air we breathe and the water we drink.

For example, right now many goods that take a very heavy toll on the planet's climate are produced without any charge for the greenhouse gas emissions associated with the final product. Ultimately, the cost of these emissions is borne not so much by the polluters, but by all Canadians in the form of climate change impacts, including drought, severe weather events, pine beetle infestation, and West Nile virus.

Presently, the economy is often biased in a way that actually makes the environmentally responsible choice more expensive than the unsustainable choice. That's because the true environmental costs of most products are not reflected in the price we pay. This means that every day most of the millions of purchases that Canadians make end up actually harming the environment to a greater or a lesser extent.

No one sets out to harm the environment; no one wakes up in the morning and figures they're going to harm the environment. But people do so because of the limited choices they currently have.

These millions of environmentally harmful choices are driven right now by the market economy. The market is a powerful force.

So why, as an alternative, don't we harness the power of the market instead of trying to change it? It's easier to use the flow of the river than to redirect the river. That way, every time consumers make a choice, they will be making a positive environmental choice as well. We'll have millions of Canadians who feel like environmental champions every day.

One obvious way for us to use the market is to put a price on carbon to help rein in climate change. You and I have to pay $90 a tonne to dump waste at the municipal landfill, but anyone can dump thousands of tonnes of greenhouse gases into the atmosphere without charge, because we have not put a price on carbon.

We hear that a carbon price will take a heavy toll on the Canadian economy. The David Suzuki Foundation recently conducted a study that shows that Canada's greenhouse gas emissions could be reduced by 20% below today's levels by 2020 with a carbon price of $75 a tonne. The National Round Table on the Environment and the Economy conducted a similar study for the government late this summer. Both studies found that the macroeconomic cost—in other words, the GDP impact—of the $75-a-tonne carbon price is that the GDP would be lower by only 1.1% by 2020 than it would be in the absence of a climate change policy.

I think this raises an important question. Is Canada going to forego making a real reduction in greenhouse gas emissions because of a difference of 1.1% in GDP by 2020?

Thank you. Those are my submissions.

● (1600)

The Chair: Thank you very much.

We'll now move on to our last panellist. We have, from SR & ED Tax Credit Coalition, Nathalie Bourque, vice-president of global communications. The floor is yours.

Mrs. Nathalie Bourque (Vice-President, Global Communications, CAE Inc., SR & ED Tax Credit Coalition): Good afternoon.

My name is Nathalie Bourque.

[*Translation*]

I am accompanied today by representatives of Canadian Manufacturers and Exporters and the Information Technology Association of Canada.

[*English*]

I represent a coalition comprised of companies from across Canada, covering virtually every sector of the economy.

[*Translation*]

Those sectors include forest products, information technology, biopharmaceutical companies and the aerospace and defence sector.

[*English*]

The private sector represents half of all R and D dollars spent each year, and our member companies are at the vanguard of some of Canada's proudest business achievements. We're also nation builders through the technologies and the innovations we create that will allow Canada to grow and prosper. We're pleased that the federal government is committed to modernizing Canada's R and D strategy, as demonstrated through the Competition Policy Review Panel, *Advantage Canada*, and the S and T strategy.

Over the last few months, many industries have suffered tremendously. We believe corporate R and D is in need of assistance through Canada's tax system. In order to enable innovation, we're asking the federal government to enhance the SR and ED tax credit by making the tax credit refundable.

The benefits of making the SR and ED tax credit refundable don't end at helping Canadian businesses grow faster in the global economy. Indeed, it is not being the slightest bit alarmist to suggest that many of Canada's corporate innovators who provide high wages and quality employment to hundreds of thousands of skilled Canadians are facing an alignment of forces that is unprecedented in our history, jeopardizing our country's ability to compete.

Consider the marketplace dynamics in which Canada's R and D companies are attempting to compete: low-cost and high-quality foreign labour, high energy prices, complex non-tariff barriers, and the rapid rise of the Canadian dollar. Now add to this mix the fact that some of Canada's global competitors offer lucrative enticements to lure Canadian R and D offshore.

The SR and ED investment tax credit has been the federal government's primary mechanism to stimulate corporate R and D in Canada, but it is underperforming because many companies lack sufficient taxable income to take advantage of the SR and ED tax credits. Companies are accumulating pools of earned but unclaimed tax credits. Consequently, this increases the cost of innovation, creates business uncertainty, and undermines competitiveness. Full refundability for SR and ED tax credits earned in calendar 2007 and onward would eliminate uncertainty and stop the discounting practice of existing R and D performers, stimulating investment in R and D.

Furthermore, since many of the tax credits banked in previous years are on the verge of expiring, we're also asking the federal government to allow companies with banked SR and ED credits to use banked credits first to offset taxes applied in 2007. This practice of using banked credits first should be allowed to continue into the years following 2007, thereby allowing companies to empty pools of earned credits gradually and with minimal impact to the federal treasury.

As innovators, we prefer to speak in terms of opportunities and possibilities. We turn today's dreams into tomorrow's achievements. But before I talk of opportunity, I would like to share with you some facts.

Fiscal 2006 was not a good year for corporate R and D in Canada. Last year, companies invested $11.4 billion in R and D, a decline of 3.8% over the year before. Of the top nine corporate R and D investors in Canada for 2006, six companies reported decreases in their R and D spending. Research intensity, or R and D spending as a percentage of revenue, dropped 6.9%. These numbers should be seen as a warning sign, warranting the federal government's attention.

But let's conclude on a note of optimism.

To highlight the economic opportunities created by the SR and ED tax credit, a group of leading Canadian businesses commissioned an independent study in 2006 that showed that for every $1 billion in additional SR and ED tax credits, we create 10,000 new jobs, $200 million in additional tax revenues are generated, and $675 million in new economic activity and other spinoff advantages are generated.

A recent Department of Finance paper also demonstrated the net economic gains derived from the tax credits extended beyond the performers, trickling to other firms and sectors of the national economy. Spillovers were calculated to be 46¢ per dollar of tax expenditure. The cost of the credit was estimated to be 36¢ per dollar, a gross economic gain of $1.11 for every tax dollar spent.

As Canadian business leaders, we want Canada to become the destination of choice for long-term investment and growth.

● (1605)

[*Translation*]

So, we have a vision: Canada can become a global centre for research and development. We hope that our government will see fit to give us the tools we need, so that we can all say that the brain drain is no longer a factor in this great country.

Thank you, Mr. Chairman.

[*English*]

The Chair: Thank you very much.

Now we'll move to questioning.

We would like to start with Mr. McCallum. The floor is yours for seven minutes.

Hon. John McCallum (Markham—Unionville, Lib.): Thank you, Mr. Chair, and thank you to all the witnesses.

I'd like to begin with Madame Bourque, because for us I think the SR and ED idea is a good one. We have the idea that it's good to create a Canadian economic advantage now that we've lost our currency weakness advantage. The first point would be significantly lower corporate tax rates, and the government followed suit on that in the economic statement.

I notice that Mr. Del Mastro dumped all over our proposal as pandering to Bay Street tycoons, but he may have realigned his view after the government announced they were going in that same direction.

I think SR and ED is also possibly creating an important Canadian advantage, as the place to do R and D is Canada and we have tax advantages. We've traditionally believed we have those advantages over the rest of the world. My question to you is whether these advantages may have been eroding, or maybe that is not the reality. Why do you think it's important for us to move in that direction?

Mrs. Nathalie Bourque: Thank you for the question.

When the program was put together, I think companies were probably making better profits. The program is now 20 to 25 years old. Now we're facing not only a stronger Canadian dollar, but we're facing companies that are doing business in India, China, Brazil, Germany, and France, where research and development costs are much lower than in Canada. I think the program in itself is good. But in order to make sure that Canadian companies have all the incentives to continue to do the R and D here, we have to help them out.

Right now, we, just the 22 companies in the coalition, are sitting on about $2.5 billion of earned but unclaimed tax credits. Between the 22 of us we do $3.5 billion per year of R and D, but we can't continue just to accumulate the tax credits. This is why I think we're losing some of our competitive edge.

Hon. John McCallum: Thank you very much.

Mr. Sadik, I'm interested in whether you could comment briefly on whether the David Suzuki Foundation has a view as to the leading role our Prime Minister played at the Commonwealth conference over the past weekend.

Mr. Pierre Sadik: I haven't formulated an opinion on that. The foundation may put out a press release around that, but I don't have an opinion on that, Mr. McCallum.

Hon. John McCallum: Thank you.

Mr. Harvey, you're a tax expert. On this subject of interest deductibility, we had some discussions in the finance committee. I believe seven experts told us they thought the thing to go after was something called debt dumping rather than something called double dipping. I wonder if you have a view on that issue.

● (1610)

Mr. Bob Harvey: Thank you for the question.

I'm not familiar with debt dumping or double dipping specifically, but I can comment that the deductibility of interest and the rules surrounding it are one of the most extremely frustrating issues we have to deal with.

We would like to see the expert panel that we suggested address this particular issue as well as the many other issues on simplification. And the other issues are actually suggesting the expert panel.... When you're advising a client who asks you, “Is my interest going to be deductible because I've refinanced, I've done this, that, and the other thing”, it's very difficult to give him a solid answer and know that you're absolutely right under those circumstances.

It is an issue, however, that our association would be pleased to address, and we can bring more information to the table.

Hon. John McCallum: Thank you very much.

Ms. Morris, as one who spent more time in university than politics, I certainly have a built-in bias in favour of supporting universities. I know that this government cut several hundred million dollars in funding for both granting councils and the indirect cost of research. It's not obvious to everybody why it's important to Canada to support the indirect cost of research at universities. It's not a particularly politically sexy idea that obviously gets votes, and maybe it doesn't get votes. But can you explain why you think it's important, not just for the universities you represent but for the country, that there be enhanced government support for the indirect cost of research?

Ms. Claire Morris: Thank you for the question.

It is a fundamental part of supporting the research enterprise. We've long argued, and it's in our brief that you would have received late this summer, that this is one of the key components. We have good support to attract talent and we have the infrastructure that is created through the Canada Foundation for Innovation—the direct costs of research—and those indirect costs are the ones that support the environment in which the researchers work. If we're going to be truly competitive, if we're going to attract the best and the brightest researchers and retain them, they need to know they're working in an environment that can support them with those very real costs that I outlined earlier in my statement.

Hon. John McCallum: Thank you.

If you're going to get through to this government on this subject, I think you have to use fairly simple language. So maybe you could explain to us what would be the consequences if there was no support for indirect research. What if the government simply said zero for that? What would happen to the universities, and what would that imply for Canada?

Ms. Claire Morris: What would happen is that researchers looking at where they're going to be able to do their work would begin to look elsewhere very seriously because they would be operating in an environment that didn't support them. The reality is that when the universities don't get fully supported in the indirect costs, they then have to draw from their operating funds and thereby affect the quality of the teaching and the educational process for students. So it's robbing Peter to pay Paul.

It really is such an important part of the whole research endeavour, and when we look at our competitors around the world, they have all recognized the support that's needed.

Hon. John McCallum: I have one last quick question.

The Chair: No, I'm sorry. It's a very complex issue, but your time is gone.

Monsieur Crête, please.

[*Translation*]

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

Mrs. Bourque, it seems to me that your comments are especially timely. Last year, I sat on the Standing Committee on Industry, Science and Technology, which made 22 unanimous recommendations. One of those recommendations was important and dealt with the refundable tax credit. I have tabled a motion proposing that the Standing Committee on Finance pass the tax-related recommendations. It is possible we will be debating that motion tomorrow.

In your brief, you clearly lay out its economic advantages. However, the government is concerned about costs. Could you give us a quick comparison, telling us what would happen if your recommendations were implemented, as opposed to what would happen if they were not?

It seems to me that, fundamentally, we should be seeing this, not as an expenditure, but rather, as an investment. I would be interested in your views in that regard.

● (1615)

Mrs. Nathalie Bourque: Certainly, Mr. Crête. We haven't seen each other for quite some time.

There are two things to be considered. First of all, if we cannot carry on research and development in Canada as we are now, companies that are world leaders, such as Nortel, CAE and a number of others, will lose their advantage and will not be in a position to maintain either their sales globally or all the jobs they now provide in all areas, not just R&D.

Finally, our research and development is very beneficial to many other companies. SECOR, a well-known corporation, was asked to carry out a study. Every investment of $1 billion represents 10,000 jobs that are either gained or maintained. That corresponds to $175 million in economic activity and $200 million more in tax revenues for the federal government. I believe that research and development has very positive spinoffs.

