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Chair

Mr. James Rajotte

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•(1000)

[English]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call to order the 12th Meeting of the Standing Committee on Finance. Pursuant to the order of reference of Monday, April 19, 2010, we will be studying Bill C-9, an act to implement certain provisions of the budget tabled in Parliament on March 4, 2010, and other measures.

Colleagues, we are continuing to go through the bill. It's an 880-page bill with 24 parts and we are going through it part by part. The last time we got through parts 1, 2, and 3, so we will endeavour to get through parts 4 to 24 today. We have witnesses who are prepared to answer questions from parts 4, 5, and 6.

So I'll start with part 4. I'll just ask if any colleagues have any questions. Part 4 deals with the Softwood Lumber Products Export Charge Act. Are there any questions on this section?

Mr. Paillé, *s'il vous plaît*.

[Translation]

Mr. Daniel Paillé (Hochelaga, BQ): Thank you.

As I said last week—like you, I get the impression I've been in this movie before—I wonder whether my questions shouldn't be for the Canada Revenue Agency rather than the Department of Finance. I wonder about the weighting of charges collected in Quebec and the other provinces. I wonder whether more sawmills were shut down in Quebec or Ontario, whereas approximately 50% of Quebec sawmills process American wood for which there are no charges. We're mainly talking about border regions, the Lower St. Lawrence, Beauce, the Appalaches, and so on.

Do you know how the collection is done or is that completely outside your field of expertise? When you design fiscal policy, do you do it for Canada as a whole? Is it easy to adjust the application of charge collections?

Mr. John Drummond (Director, Softwood Lumber Controls, Department of Foreign Affairs and International Trade): If I correctly understood your questions, they concern the collection and application of charges to various regions. This part of the bill amends softwood lumber products export charges pursuant to arbitration under the Softwood Lumber Agreement. The amendment of export rights also applies to the four regions subject to Option B under the agreement. During the arbitration process, we asked the tribunal some questions about the weighting of charges. The tribunal ruled that charges must be applied to all regions subject to Option B until a

total of \$68 million is collected. It was therefore impossible to weight the application of rights following the tribunal's decision.

•(1005)

Mr. Daniel Paillé: If I understand correctly, if Ontario exported more than Quebec over a certain time and \$68,260,000 had to be collected, Quebec businesses could pay a larger part of the \$68,260,000 fine based on Quebec exports relative to Ontario exports. Is that possible?

Mr. John Drummond: Yes, it's possible. In early 2007, export levels were quite high in all regions. They were higher than they are now when we experienced the effects of the real estate crisis in the United States. Quebec exports are currently higher as a result of economic conditions. The sawmills are apparently operating. The regions that are currently exporting pay charges, but if the bill is adopted, those charges will be collected by Canada and the revenue will be redistributed to the regions based on the origin of the exports. If one region has paid more charges, the provincial government of that region will receive the revenue.

Mr. Daniel Paillé: Unless I'm mistaken, at the time of implementation in 2006-2007, Ontario, for example, exported a lot. Canada was assessed a penalty of \$68 million in charges. Now the charges are being collected based on 2009 exports. Since Quebec exports more than Ontario, there are differences.

You're telling me they are collected and those amounts are subsequently returned to the current provinces of origin, not those of 2007. They are sent to the governments of the provinces. If, for example, Quebec has to pay half the bill, \$34,134,000, the Government of Quebec would receive the cheque and would be free to return that money to the businesses or not.

Mr. John Drummond: The provincial governments receive the revenues. The export levels at the start of 2007 were high across all regions. There weren't any large differences between them in 2007. Quebec is currently exporting more.

Mr. Daniel Paillé: Quebec pays the bill and that money will be given back to the Quebec government by the federal government. The Government of Quebec will have to return it to the businesses. That may take some time. However, I understand that that is completely beyond the control of the Department of Finance.

[English]

The Chair: Okay.

We have Mr. McKay.

Hon. John McKay (Scarborough—Guildwood, Lib.): Clause 101 proposes a surge charge equal to an increase of 50% of the existing export charge. Could you explain to me how that would work?

Mr. John Drummond: Thank you for the question.

In the agreement there is a provision. In the 2006 Canada-U.S. Softwood Lumber Agreement the United States agreed to lift the duties they were charging in previous years and to refund to Canadian exporters about \$5 billion in charges that they had collected. In return, Canada agreed to implement a system of export measures. In some regions the export measures are a charge and an export quota, or restriction on exports, and in other regions the measure is an export charge with a surge trigger. The surge trigger applies to what we call option A regions. It's British Columbia coast, British Columbia interior, and Alberta. According to the agreement, exports from these provinces or regions can go to a certain level. If they pass a certain volume level, there's a surge charge, which is an additional 50% charge on exports from that region.

The provision is there to ensure that if any of the option B regions in the future ever decided to choose the option A, any surge charge that was collected would not be subject to the additional charge. It's careful drafting on that point, because in fact the option B regions that are affected by this charge are not subject to this surge charge provision.

•(1010)

Hon. John McKay: I'm sorry I asked.

How would a company or a region or a province know when it has surged and when it hasn't surged, except after the fact?

Mr. John Drummond: The Department of Foreign Affairs and International Trade runs and monitors an export permit regime. With each shipment every lumber exporter obtains an export permit. This keeps track of a number of things, including the volume of the shipment. These are posted on a daily basis so that the industry can watch as the volumes accumulate over time, and they can be notified as they get near the end of a month if they're approaching a surge.

Hon. John McKay: Thank you.

The Vice-Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): Okay, Mr. McKay? Thank you.

Any more questions on part 4? No. Part 5? Part 6?

What part, John?

Hon. John McKay: You can go back to part 5.

In effect we have the creation of a tariff-free zone in Canada with respect to manufacturing input. The problem with this stuff is that it comes right out of the blue. On the face of it, it strikes me as a good idea, so why wouldn't you do it? On the other hand, presumably domestic manufacturers are going to be affected in some substantial way.

So whose ox is getting gored here when you do this sort of thing? It's not as if our manufacturers have been having a wonderful time lately with the high dollar and productivity issues, etc. My gut reaction to it is that it's a good idea, but what about our domestic folks—how is that going to impact on them? And are there

compensatory mechanisms or should there even be compensatory mechanisms for this kind of proposal?

Ms. Carol Nelder-Corvari (Director, International Trade Policy Division, Department of Finance): In terms of the feeling that this came out of the blue, actually there have been consultations ongoing with industry for quite some time, and we saw that in budget 2009 when tariffs were removed on a broad range of machinery and equipment. Further to that, several submissions were made to the Department of Finance and it was decided that further consultation should be made. And those submissions were from manufacturers seeking further tariff relief.

Broad-based consultations were held last fall, so this has been building. And there was quite a lot of pressure last year as well, for the creation of tariff-free zones in Canada. So all these things were brought together in this budget.

We weren't able to please everyone, in the sense that we have several submissions for further tariff relief and we're trying to deal with those. And the Minister of Finance indicated that further consultations will indeed be held to see if further relief should be provided.

•(1015)

Hon. John McKay: Who opposes this initiative?

Ms. Carol Nelder-Corvari: In the consultations every sector that is listed stands to benefit, although there were some sensitivities and those were accommodated through a gradual phase-out. You'll notice some of the tariffs will not be removed until 2015. So there is always a balance between sectors and within sectors, and those were addressed through phase-outs.

Hon. John McKay: I appreciate that you're answering in a generalized way but at the same time you are not saying who is actually negatively impacted by this sort of thing.

Frankly, I don't know whether to let it ride and see whether the folks who are negatively impacted show up to complain. Can you tell me who is complaining and where they are coming from and why they are complaining? Because this is a very significant initiative. And as I said, as a point of principle it's not such a bad idea. But there are consequences, some intended and some unintended. So who and what are negatively impacted by this measure?

