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Chair

Mr. James Rajotte

Standing Committee on Finance

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● (0845)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call to order the 122nd meeting of the Standing Committee on Finance. I want to welcome all of our guests here this morning.

Our orders of the day, pursuant to the order of reference of Tuesday, May 7, 2013, are to study Bill C-60, An Act to implement certain provisions of the budget tabled in Parliament on March 21, 2013 and other measures.

Colleagues, we have six people who will be presenting, five here in Ottawa, and one, I understand, by teleconference from Winnipeg.

Mr. Manness, I just want to check with you first. Can you hear me okay?

Mr. Garth Manness (Chief Executive Officer, Credit Union Central of Manitoba): Yes, I can.

The Chair: Welcome to the committee.

Mr. Garth Manness: Thank you.

The Chair: We'll present in the following order. We'll start with the Adoption Council of Canada and its president, Laura Eggertson. Welcome to the committee.

We also have, from the Canadian Manufacturers & Exporters, the director of policy, Monsieur Martin Lavoie.

[*Translation*]

Welcome.

Mr. Raymond Côté (Beauport—Limoilou, NDP): Excuse me, Mr. Chair, but we have no interpretation.

[*English*]

The Chair: I understand that the translation is working now. Thank you.

From the Chemistry Industry Association of Canada, we have the president and CEO, Mr. Richard Paton. From the Credit Union Central of Canada, we have the president and CEO, Mr. David Phillips. Welcome to you.

From the Retail Council of Canada, we have the vice-president, Ms. Karen Proud. Welcome to the committee.

And by teleconference we have, from the Credit Union Central of Manitoba, the CEO, Mr. Garth Manness.

Each of you will have a maximum of five minutes for an opening statement, and then we'll have questions from members.

We'll begin with Ms. Eggertson, please.

Ms. Laura Eggertson (President, Adoption Council of Canada): Thank you very much.

Good morning, Mr. Chair and committee members. Thank you for inviting me to address you today.

My name, as you've heard, is Laura Eggertson. I'm the volunteer president of the Adoption Council of Canada. I'm also here as an adoptee and an adoptive parent.

We hope that the changes to the adoption tax credit that the federal government introduced in this budget will encourage and support more families who are adopting.

As the budget document mentions, there are about 30,000 children and youth in foster care across Canada who don't have permanent families and are legally free for adoption. Many of them are aboriginal.

Only about 2,000 children and youth are adopted from foster care every year in Canada. About 1,000 children are adopted privately, and another 2,000 or so arrive from other countries and are adopted internationally.

These tax credit changes extend the time period in which adoptive families can claim expenses related to an adoption. When you adopt through the public system, there is not, generally, a cost. But some parents may get their home studies done privately, which they pay for. They also have to undergo pre-service training, which may be a course that is essentially about adoption and parenting. Those expenses are things that now can be covered under this tax credit change.

In Alberta, for example, families may spend $12,000 a year to adopt privately. Previously, families could only claim those expenses in the year they occurred, even if it was several years before the adoption took place. That left many people unable to receive the full benefit of the tax credit, which is a 15% credit, this year, on up to $11,669 worth of eligible expenses. Now families will be able to claim all the expenses in the year they adopt, no matter when the expenses occurred.

You may wonder whether this is an important change. To us it is important, not just for the way it will offset adoption expenses but also because it sends a message that the federal government cares about our Canadian children and teenagers who don't have permanent families.

These young people come into foster care through no fault of their own. We take them into care without their consent, but for their protection. We remove them from family members they love. We separate them from their brothers and sisters—or we may. Then we shift them around from home to home, often for the rest of their lives. Traumatized and grieving, they spend those lives trying to adjust to each new home and new family. They wonder how long each one will last—and most of them won't last.

Youth “age out” of foster care at 16, 18, or 21, depending on their circumstances and their province. That's when we consider them old enough to manage on their own, without permanent families to support them and celebrate the milestones in their lives. One 21-year-old graduate of foster care recently asked me, “Who will come to my university graduation?”

All of us as parents know that children need our support long after they have turned 18. They may need us even more after 18, as they struggle with attending college or university, finding a job, and starting their own families, especially in this economy.

Without permanent families, many youth who age out of foster care end up homeless. They come in contact with the justice system. They live on social assistance, become teen parents, and may see their own children in foster care. The cycle continues.

At the Adoption Council of Canada, we believe we need to change the system to make it easier for Canadians to adopt children and youth of any age, or to make other permanent connections through kinship care, legal guardianship, or customary care. One young man, at age 17, told us recently, “I just want parents who will tuck me in at night.”

These changes to the adoption tax credit are a first step. We believe there is a strong leadership role the federal government can play. We look forward to continuing to work with the government in the coming months and years on more ways to encourage adoption and permanency. So we ask the committee to support these changes to the tax credit in the budget bill.

I would be happy to answer any further questions. Thank you.

● (0850)

The Chair: Thank you very much for your presentation.

[*Translation*]

We will now go to Mr. Lavoie.

Mr. Martin Lavoie (Director of Policy, Manufacturing Competitiveness and Innovation, Canadian Manufacturers and Exporters): Thank you, Mr. Chair.

Thank you, Laura.

[*English*]

Thank you for inviting me today to discuss Bill C-60, the Economic Action Plan 2013 Act.

On a general note, our organization and our members were very pleased with the recognition in the budget of manufacturing as an important driver of our economy, when it comes to innovation, research and development, exports, and value-added activity.

The budget partially responds to some of our priorities that were identified in our pre-budget submission. I will focus here on three: the accelerated capital cost allowance, which is a tax incentive for the acquisition of machinery and equipment; labour training and facilitating the hiring of foreign workers; and new direct support for manufacturing, research and development, and innovation.

Let me start with the ACCA. This is by far the most popular measure among our members. The ACCA, which has been in place since 2007, has boosted Canadian manufacturers' investments in machinery and equipment by 45% between 2009 and 2012.

In fact, Canadian manufacturing investments and all capital assets have surpassed the United States, in both 2010 and 2011, for the first time since 2006. There is still a lot to do, but we're happy to see that these tax incentives are working well and are meeting their objectives.

Let me talk a bit about labour training. It shouldn't be a surprise to anybody that we're strong supporters of the Canada job grant that was introduced in the budget. In our last three budget submissions, we have strongly recommended that the government introduce a tax credit to support the training of new hires and to increase the skill levels of existing employees.

The second part of the challenge, of course, that our members face is the hiring of foreign workers to fill labour shortages that are not being addressed by the domestic labour supply. While we're working with the governments to make appropriate improvements to the program, we're concerned with the manner that user fees will be managed for the labour market opinions under Bill C-60. Division 9 of part 3 of the bill states that the fees to be charged for labour market opinions will be exempt from the User Fees Act.

While I haven't received any confirmation from government officials so far with regard to the meaning of this, I presume that this means that the government would not consult stakeholders on the level of the fees charged, they would not be bound to ensure that service standards are tied to the fees, there wouldn't be, necessarily, any impact assessment, no tabling or publication of proposed new fee structures, etc.

CME, as a whole, has generally agreed that it is reasonable to pay user fees, but not under these conditions. The User Fees Act was established specifically—because of the abuse of user fees by government departments and agencies—as a way to increase revenues to cover off cost, rather than finding more efficient ways to deliver services, or working on the street to establish effective user fees. This clause sets a very bad precedent, in our view, and we strongly recommend that the fees charged for labour market opinions not be exempt from the User Fees Act.

Finally, I would like to comment on the new direct support mechanisms for business innovation that were announced in the budget. As you remember, last year the government told the industry that this $660 million cut under the SR and ED program would be reinvested entirely in new direct funding for business R and D. The government has done it. But there are still a lot of questions with respect to equity of access to this funding across industry sectors, and across the nation.

While we support the new funding provided to the automotive, aerospace, and forestry sectors, in particular, as well as the new advanced manufacturing fund for southern Ontario manufacturers, we must realize that going from the broad taxed base approach, like SR and ED, to a direct funding mechanism is going to penalize manufacturers that do not match these geographic and industry criteria.

We're hopeful that the government will eventually ensure that these direct funds for business innovation be accessible across the country, and across various manufacturing sectors. We're very concerned that the significant reductions that we'll see in the SR and ED tax credit until 2017 will have a detrimental impact on business innovation.

I'd like to conclude by recognizing that this budget is a great step toward a better recognition of the importance of manufacturing for our economic growth and for our capacity to innovate. However, a lot of work remains to be done to ensure that government policies do not discriminate against certain sectors, or certain regions of the country.

We're confident, however, that the government shares our concerns, and we'll work together toward achieving these objectives.

Thank you.

● (0855)

The Chair: Thank you very much for your presentation.

We'll hear from Mr. Paton, please.

Mr. Richard Paton (President and Chief Executive Officer, Chemistry Industry Association of Canada): Thank you very much, Mr. Chairman, and my thanks to the committee for this opportunity to speak to you.

I think the CME has covered most of the general issues, particularly the focus on manufacturing. So I'll just focus on the ACCA and its importance to our particular industry. This is the two-year extension of the accelerated capital cost allowance for manufacturing machinery and equipment.

This amendment is welcomed by our member companies as a strong signal that this government recognizes it can play a vital role in stimulating investment and growth in the chemistry industry and other industries, and more broadly in the manufacturing sector in Canada. The extension of the ACCA is a key factor that contributes to improving our global competitiveness, and it has strengthened the business case to win new investments in Canada.

In fact, this committee and the Government of Canada have undertaken a number of positive initiatives over the last few years, including corporate tax reductions, capital tax, harmonization of tax with the provinces, and the GST. All of these are complemented by the ACCA change, which is focused on large capital investments.

Chemistry companies credit the ACCA as being a key factor in their decision to invest approximately $3 billion over the last four years. This has resulted in revitalizing the chemistry industry, creating jobs and prosperity in key regions of the country.

For example, in Sarnia, Ontario, two CIAC members, NOVA Chemicals and BioAmber, have made recent investments of $250 million and $120 million respectively. If any of you have been to Sarnia in the last few years, you'll know there hasn't been much investment there for about 20 years. This is the beginning, we hope, of a new trend.

In other regions of Ontario, the ACCA has enabled companies such as Sitech, BASF, and DuPont to expand and improve their facilities.

In Alberta, Williams Energy, Dow, Shell, and Methanex have made investments estimated at $500 million.

NOVA Chemicals will be hosting a groundbreaking ceremony on June 7 for a $1-billion polyethylene facility, which is expected to be up and running in the fall of 2015. They will benefit significantly from the ACCA, and it has made a difference in that investment.