Finally, we provide work to a great many other companies. If I am not mistaken, Nortel was saying today that it affects about 1,000 other companies. In our case, it's approximately 600 companies in the forestry sector that carry out a great deal of research. AbitibiBowater alone spends $200 million a year on research. When it shuts down one of its plants in a town, the entire town shuts down.

It's important that people realize that and understand the economic impact of research and development in Canada.

Mr. Paul Crête: In your brief, you say that this makes companies vulnerable to TOBs. Could you tell us a little bit more about that?

Mrs. Nathalie Bourque: Well, when we're not successful…

Mr. Paul Crête: What is a TOB?

Mrs. Nathalie Bourque: It is a takeover bid, or the purchase of a firm by another firm, which can be either hostile or friendly. When you are sitting on a lot of money and a company can come along and buy you out and take the profits, you have no opportunity to agree.

Supposing CAE were to be bought by a U.S. company which decided that, in future, it would do most of its R&D in the U.S., India, China or somewhere else. The fact that we are unable to cash in those credits brings down our earnings per share, or EPS. Of course, our share price drops on the stock exchange, which has a direct impact. We become a target for a number of companies, and that can quickly have an effect.

Mr. Paul Crête: In your brief, you quote from the Conservative Party's 2006 election platform.

> It is unacceptable that Canada's expenditure on R&D, at 1.9 per cent of GDP, is below other G-8 countries and well below the OECD average of 2.3 per cent.

I gather that what you are recommending would allow Canada to move back into the forefront or, at the very least, reach the average for G-8 countries?

Mrs. Nathalie Bourque: We believe that such a measure would greatly assist us. The people who decide where R&D will be carried out are not laboratory researchers, but rather, boards of directors that have one goal in mind: value for shareholders. So, when they look at this, if they see benefits, they will want to do more.

Mr. Paul Crête: The government has announced general corporate tax cuts. However, in your brief, you say that many businesses do not make enough profit to benefit from tax credits for the research they conduct. If I were a business owner, I would do research for a year or two, but if I were unable to get any money back, I would stop doing it, for lack of money.

I would be interested in hearing your comments.

Mrs. Nathalie Bourque: In our industries, we have to continue to do research. Companies such as Nortel Networks, Abitibi-Consolidated and Kruger have tax credits going back seven, eight or nine years. That is the case for most companies.

However, as I mentioned earlier, we are doing business in highly competitive industries. At the present time, many companies borrow $100 million from the bank to conduct research, pay interest on it, and so on. They then turn to the government and ask, having done that research and benefited from a program, whether they can reap the positive spinoffs they were expecting—in other words, the investment tax credit. However, for all sorts of reasons, there are no profits.

Some industries—forestry, in particular—are having problems these days. That is also the case for the information technology industry, all across the globe. Aerospace and defence are key sectors where enormous sums of money have to be invested. It is extremely difficult at the present time to benefit from tax credits.

● (1620)

Mr. Paul Crête: Mrs. Bourque, does that mean that the general tax cuts alone are not enough to allow the manufacturing sector to ultimately sell products at a competitive price?

Mrs. Nathalie Bourque: They are certainly a step in the right direction, but they are not enough.

Mr. Paul Crête: In closing, I would like to come back to the non-refundable tax credits. Companies have tax credits with their bank that they cannot use, but you have proposed a specific approach, and I would like you to say more about that, because I didn't really understand your proposal.

Mrs. Nathalie Bourque: Madam Clerk, I would like to ask Mr. Peter Look, from Nortel, to answer that question, if you don't mind.

[*English*]

The Chair: Be very quick. We only have 15 seconds.

Mr. Peter Look (Vice-President, Tax, Nortel, SR & ED Tax Credit Coalition): Thank you.

Our proposal is to take the historic pool of tax credits and allow companies to earn them off, so that over time the rules will not change and the companies will stay in Canada, become profitable, and ultimately benefit from the past.

The proposal is to make the prospective R and D credits refundable. In a fashion, that would provide an incentive for current R and D to be done in Canada, and jobs will remain. That's very succinct.

The Chair: Thank you very much.

We'll now move to Mr. Dykstra for seven minutes.

Mr. Rick Dykstra (St. Catharines, CPC): I have a number of questions. We have a very good panel here today.

Ms. Bourque, you've had a lot of TV time today so I'll go quickly.

I don't think there's any argument that the SR and ED tax credit moving forward would be a positive thing for industry and business. We're talking about a potential $8 billion investment over five years.

I would like to think that based on the fact that the finance minister has put a group together to study it and come back with some recommendations, moving forward without making sure you have the proper plan would not be a wise thing for the government to do.

Mrs. Nathalie Bourque: I would think the finance department is also looking at this very closely. We are in contact with them.

You also have to remember that all the money put in R and D is also touching universities and all sorts of other programs.

Peter, you might—

Mr. Rick Dykstra: No, that's fine. That's great, thanks.

I just want a bit of acknowledgement there in regard to the fact that we need to move forward to make sure we do the right thing, because we're talking about billions and billions of dollars. I appreciate that.

Moving over to Ms. Morris, I do have to say, I don't recall your mentioning anything about what was in the 2007 budget that identified a number of requests. Numerous student, university, and university teachers' organizations requested in the last budget that they should be there.

I'd like to think we made a pretty darned good first step, in fact probably the biggest step in terms of investment in university and colleges that a government has ever made in one fiscal year: $800 million, beginning in 2008-09, for provinces and territories to strengthen the quality and competitiveness of education; $35 million over two years for scholarships that didn't exist before in health-related studies.

I will just move on: $510 million to the Canada Foundation for Innovation; a $120 million investment to CANARIE Inc.; $10 million over two years to the Canadian Institute for Advanced Research, to help Canadian students in research to participate in leading, ground-breaking research on the international stage.

It goes on: $85 million per year for the federal granting councils; an additional $15 million per year to cover indirect costs of research.

I can continue, because I'm not even halfway through. The investment the government has made in universities and colleges certainly has to be seen as a positive step; it is finally being recognized after the gutting that universities and colleges took in 1994-95.

Ms. Claire Morris: Thank you.

If you were to look at the press release we issued the night of the budget announcements, and many utterances after that, you would see that we did recognize the investments that were made and deeply appreciated them.

In coming to the committee today, we were asked to address the following: what are some of the challenges the country faces as we look ahead, particularly to sustaining a robust tax base? Our presentation today and the brief you would have received this summer are very much oriented to the future.

Again, I'm happy to send you our comments on the S and T strategy and on the 2007 budget, because we were very appreciative of the gestures that were made.

● (1625)

Mr. Rick Dykstra: I appreciate that. I actually did have a chance to read the presentation you sent in the summer and also the press release. I just wanted to make sure to get it on the record here.

Mr. McCallum perhaps wants to play a little politics here and suggest we're not focused on universities. I didn't want him to use you as a pawn to do that. So I appreciate that.

Mr. Bradley, I appreciate the presentation you made. This is a pretty good description of the direction the industry wants to take and the difficulties you face.

One of the things I see that could potentially be helpful to us as a committee—I know it was last year—is that whenever we had organizations make presentations to us, they often would talk about, well, if you were to implement this strategy in full, this is how much it would cost; therefore it may take multi-year funding to do so.

One thing that would be appreciated, if you do have it, or if you don't have it today.... If we were to take some first steps in this direction, what types of numbers would we be talking about with respect to finance and the type of percentage impact that would have in terms of removing greenhouse gases off the road?

Mr. David Bradley: I have a chart that was handed around that in fact does that. It's a little bit complex, because we're looking at a variety of technologies, and it's how you package them together.

I will say this to start. First, if we're going to see a program, for us a prompt launch is more important than the duration of the program. We've got a very definitive date coming up with the 2010 model-year engines, and we would want to avoid a pre-buy situation in 2009. The paper I gave you suggests that it depends on what percentage the federal government was prepared to invest. For example, for a simple package that would have the smog-free truck plus two or three of the fuel efficiency measures, we're looking at a Government of Canada investment at, say, 15% of about $56 million, compared to an industry investment of $320 million. I give some other examples at 20% and 100%.

Probably the best practical example is that initially there was a similar program for auxiliary power units in the trucking industry. These are electronic units that keep the engine running, as opposed to diesel. You use those to prevent idling and those sorts of things. There the federal government invested 17% of the cost, compared to the industry's 83%, and that was enormously successful.

As for us, we know that billions of dollars aren't going to drop from the sky. We have to replace our equipment at some point anyway, and we do have a vested interest in improving our fuel efficiency; what we're talking about is accelerating that investment. I think the government can do that with a rather modest investment that will see significant returns in terms of GHG reduction.

The Chair: Thank you.

Go ahead, Monsieur Mulcair.

[*Translation*]

Mr. Thomas Mulcair (Outremont, NDP): Thank you, Mr. Chairman.

First of all, I'd like Mr. Harvey to give us more details. I agree with him: harmonization of the rules governing the profession and the free movement of services are things we don't think about often enough. The Treaty of Rome, which was the basis for what, at the time, was called the European Economic Community, provided for the free movement of services. That is one of the ways the Europe of today was built.

So, what effort was being made by the profession to be given the right to practice general or public accounting in all the provinces? Is the CGA title the same all across the country, and does it still correspond to the title “comptable général licencié” [Certified General Accountant] in Quebec?

[*English*]

Mr. Bob Harvey: I would like to request that my assistant, Carole Presseault, who is our vice-president of government and regulatory affairs, address this particular issue.

[*Translation*]

Mr. Thomas Mulcair: Thank you.

Ms. Carole Presseault (Vice-President, Government and Regulatory Affairs, Certified General Accountants Association of Canada): Thank you, Mr. Mulcair, for your question. I will start with your second question.

The title in Quebec—and Mr. Pacetti can confirm this—is still “comptable général licencié” [Certified General Accountant]. As part of the festivities surrounding the 100th anniversary of the CGA title in Quebec and Canada, the Ordre des CGA du Québec is currently in the process of changing the name, but that work is not yet completed. In English, it is: Certified General Accountant.

As regards the right to practice general accounting, there were two exceptions in Canada. Ontario and Quebec have always restricted the practice of general accounting. In Ontario, a legislative framework is about to be adopted. Two weeks ago, legislation was tabled in the National Assembly to provide full access to general accounting to individuals with the CGA or CMA designation in Quebec.

The fact remains, however, that CGAs in Quebec had certain rights with respect to practising general accounting—for example, for non-profit organizations or public sector corporations, such as municipalities. The problem has still not been resolved in terms of the interprovincial trade agreement, but it is our hope that legislation has already been tabled in the National Assembly to that end.

● (1630)

Mr. Thomas Mulcair: Thank you. So, you can do general accounting for the City of Montreal, but you cannot do it for a fast-food stand in an arena.

Ms. Carole Presseault: For the cities of Sherbrooke, Quebec and Montreal, there is a different legislative framework. As you can see, it is very difficult for consumers to figure all of this out. We are very interested, particularly because…

Mr. Thomas Mulcair: I was responsible for this file for years in Quebec, as President of the Office des professions du Québec, and I do think it's high time we let the market decide these things.

Now, I would like to address a question to Mr. Sadik, of the David Suzuki Foundation. What you have described is an example of cost internalization, a major principle of sustainable development. Do you not think that the problem in Ottawa is the fact that, rather than having a law which applies to all the departments as regards sustainable development, every department is responsible for developing its own sustainable development plan?

Ms. Brundtland always said that a commitment has to be made at the most senior levels of government, and that a sustainable development strategy and principles are needed that will apply to the public administration as a whole. In Ottawa, however, each department is free to do what it likes. Consequently, we have trouble relating to those principles, for lack of a reflex to apply them. Is that not part of the challenge we are facing?

[*English*]

Mr. Pierre Sadik: Yes, Mr. Mulcair, the absence of a common sustainable development strategy nationally is an impediment to making progress on a number of environmental fronts. Canada promised at an international forum in Rio de Janeiro in 1992, and at the World Summit on Sustainable Development in 2002, in Johannesburg, South Africa, and on several other occasions to introduce a national sustainable development strategy. By strategy, I mean a legislative framework—ideally for sound environmental governance. From that would flow a host of environmental benefits, because the environment, as it's trite to say, knows no borders. A host of environmental benefits could flow across the country and be coordinated. That's certainly something in the way of a policy that's been long overdue and long promised in this country.

[*Translation*]

Mr. Thomas Mulcair: Do I have any time left, Mr. Chairman?

[*English*]

The Chair: A minute and a half.

[*Translation*]

Mr. Thomas Mulcair: Mr. Bradley, you are taking wonderful initiatives. For people who know anything about congestion on the Island of Montreal, the vagaries of geography are such that there is not one 18-wheel from Ontario or the West en route to Quebec or the Maritimes that does not pass directly through the Island of Montreal, either on Highway 40 or Highway 20. We are beginning to understand what urban smog is all about. So, yours is an interesting solution.