Ms. Carol Nelder-Corvari: I'm sorry, there are 1,541 tariff items listed here. And those that are phased out over a longer period reflect areas where there are sensitivities.

As I indicated, in those areas where there are sensitivities, those sectors are of course looking for immediate reduction on certain imports and phase-outs of others. So every sector here stands to benefit, and where there were sensitivities they were phased out over a longer period.

Hon. John McKay: I'll let it slide for the time being, because I dare say that we are going to hear from some people, but I just don't know who.

The Chair: Thank you, Mr. McKay.

I have Mr. Wallace and then Mr. Mulcair.

Mr. Wallace.

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

I think you actually answered the question in your response. The indication that this was coming out of the blue is inaccurate. The department and you have been working with those...on a public issue. When you say, "public consultation", what does that involve? Was it last fall, or how long have we been working at it?

Ms. Carol Nelder-Corvari: The public consultations are quite extensive. We start with a *Gazette* notice that lists all the tariff items and the proposals relating to those tariff items on tariff relief. Then the industry and all interested stakeholders have a certain period of time in which to submit their views. After they have submitted their views, when we have concerns, we meet with everybody who wants to speak with us in preparation—

Mr. Mike Wallace: That was actually done? You met with everyone who wanted to speak with you?

Ms. Carol Nelder-Corvari: That's right.

Mr. Mike Wallace: Okay, thank you very much.

The Chair: Thank you.

Monsieur Mulcair, *s'il vous plaît*.

[Translation]

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

I always try to make the distinction, somewhat as Mr. McKay was saying, and to respect the fact that you are here to explain the orientations and their effects to us, not necessarily to construct them. Having previously sat on that side of the debates, I always try to respect that difference and I'm going to try not to transgress it this time.

My question concerns a favourite topic of the New Democratic Party. It is a subject that they've previously discussed publicly on numerous occasions. In our view, widespread income tax cuts granted to the most profitable corporations are granted at the expense of the equilibrium of our economy. My question is how do you go about reconciling these concerns with others, that is to say cutting customs tariffs, lowering the income tax of large corporations, even cutting by sector, and how do you make your recommendations in that regard?

Allow me to provide a bit of a backdrop to this subject by saying this. We're talking about the most profitable businesses. In our opinion, however, by definition, a tax cut does not afford any benefits to a forest or manufacturing company that hasn't made any profits since it hasn't paid any taxes. We understand the measure in that way, that is to say that we're seeking a balance by giving the manufacturing sector a little air by allowing it to secure the equipment it may need free of customs tariffs. This is an attempt at rebalancing. We understand that, and in that respect the attempt is welcome.

However, my question concerns the internal process, not the political process. How do you formulate your orientations within your respective departments when those balances have to be

developed? How do you come up with a suggestion such as that in light of what we've experienced?

In other words, before the current crisis hit, Canada, particularly Ontario and Quebec, had already lost 400,000 jobs in the manufacturing and forest sectors as a result of the high dollar. I don't want to go into another area. We'll be having Mark Carney here this afternoon, with whom we'll be able to talk about monetary policy.

Within—if you'll allow me the expression—your respective machines, how do you strike this balance in order to try to maintain what we believe was a quite balanced economy that we had managed to build since World War II and that, from our standpoint, is being destabilized as a result of the fact that we are, in particular, putting all our economic eggs in the oil sands basket?

• (1020)

Mr. Patrick Halley (Chief, Tariffs and Market Access, International Trade and Finance, Department of Finance): I'll try to answer as best I can. I'm not in a position to discuss how the budget is formulated internally, but I can talk to you about internal formulation as regards customs tariffs.

With respect to tariff relief to assist corporate competitiveness, that is a longstanding policy. It's in the customs tariff. There is a mechanism to assist businesses and that has been done for some decades.

On the other hand, what Ms. Nelder-Corvari mentioned was that the process was more specific, more ad hoc, more reactive. Given the economic circumstances and the number of submissions that had been made, we started, with the 2009 budget, to get a more proactive approach and to adopt slightly broader tariff relief measures to assist Canadian businesses. However, the policy as such is a longstanding policy. It's the scope of that policy that has been altered with recent budgets.

Mr. Thomas Mulcair: Do you conduct an objective internal analysis to determine the long-term effects of each? How do those who deal with customs tariffs as part of their everyday duties communicate with people who are responsible for tax cuts for large corporations? How is that physically done?

Earlier your colleague explained to us that a notice was published in the *Canada Gazette* stating that there were going to be consultations and so on. That's the external part. However, internally, how do you coordinate your actions? How are topics put on the table? For example, is it acknowledged that certain measures produce certain results and that something else should be done to provide assistance to the manufacturing sector? How is that done in concrete terms?

[English]

Ms. Carol Nelder-Corvari: On this measure, some economic modelling was done concerning the proposal. That's the reference you heard the minister give to the positive impact on GDP and employment. So in broad-based budget consultations and under the government's Advantage Canada plan, everything was done to respond to the need to improve the competitiveness of Canadian manufacturers, particularly given the economic crisis. This was one component of that broader effort that was extensively discussed both within the department and with stakeholders.

I'd like to make one other point on your earlier comment about corporations. This measure is strongly supported by small and medium-sized enterprises, which stand to benefit. Very often they can't access tariff preferences, partly because of the customs burden. So this responds to the fact that more and more of these small and medium-sized enterprises are plugging into global supply chains, and they need to be competitive and get the most high-quality inputs at the best price.

•(1025)

[Translation]

Mr. Thomas Mulcair: That's good. Thank you.

[English]

The Chair: Merci.

We'll now go to Mr. McCallum, please.

Hon. John McCallum (Markham—Unionville, Lib.): On this \$300-million entire savings to the manufacturing sector, do you have any idea of the quantitative impact? I remember Jayson Myers comparing \$300 million of tariff savings with the shipments in manufacturing. It was \$100 billion or \$200 billion—I'm not sure of the exact number, but it was several hundred or a thousand times bigger than these savings. I remember him saying that the overall impact would be pretty trivial.

Do you have any quantitative estimate of how important this is?

Ms. Carol Nelder-Corvari: I have other quotes from Jayson Myers that are very supportive of this measure.

On the impact, it's supposed to have a 0.1% positive impact on GDP, increase jobs by 12,000, and increase exports by 3.6% to all regions. The Canadian Manufacturers and Exporters worked very closely with us on this measure in consulting and making sure we reached all interested stakeholders. They said that eliminating tariffs on manufacturing was a bold move by the government. It will cost little in terms of lost revenue, but it is vital to the competitiveness of Canadian manufacturing.

I have various quotes here from the CME and I'd be happy to table them.

Hon. John McCallum: I could also dig mine up if I needed to, but I don't think we need to have a war of quotes. He did say something to the effect of what I just said, so \$300 million compared to an industry of \$100-plus billion-. You say it is 0.1% of GDP. Okay, that's an answer.

Thank you.

The Chair: Thank you, Mr. McCallum.

We'll now go to part 6. I have Mr. Mulcair first.

[Translation]

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

My question is for Mr. McGirr. I see he has understood because he is approaching his microphone.

Mr. McGirr, I would like you to help us follow the process. As you know, files related to equalization are making the headlines and are of considerable concern to us.

I'm going to read clause 3.12 of the bill, which concerns section 1646 regarding the additional equalization payment. It states that the clause "establishes the amounts of one-time protection", and continues, stating that they cannot be reduced "under the Equalization, Canada Health Transfer and Canada Social Transfer programs."

Are you following me?

[English]

Mr. Tom McGirr (Chief, Equalization and Policy Development, Department of Finance): I'm not sure about the deduction part.

[Translation]

Mr. Thomas Mulcair: Let's look at the clause in question. I'm going to read it in full:

This clause establishes one-time protection of transfer amounts that will be paid in 2010 and 2011 to the provinces receiving equalization. This protection payment, which takes the form of an additional equalization payment in the case of provinces receiving equalization, is a one-time protection designed to ensure that no province receives less in 2010-11 than in 2009-10 through the combined Equalization, Canada Health Transfer and Canada Social Transfer programs.