All these investments are a strong testament that clearly demonstrates that the ACCA supports growth and investment and creates jobs and prosperity.

It is also stimulative, and in our view it attracts investment that would not normally go to Canada. Why is that the case? Given the shifts in the global economy and the discovery of shale gas, or the use or development of shale gas, our major competitor now for the petrochemical industry is the United States. They have a very different tax structure from what we have. They have what's called a 60% declining-balance tax structure, where they can, on a permanent basis, write off these major investments over about three years. Without the ACCA, we'd be competing against that kind of investment. They also have a partnership structure that looks a lot like the income tax trusts that the government eliminated—it allows people to actually make the investments without any corporate tax because they flow through the investments to individuals.

I'm not advocating, and our industry doesn't advocate, these kinds of measures in Canada, but we believe that the ACCA does, to a certain extent, level the playing field, at least for the next two years while it's being extended.

However, I would caution that in the long term, for longer-term investments, we are still dealing with this competitive situation vis-à-vis the United States, so we'll continue to work with the government on making sure that we have a competitive tax regime that will attract these major investments to Canada.

In conclusion, we'd like to note that we certainly support this budget and the ACCA measures. In fact, we're part of a coalition of 40 companies and associations that all supported it. I'd also like to mention that it was the number one recommendation of the manufacturing committee that Mr. Rajotte chaired several years ago.

Thank you.

The Chair: Thank you.

I appreciate that. It was back in 2007, yes.

Mr. Richard Paton: There's some corporate memory here.

The Chair: There's some corporate memory here, yes.

Thank you, Mr. Paton.

We'll hear from Mr. Phillips.

● (0900)

Mr. David Phillips (President and Chief Executive Officer, Credit Union Central of Canada): Mr. Chairman and committee members, I'd like to thank you for this opportunity to appear before the committee regarding Bill C-60 and to explain why the credit union system opposes the tax increase on credit unions contained in the bill.

We oppose the tax increase because it disregards the nature of credit unions and the vital contribution that credit unions make to providing Canadians with service, choice, and competition in the Canadian financial services market.

Credit unions are different from commercial banks because they are cooperative financial institutions, and this is fundamental. A commercial bank is owned by its shareholders, and most customers of a bank are not shareholders of the bank. A credit union is owned by its members who are its customers. More than five million Canadians outside of Quebec are credit union members. When the membership of the caisses populaires in Quebec is included, more than 11 million Canadians are members of cooperative financial institutions.

A credit union serves the needs of its members. Commercial banks aim to maximize profits for their shareholders. Credit unions aim to maximize service for their members. The cooperative business model is a service maximization model. It is through a commitment to member service that credit unions bring investment and innovation to local communities across Canada.

Both commercial banks and credit unions need capital in order to grow. Commercial banks can source their capital from public capital markets. Credit unions must source their capital from their members and from retained earnings. The members are the owners, so the members supply the capital directly or through the earnings retained by the credit union. A credit union typically acquires in the range of between 75% and 80% of its capital from retained earnings. The income tax increase on credit unions, therefore, is growth limiting. It deprives credit unions of income that might otherwise be used to support the growth of the credit union by building its capital base. The credit union will, therefore, have less capacity to make loans to small business, fund community economic development, and meet member needs.

Credit unions are relatively small financial institutions that offer a full range of financial services to their members in over 1,760 physical branch locations across Canada. In hundreds of these communities, credit unions and caisses populaires are the only financial institutions that are physically present in that community, employing local residents and serving the needs of local small businesses.

Credit unions are 100% Canadian owned. They serve the financial needs of millions of individual Canadians and they employ over 27,000 Canadians in communities across Canada.

Credit unions are the most important source of competition to the large commercial banks in the overly concentrated Canadian financial services industry. We note comments that seek to defend the tax increase as creating a level playing field. This is a narrow technocratic view. The tax increase disregards the nature of cooperative financial institutions. It disregards the federal government's desire to support small business in local communities and it disregards the federal government's policy objective, stated elsewhere in the budget, of creating more competition in the Canadian financial services sector. A lower tax rate paid by credit unions is good public policy because a lower tax rate for credit unions promotes competition in the Canadian financial services marketplace.

The six large Canadian commercial banks made $30 billion in profit in 2012. The entire Canadian credit union system made less than 3% of that amount in that year, yet the federal government is increasing the income tax of credit unions. This simply does not make sense.

Mr. Chairman, those are my remarks.

The Chair: Thank you, Mr. Phillips.

We'll now hear from Ms. Proud, please.

Mrs. Karen Proud (Vice-President, Federal Government Relations, Retail Council of Canada): Thank you, Mr. Chair. I'd like to thank you and the committee for inviting the Retail Council of Canada here today on Bill C-60.

Today I have the privilege of speaking for an industry that touches the daily lives of Canadians across this country and one that is a critical component in Canada's economic well-being. We are the largest employer in Canada, providing employment for more than 2 million Canadians and contributing more than $75 billion to Canada's economic well-being. The RCC represents more than 45,000 storefronts of all retail formats across Canada. This year, we celebrate our 50th anniversary of being the voice of retail for Canada.

Today I plan to focus my remarks on part 3 and division 1 of the bill, as well as more generally on product tariffs and the government's plan to review the general preferential tariff.

I'd like to start by thanking the minister and his officials for eliminating the tariffs on baby clothes and sporting equipment. We look at this as a pilot project and believe that this is just a first step in a much broader exercise to address all outdated and unnecessary tariffs. We are committed to working with the government to demonstrate that when tariffs are eliminated, Canadians will benefit from lower prices.

With regard to the bill itself, the RCC does have some recommendations for additions to the list of products that should be added to this pilot project. We feel that some items were missed when the review was taking place on baby clothing and sporting equipment, and we've prepared a comprehensive list of these items, which I will provide to the clerk for your consideration. The items on the list include specific athletic footwear, such as soccer shoes, as well as protective headgear for a variety of sports.

As mentioned, we believe this to be just a first step in addressing the tariff issue. The minister has indicated a willingness to look at further tariff eliminations, and the Standing Senate Committee on National Finance, in their recent report on the Canada-U.S. price gap, also recommended that the minister look at the tariffs and do a complete review.

In fact, we believe that this committee should be tasked with undertaking that review. We feel that it would actually be a fairly simply exercise. The committee could look at the 1,400 pages of the Customs Tariff—2013, line by line, to see if there is little or no domestic manufacture of those products. If so, that tariff should be eliminated. If this were to happen, the Retail Council's concern with the proposed review of the general preferential tariff and the effect on Canadian consumers would be greatly, if not completely, eliminated.

This brings me to my comments related to the proposed review. While we understand the government's policy intent whereby countries like China should not be given preferential tariff treatment to boost their export capacity, we do have concerns with its implementation and scope, which we've relayed to the minister's office and to the department.

To address these concerns, we've asked the government for four things. We've asked for more time. The process for sourcing products internationally is highly complex and takes time. We greatly appreciate that the government listened to us during their first round of consultations on this and has already extended their proposed timeframe from mid-2014 to January of 2015. But if retailers have any chance of finding other sources of products, they need at least two years to implement these changes, so we've asked for more time for that review.

We've asked for specific product exemptions. We feel that for some products where there are no alternative sources of products, and where these products represent a staple and a requirement for Canadians—things like canned tuna—they should be exempt from the changes to the general preferential tariff.

● (0905)

The Chair: You have one minute.

Mrs. Karen Proud: We've asked that the rules of origin for products sourced from least developed countries be changed to minimize the impact of these changes on those products. We appreciate the government's commitment to starting to look at the rules of origin for textiles and apparel.

Finally, we've asked that subsequent reviews, currently planned for every two years, be done on a 10-year cycle to allow for certainty for our retailers entering into international contracts.

With that, I'd like to thank the committee for allowing me to raise these issues in relation to the bill. I welcome any questions you might have.

The Chair: Thank you for your presentation.

Mr. Manness, we'll now go to you for your five-minute opening statement.

Mr. Garth Manness: Thank you, Mr. Chairman, and committee members, for providing the opportunity to appear before you today to offer the perspective of Manitoba credit unions on Bill C-60, specifically the measure to phase out the additional deduction for credit unions.

Credit unions are an important part of the economic fabric of Manitoba. The province's 40 credit unions have 191 branches in 117 distinct communities, serving the needs of local consumers, businesses, and farmers. In 67 towns and villages, the credit union is the only financial institution operating to serve the community.

Many credit union branches are in communities that other financial institutions vacated because they were not deemed profitable enough. Our business model, paired with fair tax policy, like the additional deduction, has made it possible and attractive for credit unions to grow in places where our competitors have retreated. Although credit unions have a profit-for-service mandate, not the service-for-profit mandate of other financial institutions, they do need to be profitable to remain viable. That income is their primary source of funds with which to build capital. It is also an important source of funds for key investments in new technology and new services, which they must make to be competitive with the much larger chartered banks.

Since the financial crisis, regulators have been increasing the reserve capital requirements for all financial institutions. Despite the fact that credit unions performed very well during the crisis, stepping up to meet consumer and small business lending demand when other financial institutions stepped back, they are not immune from the higher capital requirements. As Mr. Phillips mentioned, the bulk of credit union capital comes in the form of retained earnings, which come from net income. In order to meet higher capital requirements credit unions need to increase net income by increasing margins, which means being less competitive on rates; by increasing service fees, which means increased costs for our members; or by reducing expenses, which could eventually mean a reduction in service and, potentially, job losses

The removal in Bill C-60 of the additional deduction for credit unions will simply compound the impact of regulatory demands by requiring credit unions to pay a higher portion of their net income in federal tax, and further reduce their ability to build capital, invest in new technology, and stay competitive. The decision to phase out the additional deduction comes at an extremely challenging juncture for the financial services industry. Speaking for credit unions, our members face increasing competition from large, powerful institutions, including federal crown lending agencies, a monetary environment with unprecedented low interest rates, which are driving low margins and reducing interest income; and increasing levels of compliance, which disproportionately impact smaller financial institutions like credit unions.

Now credit unions alone face the possibility of having to pay more of their net income in federal tax. Just as the banks did before us, it is no exaggeration to say that some people may begin to question the future viability of credit unions in many communities in rural Canada. Not only could people be left without access to a nearby financial institution, valuable and stable jobs at the credit union could be lost.