Also, to be fair, isn't the fact that the federal government removed certain rail transportation subsidies over the same period part of the problem? The fact is, it is much less polluting to move the same goods by cabotage—for example, on the St. Lawrence or by rail.

Do you agree that we should look at these other things, particularly the possibility of reducing smog, which is effectively produced by diesel trucks?

[*English*]

Mr. David Bradley: No, I would categorically reject that for a couple of reasons.

One, you talked about the fact that this has somehow been caused by a loss of subsidies. The fact of the matter is that rail, for what it does, is probably about 15% cheaper than trucking now. So it's not a price issue, or an issue of subsidizing the price, but a service issue. The railways are simply not equipped to be able to provide door-to-door, flexible service the way trucks do.

The other thing I reject is the notion of these diesel trucks.... Trucking is the only freight transportation mode whose emissions from fuel are regulated. Part and parcel of the new smog-free truck was that in November of 2006 we went to a new ultra-low-sulphur diesel fuel, with five parts per million. If you compare that with railway diesel fuel, the latter is extremely dirty.

Because of what the railways do, hauling bulky products over—

● (1635)

The Chair: You have to wind up, as we're very, very tight for time.

Mr. David Bradley: —long distances, they're able to say, oh, aren't we great on GHG. But they're spewing more bad stuff into the air.

The Chair: Thank you very much.

Mr. Pacetti, you have five minutes.

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

I just want a quick answer. I'm going try to ask a cross-question of Mr. Sadik.

What do you think about the proposal from the trucking alliance on the enviro truck? You have a little bit of expertise in this field. What's your opinion of this?

Mr. Pierre Sadik: From what I've heard here today, it sounds quite useful and as though it would be quite helpful. I'm very pleased with the criteria for contaminants that Mr. Bradley was talking about, the reduction of NO_x and of the particulate matter.

The give and take between rail and truck is going to continue to exist for the next little while. In the meantime, we ought to clean up trucks further and reduce the greenhouse gas emissions from trucks.

Mr. Massimo Pacetti: Just because I saw you nodding, and my time is limited, I'm wondering why you wouldn't work more closely —you spoke about the environment affecting the economy and the reliance on it—with some of the groups like the trucking alliance. Would that make more sense? Some of the presentations would.... It would be easier for us to help make recommendations to the government.

Mr. Pierre Sadik: I'm setting out why we think putting a price on carbon is important for reducing our greenhouse gas emissions. By the same token, we heard Mr. Bradley today say that he'd like to remove a tax from diesel. So to some extent, we don't see eye to eye on all issues.

But on those issues—

Mr. Massimo Pacetti: You have helped us. That's what my point is as well. You have the expertise; we don't necessarily have the expertise, and because we have the various groups, it's tougher for us.

I thank you for your presentation.

Mr. Pierre Sadik: I take your point.

Mr. Massimo Pacetti: Thank you.

Mr. Bradley, is the accelerated CCA that was in the last budget going to help your industry?

Mr. David Bradley: No, not at all, because our equipment was left out, which is so often the case. Although we're a key part of the supply chain in the manufacturing process, we don't get the same sort of accelerated capital cost allowances that other sectors get. In fact, our capital cost allowance allows us to write off a truck in about twice the time it would take in the United States, for example.

Mr. Massimo Pacetti: Is the rise in the Canadian dollar affecting your business?

Mr. David Bradley: Oh, absolutely.

Mr. Massimo Pacetti: I hadn't heard you say that.

Mr. David Bradley: No, I only had five minutes. I'd love to be able to talk about that at some point.

We are a reflection and a microcosm of the economy, and we have an unbelievable situation. While we've seen traffic levels decline as the amount of manufactured goods from Canada to the United States declines, we get bigger lineups at the border. We can talk about that for hours.

Mr. Massimo Pacetti: Great. Thank you.

[*Translation*]

Mrs. Bourque, I have two quick questions.

How much would it cost for all R&D costs to be refunded to all the companies that applied?

Last year, officials with the Department of Finance who appeared before us told us they do not want to refund R&D costs—the R&D credits—particularly for companies, because they are afraid those companies will take the money, but not invest it in creating new jobs or developing new products.

Mrs. Nathalie Bourque: I am going to ask Peter to respond.

[*English*]

Mr. Peter Look: Thank you very much.

First of all, with respect to taking the R and D refundability and moving out of the country, under the proposal we're talking about, that will not happen. That's because the historical amounts will just be earned off as companies become profitable here in Canada.

Secondly, with respect to refundability, the R and D credit is focused solely on performing R and D in Canada. So that part, I believe, is addressed.

In terms of the cost, I understand that through the halls of Parliament an $8 billion number has been floated around. I would really like to correct that. In the last consultation paper, some statistics were given out. I would say that the number per year, even if it were fully refundable on a prospective basis, does not approach that.

It may be that when they started talking about the $8 billion, it had to do with refundability of the historical credits, concerning which we have taken a different path to help this proposal for the betterment of Canada.

● (1640)

Mr. Massimo Pacetti: Thank you.

Thank you, Mr. Chairman.

The Chair: Thank you very much.

Monsieur St-Cyr, you have five minutes.

[*Translation*]

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

I would like to pursue the same line of questioning with respect to refunds. I don't know whether Mrs. Bourque or her colleague would like to answer.

I believe this is something that needs to be seen from a long-term perspective. Basically, the unused credits are future tax losses. For example, if we refund future tax expenditures, as the Bloc Québécois has long proposed, we are really only changing the timing of a tax expenditure, that would be used by the company once it became profitable, when, in fact, it needs that money now.

So, when the government refuses to immediately refund R&D tax credits, supposedly because it will cost too much, it is relying on the fact that these companies will never turn a profit or will necessarily fail, and thus will never be in a position to claim the credits.

So, should we be taking a long-term approach to this and determine subsequently what this approach is actually costing?

[*English*]

Mr. Peter Look: Thank you very much for that very good question.

Yes, what you're raising is, in effect, the timing of the benefits. Most R and D performers are competing in a global economy, and what's really happening here is it's a competition of Canada versus India and China. Those decisions are driven, in effect, by cash. So it's a cashflow-driven model that drives many of these decisions, and waiting for the opportunity of three years down the road, five years down the road, or ten years down the road before an appropriate incentive comes up when another country may actually offer that type of opportunity today is I think a detriment to Canada.

The second part is that this is really an opportunity play for Canada. By incentivizing these jobs to stay in Canada, it is for the good of the country. One of the things that is very important to remember here is that if it ends up being good for the country and you can prove that dynamic, it's probably pretty good to spend $8 billion, because that is a rich country's problem, right?

So as an overall incentive, we can't look at just the costs, we need to look at the benefits. We are talking about retaining high-value jobs that have a multiplier effect, that also spawn other industries.

[*Translation*]

Mr. Thierry St-Cyr: I have a question for Mr. Bradley.

You provided us with a fact sheet showing annual savings associated with reducing greenhouse gases under different initiatives. I added up all the numbers, and I arrive at 48 tons. However, according to your presentation, the smog-free 2007 engine uses more fuel.

What does that represent on a yearly basis, in relation to the potential savings that could be had through the other measures you mentioned?

[*English*]

Mr. David Bradley: The next round of technological advancement in the heavy truck engine will be in 2010, and while it's a little early to tell at this point, the indication we've received from the manufacturers to date is that we can anticipate that there will be some further slippage in order to meet the smog reduction target in our fuel efficiency.

● (1645)

[*Translation*]

Mr. Thierry St-Cyr: On your chart, there is a section entitled: “Reducing GHG” and a whole series of figures. The total adds up to 48 tons. With respect to the 2007 engine, you say that it is basically smog-free. At the same time, you're saying that it uses a bit more energy and is a little less energy-efficient.

What does that correspond to in terms of tons per year? If we consider the “pluses” and the “minuses”, to what extent does the vehicle reduce overall greenhouse gas emissions?

[*English*]

Mr. David Bradley: The smog-free truck engine that eliminates NO_x and particulate matter does not reduce greenhouse gases. That's why you have to have this combination of other technologies and devices.

[*Translation*]

Mr. Thierry St-Cyr: So, it doesn't reduce them…

[*English*]

The Chair: I'm sorry, the time is gone, so we'll move along. Maybe you'll get some more questions along that line.

Mr. Del Mastro, you have five minutes.

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

I want to ask some questions of Mr. Harvey.

To begin with, I'm glad to hear that the CGAs are positive on the economic statement. I did in fact read the release that was produced by the CGAs following the October 30 economic statement.

But I wanted to ask specifically about an issue you raised—and by the way, I agree that we do need a comprehensive study on the way we collect taxes in this country. I think that was the original goal of the finance committee. We did get a little bit sidetracked, and we talked about the dollar, but that really was what the committee wanted to talk about in its pre-budget....

We have a number of barriers to trade within Canada, domestic trade barriers. You mentioned that. I wonder if you might make some comments on the TILMA, the trade, investment, and labour mobility agreement between Alberta and B.C., and talk about how an agreement like that might benefit Canada as a whole.

Mr. Bob Harvey: Thank you very much.

Again, I'm not an expert on the TILMA. I'm happy to be residing in British Columbia, next door to Alberta, so I have, of course, heard some of the information about this particular agreement. I believe it came into effect four and a half months ago.

On a day-to-day basis, we don't see very many results, but we are very happy that our two provinces have undertaken these steps and they are working towards freer trade between our two provinces. It does create a much larger economic union between the two of us.

We were also pleased, of course, to hear the announcement yesterday from Ontario and Quebec. It was very interesting to us that both premiers suggested that they need the federal government's help in order to make their negotiations on free trade between their two provinces effective.

Mr. Dean Del Mastro: Very briefly, does it make any sense that trade is freer north-south than it is east-west?

Mr. Bob Harvey: It needs to be free in both directions.

Mr. Dean Del Mastro: I couldn't agree more.

The second question I want to ask you relates to some of the tax implications that we have in the province of Ontario, and certainly in the province of Quebec, and I'm not certain, but I believe in B.C. as well, which is a system that actually taxes investment—for example, investment into capital equipment, trucks—where a company would have to pay the PST to actually buy that capital equipment, rather than taxing the production from that equipment. So I want to ask you about a harmonized sales tax and whether the CGAs have a position on HST.

Mr. Bob Harvey: Thank you for the question.

In British Columbia, we have a provincial sales tax similar to some of the other provinces. There are no input tax credits, so it is an upfront tax that is an impediment to investment. There is absolutely no doubt about it.

Our committee has not specifically addressed this issue. However, speaking personally, harmonization of GST with PST, in British Columbia anyway, would carry a tremendous number of advantages for individuals like my clients and I who are in small business. By harmonizing the tax base to begin with, it would be much easier for us to deal with, so I believe we would certainly support that.

● (1650)

Mr. Dean Del Mastro: Okay.

I have a question for Mr. Sadik as well.

Mr. Sadik, there was mention earlier of removing excise taxes on fuels that were put in place to eliminate a deficit. The rail association has also spoken to me personally about an excise tax they pay, which is actually a road tax, that they don't feel they should be paying. How would the environmental community react if we were to remove excise taxes on fuel?

Mr. Pierre Sadik: We wouldn't have a problem with the removal of excise taxes that were initially earmarked for deficit reduction, but we would suggest that in order to protect the environment and the health of Canadians, a carbon content tax be reintroduced on fuels, tied to the level of carbon in the fuel as it's combusted.

Mr. Dean Del Mastro: So you wouldn't be supportive of the overall tax levy on fuels being reduced, thereby making fuel cheaper.

Mr. Pierre Sadik: We feel that the tax ought to be designed with environmental protection in mind.

The Chair: Thank you very much.

Mr. Turner, you have five minutes.

Hon. Garth Turner (Halton, Lib.): Thank you very much.

My question is for our friends at the CGA. In the brief, I noticed you mentioned that in Budget 2007 there was a golden opportunity to further reduce personal taxes. I'm wondering if you could elaborate on what opportunity was actually missed.

Mr. Bob Harvey: Thank you very much.

First and foremost, there were no reductions made for the higher-income earning Canadians, those over $100,000 and up to $200,000 and so on. There is a serious problem in the country of losing these skilled workers to other countries, simply because we don't have competitive tax rates at that level.

At that level our tax rates are higher than many other countries in the G-7 and in the group of developed countries with which we compete. We think that was the main area where we might have missed the boat.

Hon. Garth Turner: All right.

In the subsequent economic statement that was recently tabled the minister brought the GST down by another point. What's your comment on that? He didn't touch basic income tax. Well, he did take the income tax rate down to where it was two years ago, but he didn't make any absolute cuts in that; he cut the GST. Does that accomplish what you want, or are we still missing the boat?