It then states the amounts granted to four provinces: Nova Scotia, New Brunswick, Manitoba and Prince Edward Island. Do we agree on that?

•(1030)

Mr. Tom McGirr: Yes.

Mr. Thomas Mulcair: First, I would like you to explain to us in concrete terms what the facts are. We're talking about a health transfer program that is subject to an agreement between the federal government and the provinces and which, unless I'm mistaken, expires in 2013.

Is that in fact the date?

An hon. member: Yes.

Mr. Thomas Mulcair: This is indeed the agreement that was signed. It terminates in 2013-2014?

[English]

Mr. Tom McGirr: The last year the Canada health transfer will be legislated is 2013-14.

[Translation]

Mr. Thomas Mulcair: That's it. All right.

I'm going to ask you a question, trying once again to respect the line between your administrative function and ours, which concerns the political orientation.

In fact, if a province decides to impose charges on users—for example, \$25 for every medical visit—will there be a direct deduction from its transfer because it is not consistent with the health agreement? How would that be handled at the federal level?

[English]

Mr. Tom McGirr: I presume you're talking about a recent measure that was announced in the Quebec budget.

[Translation]

Mr. Thomas Mulcair: In fact, I'm going to be careful. Yes, there were two. And to be honest, I would say that that has been the cause of some confusion for the public.

First, the budget imposed a tax. It is the provinces' right to impose a tax. You can be in favour of a regressive tax or not, but a tax is a tax, and the provinces are free to tax in their areas of jurisdiction.

So that doesn't concern the tax, which is indeed included in the budget. It concerns the idea that is currently the focus of particular government attention: the idea is ultimately to charge a deductible of \$250. And based on the number of medical visits, the deductible would be deducted from that.

My mother, who saw this on TV, asked me whether it was true that she would be required to pay \$25 per medical visit. I told her that that was not yet the case.

Let's say it is the case. People sometimes look at the provinces' jurisdiction over health. Here, however, we're talking about an agreement. There's a signature at the bottom of the page: the provinces do this and the federal government does that, including equalization payments.

What would be the effect on equalization payments of a province that decided—and this isn't yet the case—to charge \$25 or \$50? What is confusing in the examples is that it was \$25 in the first year of the tax. So there were two different \$25 figures being bandied about, which confused a lot of people. So there's a part entitled “user fees”, that is to say an amount that appears directly on the income tax return—not in the doctor's office—based on the number of medical visits.

Let's say we collect—I'm making up a figure—\$600 in one year. Would it be taken into account in calculating the Canada Health Transfer payment?

[English]

Mr. Tom McGirr: I'm sort of sensing there are several questions here, so let me try to answer them one at a time.

On what you're talking about in the Quebec budget, it is simply a proposal. We don't have the final details on it. My understanding is that people at Health Canada are studying the proposal. Clearly, as you know, the Canada Health Act requires provinces to meet certain conditions of the Canada health transfer. I'm not an expert in that area, so that's about as far as I'm going to take that point. But Health Canada is looking at the proposal and will be assessing it with respect to the Canada Health Act.

As time moves along, the equalization program is always evolving and trying to capture how provincial taxation practices change. When you get into something called a user fee, the current program excludes user fees because it does not lead to fiscal disparities. But I'm not even going to try to pre-judge what the ultimate treatment would be, because I think it is a bigger issue. Until we have more precise details it's very difficult to give an answer.

[Translation]

Mr. Thomas Mulcair: On this last point, I agree with you. It's delicate to the extent that there is a proposal in a single province. Perhaps I should have addressed it from a purely hypothetical standpoint, but I'm also taking into account the fact that you explained to me that this was not your field. So I'll take the liberty of asking one brief final question on what, I believe, is in your own field. Would you be so kind as to explain in your own words the difference between the treatment of Hydro-Quebec and Hydro One in calculating equalization?

• (1035)

[English]

Mr. Tom McGirr: Hydro-Québec is a crown corporation that's engaged in the generation of hydroelectricity. Hydro One in Ontario is primarily engaged in transmission and distribution.

The policy in equalization is that you take the remitted profits in their entirety of any crown corporation engaged in hydroelectricity generation. It is part of the natural resource base. All other crown corporations would be treated as part of the business income tax base.

[Translation]

Mr. Thomas Mulcair: If I clearly understand the distinction you are trying to make, you are saying that, although Hydro-Quebec has three different companies, one that handles generation, another power transmission and a third export and distribution, for Hydro One, there is a fundamental difference because it mainly handles transmission and distribution and is not involved in generation? Is that what makes the distinction or are we looking inside Hydro-Quebec? For example, since it makes profits on exports, everything has been looked at in the case of Hydro-Quebec, not in that of Hydro One? Is that what you're telling me?

[English]

Mr. Tom McGirr: The policy is that you take all of the remitted profits of any crown corporation engaged in hydroelectricity production. The reason for that is the following, and I'll step back a bit here. The expert panel on equalization recommended that the revenues from natural resources be the base for natural resources, and that the revenues or remitted profits of a crown corporation engaged in hydroelectricity production were from that corporation gaining revenues from natural resources.

It's very difficult, of course, to be able to take the remitted profits of a crown corporation and distinguish precisely where those profits are coming from. Now, I know that Hydro-Québec does report amounts differently, but you can look across the country at the various crown corporations engaged in hydroelectricity production and it's very difficult to pinpoint exactly how much of that profit is coming directly from natural resources and how much is coming from distribution, transmission, etc. So the policy has been set that we'll simply take the total profits. It's a clean dividing line.

Now, Quebec has raised its concerns with us, and we have agreed with Quebec that we're going to hold multilateral discussions, where we will raise the treatment of hydroelectricity in general. Those discussions have begun.

[Translation]

Mr. Thomas Mulcair: In closing, just to make sure I clearly understood, when you say that it's—and I'm using your term in English—a policy, which I would take the liberty of translating as a policy orientation, it's generated by the administrative machinery, by the bureaucracy. That is not the subject of an agreement between the province and the federal government, unlike, for example, the signing in the health field where Quebec has undertaken to meet a certain number of conditions. Here it's unilateral. That's your policy. It has never been accepted as such by Quebec. Is that correct?

[English]

Mr. Tom McGirr: Equalization is a federal program.

[Translation]

Mr. Thomas Mulcair: The question I asked you was a little more subtle than that. In the case of health, we do have an agreement. Here there has never been an agreement. You say, for example, Hydro-Quebec is reporting.

It's like saying that's what they're telling us. However, in actual fact, there are three separate businesses and it isn't a question of what they're reporting.

It's really three very separate things. You don't agree that it's the same thing in Quebec as in Ontario. As the saying goes, what's good for the goose is good for the gander.

[English]

Mr. Tom McGirr: It's my understanding that there's never been an agreement, so to say, between provinces and the federal government vis-à-vis equalization. Equalization is a federal program and it's paid out under federal legislation. Provinces, from time to time—

Mr. Thomas Mulcair: Excuse me, but isn't it also part of the Canadian Constitution?

Mr. Tom McGirr: It is.

Mr. Thomas Mulcair: Okay, I'm just checking. It's not federal legislation.

Mr. Tom McGirr: The actual program is laid out in federal legislation, and from time to time provinces have disagreed with the various treatments that have happened within the program. We consult with the provinces and listen to what they have to say, but at the end of the day, it's the federal government that decides what the equalization program is going to look like.

• (1040)

[Translation]

Mr. Thomas Mulcair: Thank you.

[English]

The Chair: Merci.

Monsieur Paillé.

[Translation]

Mr. Daniel Paillé: I'm going to keep the ball rolling. The opportunity is too good.