According to our analysis, based on 2012 financial results, 21 credit unions in Manitoba benefited from the additional deduction. Those credit unions have branches in 50 Manitoba communities, where the credit union is the only financial institution. The impact of removing the additional deduction, once fully implemented, would be $4.5 million per year. This may not seem like a large amount, but to the credit unions working with narrow margins and increased regulatory requirements and service needs of their members, it certainly is.

Removal of the additional deduction for credit unions, as proposed in Bill C-60, is characterized as closing a tax loophole. A loophole, by definition, is an ambiguity in the wording of contract or law that provides a means of evading compliance. The additional deduction for credit unions was never a tax loophole by definition or design. It was an intended feature of tax legislation, created when credit unions first became taxable in 1972, designed to help credit unions retain capital to meet regulatory requirements and to grow, thereby to provide effective competition in the financial services industry, a goal that this government and credit unions share.

Although the financial landscape is different from 1972, the need for this deduction to help qualifying credit unions accelerate the growth of the retained earnings continues to exist. Since the deduction was introduced in 1972, it has functioned exactly as intended.

● (0910)

I would argue that this tax deduction has proven to be good public policy. If it were to remain in place, it would continue to be good public policy as it will help credit unions provide effective financial services that can assist with the federal government's stated desire to increase competition in this sector. It would also represent good public policy by helping to maintain strong financial services in as many communities as possible and helping to contribute to the sustainability of the many communities in rural Canada where credit unions are the only financial institutions.

For these reasons, Mr. Chairman, I respectfully ask the committee and the federal government to reconsider this proposed change.

The Chair: Thank you, Mr. Manness, for your opening statement.

We'll now go to questions from members.

We'll begin with Ms. Nash.

● (0915)

Ms. Peggy Nash (Parkdale—High Park, NDP): Thank you, and good morning to everyone. Thank you all for being here today.

I'd like to start with the two representatives of the credit unions. Both of you have drawn a picture of the credit union sector being significantly different from the banks—in their size and community reach, in community support and investment, and in the fact that they are not for profit and owned by their members.

Mr. Phillips, you pointed out that the six largest banks made $30 billion last year in profits. If the profits of credit unions are just 3% of that, I can't imagine that the banks feel threatened by the credit union sector. When you were consulted by the federal government about these changes prior to the budget being brought in, what was the rationale of the government and your response?

Mr. David Phillips: I'll answer first. Thank you for the question, Ms. Nash.

We were not consulted on this change. I think that was actually indicated by the officials when they appeared before this committee last week. I know that when the budget is close to being prepared, typically one would not be consulted on a specific tax change.

But we need to remember that this provision has been in place for 40 years. If there was a feeling in the department that this wasn't working the way it should—I don't think they just dreamed this up—they could have called us two years ago, or five years ago, and there could have been a discussion on this. There's been absolutely no discussion on this change whatsoever.

Ms. Peggy Nash: Why do you think this change is in the budget?

Mr. David Phillips: It's perplexing. We don't come before this committee and ask for a lower rate; we don't ask for a handout.

We're quite comfortable with it. Desjardins is comfortable with it, and, as far as we know, so are the banks. It's pro-competitive in its impact, so why mess with it? It just is not clear.

We've had a couple of unenlightening discussions with Finance officials since the provision was brought in. But we react to this with perplexity: to us, it seems to contradict the government's agenda on jobs and growth and also what the government is trying to do to bring more competition into the financial services sector.

Ms. Peggy Nash: Would you say it's anti-competitive?

Mr. David Phillips: The provision as it is now is pro-competitive. So when you take the provision away, when you increase the tax rate, what you're really doing is supporting greater concentration in the Canadian financial services industry. It's really a tax on the growth of credit unions.

Ms. Peggy Nash: I understand that Quebec eliminated a similar provision back in 2003. Can you tell us about that? What was the impact? Was it a similar provision, and what was the impact?

Mr. David Phillips: We're talking about federal tax policy, not Quebec tax policy. I know nothing about Quebec's tax policy. We don't operate in Quebec. We're credit unions that operate in the rest of Canada. Desjardins is not here, but I know that they support our concerns about this change. They certainly are concerned about the fact that there was no consultation. But the Quebec issue for me is irrelevant; we don't know what other compensating factors there are. The fact of the matter is that this is a good tax provision that is being phased out. At least that's the proposal in the budget.

Ms. Peggy Nash: Let's stay on the credit union issue.

Mr. Manness or Mr. Phillips, maybe you want to elaborate on what the impact of these changes could be on a sector that is really a Canadian success story.

The Chair: Do you have brief comments, Mr. Manness or Mr. Phillips?

Mr. Garth Manness: I'd like to comment, Mr. Chairman.

As David Phillips indicated, the credit unions build capital through retained earnings. Anything that reduces net income will impact the ability to build that capital. At the same time credit unions, like all other financial institutions, are facing increased regulatory requirements and capital requirements.

So it's almost a double-edged sword for us, in that we're going to have to find ways to generate more income to meet regulatory requirements, and a bigger chunk of that income is going to be taken away in the form of tax. That is going to impact our competitive ability.

● (0920)

The Chair: Thank you.

Thank you, Ms. Nash.

Mrs. McLeod, please.

Mrs. Cathy McLeod (Kamloops—Thompson—Cariboo, CPC): Thank you to all the witnesses for being here early after, hopefully, a great holiday weekend for everyone.

I'm going to start my comments with Mr. Lavoie. I know you focused on three areas, but I also noticed the Canadian Manufacturers and Exporters in their post budget comments did talk about the preferential tariffs. I quote: “The government's decision to modernize this foreign aid program by removing some countries from the GPT list is a good decision...”.

It's been 39 years since we've updated it. It was meant to help developing countries like Hong Kong and Singapore. We were giving them preferential tariffs while their per capita GDPs were higher than Canada. The solution is what the government is doing, trying to negotiate free trade agreements with countries around the world so that we will not only drop our tariffs, but they drop their tariffs as well.

I guess I'd like to have you expand on those comments. As the countries that have been removed from the GPT list are developing countries, how do you see their removal as facilitating free trade agreements?

Mr. Martin Lavoie: From the start I would say that in all of this debate about the GPT, we've confused a number of different issues. The original rationale for this program was that it would be a foreign aid program. We should keep that in mind when it comes time to look at this decision.

I think we're confusing this. Some people have said that it's a measure to close the price gap between Canada and the U.S. or that it's a measure to make products available to customers at a lower price, with lower tariffs. Let's keep that in mind.

In terms of the elimination of tariffs, in my ideal world there wouldn't be any tariffs. In reality, there are tariffs and most of these countries impose tariffs on Canadian products that are much higher than that in most cases. So I think you need to keep in mind that if we start eliminating all of our tariffs, just in having a narrow view of the price gap with the U.S. or a consumer view, we're limiting the ability of foreign officials to negotiate free trade agreements based on a level playing field.

What's the motivation of a country like Korea to come and sit down with us to negotiate a free trade agreement if they already have a broad access with no tariffs to our consumer market? It's in that view that we're saying that in order to leverage our negotiating positions with these countries, we need to keep a level playing field.

Mrs. Cathy McLeod: As we try to export into a country like Brazil, for example, can you talk a little bit about how that impacts Canadian companies' ability to be successful and do business?

Mr. Martin Lavoie: I don't want to overestimate the impact of tariffs, but I don't want to underestimate it either. I think it's an important issue. On certain products it's so high it's actually a barrier to export. I think there are also non-tariff barriers that are important. That's why you see these new free trade agreements being much broader than what we used to have 20 or 25 years ago. Now you get into patent laws, you get into government procurement regulations.

But I think the rationale behind it is always the same: if you start giving access to your domestic market in terms of procurement, or by having more flexible legislation on patents and stuff like that, then what's your negotiating position in regard to these countries? I think the same rationale applies.

Mrs. Cathy McLeod: Thank you.

I'd like to go to Mrs. Proud. We talked about the elimination of tariffs on certain goods and that being a test case. Can you talk a little about how you're actually going to analyze it? Have you set the framework? Do you know how you're going to approach this using this as a test case?

Mrs. Karen Proud: We're in the process of working with the officials in the Department of Finance to develop the testing plan. They are the ones who are developing the plan to monitor what is actually going to happen in the marketplace when we start to see the results of the tariff elimination. We're feeding into that process.

They're looking at getting a third party to do some of this analysis to make sure it's well accepted when that happens, and I understand that they're in the contracting process right now. As I mentioned, we're working very closely with them, just to give them an understanding of how the retail industry works. We're hoping to be able to report findings as we move along.

I've cautioned, not only the officials, but others as well, that when the tariff is eliminated we're not going to see a change in the market overnight, because retailers have already sourced products. For instance, they had already sourced their products for the summer months well before the budget came in. We're hoping to start the monitoring around July to see what happens in the cycles when the retailers are sourcing products for the fall.

This pilot project is very much a partnership.

● (0925)

The Chair: Thank you.

Thank you, Ms. McLeod.

Mr. Brison, please.

Hon. Scott Brison (Kings—Hants, Lib.): I'll start off with Ms. Proud.

With regard to the issue of cross-border shopping, has that grown significantly in recent years, to the detriment particularly of retailers in communities in proximity to U.S. retailers?

Mrs. Karen Proud: Well, we've certainly seen that happen. Statistics Canada has released results that show cross-border trips are increasing substantially year upon year. In discussions with our retailers who have stores on both sides of the borders, they've seen tremendous increases in Canadians shopping in the U.S.

The retailers on the border are certainly hurting, which is why we're advocating whatever we and this government can do to reduce costs so that retailers can sell at comparable prices to the U.S.

Hon. Scott Brison: Does this $250 million net tariff increase in this budget implementation act have the potential to increase the delta between U.S. and Canadian prices, thereby actually increasing this trend toward cross-border shopping?

Mrs. Karen Proud: It's hard to make all the correlations. But we certainly believe that in those areas where retailers are not able to find alternative sources of product.... So that's the time factor we've asked the government to give us, so that where there are other sources our retailers can find them. If they can't and there is an increase in the bottom line price of the product, there's going to be an increase in those prices, and we know that's a driving factor for cross-border shopping.

For those products that are affected, and those products where we can't find other sources, and those products where other tariffs are not eliminated, then the changes in the GPT would likely affect them.

Hon. Scott Brison: Thank you very much.

Mr. Phillips, certainly since 1997 we've seen banks pulling back from rural and small communities and branches that have been closed. At the same time, there's been an increase in the presence in those same communities by credit unions.

Does the change proposed by the government in the budget implementation act have the capacity to lead to the potential closure of branches in some of those smaller communities that may be marginally less profitable?