Mr. Bob Harvey: What we want is for an expert panel to review all of these issues.

I will admit that our tax and fiscal policy committee discussed the issues of a drop in GST versus a drop in income taxes and we couldn't reach a consensus. I think that probably reflects the country as a whole.

We're suggesting an expert panel on taxation, simply because we need the input from all sectors of our economy to consider these issues and to see which is most beneficial.

Hon. Garth Turner: The government has rejigged the tax code in its budgets of 2006 and 2007. It has brought in additional tax credits. Some experts believe it has complicated the tax code, actually made compliance more difficult, because of the use of small tax credits. Do you have an opinion on that?

Mr. Bob Harvey: I certainly do. And I'm glad I'm sitting next to Dr. Smith in case my dentures fall out during my answer here.

There's no doubt that these various different adjustments and tax credits and rate differentials, depending on the date of purchase of certain assets, all of these things designed at one point in time perhaps to encourage a certain sector of the economy or to close a loophole, have added tremendous complexity to the act.

It's a very frustrating thing for us to not know if there is some obscure provision that was introduced to one of the 5,000 pages of tax legislation that we have to deal with, that may put the particular transaction we're dealing with offside, even though it's a simple one. It's very, very hard to know whether that's going to happen.

Hon. Garth Turner: So the tax code is actually made more complicated by the last two budgets.

Mr. Bob Harvey: Absolutely.

Hon. Garth Turner: And that's not a good thing.

Mr. Bob Harvey: That is not a good thing from our perspective, nor from the perspective of the average taxpayer across this country.

Hon. Garth Turner: What are some of the implications of that? Is this hurting productivity or competitiveness? Are there economic consequences?

● (1655)

Mr. Bob Harvey: There are certainly economic consequences. Whenever you have a very complicated income tax system, first of all, you encourage non-compliance, and that could be intentional non-compliance, which of course is the underground economy. We're likely losing millions and millions of dollars a year in tax revenues because of that underground economy, partially because the system is so complicated.

In addition, there is a huge frustration for taxpayers who are hit with reassessments from unintentional non-compliance, and that also occurs frequently. So there is definitely a cost to our economy.

Hon. Garth Turner: Thank you very much.

So increasing non-compliance costing millions of dollars is frustrating taxpayers—

The Chair: No, I'm sorry, your time is—

Hon. Garth Turner: I'm only trying to summarize. That was so good. Thank you.

The Chair: No, your time is gone. Thank you very much.

Mr. Wallace, you have five minutes.

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

I'll be brief. I have a question for Dr. Smith on the dental piece. Some of your colleagues came to see me yesterday to talk about the opportunity for a deferral—I don't like the wording of it—the PWIF, but a deferral program. There was a little bit of confusion.

Does your organization expect that the individual paying into it would never pay tax on that money, or would it be like a regular RRSP where, once you take it out, then you pay tax on it, assuming you're in a lower tax bracket?

Dr. Darryl Smith: There are basically two formats you could use. One is, of course, the format of the registered education savings plan; in this case, taxable dollars go into the plan and then come out to your children later on at a reduced rate. The other one, the RRSP, is an up-front saving versus down the road when you have reduced income. There are several formats it could be placed into. It would involve structuring one that recognized government's responsibility in long-term planning as well.

Mr. Mike Wallace: In your delegation today you mentioned a government top-up, which I hadn't heard about yesterday. Are you expecting the Government of Canada to add cash to these funds?

Dr. Darryl Smith: That's one possibility. Protecting the interest that would be earned within the plan would be one way the government could forgo taxes on that money during the time it was within the plan. That, in a sense, would be a potential top-up.

Mr. Mike Wallace: Do you mean guaranteeing the interest that would be paid?

Dr. Darryl Smith: Well, it's not guaranteeing the interest, but the interest would be protected while it was in the plan and would not be taxable.

Mr. Mike Wallace: My second question is for Ms. Morris from the Association of Universities and Colleges of Canada. Keep a job open for my friend over there in case he loses this one.

I have been thinking about a question since I got here: what do you do in terms of an offer to an international student to come here to do grad work? On occasion they don't get a visa to come here. What are the pre-qualifications, other than education? Is any work done by the universities to make sure the individual can actually come here? What is the process, or is it strictly based on their undergraduate work somewhere else?

Ms. Claire Morris: Thank you. That's a really good question.

One of our challenges has been that when we talk about attracting the best and the brightest international students, we've always argued that three things have to work together simultaneously: first, there has to be a good understanding of what Canadian universities have to offer, so there is some branding and promotion; second, as we recognize with the money invested last year to begin work on that branding and promotion of Canadian universities, there has to be a scholarship program for international students, again the best and the brightest, because other countries are doing the same; third, there have to be immigration policies to support bringing those students here.

When the universities are admitting students for graduate work, obviously they are looking primarily at their academic work, their academic standing, and their ability to take on that program. It's very frustrating when the immigration policies work at counter-purposes, if you will. We have instances of students who weren't prepared to confirm that they planned to return to their home countries; that can be cited as a cause for refusing their entry or for not allowing them to bring their spouses. It's important to have it work together.

● (1700)

Mr. Mike Wallace: I want to follow up on that comment.

If we changed immigration policy so that.... If we educate somebody with a master's degree or a PhD, and they decide not to go back to their country and want to spend their career in Canada, I don't see that as a problem, but from an immigration perspective sometimes we do.

Does your organization have a position on what we should do in that case? Have you taken a position that if somebody who comes here for an education wishes to stay, we should make an effort to make that happen? Does your organization take any position to that effect?

Ms. Claire Morris: Yes. We've always argued that if an international student chooses to stay in Canada, that is a benefit to Canada, but if they choose to return home, they take with them all those Canadian connections they made while they were here, and that's equally an advantage to Canada.

We're very aware of the sensitivities around developing countries sending their best and their brightest and not having them go back home to contribute. At the moment it breaks down into one-thirds: those who stay in the country and make their careers, those who go home, and those who go elsewhere. They're a very important pool of talent for our country, and the competition is remarkable around the world.

The Chair: Thank you very much.

Thank you to the witnesses for coming, and for the questions. It was very entertaining and informative.

We will pause now for five minutes as we bring our next panellists forward.

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(Pause)

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● (1705)

The Chair: We'll call the meeting back to order. We have most of our witnesses taking their seats and members are making their way back.

We will start this round of panellists with the Association of Fundraising Professionals, Susan Mullin, vice-president of development.

The floor is yours for five minutes.

Ms. Susan Mullin (Vice-President of Development, Association of Fundraising Professionals): Thank you very much. Good evening. On behalf of the Association of Fundraising Professionals, or AFP, I want to thank the Standing Committee on Finance for allowing us to speak today during the pre-budget consultations and follow up our submission of August 15. We want to thank the committee as well for its support of the elimination of capital gains tax on gifts of securities to charity and for extending that charitable-giving incentive to private foundations in the 2008 budget. We're grateful for that leadership.

Just to give you some quick background, AFP is the largest community of fundraisers in the world, representing more than 29,000 individuals internationally and nearly 3,000 across Canada, with a network of 16 active chapters. Our sector represents education, health care training, social services—everything that really strengthens our society and creates a favourable environment for business in fact. The non-profit sector comprises more than 160,000 organizations, of which approximately 80,000 are registered charities with more than $100 billion in annual revenue.

These organizations are devoted to strengthening factors such as workforce infrastructure and cultural initiatives, on which our country's economic future is based and which make our communities healthy and vibrant for all. Proposals that increase the capacity of charities to provide these programs are critical, and gifts of stock to charity are now completely exempt from the capital gains tax, but stock is just one of the two most common ways Canadians have and accumulate wealth. The other is land and real estate.

I should say that I'm here with my volunteer hat on, which is as chair of the Association of Fundraising Professionals, Canadian government relations committee, but it's from my day job as vice-president, development, at York University Foundation in Toronto that I can speak from personal experience. The impact of the change on capital gains tax for securities has been significant. We have seen more than a doubling in a year of our gifts of securities to York University. Many other organizations are seeing this same growth, not only in number but across all levels, from $2,000 up to $2 million, quite literally, in a year.

We also have donors, though, asking about gifts of land and wanting to explore that opportunity. In some cases, it's related to research that could take place at York, and therefore it would be land that York would hold onto, but in other cases, it's simply that donors wish to consider a gift from assets rather than income.

So the very same kinds of principles and incentives involved in gifts of securities apply to gifts of land and real estate, and unfortunately, the same kinds of barriers and obstacles that used to apply to gifts of securities still apply to gifts of land and real estate. Given the evidence from our experience with gifts of securities, AFP does not believe that any trial period is needed for eliminating the capital gains tax on gifts of land and real estate to charitable organizations. The ecological gifts program, under which gifts of ecologically sensitive land are donated to the government or a charity and are exempt from capital gains tax, provides a model that could be expanded to any land given to any type of charity, subject of course to proper valuation.

Really, that is our key recommendation, and we welcome comments and questions.

● (1710)

The Chair: Thank you very much.

We'll now move on to the Canadian Association of Income Funds, Margaret Lefebvre, executive director.

You have five minutes.

Mrs. Margaret Lefebvre (Executive Director, Canadian Association of Income Funds): Thank you very much. The Canadian Association of Income Funds has been before this committee on several occasions in the last year, and we're glad to be here again regarding the income trust policy announced on October 31, 2006.

Bill C-52, the first Budget 2007 implementation bill, which contained the income trust legislation, did not in fact address significant implementation issues that require immediate attention. It is to address these issues that we appear before you today.

However, the committee should also be aware that the damaging consequences of the government's actions continue. Since October 31, 2006, there have been more than 42 transactions that involved the selling, merging, or acquisition of income trusts with an enterprise value in excess of $31 billion. The majority of these transactions by dollar value involved foreign buyers of Canadian assets. Most have gone into the hands of private equity and pension funds. Virtually all of these entities will pay little or no tax to either to the federal or provincial governments.

In addition, ordinary Canadians are frozen out of participating in the potential investment benefits of not only our own natural resources but also a diverse and entrepreneurial business trust sector. Many small and medium-sized Canadian businesses have had their access to capital severely impaired. This makes them vulnerable to takeover and leaves them powerless to compete.

At best, the estimates of tax leakage at the time this bill was put forward were $500 million at the federal level and potentially $300 million at the provincial level. Together that makes $800 million. In 2006, the trust distributions from the sector totalled $16 billion. To recover totally would have required a tax rate of no more than 5%; instead we are faced with 31.5%.

Let me now turn to our technical recommendations. The following sets out some of the issues and deficiencies, although this list is not intended to be exhaustive.

No certainty or legal clarity has been given in the legislation for the transition period in the guidelines issued December 15. This clarity is urgently needed in some form, whether through the release of further policy guidance or another mechanism available to the government.

For example, under the existing guidelines, it is not clear whether issuing equity to replace debt—convertible or not—that was outstanding as of October 31, 2006, will be considered growth for the purposes of the guidelines, and whether equity issued to replace outstanding lower-tier debt will be excluded from the growth in equity capital.

In many circumstances, a trust has borrowings and lower-tier entities in which it has a direct or indirect interest, and such debt should be considered the same as replacement of the debt of the trust.

Also, no legislative framework was included in the legislation to facilitate conversion back to corporate status on a tax-deferred basis, similar to other tax-deferred rollover rules that already appear in the tax act.

By opposing the high level of statutory corporate tax rates on trusts, and especially on the distributions, the government has clearly signalled the elimination of the trust sector. There was no legislative mechanism in the bill to eliminate the remaining trust vehicle in a tax efficient manner after conversion to a corporation.

Such rules are necessary to remove uncertainty and provide an orderly transition. Furthermore, the trust rules have such breadth of application as to bring within their ambit non-publicly traded units under certain circumstances, which surely could not have been the intent.

This matter has been brought to the attention of the Department of Finance by this association, a host of income trusts, and the joint committee of the CICA and the Canadian Bar. We urge this committee to move quickly on recommendations to rectify these issues so the businesses can make informed decisions during the transition period.

We welcome the direction of the reduction in the corporate tax rate in the economic statement. Within this paradigm we are anxious to sit down with the government and find an appropriate resolution to the damaging consequences outlined today within the government's stated corporate tax policy. CAIF is ready to sit down with the finance department as soon as possible.

Thank you.

● (1715)

The Chair: Thank you very much.

Now we'll move on to the Canadian Booksellers Association, and Chris Tabor, manager of the Queen's University bookstore.

Mr. Chris Tabor (Manager, Queen's University Bookstore, Canadian Booksellers Association): Thank you.