In people's minds, Hydro-Quebec generates, transmits and distributes electricity. Hydro Ontario produces, transmits and distributes electricity. The two organizations belong to their respective governments, but as a result of administrative, legal, and whatever other differences, the Government of Quebec receives less money. In its last budget, it stated that that difference was approximately \$250 million a year.

I'm quite pleased that you've confirmed that the equalization program is a federal program that is not the subject of agreements. This is a transfer from the federal government to the provinces. We already knew that, but it's nevertheless good to have that confirmed for us. The federal funding sources are not the provinces. It isn't the provinces that hand the money over to the federal government, but rather the taxpayers and businesses that contribute to the Canadian tax base. Quebeckers pay direct and indirect taxes and royalties to the Government of Canada, and the government redistributes them through the equalization program. Contrary to the urban legend about the equalization program, the principle is not that the rich provinces hand money over to the poor provinces; it's the Government of Canada that redistributes funds through the equalization program.

So far, I don't believe I've made too many mistakes.

[English]

Mr. Tom McGirr: That's correct.

The Chair: I'm checking, but I understand that we may have votes.

[Translation]

Mr. Daniel Paillé: It's like for the Pope.

Are we continuing?

[English]

The Chair: If there are votes and the bells are ringing, we do have to stop, unfortunately. I apologize for that.

[Translation]

Mr. Robert Carrier (Alfred-Pellan, BQ): We have 30 minutes to get to the House for the vote.

Mr. Daniel Paillé: We'll stop.

[English]

The Chair: It's 30 minutes, but because of a standing order, the committee does have to stop when the bells start ringing for votes.

I apologize for the delay, but members will have to go to the House for a vote.

We will be back as soon as possible, colleagues. We'll just suspend the meeting.

- _____ (Pause) _____
-
- (1130)

The Chair: I call the meeting to order again.

We were still on part 6 of Bill C-9, and Monsieur Paillé had the floor.

Monsieur Paillé, *s'il vous plaît*.

[*Translation*]

Mr. Daniel Paillé: Before the interruption, we were confirming that equalization was indeed a federal program.

To get back to the bill, clause 1646 refers to a program that takes into account the fact that equalization should not fall, that this is a protection payment. We're going to grant \$250 million to Nova Scotia, \$80 million to New Brunswick, \$175.5 million to Manitoba and \$3.3 million to Prince Edward Island. In total, \$509.5 million will be distributed. Clause 1648 still refers to one-time protection. For provinces that are not receiving equalization, that is Saskatchewan and Newfoundland and Labrador, the payments are respectively \$7.3 million and \$8.4 million, for a total of \$15.7 million. All that totals \$525,215,000.

Clause 1647 provides that a payment is made to Ontario. However, that province receives equalization, but the clause does not state the amount that is paid to it. First, I'm going to ask you why the amount is not specified and, second, whether the estimated amount of \$214 million is correct.

[*English*]

Mr. Tom McGirr: Let me first correct one thing. The payment that's being made is not to protect against declines in equalization; it's a payment to make sure that the total amount of major transfers a province is receiving in 2010-11 is no lower than it was in 2009-10. For provinces who receive equalization, it's being paid as an additional equalization amount, and for provinces not in receipt of equalization, it's being paid elsewhere in the act. I think that answers the first part of your question.

As for the second part of your question, in clause 1647 we're simply correcting a reference mistake that was in the legislation pertaining to a payment for Ontario in 2009-10, I believe. I don't have the exact part of the act with me, but it is an existing payment that's already in the act. It doesn't change the level of the payment, but just corrects this reference.

- (1135)

[*Translation*]

Mr. Daniel Paillé: The fact nevertheless remains that the program exists. You are right to say that it's not equalization as a whole, but that it also concerns health and social programs. The Minister of Finance summed up the situation in the Quebec government's budget. It's in Schedule E. It's extremely well done, which you have no doubt noted. It's somewhat a summary of what the Government of Quebec expects from the Government of Canada in terms of payments. Again in the context of Part 6, since I want to respect the

order, the Government of Quebec recalls that, in 2002-2003 and 2003-2004, according to the same variables, it received an overpayment of \$2.38 billion. Since 2006, that amount has been recovered at a rate of \$238 million a year. I therefore assume that it will go until 2016, that it is interest-free and that it is deducted at source, in other words that you are repaying yourselves out of the amounts subsequently transferred to that government.

My question is quite simple: why, in the case of Nova Scotia, New Brunswick, Manitoba, Prince Edward Island, Saskatchewan, Newfoundland and Labrador and Ontario are amounts paid not recovered under a program, whereas that funding is being recovered at a rate of \$238 million a year in the case of Quebec? Does that mean that Quebec's experience is today enabling the other provinces to take advantage of this situation?

[*English*]

Mr. Tom McGirr: Let me first confirm that the payments you are talking about from Quebec, the loan that was given to Quebec, is interest-free. It is a loan that was put in place, from my understanding—and I did not work in the division at the time—because of a significant adjustment that was made to transfers because of a change in census data.

In terms of the payments that are being made in 2010-2011, which are being set out in this bill, these are payments. These are not amounts that are being recovered in any sense of the word. These are additional payments that are going to be going to these provinces to ensure that their total transfers from equalization, Canada health transfer, and Canada social transfer are at least as high as they were in 2009-2010 and 2010-2011.

[*Translation*]

Mr. Daniel Paillé: It was done from here for the other provinces.

As regards the interest-free loan, these are amounts paid since 2002-2003 and 2003-2004 that you have transferred in the form of a note, a loan or an interest-free debenture. What is curious is that Quebec expects to receive approximately that same amount of \$2.4 billion in respect of GST and QST harmonization, that is \$2.2 billion since 1992. I suppose people have offset the two things, thinking that no interest was being charged on the \$2.4 billion or \$2.2 billion. The fact nevertheless remains that you're recovering that amount of \$2.3 billion or \$2.4 billion from the source once a year, I assume, or once a month when the transfer payments are made. I assume that's how it's done.

[*English*]

Mr. Tom McGirr: I don't have the precise details, but my assumption would be that it is just simply deducted equally across the year from all the payments that are being made to Quebec, but I don't have the exact specifics.

• (1140)

[Translation]

Mr. Daniel Paillé: Another file was referred to, which in fact goes back to the Hydro-Quebec file. Since 2008, all the ministers of finance, including that of Quebec, have corresponded with the Minister of Finance Canada over what we consider unfair treatment between Hydro-Quebec and Hydro One, in Ontario. According to the public service people, is that matter closed or evolving?

[English]

Mr. Tom McGirr: I think I addressed this in a previous response. In response to Quebec's concerns, the Minister of Finance announced there would be multilateral discussions on the issues that were raised by Quebec as part of a larger discussion about the treatment of hydroelectricity within equalization. Those multilateral discussions continue.

[Translation]

Mr. Daniel Paillé: Thank you for reminding us that you've already answered those questions, but we are free to ask them once, twice or three times.

Would it be logical to say that the disputes or rather the bilateral discussions that you have with the Government of Quebec simultaneously concern GST and QST harmonization, the matter of Hydro-Quebec and Hydro One, the equalization ceiling, protection payments and the minor matter of income stabilization which dates back to 1991?

[English]

Mr. Tom McGirr: I can confirm that the Minister of Finance from Quebec recently sent a letter to the Minister of Finance for the federal government outlining exactly the same concerns that were expressed in Quebec's budget. That correspondence is being looked at as we speak.

[Translation]

Mr. Daniel Paillé: Before leaving a little time to the others, I would like to make one last comment on income stabilization.

According to the information we have, Quebec filed suit for \$137 million 15 years ago over the amounts paid in 1991. The Federal Court found in favour of Quebec. Subsequently, in a unanimous judgment, the Federal Court of Appeal dismissed the federal government's appeal and found in favour of Quebec. The Government of Canada did not go to the Supreme Court. Despite two court judgments and no Supreme Court challenge, the Government of Canada still has not paid the \$137 million it has owed Quebec since 1991.