Mr. David Phillips: Yes, it would, and Mr. Manness has referred to this.

A lot of credit unions in communities where they're the only physical presence through mergers within the credit union system are branches of larger credit unions, and those larger credit unions would be affected by the tax increase. As a way of accommodating the change, it certainly would lead to possible closures. Now we're careful about this because I don't want to predict that this is going to happen to any great extent. But certainly the credit unions will have to cope with this in some manner, and that would be one of the options.

I was looking over the list of credit unions in small communities across the country where they're the only presence. If you look at some of these communities, the population is 97 in one case, and 86 in another, and 150 in another. We're talking about very small communities that have a presence of a credit union—a small, physically present financial services provider. This certainly doesn't help in terms of their being able to maintain that presence in those communities—and there are hundreds of them across the country.

Hon. Scott Brison: And in those small communities, credit unions are very active in small business lending. The other feedback I get from the small business community is that it's tougher to get credit today from traditional financial institutions than it was a number of years ago. The smaller the community, the tougher it is.

Does this have the capacity to reduce small business lending by credit unions in Canada?

● (0930)

Mr. David Phillips: It sure does, because—

The Chair: Mr. Phillips, a brief response.

Mr. David Phillips: —if you don't have a dollar to put into capital, then you can't lever that capital into asset growth. That's why I say it's really a tax on growth. It's a matter of arithmetic: if you can't lever that capital, then you don't have that capacity to grow.

In that small community, we are active in financing the smaller end of the small business category. We're really the only ones in that category. In that local community, the credit union is an employer; it's employing people from the local community. In some cases, perhaps, it's the major employer, at least within the town.

The Chair: Okay.

Thank you, Mr. Brison.

We'll go to Mr. Van Kesteren, please.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you everyone for appearing before us this morning.

Ms. Eggertson, I want to talk to you first. You introduced a dimension that we don't often think about when we may discuss adopted children. We think about the problems of parents, but those things you mentioned about not having somebody there at graduation, for example, simply stress the importance that we must try as best we can to make that a reality.

It's probably one of the less controversial parts of the budget. Would you elaborate and tell us what kind of cost a family usually faces when adopting a child? I'm thinking of the mandatory home study and pre-service adoption preparation training.

How do the budget changes to the adoption expense credit help those families with these expenses? Could you elaborate on that?

Ms. Laura Eggertson: Yes, thank you.

The costs really depend on what province you live in. In Ontario, for example, if you were to get a private home study done, it might cost you $1,500 or $2,000, and the same for taking the mandatory pre-service training, which in Ontario is called P.R.I.D.E training.

Because the tax credit is only 15% of the total, up to a maximum, when you claim the tax credit you want to be able to pile all of your expenses together to get the maximum benefit. The changes better allow families to do that. Previously, if you had a home study done two or three years before you actually had a child placed with you, you couldn't claim that expense because it had to be done in the year the adoption was finalized. You couldn't pile up those expenses together, if they were done over several years.

It's a very small change, but we hope it will help with some of those costs and, again, make it a little bit easier for families and encourage some who might be on the fence about whether they can afford it or not.

If you adopt directly through the public system, you can do it without cost, really. When I adopted in Ontario, it really didn't cost me anything because the Children's Aid Society conducted my home study, and I went through training there. But if families are trying to get adoption-ready, which many of them are doing, they get their private home study done first, they go through the training, and then they present themselves. If you're adopting internationally, of course, it can be even more expensive, costing some $20,000 to $40,000.

Mr. Dave Van Kesteren: Of course, you spoke a little bit about children who go from home to home, wondering if this is going to be the home. In what ways are the adoption expense tax credit and the changes in the budget helping families who are adopting from the foster care system? Why does ensuring that this credit is available earlier matter to families who are adopting?

Ms. Laura Eggertson: It matters to those families, as I said, who may be trying to get themselves adoption-ready before they even contact a Children's Aid Society or ministry in the different provinces and territories. They're spending the money upfront and they're trying to get themselves ready, before they go in and talk to an agency about children.

It also helps if you are adopting privately. You may be looking for an infant or a young child, and that also entails significant expenses, for example legal fees, if you're trying to do it that way.

It's not going to solve the child welfare issue in this country, but as we say, it's a first step. We really want to work with the federal government on a series of measures, of which this would be the start, to try and make it easier and get more kids out of foster care.

Mr. Dave Van Kesteren: Do you have a sense of how many families would be affected by this measure?

Ms. Laura Eggertson: It would be primarily the 2,000 or 3,000 who are adopting privately and through the domestic system right now. So 2,000 or 3,000 in a year could be affected by this.

The people who are adopting internationally are probably already able to claim the maximum expenses, because their expenses are so much higher.

Mr. Dave Van Kesteren: Very quickly, I'll just switch over to the Manufacturers and Exporters.

I, too, was on that committee with Mr. Rajotte, and we were very proud of that recommendation, and we were very happy to see that happen as well.

Maybe you can just elaborate. Since that measure was introduced, what effect has that had on manufacturing?

Mr. Paton, maybe you're—

The Chair: Just a brief response.

● (0935)

Mr. Martin Lavoie: In terms of numbers, we've seen an increase of 45% in expenditure on machinery and equipment between 2009 and 2012.

We've seen the beginning of an increase in productivity in manufacturing in the last year. I want to be careful, it's not just about this measure, but I think we're starting to see some gains in productivity as well.

Mr. Richard Paton: We've seen $3 billion in the last two years, and we think there is about $10 billion out there of potential investment, all of which is marginal and wouldn't be here without the corporate tax plus the ACCA.

The Chair: Thank you.

Thank you, Mr. Van Kesteren.

[*Translation*]

Mr. Caron, go ahead.

Mr. Guy Caron (Rimouski-Neigette—Témiscouata—Les Basques, NDP): Thank you, Mr. Chair.

My questions are for Mr. Lavoie and Mr. Paton.

Let's talk about the accelerated capital cost allowance. We support that measure, given the difficult period the manufacturing sector is going through. That measure has already been applied since 2007 and has been extended every one or two years.

My question may be a bit difficult. When do you think the accelerated capital cost allowance will no longer be needed?

Mr. Martin Lavoie: You are right. By definition, a temporary measure is temporary.

This year, we expected greater levels of economic growth in the United States. The budget has indicated that the growth may not be as significant as we thought and that we should be careful.

We recognize that this measure was implemented to stimulate the economy. In two years' time, we will see whether the initiative should be extended or not. However, I think there is a longer-term issue to be considered. This is not just a tax incentive to stimulate the economy. Another objective of this incentive is to increase productivity through the purchase of machinery and equipment.

It's also important to look at what the U.S. is doing when it comes to those same pieces of equipment. We need to know whether we are at a disadvantage compared with companies that have the ability to produce on both sides of the border, as there are many such companies. It's somewhat difficult to make that comparison because the United States has a range of machinery in each category. However, when it comes to most of the machinery used in our sector, the depreciation in the U.S. is from five to seven years. According to the method used in Canada—the declining method—the depreciation rate is 30% in the first year, and 30% thereafter. It takes from 9 to 12 years to depreciate about 95% of the value. So the incentive is better in the United States than in Canada for most of the equipment.

Mr. Paton mentioned that, in the U.S., in his sector, the depreciation period was between three and five years. So we are talking about a real incentive. I think that, in the long term, we should perhaps review the various categories and the depreciation rates by category, while always trying to be more competitive with the United States.

Mr. Guy Caron: Mr. Paton, what do you think?

Mr. Richard Paton: I will answer in English.

[*English*]

This is at the heart of the real problem we have here. Large capital investments take at least five years to go from planning to implementation. So even with the accelerated capital cost allowance, with an extension of two years, some of these investments may occur and not be able to take advantage of the capital cost allowance. We've always argued to make it the length of time that a normal major business investment would occur, from the planning stage to the actual implementation stage.

We're sitting here in the North American environment. Our sister association in the U.S. is now projecting $72 billion of investment in the United States' chemical industry, due to shale gas largely, and about $50 billion in seven other manufacturing sectors that are highly energy dependent.

With that 60% double declining balance forever—it's not for two years, it's not a little extension, but it's there in the tax code.... We know what happens when something is in a tax code. It's pretty permanent—unless it's a co-op.

Voices: Oh, oh!

Mr. Richard Paton: So it's very important to have long-term tax competitiveness for big projects.

Mr. Guy Caron: Thank you very much.

I have about 90 seconds left.

[*Translation*]

I will go to Mr. Lavoie and, if I have time, to Ms. Proud.

My question is about the removal of certain countries from the general preferential tariff treatment. We can have a mature debate on the issue of tariffs. The government often talks about China or the BRIC countries. An argument could be made with regard to that. We are talking about 72 countries and the fact that products made in those countries, including the BRIC countries, are not made here. The argument for consumers is that they will have to pay, since they cannot have access to products manufactured here. There are no competitive advantages for businesses.

What do you have to say about those products? Do you think several of them were submitted?

● (0940)

Mr. Martin Lavoie: I would begin by saying that an inverse relationship also exists. Some products are no longer made here because tariffs were eliminated in the past. In the 2000s, three textile mills were closed on the same day in Huntingdon. Everyone remembers that. And the next day, the tariffs were eliminated.

That being said, I don't want to consider only the consumer's point of view. Even if a product is no longer being manufactured here, the fact that a tariff is being imposed will incite those countries to negotiate free trade agreements with us because they want to have access to our market. If we give them the preferential tariff before we even sit down to negotiate, what could we put on the table to get what we want from them?

[*English*]

The Chair: Ms. Proud, go ahead very briefly, please. We are over time.

Mrs. Karen Proud: I think we need to be very clear as to the purpose of these tariffs. My understanding of the tariffs is that originally they were supposed to protect domestic manufacturing in Canada. If there's no more domestic manufacturing in Canada, we don't need the tariffs anymore.

If they are trade negotiation tools, then we should call them what they are and be clear to Canadians that they are that and they are not to protect domestic manufacturing.

The Chair: Thank you. Merci.

We'll go to Mr. Adler, please.

Mr. Mark Adler (York Centre, CPC): Thank you, Chair.

Thank you to each of you for being here today. You've all made very compelling statements.

First of all, Mr. Paton, I'd like to discuss what you said initially in your remarks. You talked about the accelerated capital cost allowance being stimulative. Could you expand upon that? How much better is it to have a program like the accelerated CCA being stimulative within an industry such as yours versus having government spending and higher taxes being stimulative? Could you expand on that for me, please?