Good afternoon. My name is Chris Tabor, and I'm here as a representative of the Canadian Booksellers Association, the CBA. I'm also the director of the Queen's University campus bookstore and an active member and spokesperson for Campus Stores Canada, representing over 100 campus stores in the country.

Thank you, members of the finance committee, for giving me a chance to speak today.

CBA is a national trade association representing close to 1,000 booksellers from coast to coast. CBA active members include trade, campus, chain, specialty, used, and antiquarian booksellers. CBA booksellers are located in all provinces and territories and all communities, large and small, from Victoria to St. John's and from Iqaluit to Halifax.

The CBA, along with a long list of like-minded organizations in Canada, strongly believes that the goods and services tax should be removed from books. With the elimination of the GST on books, Canadians, including students, will be able to purchase books more often, thus contributing to an improved literacy rate, which can only result in a more informed, innovative, and productive workforce. In the wake of the strong Canadian dollar, Canadian booksellers have been hit especially hard as consumers are able to compare the U.S. sticker price to the Canadian sticker price on books.

Over the past few months, booksellers have been working hard to pressure publishers to lower their prices. Consumers must understand that prices are set by publishers, not retailers, and at least six months before the titles arrive in a store. Therefore, due to the rapid movement in exchange rates, current prices rarely reflect current rates. The CBA has also been working with the government to find a way to solve the issue.

I'd like to now shift gears and hit the subject of book prices in Canada, with the rising Canadian dollar, from a campus store perspective. In taking off my CBA hat for a moment, I'll move to the Campus Stores' position on some regulatory changes we see as required. As I mentioned earlier, our industry has been assailed in the media for the inexplicable difference in price between a book in America and that same book in Canada, and I'm sure many of you have had similar questions raised in your ridings. What most people don't know is that 10% to 15% of book prices is a regulated royalty, paid to multinational distributors. A typical textbook, which can cost $100, could cost $10 to $15 less if the government were to eliminate a regulatory protection that does nothing for authors or customers. We could see book prices drop by 10% or 15% overnight, and I'll explain how.

The Copyright Act is, as you know, a broad statute that governs the protection and distribution of intellectual property. In the cases of printed material, the act allows for publishers to establish import monopolies on the works of artists from around the world. Minister Flaherty recently used the example of Harry Potter books authored by J. K. Rowling, noting that these books have different costs in America. Let me explain a very significant element in that cost differential and how booksellers, campus stores, students, and customers are beholden to foreign-owned publishers, also known in the act as "exclusive distributors".

Section 27.1 of the act makes it an offence to import new books from any source other than the exclusive distributor of those books, provided that those distributors adhere to the regulations promulgated under the act. These regulations stipulate that an importer can charge a bookseller the price of the book in a country of origin—the U.S. or the U.K.—the difference in the exchange rates between the two countries, and either a 10% or a 15% levy, depending on the country of origin. That means that non-Canadian publishers can tack on an additional 10% or 15% of pure profit to their products before they risk losing a sale to parallel importation. Mr. Chair, that pure profit comes directly out of the pockets of Canadian students, with no appreciable benefit going to them or accruing to the artist or authors who created the work in question.

The regulation was promulgated in 1999. As you can imagine, the world of cross-border shipping and shopping has changed significantly since then. Ironically, since the advent of the Internet, Canadian customers can get some books cheaper abroad than a Canadian reseller can.

Section 27.1 protections are outdated in a universe with a parity dollar. The tariff protections actually exacerbate the direct pocketbook impact the levy has on individual booksellers and purchasers. Eliminating the levy will not affect the primary function of the Copyright Act: to provide creators with the ability to protect their art and earn a royalty from producing it. Further, nothing in our proposal would impinge on a publisher's exclusive right to distribute in Canada, provided they do not charge more for the work in question than they would at home.

● (1720)

We ask why should Canadian students pay more than their peers in the U.K. and the United States for the identical book?

We thank you for your time and attention.

The Chair: Thank you very much.

Now we'll move on to the president of the Canadian Construction Association, Michael Atkinson. You have five minutes.

Mr. Michael Atkinson (President, Canadian Construction Association): Thank you, Mr. Chairman. We certainly welcome the opportunity to present our views and recommendations.

As mentioned, I am the president of the Canadian Construction Association, which is the national voice of the non-residential construction industry. We represent some 20,000 firms from coast to coast to coast in Canada, who build everything except single-family dwellings.

Mr. Chairman, you have our written submission of last August, which outlines the specific measures we are recommending in response to the then committee's questions relative to the appropriate criteria to be used in considering changes to taxes, fees, and other charges.

Given the time constraints, I do not propose to mention all the specific recommendations in that submission, but I would like to draw the committee's attention to three main areas where we believe further action is required.

The first one is with respect to infrastructure and investment. A lot has been said in recent weeks about the size of our public infrastructure deficit, particularly in the municipal area. There's no doubt that to address this and other critical areas of Canada's strategic infrastructure that are very important to our nation's future economic and social well-being, it is going to take a concerted effort at all levels of government.

We were pleased with the efforts of the current federal government, building upon the initiative shown by the previous Liberal government, when it agreed to make available a portion of the federal excise tax on gasoline for municipal infrastructure reinvestment purposes. For the first time in Canada, we had the makings of a certain and long-term federal commitment to infrastructure. That program, however, currently runs to 2013-14 only. It needs to be made permanent.

We also acknowledge the establishment of the new Building Canada Fund that was announced in the last federal budget. We would encourage the federal government to conclude the necessary agreements with provincial and territorial governments as soon as possible, and in doing so to show some flexibility and understanding for the varying priorities and needs in the different provincial and territorial jurisdictions.

With respect to the EI fund, the EI rate-setting mechanism is still very broken and needs to be fixed. Despite the introduction of the new EI rate-setting mechanism that was supposed to ensure that EI rates would be set on a break-even basis, the EI fund continues to generate billions of dollars in annual surpluses, which are then diverted to the general revenue fund because of the inability of the chief actuary and the EI Commission to take into account the actual performance of that fund when they set future rates. EI continues to pick the pockets of Canadian employers and workers in order to feather the federal fiscal nest. If more aggressive rate reductions are not in the cards, look at some of the other specific recommendations, including the introduction of a yearly basic exemption similar to the Canada Pension Plan, that previous versions of this committee have in fact recommended. The throne speech did make a commitment to review the governance and management of the EI fund. Now is an opportune time for this committee to make substantive recommendations and get the EI fund back where it's supposed to be.

The third and last area I want to talk briefly about is the taxation of employer-provided vehicles. Many employees in the construction industry are required, as a condition of their employment, to take employer-provided vehicles—primarily pickups and vans—home at night for security reasons and are expressly forbidden to use these vehicles for personal or family purposes. These vehicles are usually filled with specialized equipment used in the employee's work. These individuals will then proceed directly to a construction work site, which is often further than the employer's principal place of business. Gone are the days when employees first report to the employer's principal place of business to pick up a company vehicle. Gone are the days when employers kept their company trucks and vans in a common yard at their company's offices. In fact, many of these employees never do “go to the office”. These company vehicles, in a sense, become their mobile office.

There have been a number of recent decisions by the Tax Court of Canada that refute the government's position that there is a taxable personal benefit in such circumstances, but since these decisions have been rendered under the court's informal procedures, they are not binding upon the crown. The tax treatment of employer-provided vehicles in these circumstances needs to be reformed to reflect modern-day business practices and realities, and to recognize the total absence of a personal taxable benefit in such circumstances as described.

● (1725)

There is a current review by the CRA on streamlining administrative practices with respect to the treatment of taxable employee benefits. Again, now is the opportune time to make a change in the act, if necessary, to reflect current business practices.

Thank you very much.

The Chair: Thank you very much.

Now we'll move on to the Canadian Council for International Cooperation. We have Gerry Barr, president and CEO, for five minutes.

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

My name is Gerry Barr. I'm president and CEO of the CCIC, the Canadian Council for International Cooperation, Canada's coalition to end global poverty.

The council is a membership-based organization with almost 100 non-governmental organizations working around the world and in Canada on international development, cooperation, and global issues.

I want to thank the committee for the invitation. As you approach the budget this year, I know you are thinking about taxes and tax mechanisms. Millions of Canadians who pay taxes believe Canada ought to continue with its foreign aid effort; millions more believe Canada is not yet contributing sufficiently to its share to help poor nations.

I know that talk of tax cuts is in the air. I know that almost all who are elected and who watch politics full time believe that Canadians as a whole approve of the idea of tax cuts. It is just an accepted truth.

Well, here is another truth, perhaps a little counterintuitive: Canadians also approve of the idea of tax increases to increase foreign aid spending. In a poll conducted by government in 2002, 57% of Canadians said they would be ready to pay 1% more income tax, but those same Canadians also wanted to know this money would be spent on directly improving the lives of those living in poverty.

It's just one reason Bill C-293, which is being debated in the Canadian Senate today, is so important. It gives Canadians the assurances they want that Canada's aid dollars will be spent to reduce global poverty.

Bill C-293 sets out a three-part test: first, aid must reduce poverty; second, it must be delivered in a way that is consistent with human rights standards; and finally, it should take account of the ideas and priorities of those supposed beneficiaries of aid who actually live the experience of poverty.

That's the “better” part of the more and better aid proposal of the Make Poverty History campaign, supported today by hundreds of thousands of Canadians and by organizations like CCIC.

What about the “more” part of more and better aid? I think that's where the committee comes in.

In previous reports this committee has urged successive governments to set a plan to achieve the internationally accepted donor state target of 0.7% of gross national income dedicated to the assistance of poor countries. In 2006 your committee proposed the government strike a plan to reach the target, a plan that in its words “should be developed no later than 31 December 2007”. I note that there's still time to do it: it's about a month from now.

It's now more than two years since all parties unanimously supported the idea of achieving 0.7% by 2015. On his way into office, the Prime Minister pledged his government would do better than previous governments in growing Canada's aid spending. He said that his own target was to see Canadian aid spending equal to the average donor effort. Little enough, you might say, for a country whose economy is more robust than almost all of those that have already pledged to achieve or surpass the 0.7% mark by 2015.

CCIC estimates Canada could almost achieve average donor country effort by 2010, the Prime Minister's goal, with 15% increases to its official development assistance annually; going forward, the same plan and approach would achieve 0.7% by 2017, and that's what we need.

I'd like to ask the committee to suggest that the government set out a 10-year plan to achieve the 0.7% target. It's reasonable, it's affordable, and Canadians will support it.

Mr. Chairman, I've provided the clerk with CCIC's pre-budget backgrounder; together with some charted projections, it will provide a fuller explanation of the points I've made here today.

● (1730)

The Chair: Thank you very much.

Now we'll move on to the Canadian Federation of Students. We have Amanda Aziz, national chairperson.

The floor is yours for five minutes.

Ms. Amanda Aziz (National Chairperson, Canadian Federation of Students): Thank you.

I just want to thank the committee for this opportunity to present again on behalf of more than half a million university and college students at over 85 student unions across the country.

I only have a few minutes today, so I'm going to focus my remarks on a few key areas: replacing the Millennium Scholarship Foundation with a system of need-based grants, increasing transfers to the provinces, and redirecting money currently being spent in areas that are of little assistance to those who need help the most. Of course, I'm very happy to take questions on anything that's in the brief after my presentation.

Current enrolment data suggests that students from the highest income quintile are more than twice as likely to participate in post-secondary education than those from the lowest income quintile. When discussing participation rates between aboriginal and non-aboriginal Canadians, the gap is even more pronounced. Of those who are able to access post-secondary studies, students who have to borrow the most to participate, and as a result carry more debt, are twice as likely to drop out of their studies as students with little or no debt.

The key policy question for the government, then, is how to close the gap in participation and create an equitable and high-quality system of post-secondary education. The Canadian Federation of Students has long advocated that post-secondary education be paid for through a progressive system of taxation rather than through upfront fees. Graduates of post-secondary education earn more through their lifetime, thereby contributing more in taxes to pay for the cost of their education.

The accessibility gap in Canada's universities and colleges is driven primarily by the costs of a post-secondary education. Over the past decade, tuition fees have more than doubled because universities and colleges have scrambled to make up for the lost revenue from federal funding cuts. With the increasing core funding announced in the 2007 federal budget, the next logical step for the federal government is to institute federal legislation to guide the funding set aside for post-secondary education. In cooperation with the provinces, the federation recommends that the federal government create a post-secondary education cash transfer payment for the purpose of reducing tuition fees and improving quality at universities and colleges. We believe the transfer should be guided by the principles set out in a post-secondary education act; obviously a specific part of it would have regard for Quebec and Quebec's ability to opt out.