[English]

Mr. Tom McGirr: I'm not an expert on the stabilization case, so I think I'm going to refrain from responding to that question other than to say that Quebec has once again raised its concerns with the federal Minister of Finance.

[Translation]

Mr. Daniel Paillé: May I make a humble suggestion? Is there anyone, among the 40 officials behind you, who could answer that question?

[English]

The Chair: Monsieur Paillé, is this in respect to part 6?

[Translation]

Mr. Daniel Paillé: Absolutely.

[English]

The Chair: Is there someone here who can answer that question?

Mr. Tom McGirr: Not to my knowledge.

The Chair: Okay, we can endeavour to get a response to you, Monsieur Paillé.

I have Mr. Wallace, Mr. McKay, and Monsieur Carrier.

Mr. Wallace.

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

These additional payments to Nova Scotia, New Brunswick, Newfoundland and Labrador, P.E.I., Manitoba, and Saskatchewan were previously agreed to. They're in the budget because they need royal assent for the payments to actually happen. Is that correct?

Mr. Tom McGirr: No payments can be made until royal assent is given.

Mr. Mike Wallace: Thank you very much.

The Chair: Thank you, Mr. Wallace.

Mr. McKay.

Hon. John McKay: You seemed to answer Mr. Paillé's question with respect to correcting a cross-reference. I'm not sure I understood it. What was the error that was made in the first place that had to be corrected? It was on the Ontario method.

• (1145)

Mr. Tom McGirr: From my understanding, there was a cross-reference that was not made entirely correctly, and we decided in this bill to change that cross-reference.

Hon. John McKay: What and why...?

Mr. Tom McGirr: I'm afraid for that part of the bill itself I don't have the exact references as to what it was in the past. I can give you the answer, but—

Hon. John McKay: At one level it may be a superficial error, but on the other hand you say that the amendment affects the calculation of a separate payment to Ontario for 2010-2011 only and does not have an impact on the CHT cash for any other province. So you've isolated it from other provinces, but it certainly seems to have some impact for Ontario. Can you elaborate on that? I'm not sure I understand it.

Mr. Tom McGirr: The amount for Ontario is being calculated as if this reference has been corrected, so it's not affecting the actual payment itself to Ontario. It is for 2010-2011, by the way. I just checked my notes.

Hon. John McKay: Since Ontario is about to enter into this hallowed status of a receiving province, could you respond with a bit more elaboration on what needed to be corrected, and how, or not, this impacts on Ontario's receipt of funding?

The second question has to do with HST. It's anticipated to be in position in Ontario on July 1. How will the transfers between governments, if at all, be affected by HST?

Mr. Tom McGirr: On your first question, last year in the Budget Implementation Act a change was made to the Canada health transfer that provided a separate payment to Ontario, so that it would be treated under the Canada health transfer like any other receiving province. That legislation spelled out how that payment was to be calculated in 2010-2011. I think the amount for 2009-2010 was set out as a specific amount.

Since that time, we looked at the way we legislated it and said this little change has to be made to make it appropriate. As I said, the payment itself to Ontario has been calculated exactly the way it's intended to be calculated, and all this change in the cross-reference is doing is making sure that we have the legislative...

Hon. John McKay: Has the Government of Ontario signed off on that? Do they agree with your position?

Mr. Tom McGirr: The Government of Ontario hasn't said anything one way or the other, to my knowledge.

Hon. John McKay: You know, if it goes in column B or column A, it may have no impact whatsoever. On the other hand, putting it in column A or column B may have either an impact on the current payment, or have a precedence value. I'm not familiar enough to know what the mistake was and what the correction is to know whether there is in fact, as you say, no impact. I would have thought that for a correction of some significance you would at least have had some exchange of correspondence with the Province of Ontario.

Mr. Tom McGirr: Ontario certainly hasn't expressed any concerns about what we're doing. They're certainly aware of what we're doing, and they have not expressed any concerns at all.

Hon. John McKay: On the HST...?

Mr. Tom McGirr: Let me return to the second part of your question, the harmonized sales tax in Ontario.

We measure fiscal capacity based upon the average tax and taxation practices of provinces. The fact that Ontario is moving from a retail sales tax to the harmonized sales tax will certainly be reflected in our measure of fiscal capacity. As to what impact that will have on transfers, I'm not in a position to be able to pass that along to you.

Hon. John McKay: Again, going to the theory of measuring fiscal capacity, moving, effectively, a tax from some combination of 8% plus, plus, plus to a harmonized 13% should in theory have some impact on fiscal capacity. The question is whether it's negative or positive.

Mr. Tom McGirr: Only to the extent that the 13% rate in Ontario comprises the 8% rate that's provincial and the 5% federal rate. Certainly the 5% federal rate does not factor into fiscal capacity.

Hon. John McKay: But it will tax things that have not been taxed before, and it will give credits to things that didn't receive credits before.

• (1150)

Mr. Tom McGirr: Absolutely.

Hon. John McKay: Therefore the question is how will HST affect fiscal capacity and the measurement for transfers?

Mr. Tom McGirr: The formula itself is going to automatically start taking into account this new taxing practice. Now you have to remember that the equalization formula is based upon a three-year moving average of data that's lagged two years behind, so that the change that Ontario is going to be making in 2010-11 will only first be seen in terms of equalization payments in 2012-13.

Hon. John McKay: Well, it may be a delayed impact. I don't dispute that it will be delayed, but I just don't know what it's going to be. With the greatest respect, Mr. McGirr, you're not telling us what it is, how that impact is going to...

Mr. Tom McGirr: I don't have that information for you, though.

Hon. John McKay: Does anybody in the department have that?

Mr. Tom McGirr: I don't think we've looked at that particular question at this point in time.

Hon. John McKay: You haven't looked at the question?

Mr. Tom McGirr: Not yet.

Hon. John McKay: This is probably the most significant tax reform undertaken in Ontario in years. I would have thought that somebody somewhere, someplace, somehow has looked at this as it would impact on transfers.

Mr. Tom McGirr: The impact on transfers is going to be a matter of course, of the way the formula works. There are provincial taxation changes all the time. If you look at changes in personal income taxes, those automatically would be reflected in different fiscal capacities.

Hon. John McKay: Presumably somebody models it and measures it, and says this is good or this is bad, or this is up but this is down.

Mr. Tom McGirr: The choice of harmonization is a choice the provincial government made. I assume that the provincial government, if it were concerned about transfer impacts, would have done that type of analysis, but I certainly wasn't asked to do that.

Hon. John McKay: It's a remarkable answer.

Thank you.

The Chair: Thank you, Mr. McKay.

[Translation]

Mr. Carrier, please.

Mr. Robert Carrier: Thank you, Mr. Chairman. Good morning, Mr. McGirr.

If I understand correctly, you are responsible for equalization. I want to go back to the difference in treatment of revenue between Hydro-Quebec, in Quebec, and Hydro One, in Ontario. You know that deprives the Government of Quebec of \$250 million a year. That is not a negligible amount, particularly since we, as Quebec taxpayers, pay the difference as a result of the federal government's way of proceeding.

What I understand is that Hydro-Quebec derives its revenue from power distribution. Of course, there is generation, but the revenue comes from distribution and the amount billed to customers. I suppose the same is true of Hydro One, in Ontario. It derives income from the distribution of power to the population, to taxpayers.

So that's the argument that has been raised by the Government of Quebec for a number of years to explain that, ultimately, it's the same kind of treatment. Here I note that Hydro One is considered as having business income rather than income from natural resources. If these are forms of business income, that means that Hydro One is a private company and not a Crown corporation. Enlighten me on that. I don't understand.