Mr. Richard Paton: Sure. It's stimulative because it creates incremental investment, i.e., investment that would not normally occur in Canada. As the Chemistry Industry Association of Canada, we are very committed—in fact our strategic plan is to seize the opportunity of this shale gas environment, the competitive environment we're in today, to get these large investments for Canada.

It's stimulative also because large investments are 20- to 40-year investments. You don't build a chemical plant—and Mr. Jean would know this from the ones that are out in Alberta—for a two-year, five-year, or ten-year period. You build it for a minimum of 25 years, or 40 years. That's the kind of investment that builds communities, that creates corporate tax revenues, that you can link up to community colleges to start to build skills, and develop engineers, and raise technical people. It becomes part of the fabric of the economy.

It also ends up producing products that are then used by other manufacturers. Most of our products go into cars, into pulp mills, into mining, etc. They become key parts of the economy.

I don't know how to compare that to an infrastructure project—infrastructure does produce long-term benefits sometimes—but these are really significant ways of building your economy, diversifying it, and moving beyond just a resource-based, get-it-out-of-the-ground, sell-it-to-Japan kind of economy to one that adds value and adds manufacturing strength to the economy.

Mr. Mark Adler: And the focus, of course, is that these are full-time, high-wage jobs.

Mr. Richard Paton: Yes. The average wage in our industry is $70,000 to $80,000.

Mr. Mark Adler: Could you also talk about how an initiative like the accelerated capital cost allowance is important from an internationally competitive point of view? You talked about the 60% declining balance writeoff in the U.S. tax code. Why do we need an accelerated CCA type of initiative in this country, just to be competitive on the international scene?

● (0945)

Mr. Richard Paton: The U.S. has this 60% double-declining balance, as it's called, and it's in their tax code. We have a company right now that's considering a major investment. They're looking at the Gulf Coast where a lot of the investments are going. Probably a big part of the $72 billion in the U.S. will go to Louisiana, and Texas, and places like that. When a company makes an investment of a billion dollars, and NOVA just announced that investment in Joffre, for about five years they're spending money. They're spending that billion dollars. While they're building that plant, there is not one single cent of revenue. Then they start up the plant and it may take a year to get the bugs out, to get the product specifications right, etc., so now you're talking about five to six years and you haven't earned a bit of income. What the accelerated capital cost allows you to do is to write off those investments once the machinery has actually arrived on the ground, as you're making those expenditures. I think the CME has done some very good modelling of this, indicating that it produces about $30 million extra of tax deductibility on, say, a $100-million investment that you wouldn't otherwise have. This allows you to have the capital to keep making investments. So it's extremely important.

The companies that have been making those investments are saying, “I can do it in the U.S. or I can do it in Canada.” The ACCA, combined with the corporate tax and other things, at least puts us in the game. I wouldn't say it makes us super-competitive, because they have something that's longer term, but it puts us in the game where we can make the argument that at least we have this benefit, and it does enable us to make the investment in a relatively good financial situation.

The Chair: Okay. Thank you.

[*Translation*]

Mr. Côté, go ahead.

Mr. Raymond Côté: Thank you very much, Mr. Chair.

Ms. Proud, let's continue in the vein of what my colleague Guy Caron was talking about.

Could you give us an idea of what proportion of products are affected by the elimination of the general preferential tariff? I am talking about the proportion of products for which you cannot ensure an easy supply outside the country of origin your members usually get their supply from.

China is a good example. Sometimes, there is no alternative owing to insufficient production capacity. So you entirely depend on importing a proportion of certain products because no alternative exists in Canada.

[*English*]

Mrs. Karen Proud: I wouldn't be able to give you that information at this point. It's something that we're looking into with our members and we've discussed with the department. As I mentioned earlier, there are 1,400 pages of the Customs Tariff—2013. Going through that, there's a significant number that have a GPT-eligible tariff rate, but at this point I couldn't tell you what sort of percentage we'd be looking at at all. We've asked the department for time to do that analysis and to really understand what the impact could be.

[*Translation*]

Mr. Raymond Côté: Okay, excellent. Thank you very much.

Mr. Lavoie, I would like to continue discussing the general preferential tariff.

I really liked your take on that debate, which is definitely not simple. The last thing we want is to adopt a simplistic approach when it comes to this.

I think one particular aspect has not received enough attention, since the government has really been focusing on countries like China. Among the 72 countries, there are a number of African and Caribbean countries that don't really have significant industrial infrastructure in place. Therefore, those countries could still take advantage of the general preferential tariff without harming the Canadian economy.

A simplistic solution was applied to such a complex issue. Would you like to comment on that?

Mr. Martin Lavoie: As for the actual list of countries, I am not really an expert on the criteria taken into account to decide whether or not those countries should be on the list. The list is definitely long, as it contains 72 countries. In addition, this program has not really been changed since 1974.

I would not call this solution a simplistic one. Perhaps greater transparency would have been appropriate in terms of the criteria used to determine whether a country is developing and whether it should be on the list. According to the *Canada Gazette*, some consultations have already been held on the issue. I was still a bit surprised to see 72 countries on the list. That being said, I think that the government must make a decision at some point.

● (0950)

Mr. Raymond Côté: Yes. Thank you very much.

That will be all for now, Mr. Chair.

Are you ready to ask questions? I will let you use the remainder of my time.

[*English*]

Mr. Murray Rankin (Victoria, NDP): I'd like to start with Mr. Lavoie, but would first thank all of the witnesses for being here. I'll have another chance, I think, in a moment.

Mr. Lavoie, you talked about SR and ED a little bit in your introductory remarks on business R and D, and you had questions about equity of access, both geographic and vis-à-vis certain manufacturers. Could you speak a little bit more about that?

Mr. Martin Lavoie: I was putting these new direct support mechanisms for business R and D in perspective, because I think it's a response to the cuts that have happened to the SR and ED program last year.

My point was that we took some of this money to provide new direct support mechanisms for private companies to perform research and development. So you have recapitalization of the automotive innovation fund. You've had a recapitalization of the SADI program for our aerospace innovation, plus some additional money. The first two sectors got some money.

And there's a new fund for FedDev Ontario, available for events and manufacturing projects in southern Ontario.

Let me just put it this way. If you are a manufacturer not in southern Ontario, not in forestry, automotive, or aerospace, you don't get what you lost under SR and ED with this new program. So the point was that the fund that will be implemented in southern Ontario, for example, could maybe become a model to be applied across the nation without regional economic development agencies.

In last year's budget there was some money announced for Western Economic Diversification for innovation. We haven't seen this program yet, and it's been one year now since the announcement.

The Chair: Thank you.

We'll come back to you, Mr. Rankin.

Mr. Jean, please.

Mr. Brian Jean (Fort McMurray—Athabasca, CPC): Thank you, Mr. Chair.

I would like to talk a little bit about the keystone markup, which most retailers have on their goods. In fact the keystone markup is such—and correct me if I'm wrong, Ms. Proud—that it's a 100% markup on any goods that cost them. Most books and most professionals suggest that if you don't have a keystone markup, you can't stay in business for a long period of time. It's a full 100% markup for retailer to sale. Is that fair to say? Are you familiar with the keystone markup?

Mrs. Karen Proud: Not at all, and I would be shocked to hear that there's 100% markup on retail products when my retailers are telling me that their margins are 4% to 15% max.

Mr. Brian Jean: Don't be shocked. I've been in the retail business for 30 years, and I can promise you that as a wholesaler, manufacturer, and a retailer, that's what it is. If you look at most things on the website, it talks about 100% markup, and in fact says that without a keystone markup, most Canadian North American retailers can't stay in business.

What I was going to talk about is that markup because I know for a fact, as an importer from Hong Kong and Taiwan—I would like to take, for instance, the lapel pins, as an example. I know that for the most part for manufacturers at the time that I was doing this, it would cost them about 6¢ or 8¢ for a pin. They would turn that over to an importer, who would make a few points on each one, and they would usually have a cost of about 10%, sell the pin for 15¢. The wholesaler would then take that, and I was a wholesaler at the time, and it would cost them about 15¢, as I say. They would then in turn resell that to a retailer for 30¢ to 60¢, and the retailer would sell it for $1.20. That's consistent with what took place back in the seventies and eighties, and I can promise you that I have a lot of records to prove it, and very much competition.

The reason we stopped buying from Canada was that Canadian manufacturers were not competitive. Now I find out through this budget that there has been a tax advantage for foreign manufacturers such as those in China. Frankly, I don't think it's been fair, and now I understand why Canadian manufacturers were put out of business during that period of time. I think it's fair to say that you would agree with that.

Mrs. Karen Proud: As I mentioned, we completely understand where the government is coming from with the fact that countries like China shouldn't necessarily benefit from a preferential tariff for boosting their exports. We understand that. What we had asked for are things that will allow the retailers to prepare for and manage that.

Mr. Brian Jean: And I do understand that over some sort of time period.

But again, we're talking about a 3% or a 5% increase, or elimination of that advantage, which means we're talking about the increase on 15¢ for every dollar. In my particular business, that's what it would mean. So we're talking one or one and a half cents on a dollar item.

From my point of view, that can pretty much be absorbed by transportation through the money markets, which is how it's usually done. That's how people buy and sell and get an advantage on their play in the money markets.

Or, in fact, it could be absorbed by retailers or wholesalers without even an increase. Most retailers, as you know, publish the suggested list price. That suggested list price is two or three years on the marketplace. Retailers use that, and then they use the margin as a discount. They will discount their products 50%—and here I see you nodding your head in agreement—and then they'll usually discount it at Christmastime or another time that's popular another 20%, and then another 10%, and sometimes another 5% or 10% to make up the marginal difference. In fact, many times you have a dollar product that you sell and you're paying only 35¢ or 36¢ for that particular product.

I would suggest to you that the 2% to 4% or 5% tax advantage that was given to foreign countries, such as China and others, will be absorbed in the current suggested list pricing. We can debate that, but having been in that marketplace, I can't see it making a significant difference.

I would like to talk briefly about credit unions.

● (0955)

The Chair: You have one minute.

Mrs. Karen Proud: Sorry, could I respond?

Mr. Brian Jean: Certainly.

Mrs. Karen Proud: Our main area of concern with the review of the GPT is not necessarily those countries that are going to come off the GPT list, but the effect on the lowest-developed country and the fact that the rules of origin state that if they get inputs from GPT countries who would no longer be there, the rules of origin would mean that those products wouldn't necessarily originate from that country. Those can be 18% tariffs, as opposed to zero now.