On the student financial assistance side, at present Canada has a confusing patchwork of student financial aid programs, many of which are probably too generously labelled “aid”. Student debt, under the existing model of financial aid, has ballooned to more than $12 billion in federal debt alone. Average student debt now ranges from $21,000 to $28,000, depending on the province of study.

The main federal responses to the student debt crisis, tax credits, and the Millennium Scholarship Foundation, have failed to improve access to post-secondary education or make a noteworthy dent in student debt for differing reasons. Hundreds of millions of federal dollars are spent each year on tax credits but are blind to financial need and are not available to students when most of their expenses are due. In addition to tax credits, the federal government spends millions on ineffective savings programs that are disproportionately being utilized by wealthier families, hardly the demographic they were created to assist.

Although the foundation is calling for its own renewal, there's very little evidence to suggest that the foundation is the most effective delivery mechanism to improve access and reduce student debt. In fact, the foundation is rife with accountability concerns, and its organizational culture confirms that it must not receive another cent of public funding.

According to its own reports, the Millennium Scholarship Foundation's administrative costs have increased over 500% since its inception, and literally millions of dollars have been funnelled to a foreign company run by two former employees of the foundation. Just two months ago, we learned, through access to information, that the foundation has also transferred close to a quarter of a million dollars to an organization that vocally supports the foundation's renewal. The management of the foundation is out of control.

Of course, students need non-repayable grants, and that's not the issue. The issue is how the Government of Canada administers grants, and the record is clear: the foundation has failed in doing so. We believe there is a better way.

To avoid the accountability pitfalls of a private foundation, we recommend replacing the Millennium Scholarship Foundation with a new system of need-based grants administered through the Canada student loans programs and phasing out the education, tuition fee, and textbook tax credits, as well as savings programs, and redirecting the money currently allocated to each of these programs into a new national system of need-based grants.

We believe the timing for an ambitious reorientation of student financial aid could not be better. Not only is the foundation's tenure coming to a close, but the federal government has the tools and opportunity to cut student debt by at least half if the political will exists.

Finally, I just want to talk about the need to decrease the gap in participation between aboriginal and non-aboriginal Canadians. Funding for the Department of Indian and Northern Affairs post-secondary student support program has remained frozen at the same level since 1996, with an inadequate 2% annual increase. The Assembly of First Nations estimates that more than 13,000 eligible students in the last six years alone have been denied funding to participate in post-secondary studies.

● (1735)

The federation, therefore, recommends that the federal government immediately remove the funding cap on the post-secondary student support program and increase funding to and opportunities for all aboriginal learners.

In closing, I just want to thank the committee again for the opportunity, and I look forward to your questions.

The Chair: Thank you very much.

Now we have our final panellist, Mark Yakabuski, president and CEO of the Insurance Bureau of Canada.

The floor is yours for five minutes.

[*Translation*]

Mr. Mark Yakabuski (President and Chief Executive Officer, Insurance Bureau of Canada): Thank you very much, Mr. Chairman.

My name is Mark Yakabuski. I am very pleased to be appearing once again before the Committee.

There are three points in particular that I would like to make.

First, I must commend the government for the measures announced several weeks ago by the Minister of Finance with respect to corporate and personal tax cuts.

[*English*]

The corporate and personal income tax changes announced recently by the Minister of Finance will tremendously improve Canada's productive and competitive position around the world. I certainly want to take the time to applaud those changes. There's still more work to be done. This is a never-ending game. As a result of the changes announced by the Minister of Finance, Canada moved from the second-worst record with respect to capital taxation in the OECD to the eleventh-worst place in the OECD. A lot of other countries are moving in this direction and we have to make sure we keep up with them, but the measures announced by the Minister of Finance are very important.

The second thing I'd like to say is that the single, most important tax measure the government could take to improve productivity in this country is to convince those provinces that have not done so already to harmonize their provincial sales taxes. No other measure would add more to the productive capacity of this country. I have the pleasure of dealing with many provincial governments every day, and I believe very firmly that with an innovative combination of the carrot and the stick, we can convince those provinces that have not done so to harmonize their sales taxes. It would be a tremendous competitive boost for Canada.

The last thing I want to say is that we have a tremendous infrastructure deficit and a tremendous infrastructure challenge in Canada. The $33 billion allocated by the government in the last two budgets, over a seven-year period, to renew the infrastructure in Canada is obviously a very considerable sum of money. However, I think we have to bear in mind that in 2005, for example, total world economic losses related to weather-related events cost $850 billion to the world's economy.

Lord Levene, the head of Lloyd's of London, arrived in Canada yesterday and he's here in Ottawa today. He will remind all of us that climate change is not something we are looking forward to; climate change is something we are dealing with today. The fact we have to keep in mind is that even if we were to reduce the vehicle population of the planet by 50% tomorrow, or close every coal-fired plant around the world, or delay the development of the Alberta tar sands, there is still enough CO_2 in the environment to motor the forces of climate change for at least the next 50 years, according to the International Panel on Climate Change.

What does that mean? It means I think this is the real challenge. Let's make Canada the country that most successfully adapts to climate change, and let's do that by taking hold of this infrastructure challenge, by encouraging our municipalities and our provincial governments to, of course, invest vigorously themselves, and by encouraging private-public partnerships at every opportunity. I believe, quite frankly, that the federal government should in fact tie much of its infrastructure spending allocations to the provinces to some component that relates directly to measures that help Canada adapt to climate change. That means rebuilding our water and sewage systems in a very big way.

● (1740)

[*Translation*]

It's a major challenge, but it is doable. What is needed is the will to do it.

Thank you very much.

[*English*]

The Chair: Thank you very much.

We will now move to the question and answer part of our meeting, and we'll start with Mr. McCallum.

Mr. McCallum, you have seven minutes.

Hon. John McCallum: Thank you, and thank you to all the panellists.

My first question is to Amanda Aziz, and it's a question about Bill C-284, which I think your organization supports. As you know, I'm sure, this bill would extend access grants for low-income Canadians from one year to four years. On the topic of this bill, you said:

> the measures in Bill C-284 in fact are long overdue and there's plenty of research out there that concludes that upfront financial assistance is the most effective aid measure to improve access to post-secondary education.

My question is simply whether you were disappointed that this bill didn't pass in the House last Wednesday.

Ms. Amanda Aziz: Thanks for the question.

We certainly did support what Bill C-284 was trying to do, and that's provide more assistance for low-income Canadians and for low-income families. Of course, we understand there is some concern with regard to Quebec students also receiving funding, but I think from our perspective we are very much in support of measures that are going to increase assistance for low-income Canadians and also provide assistance that is needs-based. So that's part of what we're proposing here today in terms of the replacement of the foundation, something with a comprehensive program that's going to assist both on a needs base and on an income base.

Hon. John McCallum: Right. That bill seems to respond to your priorities. I guess you're disappointed that it didn't get through?

Ms. Amanda Aziz: We think there need to be more measures that the government is pursuing. In the context of the expiring Millennium Scholarship Foundation in the context of this bill, I do think we are in support of what of the bill was trying to do. We do think that obviously the bill could have been broadened.

Hon. John McCallum: Thank you very much.

Mr. Atkinson, I certainly think you make a good point when you suggest this government is feathering its nest by overcharging companies and workers on EI, particularly when they're just drowning in money. Can you say, in concrete terms, how we could end this feathering of the nest? What kinds of legal changes would be required?

Mr. Michael Atkinson: I think I should point out first that this new EI rate-setting mechanism was put in place by the Liberal government—

Some hon. members: Oh, oh!

Mr. Michael Atkinson: —so I think it's an apolitical feathering of the nest that's been going on for some time.

But in all seriousness, it is very disturbing to my members, 90% to 95% of whom are small business employers, to have what amounts to a payroll tax and then find out that the government is taking more than is required for the needs of the fund, knows it's taking more than is needed in the fund, and then ties the hands of the chief actuary and the Employment Insurance Commission and absolutely forbids them to look backwards in setting future rates. In other words, you're not allowed to correct your past mistakes or miscalculations.

The throne speech did make a commitment to look at the governance and management of the EI fund, but with no specifics. I think that opens the door for this committee to make some strong recommendations to change how the rates are set for that fund. I can guarantee you, if the EI fund was running an annual deficit, this would have been fixed a long time ago.

● (1745)

Hon. John McCallum: Thank you very much.

I'll move on now to Madame Lefebvre.

We've had many discussions over the government's broken promise on income trusts, but I think today, rather than debating the overall issue, you're here on more specific issues.

I would find it rather unusual that so little has been done to manage the transition. You say there's no certainty or legal clarity on the transition period, no legislative framework to facilitate conversion back to corporate status. Aren't these yawning gaps in implementation? My question, if you wish to go there, goes to motive. My feeling is that the government is really out to destroy income trusts. If that's not the reason, how do you explain this yawning gap in the implementation process?

Mrs. Margaret Lefebvre: I think the main way I would explain it is that this was a piece of legislation that was rushed in, and the implementation was simply done on a very ad hoc basis. Specifically, most of the implementation measures in fact refer back to a press release that was issued on December 15, and in that press release there is a statement that this is a policy that was being announced by the government and that can be changed from time to time. The enormous concern, from the point of view of ongoing business, within the framework of the policy as passed into law, is the fact that it's extremely difficult to plan how you're going to implement when the implementation rules are not clear and when there is a statement on record that they could change it from time to time. We are looking for a statement from—

Hon. John McCallum: So you mean this is a law that states that this is the law, but they can change it from time to time as they see fit, by regulation?

Mrs. Margaret Lefebvre: In actual fact, that is not clear. So what we are looking for is a statement of intent, a statement that says this is what we will recognize, this is the intention. That is how they dealt with the transition, for example, from an income trust to a corporate entity. They specifically said that the unit holder will not suffer tax consequences. There has not been a change in the law, but the statement was enough. We would look for a similar statement dealing with the issuers.

Hon. John McCallum: Thank you very much.

The Chair: Thank you very much.

Monsieur Crête, you have seven minutes.

[*Translation*]

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

First of all, I want to commend you, Mr. Barr, for the work carried out by your council. It is important to maintain that awareness on a daily basis within our society, which is in a privileged position, compared to the rest of the planet.

What solution can you see to the absurd situation we have currently, which is that the Prime Minister of Canada is in Tanzania saying that additional monies are being devoted to this and that the only reason we cannot meet the government's current commitment is that growth in Canada has been stronger than what was forecast? Therefore, we won't honour our commitment as regards the percentage.

Is there a solution whereby, when we get richer and grow faster, we avoid reducing our contribution, in percentage terms, to the fight against poverty?

[*English*]

Mr. Gerry Barr: You make a good point, sir, about the question of affordability. If Canada does not now reinvest in aid spending when it is so eminently affordable, when on earth will it do so? And it does go directly to the credibility not only of the Prime Minister, but also of the Government of Canada—and the credibility of Canada itself.

In the year 2000, world leaders used a uniquely powerful phrase with respect to the millennium development goals. The phrase they used was that they engaged between each other to "spare no effort" to achieve the millennium development goals. That is an unambiguously committed phrase. Since that time, since 2000, new aid spending in Canada is about $2 billion. Not more than 30% of that amount can be said to be identifiable as a contribution towards achieving the millennium development goals. So we have, with respect to the money already committed, not anything close to "sparing no effort".

We have, I think—and Canadians increasingly recognize this—nothing in the performance of either the previous government or the current one that would give confidence to the idea that Canada is committed to grow its contribution to the 0.7% target, though one finance committee after the other has pleaded with the government to do so. And members of all parties have voted for those resolutions.

● (1750)

[*Translation*]

Mr. Paul Crête: That means we need to finish our work in a reasonable manner. Also, the government has to make a serious commitment for the next 10 years, as you say.

Today, an international report was released which says that, in the short term, climate change will be the most significant cause of increased poverty on the planet. If we move forward with the percentage that you are suggesting, won't half of it be cancelled out —I'm not saying we shouldn't do it; I think we have to get there— because we will not have taken the necessary steps to mitigate the negative consequences of climate change?

[*English*]

Mr. Gerry Barr: That's a pretty tough question. Climate change is going to have immense impact, especially on the world's poorest, almost no matter what. The real question is, how effectively can the world community marshal resources to help poor economies address this?

The principle of Kyoto is that those most responsible act first. That, unhappily, has not yet happened. The world's poorest countries will take the sharpest impact of climate change. But at a moment when aid resources are going to be plainly so imperative and essential, it really falls to us to make sure our resources are used in the most effective way.

The way in which Canadian aid spending is now undertaken diminishes the dollars we send abroad. Resources that are tied to Canadian sourcing never really see the inside of a developing country economy. Money is certainly spent for legitimate purposes, but not to reduce global poverty, support students in Canada, or for the settlement of refugee costs.