[English]

Mr. Tom McGirr: As I said before, the policy is that we take the remitted profits in their entirety from a crown corporation. Any crown corporation that is engaged in the generation of hydroelectricity is treated in the natural resources base. Any crown corporation that is not engaged in anything to do with natural resources is treated in the business income tax base. That's the policy.

I understand what Quebec's concerns are. I think Quebec is saying that we identify what the transmission profits are, the distribution profits. But frankly, it's just not possible to be able to isolate at this point in time, based upon the information that we have available, fairly across the country just those profits that are derived from natural resources. And that's the reason we're having the multilateral discussions, to talk about the Quebec issues in the wider context of the treatment of hydroelectricity within the equalization formula.

[Translation]

Mr. Robert Carrier: Hydro One distributes electricity. It has to get its electricity somewhere; it doesn't invent it; it doesn't make it. In my view, it comes from the natural resources of the province, as is the case in Quebec. You don't manufacture electricity; it comes from natural resources.

• (1155)

[English]

Mr. Tom McGirr: Ontario Power Generation is the crown corporation in Ontario that is engaged in the generation of hydroelectricity. Hydro One is engaged in the transmission and distribution of the electricity that's generated by Ontario Power Generation.

[Translation]

Mr. Robert Carrier: In my view, this is a matter of semantics. If we had to explain this to someone from outside the country, he wouldn't understand why profits from power distribution would be treated differently from province to province. I think this is completely crazy. I don't understand.

When we ask political questions in the House, we're often referred to negotiations that do not take place in the House of Commons, but that do take place among officials. There are some intelligent people trying to solve problems. Talking about officials, do you see a solution to this problem? And will we be talking about it next year and in two years? Will the people who replace us still be denouncing it? What about the alleged unity or uniform treatment of the Canadian policy? I don't understand.

[English]

Mr. Tom McGirr: I'm certainly not going to be able to give you any sort of insight as to what's happening in terms of the multilateral discussions. We do know that the equalization program is going to have to be renewed in 2014-15. I certainly can't make any comment as to whether changes will happen between now and then because quite frankly it's not my responsibility to make that call. It will be up to the Minister of Finance if there are going to be changes to the program.

In terms of the fairness across the country, I think it is important to realize that we have to step back, first, to say the expert panel on equalization made the recommendation that natural resource revenues should be treated in a certain way and that crown corporations that are engaged in the generation of hydroelectricity are deriving their revenues from a natural resource, and that the transmission and distribution does not comprise the derivation of a revenue from a natural resource; it's part of the normal operation of the corporation.

But there are other parts. If you think about all the crown corporations that are engaged to some degree in the generation of hydroelectricity, it's more than just hydroelectricity that is considered "a natural resource". There's also, for example, coal-fired electricity, which would not be something that's being derived from natural resources and yet could engender certain amounts of profit. Those profits are counted as a natural resource just as much as the generation of hydroelectricity. There are other parts of that puzzle that are there.

To truly get at something that's going to apply from coast to coast to coast, you'd have to be able to isolate just those revenues that are being derived from natural resources. I'm suggesting that is not an easy task to do, and that's one of the reasons why we're engaging in all of these multilateral discussions.

[Translation]

Mr. Robert Carrier: I would like some clarification. You say that Hydro One engages solely in distribution. In Quebec, there's also a power distribution sector, which is the equivalent of Hydro One.

In your view, where do the operating revenues of Hydro One go at the end of their fiscal year? Are they remitted to owners outside the government, or are they transferred to the Government of Ontario, as is the case in Quebec?

[English]

Mr. Tom McGirr: Hydro One is just involved in distribution and transmission. Its profits are remitted to government and are counted in equalization, so it's the same thing. It's an amount that's being remitted to the government.

Hydro-Québec, yes, there is a division that is concerned with distribution and transmission, but it is a division of the same crown corporation. And the policy is that we take the remitted profits in their entirety of a crown corporation. We do not try to split them.

[Translation]

Mr. Robert Carrier: Since we have with us senior officials who can give us answers that are not necessarily biased or influenced by partisan views, I would like to understand the essence of your remarks.

As is the case in Quebec, the Government of Ontario profits from the distribution of electrical power in its province, which is quite normal. In Quebec, on the other hand, the amount of income earned is deducted from the amount of equalization, which penalizes the province. Ontario, on the other hand, is not penalized. It pockets profits from power distribution. For reasons that I find obscure, Quebec is deprived of \$250 million of revenue. Is that what you're telling me?

• (1200)

[English]

Mr. Tom McGirr: Let's keep in mind that the \$250 million figure is a figure that is being put forward by the Quebec government. My understanding of the way they came to that number was simply to look at what the impact would be if we took out the transmission and distribution profits of Hydro-Québec but did not extend that same type of treatment to other crown corporations engaged in hydro-electricity across the country.

If you did the same treatment across the country, I'm not sure you'd get to \$250 million. I'm not sure where you'd get to, because as I said, it's very difficult to isolate just the profits from the natural resource component from the other components that would not be considered part of natural resources. That's why the policy is that we take the total revenues that are remitted by any crown corporation that's engaged in hydroelectricity.

[Translation]

Mr. Robert Carrier: You're telling me that the \$250 million does not necessarily correspond to the portion of the equalization amount that would be lost, that it could be another amount. That at least shows that you're discussing the matter and that you're negotiating. That's normal because negotiations are necessary on every issue in order to reach a consensus, an agreement.

What amount is the federal government proposing, if it's not \$250 million? That amount could be acceptable to the Government of Quebec and help avoid a categorical denial of all compensation.

[English]

Mr. Tom McGirr: I believe I said that we're involved in multilateral discussions with all the provinces about the treatment of hydroelectricity in general. There are certainly no negotiations going on between the federal government and Quebec with respect to the treatment of hydro at this point in time.

[Translation]

Mr. Robert Carrier: So there's a major dispute in the public arena. We have copies of letters from successive Quebec ministers of finance in which they demand that the federal government solve this problem. You're telling us that there's no discussion. Is it the federal government's wish not to discuss it? We're still talking about the same country? We're still in Canada?

[English]

Mr. Tom McGirr: What I said was there are no negotiations. I certainly did not say that there are no discussions going on. As I said, the Minister of Finance in Quebec has recently written a letter to my Minister of Finance, again outlining those concerns, and we're looking at that correspondence as we speak.

[Translation]

Mr. Robert Carrier: I'm going to leave some time for the other speakers.

[English]

The Chair: Okay.

I actually have a question, as do two other colleagues, and I understand we do have an answer to Mr. McKay's question.

Colleagues, I'll just remind you, we go to committee business at 12:30.

My question, Mr. McGirr, is with respect to the payments to Ontario, and it has to do with the position of the Government of Alberta. The Government of Alberta contends that it is not getting equal per capita payments for health transfers, as you know. You mentioned the agreement with respect to the legislated CHT until 2013-14.

Now, when I had officials before the committee—I believe last year—they said if you total the tax points plus the cash payments, in fact you do have an equal per capita transfer for health care to all provinces. But as you know, we're moving for equal per capita cash transfers. That's my understanding beyond 2014, but not before then.

Now the Province of Alberta says that the federal government changed the way the cash transfers are done for the Province of Ontario and therefore are not fully respecting that CHT until 2013-14, so it ought to be changing the cash transfer portion for the Province of Alberta at this time. I just wanted to get your official response to that.

Mr. Tom McGirr: We're certainly aware of Alberta's preference. The change that was made for Ontario was premised by the fact that Ontario was entering the program as an equalization-receiving province. Alberta certainly isn't an equalization-receiving province.

The Chair: But can you expand as to why that makes a difference?

Mr. Tom McGirr: I think you're now getting into the policy, which is government-driven. At this time the government has committed in legislation that we'll be moving to equal per capita cash beginning in 2014-15. Alberta is certainly pushing to move to equal per capita cash sooner than that. I assume that's a political question and not a technical question, if you will.