Mr. Brian Jean: I do understand that. I just don't have a lot of time. I probably have—

The Chair: You have 30 seconds.

Mr. Brian Jean: —30 seconds left.

Is it fair to say that credit unions have a very competitive situation compared with that of commercial banks?

They are able to give higher interest rates and lower loan and credit card rates to their customers. They have lower fees. They have the ability, obviously, to do customer-focused banking. They have lower fees, better service, and more flexibility to be more competitive with the larger commercial banks—which obviously can't do that. Isn't that fair to say? I'm relating to a website here called “Money Crashers”, which talks about credit unions versus commercial banks. Wouldn't that be fair to say?

The Chair: Respond very briefly, if you can, Mr. Phillips.

Mr. David Phillips: There are 348 credit unions, so you have 348 credit union service offerings right across the country.

Credit unions attempt to maintain competitiveness with commercial banks, but it's a tough go. When you look at the level of concentration in the Canadian financial services industry—

Mr. Brian Jean: But would you agree with what I've said?

Mr. David Phillips: I don't think I can generalize to that effect. No.

The Chair: Unfortunately, we're out of time. We'll have to come back to that discussion.

We'll go to Mr. Rankin, please.

Mr. Murray Rankin: Thank you, Mr. Chair.

I'd like to ask either Mr. Paton or Mr. Lavoie about the ACCA. We've heard a lot about it in response to a question from my colleague, Mr. Caron, in particular. But I want to go back to the fact that this two-year extension would appear to be almost a band-aid.

I'm not suggesting for a moment, Mr. Paton, for the reasons you've given, that it's not valuable. I certainly would agree with that. But wouldn't it be much more helpful to have a more permanent solution rather than just going from one year, 2007, and then extending it in the 2008, 2009, and 2011 budgets?

You talk about the Americans, for example, being your major competition, Mr. Paton, with their 60% double-declining balance and a more permanent tax structure. Here we are looking at two years. We're going to come back, presumably, in two years' time, looking again as to whether this ought to be changed. Doesn't it make sense to make this a permanent measure?

Mr. Richard Paton: It would be very helpful to look at that option and compare the tax regimes. One thing the government has done in previous budgets is to note that we have to be competitive with the United States. So this is an area where we should look hard at their tax regime—not just their published corporate tax rate, because that doesn't tell you very much about the actual real tax structure—and what it would mean for capital investment.

It is a bit of a problem to keep extending this for two years. It is a definite benefit and my companies are very pleased it's there. It is having an impact on investment. But for a company that's actually thinking about an investment five years from now, it can't factor that in. The way a company operates, if it's looking at an internationally competitive situation, it will say, is this on the table or not on the table? And we could say, they kept extending it every year and it's pretty certain that it will be extended. Sorry, I can't count that. The accountants can't count that way. You either have it or you don't have it.

Right now we can count it to only 2015. So it would be better to have it as a longer-term solution and to have that kind of discussion with the government.

There is an opposite view out there that you must have a tax system that links to depreciation, and there are some sacred cows out there on this subject. We need to have that kind of discussion as to what is really required to get long-term major capital investment in the manufacturing industry.

● (1000)

Mr. Murray Rankin: Thank you.

Do you have anything to add, Mr. Lavoie?

Mr. Martin Lavoie: To go back to what he just said, I think you at least want to have a level playing field, with rules that allow depreciation similar to that in the U.S. I think as long as the U.S. has its bonus depreciations, which he referred to and which were renewed last December for another year I think, you want to get this ACCA the way it is.

When we go back to the traditional method of amortization, I think we need to look at that more as being within a productivity framework than as being an economic stimulus. I mean that you might even be looking at the classes of assets that have the most potential for increased productivity. I'm thinking here of ICT equipment used in production facilities and stuff like that, not only because you want a level playing field with the U.S., but also keeping in mind that a piece of ICT equipment used in a plant might not have a life cycle of 12 years. It might actually have a life cycle of four or five years, so you want to reflect that as well.

Mr. Murray Rankin: It sounds like an argument for a major study on the whole ACCA regime in Canada, but that's a bigger question.

In the time available, Ms. Proud, I'd like to ask you a couple questions if I could.

In your opening remarks you talked about a couple of things I wouldn't mind a little bit of elaboration on. You talked about specific product exemptions, and you used the canned tuna example.

Have you given any thought to what criteria you might use for such a class of exemptions? They could be sort of ad hoc: tuna here, sandals there. Have you given any thought to what those criteria might be?

Mrs. Karen Proud: We are in the process—and we have told the department this as well—of developing another submission around the GPT in which we would look at exactly that. Certainly one criterion would be that there are no alternative sources for these products. So for tuna, there are other sources, but we know that canned tuna is a staple for many Canadian families so we're trying to be reasonable working with what the government has proposed. But the areas in which we think it's going to have the most impact on Canadians and consumers, in which we fear cross-border shopping might be driven by it, are the sorts of areas in which we would be looking for product exemptions.

The Chair: Go ahead very briefly.

Mr. Murray Rankin: I was going to take you up on something you talked about in response to Mr. Brison, which was reduced costs to help people in the cross-border shopping area.

I wonder, given that these tariff changes are allegedly going to mean 3% greater costs on affected items, whether a wholesale review might be required in order to adjust the reduced costs? What other things could you do?

The Chair: Could we have a brief response to that, please?

Mrs. Karen Proud: We had asked the department to do an impact study on what these changes might mean for consumers. We're doing it ourselves, and we will provide some of that information when it's complete.

The Chair: Thank you.

Go ahead now please, Mr. Leef, for your round.

Mr. Ryan Leef (Yukon, CPC): The first question will be for the CME. In your opinion are the countries that have been removed from the GPT generally considered to be developing countries?

I think we glossed over this a little bit in terms of Canada's trading position or use of this as a better leverage position for our ability to sign free trade agreements. Can you expand on how removing them from the GPT will enhance these free trade agreements or trade positions with those countries?

Mr. Martin Lavoie: As I mentioned, our view in most domestic policies that relate to an international negotiation is that you want to have at least the same treatment for foreign companies as for Canadian companies abroad. If we don't have that, why would another country sit down with us? What would be in it for them? That would be my first statement about that.

I would like to go back to the point about no other sources of supply, because there's great potential in manufacturing right now with new innovations, with new machinery, with new ways to set up your plants. You can actually repatriate some of the work from developing countries. You're seeing that not only in the U.S but in Canada as well.

One of our members in Montreal, Mega Bloks, which makes toys, has actually invested $30 million in its plant. So it has been able to repatriate two lines of production from China, because labour costs are also going up in China.

The argument that there are no other sources of supply doesn't mean there couldn't be another source of supply in Canada, if we could get the right tax treatment of capital expenditures and stuff like that. I want to be careful with that. What's in China now is not going to be in China for 2,000 years. With the right machinery and with the right people, we might actually repatriate some of it in Canada. I think there's potential there we need to keep in mind as well.

● (1005)

Mr. Ryan Leef: Mr. Paton said that the ACCA keeps us in the game and that our corporate tax structure—or rate—is far less than that of the United States. In fact it's almost half of that. But are there other things that keep us in the game beyond those two things? For example, do we have a skills advantage that we can deploy? Does Canada have better geography or access to shipping? What other things beyond these two things keep us in the game, and what can the Government of Canada do in terms of legislative or policy development to help make sure that we keep our place in the game? And where can we improve?

Mr. Martin Lavoie: I will mention one thing the government can look at in particular, which is the complete elimination of capital expenditures used for R and D purposes. Under the SR and ED program, this will be completely eliminated starting next year. This year you might see an increase in capital expenditures for R and D because it's the last year that companies can take advantage of it.

When I looked at the list of 26 countries that provide tax incentives for research and development, only four out of 26 don't have some kind of capital incentive for R and D purposes. You may want to consider either keeping the capital expenditure under the current SR and ED program, given that it costs $50 million a year according to Finance, or you can do what four other countries like the U.K. are doing: use the ACCA mechanism for machinery and equipment used for R and D purposes, not for processing or production. I think it would be a tax incentive.

As I said, Mega Bloks didn't bring back its fabrication here without having some knowledge of the way to set up their production lines and what kind of machinery to use. That would be my suggestion. This is the only place where Canada doesn't have anything.

Mr. Ryan Leef: Ms. Proud, you talked about modifying the rules of origin. Can you explain that for me, as it's not really clear to me?

Mrs. Karen Proud: It's highly complex, but when countries are removed from the general preferential tariff treatment, there could be an effect on products that are sourced from countries that are considered the lowest developed countries.

The government answered our request to look at the rules of origin for that, and they've addressed that in textiles and apparel, and we're grateful for that. We've asked them to take it one step further and look at the rules and origins for other products. This is part of what we're doing in working with the department to try to put forward a list of the areas we're really concerned about, where they might want to consider making those changes.

That's where the percentage difference is highest. It's not the 3% on the changes from the Chinas, but the 18% to 20% where there's currently a zero tariff rate, that we're most concerned about.

Mr. Ryan Leef: And your initial list was positive—

The Chair: Thank you, Mr. Leef.

We'll go to Ms. Glover, please.

Mrs. Shelly Glover (Saint Boniface, CPC): Again, thank you to the witnesses for coming.

Mr. Lavoie, thank you for talking about repatriating products. You're absolutely right, Canada has some huge potential.

I have to correct something you said earlier. When we talk about SR and ED, which isn't even in this budget implementation act, the savings that we have garnished from the SR and ED we've put into venture capital, so that we can have these manufacturing companies develop products that will in fact start to come out the doors of Canadian companies and compete better with China.

I want to say for the record, when we're talking about economies, that Canada's economy is about $1.4 trillion. China's $7.3 trillion; they don't need our help. We're going to help Canadian manufacturers, Canadian companies, with the changes that are proposed in the BIA.

I do have to clear up some confusion on the credit union stuff, if you would allow me.

First, our government reduced the small business rate to 11% from 12%, which of course was to incent many small businesses to do better and to grow in a tough economy. The way the deduction is working is that the small business rate of 11% normally applies to the first $500,000 of income, then it gets phased out as the business gets larger.

Until recently, credit unions had been entitled to 11% on all their income, no matter how much they had. Some of our credit unions are making a lot more than $500,000 a year. As a result, we're saying with these changes that they should get the small business rate on the same amount as all other small businesses are, and no better. But they still get the 11% on the first $500,000, which means—to clear up the confusion—that this is a tax change for large credit unions, not small credit unions.