All these things have to be done, but Canada is harbouring these costs in its aid budget. The result, in our estimation, is that about 70¢ of every Canadian aid dollar actually make it to the developing world. We need to change that sort of thing as well. That's part of what Bill C-293 is about.

[*Translation*]

Mr. Paul Crête: Thank you very much, Mr. Barr.

Mr. Atkinson, you talked about employment insurance. Would you support a decision to set up, once and for all, an independent employment insurance fund? In other words, 100% of contributions would be used for the employment insurance fund. There could be a joint employer-employee decision-making committee. That way, we would not end up in the same situation as occurred when the $54 billion—money belonging to employers, workers, and especially the unemployed—was used to fund Canada's deficit.

[*English*]

Mr. Michael Atkinson: That's certainly one of the suggestions that's been made, but I think we would have to see the details and know exactly what the mix of representation on that governance board would be.

There are a number of other concerns about the EI fund that are somewhat beyond the control of employers and employees. So governments are important stakeholders there. We certainly wouldn't want to see the EI fund transformed into something it wasn't intended to be. I think both employees and employers are of one voice on that.

On the employers' side, we've had a number of situations where there has been an unwillingness on the part of the government to deal with substantive reports on EI because it's no longer a contributor. Historically, the federal government used to contribute 20% of the fund. Now it doesn't unless it goes into a deficit situation. When the government was an active contributor, it was easier to get its eye with respect to substantive reforms.

I'll give you one example that's in the report. Employer overcontributions are not refundable, but employee overcontributions are. The answer we get from the Department of Finance and HRSDC is that it would be too hard to keep track of employer overcontributions.

● (1755)

The Chair: Thank you very much.

We'll now go to Mr. Menzies for seven minutes.

Mr. Ted Menzies (Macleod, CPC): Thank you, Mr. Chair, and thanks to our presenters today, some of whom I've met at different functions and some of whom I've met at different committees.

Let's start with Mr. Atkinson. We share your frustrations about EI. The present minister is struggling with trying to make some changes to that, and we certainly appreciate your support. I think we all recognize that we were handed a can of worms, and when we opened it up they were crawling all over. We're certainly trying to work with industry on the concerns you have raised.

This government has put forward a $33 billion infrastructure package for Canada, which is the largest infrastructure announcement in history. We're promoting the use of it through P3s—we want to triple it by involving private-public partnerships. What advice might you give us on that?

We think we can leverage this to $100 billion, which is an incredible amount of money. On the criticisms we received last week from the municipalities, they were saying $127 billion. But the $100 billion puts us awfully close to their rather grandiose ask—certainly closer than we've been for a lot of years.

How would your association be involved in that?

Mr. Michael Atkinson: First of all, I think it's fair to say that public-private partnerships are only one tool in the toolbox. They aren't a panacea. They aren't necessarily the best way to go in meeting all of Canada's infrastructure needs.

As I am sure you are all aware, in order to go to a true public-private partnership situation, you have to guarantee a certain flow of revenue for the private sector investors. That's pretty hard to do for certain aspects of Canada's infrastructure in certain regions, particularly underpopulated regions in the country. So my best advice there is to not look to one particular approach as being the panacea or as being the tool or solution in all circumstances. Certainly, P3s have their place, and they can, as you mentioned, leverage additional investment.

However, what's more important is having a long-term plan. In this country we have never had a long-term plan for something as important as our national highway system. We never had a plan.

It's very difficult for the construction industry, as arguably one of Canada's largest employers with over a million people, to do any effective planning with our public sector clients—governments—when we don't know sometimes six months out where the priorities will be. With respect to working in partnership with lower levels of government in municipalities and provinces, that's of even more importance.

I know this government is trying to make an attempt to make funding more certain going out by extending the excise fuel tax commitment to 2013-14. That is so important. It's very difficult for municipal or provincial governments to make long-term planning with respect to infrastructure investment without knowing whether or not the federal government, or another level of government, is going to be there as a player.

That's even more important in the private sector. You are looking to attract private sector investment; the more governments can get their long-term planning and priorities in place for infrastructure renewal and reinvestment, the more you'll attract the private sector community.

Mr. Ted Menzies: Thank you, and point taken.

It's not a panacea, but it is a way to leverage government dollars, tax dollars, to the best advantage. I was in Chile not too long ago. Most of their roads are P3s, and are—I shouldn't say this—pretty good roads. They're incredibly good roads down there; it's a good example that we can use.

I have a question for the Insurance Bureau, Mr. Yakabuski, regarding your comment about improving productivity and the reference to harmonizing taxes.

We're hearing quite consistently from industry representatives, different associations, about the need to do this. Unfortunately, we're not hearing that from some of the provinces that haven't harmonized. I might suggest that we could enlist your help in perhaps talking to the provinces that your association represents.

● (1800)

Mr. Mark Yakabuski: I can assure you that you will have our help, and you have had our help. I never miss an opportunity to remind the Minister of Finance in Ontario, and elsewhere, that if he really wants to add to the productivity of his province, or elsewhere, he needs to harmonize the provincial sales tax. The fact of the matter is, the provincial sales tax basically is an invitation for Canada to underinvest in capital goods.

If you want to know what the single biggest source of our productivity gap is with the United States, it's our system of sales taxation. So we will certainly do everything we can, Mr. Menzies, to get that message across.

Mr. Ted Menzies: Thank you.

Gerry Barr, I think, would have hurt feelings if I didn't address Bill C-293. In fact, you did bring that up, and I think you've probably heard all of my concerns about that bill.

The example our Prime Minister gave us with his Canada-led “save a million children in Africa” this week I think is a pretty good indication that we're solidly on track to doubling our aid to Africa, reminding everyone, as you have said, that it's as much about aid effectiveness as it is about the actual dollars.

We've committed to getting to the OECD average by 2015, I believe, in line with the millennium development goals.

The Chair: That's just a point you were making, right?

Thank you very much.

Seven minutes, Monsieur Mulcair.

[*Translation*]

Mr. Thomas Mulcair: Thank you, Mr. Chairman.

To begin with, I want to apologize. Today's events were such that I had to grant interviews. As a result, I missed a number of presentations. I did, however, have an opportunity to review the written material. I want to thank all the participants for their help with our budget options. I also want to say how pleased I was to hear Mr. Barr's presentation. I caught a good part of it. I believe it is critical, for a country as rich as Canada, not to lose sight of the need to do its fair share. You spoke eloquently, and I think your comments should receive special attention from the government and all members of this Committee.

Mr. Chairman, I'm going to take the liberty of addressing my first question to Margaret Lefebvre, who is here today to talk about a subject of great concern to many investors. It is a complicated matter. Indeed, we in the NDP have never been in favour of income trusts, but I can assure you that we would never have lied to the people who invested in these trusts. The current government had stated very clearly that it would leave well enough alone, but it tricked us.

In her brief and in the part of the presentation I heard, Ms. Lefebvre made it very clear that not only were there two rates and people were misled by the Conservative government, but in addition to that, they were highly technical problems.

Ms. Lefebvre, I do not want to involve you directly in the work of this Committee, but I want you to know that next week—and this is quite exceptional—we will be meeting with the person who has been designated by the current government, without any prior consultation, to replace David Dodge at the head of the Bank of Canada. I refer to Mark Carney.

Mr. Carney played a critical role in this whole issue of income trusts, and the same applies to Mr. Dodge. My question is this: one of the reasons given was the loss of tax revenues. However, in light of what happened following the nice little Halloween surprise that Mr. Flaherty sprang on you last year, would you say that the reasons given at the time were correct or, instead, that certain things that have come to light since demonstrate that control of these income trusts has now moved to the United States, in particular, and that Canada is receiving even fewer tax revenues now?

● (1805)

[*English*]

Mrs. Margaret Lefebvre: I think it is very clear that the original stated intent, the reason they moved as quickly and suddenly as they did...the official intent at the time was given as tax leakage. The tax leakage that was estimated at the time was $500 million at the federal level and a potential $300 million at the provincial level. We contested those numbers, and in actual fact we were able to prove those numbers were significantly lower than that.

Even if one took that to be the case, very shortly after that, as the income trusts started to fall one after the other, it became very clear that there would be no tax payment because the income trusts were being repatriated either into private equity or, more importantly, into foreign—and "foreign" as in "non-national"—equity.

It was very clear that the whole argument towards tax leakage was dropped in favour of one towards tax fairness. Now, the tax fairness argument was one that was based on the premise that corporations and income trusts basically should be taxed at the same level.

Even at that level we have a severe problem, because the effective corporate tax rate on corporations runs roughly between 6%, 5%, and maybe up to 10% maximum. The 31.5% tax rate, potentially reduced to 29.5%, is still absolutely crippling and effectively guarantees that the instrument cannot survive.

We understand that the government had a concern, but the severity and I think the lack of consultation in finding the solution will in fact damage the economy far more than was expected. We were here on numerous occasions talking about the unintended negative consequences.

So now, within the context of the law as it is passed, we are still prepared to sit down to see if we can find ways to mitigate and ameliorate the damage that has been done and see if we can find a way through this.

[*Translation*]

Mr. Thomas Mulcair: Mr. Chairman, in the past, we received regular information from people who had invested in income trusts. This is the first time I have had a chance to hear a presentation from the group represented by Ms. Lefebvre. I am going to suggest to her, considering the answer she has just given, that she provide us with all the statistics she has to support her position. Nothing would make me happier than to be able to use that information next week when we meet with Mr. Carney.

The proof is in the pudding. We are being asked to entrust Mr. Carney with one of the most important jobs in the Canadian economy for the next seven years. I think the least we can do, as elected Members of Parliament, is to ask him to back up his predictions, given that, as you so aptly pointed out, we are losing more money than what he said we would save.

[*English*]

Mrs. Margaret Lefebvre: I would be more than happy to provide you with the studies we had done by HLB Decision Economics Inc., an independent outside consultant who did the studies on the tax leakage estimates at the time.

[*Translation*]

Mr. Thomas Mulcair: Thank you very much.

[*English*]

The Chair: Thank you very much.

We'll now move on to Mr. Turner. You have five minutes.

Hon. Garth Turner: Thank you very much.

Mr. Tabor, you referenced the Minister of Finance and Harry Potter. That famous press conference the Minister of Finance gave, holding up the Harry Potter book, was that helpful to the industry?

Mr. Chris Tabor: Not particularly.

● (1810)

Hon. Garth Turner: Why?

Mr. Chris Tabor: It avoided exposing some of the real causes of the differential in the pricing, that they can get lost between retailers. But a structural problem was missed, and that is the imposition of a tariff, if you will, on the importation of books from the U.S. into Canada.

Hon. Garth Turner: Do you believe the minister raised consumer expectations that prices in the book publishing industry should fall? Was he almost making a demand, as the Minister of Finance?

Mr. Chris Tabor: I think the minister was trying to encourage... he perhaps misunderstood some of the mechanics of our industry, that there is a lag between currency conversions.

Hon. Garth Turner: What do you think he was trying to do? Why did he have the press conference, though?

Maybe he didn't understand the industry, but he must have had a reason for having the media conference. What do you think that was?

Mr. Chris Tabor: I think he was looking for an explanation for the differential in retail prices between the same products in Canada and the U.S.

Hon. Garth Turner: Okay, but that's not why he had the press conference. He didn't have the press conference to look for the reasons.

My—

The Chair: I don't mind any question being asked as long as witnesses have the ability to answer, and that's a very subjective question, so give him a more direct question and that's fine.

Hon. Garth Turner: Mr. Chairman, you've got nothing to say about it. I'm sorry, but this is my five minutes.

The Chair: I just did.

You just continue, please.

Hon. Garth Turner: That did not come out of my time, by the way.

Mr. Yakabuski, you talked about the need for us to be ready for climate change, almost as if it were an inevitability. Do you feel Canada is doing nothing to stem the inevitable change in climate?

And do you have a comment on the Prime Minister's position in Uganda this past weekend?

Mr. Mark Yakabuski: I have said in the past there is no such thing as a serious climate change policy that does not have a plan to adapt to climate change. I think the reality is that most countries, most jurisdictions, have missed the ballgame so far. I want to make sure Canada doesn't. I think the real challenge is to recognize that, yes, climate change and the severe weather that comes with it are inevitable, and we want to be the country that best adapts to this.

Hon. Garth Turner: Have we done anything to prepare? Are we taking a leadership role in this particular file or are we not?

Mr. Mark Yakabuski: I'm suggesting ways we can take a leadership role.

Hon. Garth Turner: But are we, in your opinion?

Mr. Mark Yakabuski: There's a lot of work to be done. I think that's clear.