• (1205)

The Chair: But on the response to Alberta saying we have to respect the agreement to 2013-14, it's the government's contention that we are still respecting that agreement, even though these payments are being made to Ontario. These payments to Ontario do not in any way affect the agreement until 2013-14.

Mr. Tom McGirr: No.

The Chair: Okay, thank you.

I have Monsieur Paillé and then Monsieur Mulcair.

[Translation]

Mr. Daniel Paillé: I want to understand. With regard to the previous question, I was told that no one behind Mr. McGirr could answer that question.

Mr. McKay also asked an excellent question on the impact and we were told there was no answer. That very much surprises me. Thirty-five years ago, when people left Quebec universities with degrees in taxation, the Department of Finance Canada was one of the best places to work because it represented a challenge. It appears that has changed a lot.

You also seem to be telling us that there are no negotiations between the Government of Canada and the Government of Quebec over Hydro-Quebec, but that there are discussions. As a representative of the Department of Finance, can you explain to me the difference between discussions and negotiations?

[English]

Mr. Tom McGirr: Quebec is raising their concerns with the Minister of Finance. The Minister of Finance is responding to Quebec's concerns. To date we've said that we're taking part in multilateral discussions with the other provinces on the treatment of hydroelectricity with an equalization, and those multilateral discussions are ongoing.

[Translation]

Mr. Daniel Paillé: If I understand correctly, there is a negotiation when the two parties are open and a discussion when one is talking and the other is politely listening.

[English]

Hon. John McKay: Like now.

Mr. Daniel Paillé: Like now.

[Translation]

At last, I understand.

I'd also like to go back to clauses 1646, 1647 and 1648, since the purpose of the point of order was to indicate the clause referred to. The equalization arrangements are generally highly complex and very specific, very differentiated and very precise. With the current econometric and computer techniques, we can now have quite complex formulas.

In view of the ability of the very high levels of the public service of the Government of Canada to handle enormous programs and arrive at amounts and interesting formulas, I find it curious that, regarding Hydro-Quebec and equalization revenue from natural resources, you're saying we can't differentiate profits because it would be too complicated. That seems a little much to me.

If, out of abnegation, Hydro-Quebec adopted the same corporate structure as Ontario Power Generation and Hydro One and at the same time, instead of presenting one type of sheet, presented another type, would you send it a cheque?

[English]

Mr. Tom McGirr: If there were a corporate restructure in the province of Quebec, we would have to look at it in terms of how the equalization program was currently functioning.

[Translation]

Mr. Daniel Paillé: Conversely, for the Ontario government, again in the equalization calculations under clause 1647, with Hydro One and Ontario Power Generation, if Hydro Ontario adopted Hydro-

Quebec's structure, there again I suppose the Government of Canada would have to look at and analyze the changes.

•(1210)

[English]

Mr. Tom McGirr: Certainly given the policy we have right now, if you merged Ontario Power Generation and Hydro One you would have to look at how that would fit into the program. The policy is that you take the entire remitted profits of any crown corporation engaged in hydro generation.

[Translation]

Mr. Daniel Paillé: With regard to the Government of Canada's other tax policies concerning private businesses, so we're not talking about Crown corporations, the Department of Finance, in its group of tax experts on corporations and companies—I'm thinking of immense holding companies, without naming any; there are some very large holding companies in Canada—has a fairly specific tax policy that enables the Government of Canada and its senior officials to ask the Revenue Department to apply a specific type of segregation regarding profit levels. Whereas, in the case of private businesses, they are able to differentiate profits quite accurately, almost surgically—having been a private sector CFO, I'm asking you to believe that, when the Revenue Department knocks on your door, it's quite something—I wonder why, on the Crown corporations, they don't conduct that surgical operation that would of course enable Quebec to obtain its due.

[English]

Mr. Tom McGirr: I'm certainly not an expert in corporate tax law, so I'm not going to touch that side of the question. All I can say is that the information we have makes it difficult to be able to isolate just those profits from the exploitation of natural resources for all of the crown corporations in Canada that are engaged in that type of activity.

[Translation]

Mr. Daniel Paillé: My last question is as follows. Could one of the 40 officials behind you answer the question that you can't answer?

[English]

Mr. Tom McGirr: I'm not aware if there's anybody from the tax policy branch who would be able to answer the first part of your question.

[Translation]

The Chair: All right. Thank you.

Mr. Mulcair, please.

Mr. Thomas Mulcair: I'm going to start with an admission. I was so familiar with Quebec's arguments regarding the differential treatment in Quebec for Hydro-Quebec and the treatment in Ontario. I wear my name well. I tend to doubt until the point has been proven.

If I had the slightest doubt in coming here today that the difference in treatment between Hydro-Quebec and Hydro One in Ontario was an argument and not a fact, I no longer have that doubt. You just convinced me that it's an intentional choice by the Government of Canada to treat Hydro-Quebec differently from the way it treats Hydro One in Ontario. I followed all your arguments throughout your explanation. About half an hour ago, you said

[English]

that in both cases—Hydro One and Hydro-Québec—we're looking at all the profits remitted to the government.

[Translation]

A moment ago you corrected yourself, saying:

[English]

profits remitted to the government by any crown corporation involved in hydro generation...

[Translation]

Which is different from what you said about half an hour ago, and the transcripts will show that very clearly. You moreover say that we constantly ask you

[English]

political questions, not technical questions.

[Translation]

And yet, fundamentally, every time we ask you the question, you hide behind a technical argument. You always say

[English]

that it's very difficult to isolate just those profits.

[Translation]

It seems to me the burden of proof is on your shoulders. Moreover you said this:

•(1215)

[English]

If there was a corporate restructuring in Hydro-Québec...

[Translation]

But which one?

What would it take for Hydro-Quebec to receive the same treatment?

There was a corporate restructuring at Hydro-Quebec, precisely to create different so-called “corporate” entities. Accordingly, the burden of proving whether Hydro-Quebec's figures are fictitious, when you separate production, generation, distribution and so on, is on your shoulders.

There is a prejudice at the very basis of your reasoning. Every time you talk about Quebec, Mr. McGirr, you say that the \$250 million

[English]

is a figure advanced by Quebec.

[Translation]

That even makes the government members smile. That's rubbish and we won't even consider it. That's their argument.

Here's what I'm asking you. What information do you have concerning the \$250 million, since this is a technical question?

Every time, you say

[English]

it's complicated. Isn't that why you have that job, because you want to take care of these complicated questions for us?

[Translation]

The question remains unresolved,

[English]

the information we have is that it is difficult to isolate.

[Translation]

That's why I'm asking you a technical question, not a question

[English]

of policy. What is the information that you have?

[Translation]

That's what you're telling me.

[English]

The information we have is that it is difficult to isolate.

[Translation]

I respectfully submit to you that Hydro-Quebec has done the work for you. You're telling us that you reject that out of hand, that you don't believe Hydro-Quebec's figures. You don't believe in the Government of Quebec's \$250 million. What do you believe? What is

[English]

the information we have?

[Translation]

Is that technical enough for you? It isn't a policy question. It's a technical question. So answer it.

The Chair: Show some respect, Mr. Mulcair.

Mr. Thomas Mulcair: This is respectful. I said it with a lot of respect. That doesn't mean it's an easy question.

[English]

The Chair: Mr. McGirr, please.

Mr. Tom McGirr: This story is becoming a little more complex with each and every moment.

What I talked about was that the equalization program takes into account the remitted profits of any corporation that's involved in hydroelectricity generation in the natural resource base. The profits of all other crown corporations are taken into account in the business income tax base. So they're not omitted, if you will. Hopefully that's what the transcript will say.

But that is the policy. Any firm that said the profits—and this dates back to the recommendation that was made by the expert panel on equalization—that come from crown corporations that are engaged in hydroelectricity are akin to any type of royalty that Alberta raises from oil, or that Nova Scotia raises from natural gas, etc.... It should all be part of the natural resource base.