We need to clear that up because we seem to be saying that all credit unions are going to be affected, but they are not all going to be affected. Isn't that so, Mr. Phillips?

● (1010)

Mr. David Phillips: There are many good things in this budget. We've heard about them today—

Mrs. Shelly Glover: No, I'm just asking you whether all credit unions are going to be affected by this change, or is it only those making over $500,000? It's a quick question, as I have other things to say.

Mr. David Phillips: We've done an impact assessment and we've determined that 90% of the aggregate net income in the credit union system last year will be affected by the tax increase.

Mrs. Shelly Glover: You're aggregating again. Most credit unions will not be affected. That's the question.

Mr. David Phillips: That is less than 3% of what the large Canadian banks made last year. Mr. Jean referred to—

Mrs. Shelly Glover: I'm curious to know why you're not answering the question, Mr. Phillips.

Mr. David Phillips: Mr. Jean referred to the competitiveness of credit unions, which has has clearly been assisted by this tax provision. I mentioned my perplexity earlier on—

Mrs. Shelly Glover: I'm going to have to interrupt you, Mr. Phillips, because I do have some other questions. I was asking for a simple answer to a very simple question.

There are over 1,000 credit unions, not just 348. I know you said there were 348, but there are actually more than 1,000 credit unions across the country. Most of them are small credit unions that are not going to be affected. I also want to say that credit unions—

Mr. David Phillips: There are not more than 1,000. There are 348 credit unions. In fact, there are fewer than that right now.

Mrs. Shelly Glover: Well, there are 191 branches in Manitoba, we just heard.

Mr. David Phillips: If you add in the caisse pops in Quebec, you get a larger number, but there are 348 credit unions. When you add up all of what they earned in 2012, you get 3% of what the large Canadian banks made, and this provision is not consistent—

Mrs. Shelly Glover: But as I said before, only the credit unions that earn more than $500,000 in income are going to affected.

Mr. David Phillips: —with what the budget says on page 147. This provision is a mistake.

The Chair: One speaker at a time, please.

Mr. David Phillips: This is a mistake. You've got advice out of the bureaucracy without any analysis of the competitive impact.

This has come forward. It's not connected to the jobs and growth agenda. It's not connected to what you say on page 147.

Mrs. Shelly Glover: Well, I think it is, Mr. Phillips.

The Chair: You have one minute.

Mrs. Shelly Glover: And it's pretty telling when you don't want to answer the question.

Mr. David Phillips: I did answer the question.

Mrs. Shelly Glover: In fact, there are 191 branches, we heard, in Manitoba. There are over 1,000 credit unions.

Mr. David Phillips: There are 1,760 physical locations—

The Chair: One at a time.

Mrs. Shelly Glover: May I continue?

The Chair: Ms. Glover, you have about 30 seconds.

Mrs. Shelly Glover: Thanks. I also want to add that credit unions, since 40-plus years ago, have changed the way they do business. They now sell insurance, which they didn't do before. They now issue shares to non-members, so they are able to raise capital. I just wanted that to be on the record.

I'm sorry, Mr. Phillips, that we don't agree. But in fact, I believe this is in line with our intention to make sure that there's tax fairness across the board, particularly when we're talking about our small businesses. I certainly know that if we raised taxes on corporations, as suggested by the opposition, it would have a much more severe implication for our credit unions, including our caisse populaires , etc.

Thank you.

The Chair: Thank you, Ms. Glover.

I'm sorry, but we are out of time, unfortunately. We do have a second panel appearing immediately hereafter.

I want to thank all of our witnesses for being here. I want to thank Mr. Manness for being with us from Winnipeg.

I think, Ms. Proud, you mentioned that you wanted to submit something to the clerk. Please feel free to do so. We will ensure that all members get it.

I'll suspend for a minute and we'll bring the second panel forward.

● (1010)

(Pause)

● (1015)

The Chair: I will call this meeting back to order.

This is a continuation of our panel today discussing Bill C-60, An Act to implement certain provisions of the budget tabled in Parliament on March 21, 2013 and other measures.

I want to welcome our second panel of witnesses here for the discussion of this piece of legislation. Again, we have six presenters to hear from this morning.

First, as an individual, we have Professor Mike Moffatt, from the Richard Ivey School of Business.

We also have, from the Canadian Cancer Society, Mr. Rob Cunningham; from the Canadian Federation of Agriculture, Mr. Ron Bonnett; from the Canadian Meat Council, Mr. James Laws; and from the Canadian Psychological Association, the CEO, Karen Cohen. Welcome.

And from the Multiple Sclerosis Society of Canada, we have the president and CEO, Monsieur Yves Savoie. *Bienvenu à ce comité.*

You will each have five minutes for an opening statement, and then we'll have questions from members.

We'll begin with Mr. Moffatt.

Prof. Mike Moffatt (Professor, Richard Ivey School of Business, As an Individual): I would like to thank the committee for inviting me to speak today.

My name is Mike Moffatt. I'm a professor in the business, economics and public policy group at the Richard Ivey School of Business. I have researched and taught international trade for a number of years at Ivey. As well, I have spent the last eight years as a private sector trade and regulatory consultant to the chemical industry.

I'm here to discuss two tariff changes in Budget 2013, the first of which, the elimination of tariffs on baby clothing and some sporting equipment, is greatly welcomed.

The second, the so-called modernization of Canada's general preferential tariff program, or GPT program, has serious unintended consequences and should be reconsidered. Fortunately, there is time to do so as the GPT changes are not a part of Bill C-60.

There are a lot of things to like about the government's two proposed tariff changes as they address three existing drawbacks to the customs tariff. The first is that the customs tariff is out of date, with the obvious examples of tariffs designed to protect industries in Canada that no longer exist, such as hockey equipment manufacturing. The general preferential tariff is out of date. I'm in full agreement with the government that changes are needed here, and exporting powerhouses such as China and Korea no longer need preferential tariff treatment.

The second difficulty is that for many products, high tariffs are contributing to the price gap between American and Canadian product retail prices, as described in the report of the Standing Senate Committee on National Finance. The government has taken a step in the right direction here through this elimination of tariffs on sporting goods and baby clothes.

The third difficulty is the sheer complexity of the customs tariff. The so-called iPod tax is a prime example, with importers left not knowing the steps they need to take to be eligible for the 9948 exemption.

Another example of the complexity of this system is the fact that hockey helmets were originally erroneously left out of the tariff reductions, and this omission took weeks to detect. I have to admit, I completely missed it myself.

Given this complexity, it is no wonder that past reports of the Auditor General have identified an alarming rate of errors and discrepancies in tariff classifications of importers. Much more needs to be done to simplify the system, but the government's move here to increase the number of zero-rated goods is definitely a step in the right direction.

Now that I have told you what I think is right with the changes, I'm going to focus on their drawbacks. The most obvious drawback is that it's going to raise the tariff on thousands of goods. These tariffs really aren't going to be paid for by Chinese companies; rather, they're paid for by Canadian importers and retailers and, at the end of the day, by Canadian consumers.

The net effect will be to increase this price gap with the United States, which is already one of the big problems with the customs tariff. This will inevitably lead to an increase in cross-border shopping. The border town of Windsor, Ontario, for example—in my neighbourhood—has an unemployment rate of 9.6%, so the last thing it needs is a decline in the retail sector.

There is a far simpler way to modernize the tariff system while also addressing the price gap and complexity issues. Once Canada and the EU sign a free trade agreement, which we're told should be coming in a matter of weeks, there will be only 16 jurisdictions, representing roughly 5% of Canadian imports into Canada, that will fall under the highest most favoured nation, MFN, tariff treatment.

There will only be 16 nations that have worse tariff treatments than China and Korea. If we want to make a level playing field, all we need to do is reduce the tariff treatment on those 16 nations down to the GPT level by basically harmonizing the most favoured nation and the general protective tariff treatments. This would greatly simplify the tax code as we'd be eliminating a tariff treatment entirely, and this would reduce the tax bill on Canadian importers, retailers, and Canadian consumers, leading to a reduction in the retail price gap.

My professional recommendation is that, before implementing tariff changes, the advice contained in the Senate report of a comprehensive review of Canadian tariffs be followed. This review should include a full costing of harmonizing the GPT and MFN tariff treatments.

Thank you for having me, and I look forward to your questions.

● (1020)

The Chair: Thank you, Mr. Moffatt, for your presentation.

Mr. Cunningham, please.

Mr. Rob Cunningham (Senior Policy Analyst, Canadian Cancer Society): Thank you, Chair and members of the committee.

My name is Rob Cunningham and I am a senior policy analyst with the Canadian Cancer Society.

[*Translation*]

Thank you for the opportunity to testify before this committee today.

[*English*]

My testimony will focus on clauses 53 to 61 of Bill C-60, which contain a tobacco tax increase for the category described as “manufactured tobacco”, and roll-your-own tobacco in particular. We support this increase, and we recommend that all members of Parliament endorse these provisions.

Let me emphasize the crucial role that higher tobacco taxes play in reducing tobacco use, especially among youth, who have less disposable income. There are more than 100 studies that confirm the obvious: mainly, that as tobacco prices go up, tobacco consumption goes down.

Bill C-60 takes action on a long-standing loophole that has seen roll-your-own tobacco taxed at a much lower rate than regular cigarettes. It used to be that one gram of roll-your-own tobacco was needed to make one cigarette, but now, because of modified tobacco industry manufacturing practices to exploit the tax structure, only half a gram is needed to make one cigarette. Thus, the industry strategies have in effect reduced by half the tobacco tax rate on roll-your-owns.

Lower taxes lead to lower prices. That keeps many people smoking or results in more cigarettes smoked per day. Obviously, this is detrimental to public health.

The changes in the tax structure because of Bill C-60 take action in this regard. I have some examples with me. As you can see, Export 'A' says “100% more” right on the label. You get twice as many roll-your-own cigarettes as you used to be able to, because of the types of different manufacturing practices. It says on the label that you only need 0.47 grams to roll one cigarette.

This bill responds to that by helping to address a loophole where you had to get the same number of cigarettes for half the tax. We appreciate and support that. You can see that there are other brands that do the same thing and say “100% more”. They say on the label how much you get. That's a loophole that is bad for public health.

As well, federal tobacco tax rates had not changed since 2002, 11 years ago. Thus, a proportion of the tobacco tax change in this bill is merely an inflation adjustment.

The sales volume of roll-your-own tobacco varies across Canada, from only 1% of the market in Ontario to 13% or more of the market in five provinces. Thus, this tobacco tax change will be particularly beneficial in some provinces.