Hon. Garth Turner: All right.

Ms. Lefebvre, your testimony certainly is damning the consequences that have happened with income trusts since the end of October of last year. Do you believe the Minister of Finance knew what the consequences would be, or do you think these were unintended consequences he didn't foresee?

Mrs. Margaret Lefebvre: We have maintained from the very beginning that these were unintended consequences.

The minister acted, I'm sure, in what he considered to be good faith to a problem that was obvious at the time, and probably out of a sense of some degree of panic about the possible conversion on a mass scale of too many private corporations. However, the difference between reacting to that particular situation and the draconian measure that was taken is one that has effectively caused the destruction of the income trusts. I don't believe he realized at the time that this would be the consequence.

Hon. Garth Turner: It appears now, a year and a bit later, that what he was afraid of has been far surpassed by the actual negative consequences of the action that was taken.

Have you had any further dealings with the Department of Finance or with the minister? Has anyone called you up and said “I'm sorry”?

Mrs. Margaret Lefebvre: That's not a serious question.

Hon. Garth Turner: I wouldn't mind having it on the record.

The Chair: That's true, it's not a serious question, but it is his last one.

We'll now move on to Mr. St-Cyr.

[*Translation*]

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

My question is for Ms. Aziz. I am always interested in issues related to education, having myself been part of student associations. I know that here in Canada, two major associations or federations are battling for support from students. Two of the recommendations you make at the beginning of your brief talk about the need for a national system of needs-based grants.

As you were making your opening statement, you looked at me and added that this included a number of adjustments for Quebec. However, although I may be mistaken, I found no reference to that in the fairly detailed brief that you submitted. For example, one of Quebec's traditional demands has been that it be able to opt out with unconditional and full financial compensation, if such a program were to be introduced. The fact that this concern is not mentioned in your brief can possibly be explained by your representation. I see that in Quebec, there are only two university associations and one college association from Quebec.

Does your organization consider Quebec—something that was recognized by this Parliament, by all parties—to be a nation, with the right to set its own educational policies? If a national needs-based grant program, or any other program, were to be set up in Canada, would you support the idea of Quebec having the right to opt out with full and unconditional financial compensation under such a program?

● (1815)

[*English*]

Ms. Amanda Aziz: Thanks for the question.

We represent four student unions in Quebec. And as we spoke about last year in committee, we work very closely with FEUQ, which is the federation of university students in Quebec.

Our policy does dictate that we believe, in the same way that Quebec right now does not participate in the Canada student loans program, in the same way other students in other provinces do, that the way the money is currently being allocated to Quebec students should continue. Right now, Quebec does a very good job, actually, of matching upfront grants with loans. Our policy and our membership support the idea that this money would continue to flow through that way.

So in fact, yes, recognizing the fact that Quebec right now has its own separate agreements with the federal program and it's working very well for Quebec students....

Our proposal actually goes further than that and is trying to look to Quebec as an example for the rest of the provinces as well, to use that agreement that's in place in Quebec and encourage the federal government to move forward and create similar agreements with other provinces in that way.

[*Translation*]

Mr. Thierry St-Cyr: In that case, it would be a good idea to state that in the brief you have submitted. The way it's written here suggests that you are in favour of national programs, the conditions of which would apply to all provinces, including Quebec.

Your fourth recommendation goes even further, since you talk about the need for a Post-Secondary Education Act, such as exists for health care. The Bloc Québécois is very strongly opposed to that. Indeed, in Quebec, all the student associations are unanimously opposed to that idea.

That said, once again, would you be prepared to support the inclusion of a clause in such legislation excluding Quebec? Recently, the NDP tabled a bill on daycare services. We supported it because it contains such a clause. We do not want to prevent Canada from developing as it deems necessary, but we do want Quebec to be able to continue to do what it believes is appropriate. Would you be prepared to support a Post-Secondary Education Act that did not apply to Quebec?

[*English*]

Ms. Amanda Aziz: Actually, in regard to the two major programs we're putting forward—this national system of need-based grants to flow through the Canada student loans program—right now the Canada student loans program does have separate provisions for Quebec. So when we state that this national system of need-based grants needs to run through the Canada student loans program, we're de facto endorsing the system that currently exists, which is a separate system that is negotiated with Quebec. That is reflected in a lot of the other research we put forward. It's reflected already in the current system of the Canada student loans program.

In regard to the proposed post-secondary education act, we have worked closely with the Canadian Association of University Teachers. In that draft legislation there is a specific reference to Quebec's ability to opt out of it. That's reflected in our policy; it's also reflected in our research.

I appreciate your comment about putting it directly into our finance brief. We were severely limited in terms of the number of pages we were able to produce for the committee this year, but that is absolutely reflected in our policy.

● (1820)

The Chair: Thank you very much.

We'll move on to Mr. Wallace.

Mr. Mike Wallace: Thank you, Mr. Chair, and thank you, witnesses, for coming.

My first question is for Ms. Mullin from York University. I appreciate your letting us know that the system we put in place for those who are donating stocks and bonds is actually working and that you're able to do that.

If we were to move in the direction of adding land and buildings to that exemption, has your organization looked at what it would cost the treasury? Do you have any sense of what that would be?

Ms. Susan Mullin: We've been really challenged by that question of how far it would extend. We even tried to look at gifts of ecological property to see what the impact might be. We had a very hard time putting an actual quantitative number on gifts of security; we've not been able to identify that yet.

Mr. Mike Wallace: Was there any consideration of doing it on a gradual basis, in the sense that if I'm donating a piece of land to York, I might not be able to write off 100% of the value as a charitable donation, but maybe part of it? Has that been looked at, at all?

Ms. Susan Mullin: We could look at that; to date we have not. We'd be very happy to sit down and talk about how we could implement this in a staged manner.

We feel it doesn't need to be in a staged manner. We think the ecological gifts program actually is a really good example of how it could work without having to stage it, but we'd be very willing to sit down and talk about it.

Mr. Mike Wallace: Do you see that applying mostly to educational institutions, hospitals, municipalities? Who would benefit from this, if it happened to be...?

Ms. Susan Mullin: I think educational institutions are one group that would be well served by this provision, but we also see a real opportunity for small municipal organizations and rural-based organizations to receive gifts of property that those charities may turn around and sell and use for their programming costs, so they wouldn't be retaining the property. We see it happening across the board.

Mr. Mike Wallace: Okay.

The balance of my questions are for Amanda. I used to be president of the University of Guelph.... I see it's one of your members.

In the previous panel we had the universities' and colleges' organization here—the associations and the management of those. It was all about research dollars and attracting postgraduate students. There was no mention of tuition or access in their discussion.

Regarding the review you provided me with today and what you said, I just want to be clear: are you asking us to wipe out tuition altogether, and it would go on their tax base for future years for anyone who graduates? Is that what you're actually advocating?

Ms. Amanda Aziz: No. I threw that in there because right now there is a focus on a user-fee model; people pay up front in order to participate in post-secondary education. The difficulty is that it's creating these gross inequities when students graduate, depending on how much they need to borrow and how much they end up owing in the end.

What we're proposing is that we reduce those upfront barriers—reduce the need for students to borrow in the first place—to try to create a more equitable system. We're concerned with not just how many students are enrolled but with what kinds of students are able to participate and how they're going to be able to repay their debt once they graduate.

Mr. Mike Wallace: I've had you guys in my office. I've had your colleagues, who represent a different organization and have a different attitude on the Millennium Scholarship Foundation, which I think has been mentioned.

My view—and you tell me if I'm wrong—is that instead of fighting each other on this item, why isn't there one program? The millennium program is grants. The student loan program is obviously loans—it's called loans. It's supported by the banks, I suppose; the loans go to the banks now, right? Can your two organizations not get together and come up with a plan for one that has a mix of loans and grants, with one administration to run it?

I'm not necessarily convinced that having a third party doing it, other than government, is a bad thing. When I worked municipally, we had third-party organizations run stuff that was really municipal, but it has been very efficient and very effective in terms of leveraging other people to get involved. What is the barrier to your getting together and figuring that out for us?

Ms. Amanda Aziz: I'm really glad you asked that, because in fact our proposal is very similar to what you just suggested, and that's a mixture of grants and loans being done by one central body.

The problem right now with the way in which grants are being administered is that there is a whole confusing patchwork of different programs, so part of our proposal is to simplify that. It's not just to simplify that from a student's perspective, but to ensure there's efficiency and effectiveness from the government's perspective.

The representative from the AUCC just handed me one of their briefs, which also talks about the need for student financial assistance and need-based support. Our proposal very much does that and proposes a grant/loan package that's indivisible, that's provided to students at the time they register, at the time they are accepted to university and college.

● (1825)

The Chair: Thank you very much.

We have time for just two more questioners. I'm going to split the time between them, so they'll have two minutes each. We'll have a couple of quick questions from Mr. Pacetti, and then we'll go to Mr. Del Mastro for the last two.

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

Thank you to the witnesses for appearing. I'm going to ask three quick questions, and then I'll have the chairman decide how to best manage the time.

My first question is for Ms. Lefebvre.

On the original tax leakage numbers that the government had—about $500 million—do you have any reports as to whether that amount is correct? From the numbers we have, the government to date has lost about $900 million of revenue due to certain trust funds being converted, sold, or being taken over by foreigners. So I'd like your opinion on that.

Mr. Barr, what's happening with Bill C-293? I know it's being held up in the Senate. Why is that happening?

Amanda, just quickly, I know you've been talking about lowering fees and things, and access to grants and loans, but how do we increase enrolment? That's a big problem. In Quebec we have the lowest tuition fees, but that's not helping to increase enrolment? Do you have any ideas specifically about enrolment?

The Chair: This is how I'm going to do it. You have about 15 seconds each, so you'll have to answer very quickly.

Mrs. Margaret Lefebvre: That information has been deposited with this committee on several occasions, the last few times we've been here. I'd be more than glad to pass it on to you after this meeting.

The Chair: Thank you.

Mr. Gerry Barr: Bill C-293 was introduced in second reading by Roméo Dallaire, who is the Senate sponsor of the bill, on October 25. I'm happy to tell you that today Mr. Segal responded for the government to Mr. Dallaire's speech. So my hope is the result will be that it will have been referred to the Senate committee, but that was just happening as I arrived here, so I'm not able to tell you for sure.

About 10,000 Canadians signed a petition asking the Senate to act on this.

The Chair: Okay, now you only have about five seconds.

Ms. Amanda Aziz: Yes, you should come and talk to me after this.

I think there are a lot of different measures. One of them obviously is reducing upfront barriers, but another is targeted programs specifically for low-income Canadians, for aboriginal Canadians. I think there are a lot of specific measures that need to be done for those who are currently underrepresented in our system.

The Chair: Okay, Margaret, please pass that information through the clerk to him.

Thank you.

Dean.

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

Mr. Yakabuski, I wanted to come back to you specifically on HST. This is a big issue for me. I'm from Ontario. I have a big manufacturing base in Ontario. I want to help that manufacturing base. Certainly, the effective tax rate that's brought about because of the PST is a real hindrance in Ontario, isn't it?

Mr. Mark Yakabuski: It is a real hindrance, and I think we have to work away. You know there's a new Minister of Finance in Ontario, and I think we have to try to deliver the message. I can tell you that when we meet with him about various issues, we will certainly point out that this creates a big lag for the Ontario economy and that he should try to find ways of addressing it.

Of course, I've had this discussion before. The Minister of Finance will tell you that it will cost in Ontario a lot of money in the short term. I take it that's basically a negotiating position that needs to be worked on. As I say, an innovative combination of the stick and the carrot has to work at some point in time.

Mr. Dean Del Mastro: Thank you.

Ms. Aziz, I had a good meeting with CASA. My mother was a financial aid officer at Trent University for quite a number of years. We did have a system whereby you'd apply for OSAP and that would qualify you for Canada student loans, grants, and so on. We got away from that system.

I'm really confused on the millennium foundation, I have to be honest with you, because I have such conflicting views on it that I don't know what to make of it. Can you provide us with the information that you've cited specifically on the millennium foundation and where you're getting it from? We have one group saying it's a 2% cost and we have another group saying it's just a mess.

Ms. Amanda Aziz: Yes, absolutely. I know we have circulated this information to committee members and to different caucus members in the past, but we can absolutely provide that information.

Regarding some of the numbers we've been getting, we do a lot of access to information requests with regard to specific numbers. The one I talked about with regard to this organization, supporting their renewal, was one we just received through access to information. Those are their own numbers.

We can share those documents with the committee, absolutely.

● (1830)

The Chair: When you do, share it with the clerk, and then we'll give that information out.

We want to thank the witnesses for coming forward and the committee for their questions.

The meeting is adjourned.

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