The question is how much of the profit of a given crown corporation relates just to the exploitation of a natural resource? That's the tricky part.

I'm certainly not questioning the numbers that Hydro-Québec has. Please don't infer that I've made that commentary. I'm aware of the numbers that Hydro-Québec produces, but the equalization program—and people have already mentioned this today—should be applied equally across the country. It's not just a Hydro-Québec issue, if you will, in terms of narrowing down the profits to just the exploitation of a natural resource.

Hydro-Québec's data is probably better than others. I'm not going to comment on that. I certainly don't want to classify one versus another. I'm saying that at this point in time we do not have the information available to us to be able to fairly go across the country to each and every crown corporation that's engaged in hydroelectricity generation and isolate those profits that relate just to the exploitation of a natural resource.

[Translation]

Mr. Thomas Mulcair: May I take the liberty of summarizing what you've just said? Tell me if I'm mistaken.

Hydro-Quebec has created three distinct corporate entities and reports the profits of each one. You acknowledge that difference and you don't discuss the validity of their figures. You're telling me that, because a counterpart in another province does everything under the same corporate hat, because a single Crown corporation carries on three activities in a particular province, you find it too complicated to separate the various activities. In the case of Quebec, which separates them, you say you have nothing to say about the figures.

You refuse to grant the same treatment to Hydro-Quebec, whose activities are identical to those of Hydro One, because the other provinces haven't separated activities within their Crown corporation responsible for hydroelectric power production.

I think that's a constitutional aberration, not a policy question, as you just said it.

• (1220)

[English]

The Chair: Do you want to comment, Mr. McGirr?

We have about five minutes. We will have to be very quick, because we want to get the answer to Mr. McKay on the record and we have to go to committee business at 12:30.

Go ahead, Monsieur Paillé.

[Translation]

Mr. Daniel Paillé: Yes, but at \$250 million, that's quite a lot per minute.

My question stems from the exchange we've just witnessed. How many companies are there in Canada that produce hydroelectric power? I'm asking the question, and you see it very clearly because it seems so complicated to separate the activities. The number of businesses that produce electric power in Canada from hydraulic energy must be monstrous. That's what I understand.

[English]

Mr. Tom McGirr: I don't have the exact number of companies. I don't have that information with me, and I'm not going to try to speculate. We're talking about no more than twenty, but I think it's fewer than that.

As part of the multilateral discussions we're having with provinces, we're asking for the provinces' help in getting the data that would be required to better answer this question. We're still working on trying to get that data.

[Translation]

Mr. Daniel Paillé: I have one final question for Mr. McGirr. I sense you are impatient, Mr. Chairman. Is there anyone behind you, among the 40 officials accompanying you, who could give you an answer to the question how many hydroelectric companies there are in Canada?

[English]

Mr. Tom McGirr: No, but I certainly would be able to provide it if I had the right piece of paper with me. I just don't have that right piece of paper with me. I'm sorry.

The Chair: You can provide that to the clerk.

Mr. Tom McGirr: I certainly can.

The Chair: Thank you.

We have a gentleman here who will answer Mr. McKay's question.

Mr. Mike Wallace: What was the question?

The Chair: Could you please repeat the question, Mr. Behboodi, and introduce yourself?

Mr. Rambod Behboodi (General Counsel, General Legal Services, Department of Finance): My name is Rambod Behboodi. I'm general counsel at the Department of Finance in general legal services. Excuse me; I may lose my voice shortly.

You had a question about section 1647 of the bill. This is the technical reference, the technical amendment that is being made; that is to say, the underlined sections refer to sub-item 24.7(1.2)(b)(ii)(A) (I). The existing reference is to subparagraph 24.7(1.2)(b)(i).

The part that is being amended, which is paragraph 24.702(b), refers to additional cash payments. The formula is set out, and "A" is a factor in that formula. That is what "A" is being defined as.

What the current section refers to is the actual equalization payment that is being made, which is incorrect, because the equalization being made cannot be a factor in the determination of the cash payment being made. The correction that is made is in the next subclause in section 24.7, which then refers to aggregate of revenue sources. It's simply that one of the factors in the determination of cash payments is being correctly identified as the aggregate of revenue sources, rather than what is said in the incorrect section.

I hope I made that clear.

•(1225)

Hon. John McKay: If anybody else at this table understood that, they're much more able than I am.

The chair raised an interesting point. The effect of moving it from column A to column B or from (i) to (ii) is that this is a cash transfer to Ontario, because it is entering into a recipient state, while Alberta is not a recipient state and therefore stays in its original position. Have I got that right?

Mr. Rambod Behboodi: Mr. McKay, I must not have been very clear. Evidently, I wasn't.

It's simply a question of a calculation formula. There is a formula that's set out in the existing provision. The formula has different factors. One of those factors is this factor A that is being defined.

The reference currently is a wrong reference. So the factor that is being defined is being defined in terms of something that is incorrect. It's just a reference, so it's just a reference that is being corrected.

Hon. John McKay: It's not a calculation that's being...?

Mr. Rambod Behboodi: It's not at all. No, it's just a reference.

Right now the factor is referring to the total amount, and that's illogical, because the factor determines additional amounts. So it can't refer to the total amount. That's all.

Hon. John McKay: I'm not going to prolong this, because I don't pretend to understand what it is you've just described. Frankly, I'd have to take this out, have you sit with me, and figure out where you screwed up and how you're fixing it, and try to follow that through as an impact.

So I'm prepared, Chair, to let this ride, unless other colleagues have other questions.

Hon. John McCallum: Well, I do.

The Chair: Colleagues, we have two minutes, and your chair does need some direction as to what the committee wants to do with the budget bill.

Mr. McCallum, go ahead very briefly.

Hon. John McCallum: I have one simple question.

He can correct me if I'm wrong, but I think the essence of what Mr. McKay was trying to find out is whether the introduction of HST in Ontario would impact transfers by the federal government to Ontario.

Mr. Rambod Behboodi: Well, my one defence, in response to my one answer, is I'm just a lawyer. I just wanted to give you a very

technical response to Mr. McKay's question in response to clause 1647.

Hon. John McCallum: So you can't answer the question that I just asked?

Mr. Rambod Behboodi: No.

Hon. John McCallum: Okay.

The Chair: Okay.

Monsieur Paillé, you're satisfied?

[*Translation*]

Mr. Daniel Paillé: No.

What I understand from the answer of that unknown specialist is that there was a mistake from (ii) to a single (i). Reference was made to a single (i) in both French and English. So it wasn't a translation mistake. In the formula you developed, we were caught in an endless loop. We were using exactly the same figures.

Mr. Rambod Behboodi: More or less.

Mr. Daniel Paillé: More or less.

At one point, a calculator exploded and we wondered why. If it can help my colleague, it's like a dog who tries to catch his tail and who winds up eating it.

For the moment, Mr. Chairman, I'll be quiet.

[*English*]

The Chair: Merci.

I want to thank you very much, Mr. McGirr, for all of your responses to our questions. We appreciate those. We appreciate the officials coming. Unfortunately, we will not get to the other parts today, but we want to thank you for being here.

Colleagues, we will suspend for a minute, and then we'll go in camera for committee business.

Thank you.

•(1230)

[*Translation*]

Mr. Thomas Mulcair: Mr. Chairman, we still have questions for Mr. McGirr. We haven't finished with him. We want him to be here next time.

[*English*]

The Chair: The problem is we have committee business at 12:30, because—

Mr. Thomas Mulcair: We don't mean this afternoon, we mean the next hearing of this committee on Bill C-9. We want to have Mr.—

The Chair: That's what this committee has to decide, and inform the chair, right?

Mr. Thomas Mulcair: Okay.

The Chair: We'll suspend for a minute, and then we'll go in camera.

[Proceedings continue in camera]

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