A surprising proportion of youths use roll-your-own tobacco. Data from the 2009 Canada-wide youth smoking survey found that among high school students 62% of boys and 30% of girls had used roll-your-owns in the previous 30 days.

This measure will raise a projected $75 million in revenue for the federal government. It should be noted that this tax increase will apply to other forms of loose tobacco, such as chewing tobacco, snuff, and water-pipe tobacco, in addition to roll-your-own tobacco. These product categories are far more popular among youth and young adults than those aged 25-plus and illustrate a further reason why Bill C-60 will reduce youth tobacco use.

I have some examples with me. This bill will apply to this new phenomenon among youth of hookah and shisha water-pipe smoking, with cherry, coconut, and orange flavours. It will also apply to the smokeless tobacco, such as cherry, mint, lime, and so on.

Tobacco use remains the leading preventable cause of disease and death in Canada, causing 37,000 Canadian deaths each year from cancer, heart disease and stroke, emphysema, and other diseases. The overwhelming majority of new smokers are underage youths, and tobacco taxes are a crucial part of a comprehensive tobacco control strategy.

The tax measure in Bill C-60 is a win-win for public health and public revenue. We urge all members of Parliament to support this measure.

Merci. I look forward to questions.

● (1025)

The Chair: Thank you very much for your presentation.

We'll now hear from Mr. Bonnett, please.

Mr. Ron Bonnett (President, Canadian Federation of Agriculture): Thank you for the opportunity to attend and make a presentation.

Many of you will likely be aware that the Canadian Federation of Agriculture represents about 200,000 farmers from across the country. We work back and forth with Finance on a number of issues, but specifically today we're talking about some of the key aspects of Bill C-60. In the package that went out earlier, there are some statistics on the actual size of the agricultural sector in Canada, and I think sometimes it is a bit underestimated.

There are a few things that I want to touch on, and one is that we do produce 8% of the GDP. One in eight Canadian jobs depends on agriculture. Increasingly we're becoming an important factor in trade, and when we look at the value chain, the impact on communities is tremendous.

There are a couple of key issues facing agriculture right now. One of the big ones would be constraints with respect to labour, making sure we have access to both skilled and unskilled workers. The vacancy rate for agriculture positions is higher than in other occupations. Sometimes it's because of the skill set that's required; sometimes it's because it's very low-skilled labour that's required.

One of the things that has to be captured is the fact that this is an issue of competitiveness. The Canadian agricultural sector pays higher wages than our counterparts in North America, particularly our neighbour to the south, which has very low labour rates for agricultural wages.

Some of the key comments we have with respect to Bill C-60 include our support for the $165 million investment in Genome Canada and $20 million in Nature Conservancy Canada, targeting research and conservation. I will talk a bit later about the fact that these are good investments. However, in isolation without a long-term strategy, we're not sure how everything fits together.

The idea of supporting a Canada first labour policy, I think is important. However, we should make sure that the temporary foreign worker program is designed to bring people into the permanent workforce, so they actually become Canadians working for Canadian companies. Changes to the program should minimize the labour market opinion delays for sectors, so that there isn't a holdup in getting the workers that are required. Industry labour task forces should be adequately consulted in developing cost recovery fees and implementing other changes.

Going back to the comment on research, I think the investment in Genome research is going to be very important for Canada, and agriculture in particular. We're seeing a lot of exciting opportunity to increase productivity by using Genome research. What we are seeing is a bit of a mix in messages on research. We're seeing investment in project funding for things like Genome research, but at the same time we see lay-off notices at Agriculture Canada for staff researchers. I think a discussion has to take place on what is needed for core research funded by government and what is needed in project funding, and I think there needs to be a long-term strategy around that.

We also have basically the same comment on the $20 million for Nature Conservancy Canada. I think it's a very positive move, and agriculture has an opportunity to be part of that. We've made this presentation to the environment committee as well, about looking at how we pull all of this together to make sure it's not bits and pieces that we're dealing with but an overall strategy for investment in conservation initiatives.

On the labour side, we're seeing some initiatives to try to reduce fraud and misuse of temporary foreign workers. Those types of things are admired. As I said, we're already paying prevailing wages to our farm workers that are higher than some other jurisdictions we're competitive with.

As I mentioned early, I think we need to make sure this whole thing is taken in context. As we bring temporary foreign workers in, how do we build them into long-term residency here, and staffing for these companies?

One of the things that is important is the seasonal worker program that agriculture has used for a number of years. It is basically intact, and I think the concerns around the temporary foreign worker program were not there with the agricultural seasonal worker program, because that was a negotiated contract between the groups.

● (1030)

The final point I'm going to touch on is about looking at the whole agrifood sector as a value chain. Indeed, Mr. Laws will be speaking later. We are integrated: we need our processors to buy our products. I think a number of the issues we need to look at are complementary.

We appreciate the capital cost extension that was granted, which does encourage business to make the investments and get the writedowns if necessary. But I think in closing, what I would say is, whether you're talking about labour, capital investment, research, or conservation strategies, you have to make sure that you're dealing with these things in a long-term way, and there has to be a long-term strategy in place to deal with them.

Thank you.

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

Mr. Laws, your presentation, please.

Mr. James Laws (Executive Director, Canadian Meat Council): Thank you.

Good morning. My name is Jim Laws, and I'm the executive director of the Canadian Meat Council here in Ottawa.

The meat processing industry is the largest component of Canada's food processing sector, with annual revenues valued at over $24 billion and total employment of over 70,000 people.

Canada's meat processing industry adds value to the live animals born and raised on Canadian farms, provides a critical market outlet, and supports the viability of thousands of livestock farmers. I am pleased to provide three brief comments on Bill C-60, An Act to implement certain provisions of the budget tabled in Parliament on March 21, 2013 and other measures.

First, we are pleased with part 1 of Bill C-60, which provides for a two-year extension of the temporary accelerated capital cost allowance for eligible manufacturing and processing equipment. The changes to the income tax regulations state that a taxpayer who acquires a property after March 18, 2007 and before 2016 that is manufacturing or processing equipment may elect to include the property in class 29 of schedule 2. That effectively allows a classification with a higher percentage depreciation rate. Given the high value of the Canadian dollar, it is critical for our meat processing industry to make capital investments to become more competitive in the long run. We believe that the accelerated capital cost allowance should be made permanent. If that cannot be done, we recommend that the accelerated capital cost allowance be extended for a period of at least five years. This is the typical time it takes to plan, budget, commission, and complete a significant capital project.

Second, in Part 3 of Bill C-60, Canada's meat industry supports the government's proposal to extend the preferential tariff treatments for developing and least-developed countries that was established in 1974. Bill C-60 will change sections 36 and 40 of the Customs Tariff, from an expiry date of June 30, 2014, to December 31, 2024, or on an earlier date that may be fixed by the order of the Governor in Council.

Canada should do this because preferential tariffs are intended to increase the export earnings and promote the economic development of developing and least-developed countries. At the same time, we also support the government's intention to modify the list of beneficiary countries and withdraw from the general preferential tariff eligibility the 72 countries that have achieved significant shifts in income levels and trade competitiveness.

We also believe that the government should put these measures in place on a permanent basis. It should, however, review the list of countries that are classified as either developing or least developed on a much more regular basis. We fully support the government of Canada in its efforts to eliminate tariffs by opening more markets to our goods, especially Canadian meat products, and by diversifying our trade with more reciprocal trade agreements, such as the Canada-European comprehensive economic and trade agreement, and the Trans-Pacific Partnership free trade agreement.

Our third and last comment is that Canada's meat industry is very concerned with Division 9 of Part 3 of Bill C-60 that amends the Immigration and Refugee Protection Act to authorize the revocation of temporary foreign worker permits, the revocation and suspension of opinions provided by the Department of Human Resources and Skills Development with respect to an application for a work permit, and refusal to process requests for such opinions.

We are also concerned that Bill C-60 authorizes fees to be paid for rights and privileges conferred by means of a work permit, while at the same time exempts those fees from the application of the User Fees Act. Continued access to foreign workers is not only critical to the meat industry, it is of significant benefit to Canadian farmers, workers, consumers, and municipalities. Unfortunately, a combination of misinformation and allegations of potential misuse by a few seem to be putting in serious jeopardy the best interests of the many.

Canadian meat processing companies are always looking to hire Canadians first. The clearly documented reality of our industry is that the jobs available at many locations exceed, by far, the number of Canadians who are able and willing to perform the physically arduous tasks that are required. Many of the unfilled positions would require that Canadians relocate to rural communities.

● (1035)

Unlike some of the stories we've heard in the news, our experience has been that the costs associated with employing temporary foreign workers are substantially greater. Foreign workers are members of the same labour unions and receive the same salaries and benefits as Canadians in Canada's meat industry. In addition, there are additional employer expenditures, such as the return airfare to the home country, worker compensation, housing standards, etc.

Foreign workers perform tasks for which there is an insufficient number of Canadians available. The important contributions they make will allow meat processing plants to remain in operation, thereby supporting jobs for thousands of Canadian workers.

The Chair: Okay—

Mr. James Laws: For the sake of our economic growth—

Thank you. I'd be pleased to answer any questions afterwards.

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

We'll now go to Dr. Cohen, please, for your presentation.

Dr. Karen Cohen (Chief Executive Officer, Canadian Psychological Association): Thank you for the invitation to present today.

The Canadian Psychological Association is the national association for psychology in Canada. There are about 18,000 psychologists in Canada, making us the country's largest group of regulated specialized mental health care providers.

I'm here today to highlight how the current language in the budget concerning the GST could lead to unintended consequences for Canadians seeking mental health treatment. If passed without clarification or amendment, Canadians will now have to pay taxes on certain psychological services that were once exempt.

Budget 2013 makes changes to the GST so that reports and services provided solely for non-health care purposes, even if supplied by health care professionals, are not considered basic health care and will not be eligible for exemption. It goes on to explain that taxable supplies would include reports, examinations, and other services performed solely for the purpose of determining liability in a court proceeding or under an insurance policy.

It is CPA's view that psychological assessments, even those that determine liability in a court proceeding or under an insurance policy, must be considered a basic health service. Let me explain why.

When it comes to the treatment of mental illness in Canada, privately insured services are the norm and not the exception. Psychological services are not covered by our provincial and territorial health insurance plans, and are paid out-of-pocket by taxpayers or through private insurance. Unfortunately, limits on private insurance coverage are frequently too little to allow for meaningful service.

Medical legal assessments and insurance assessments are used to determine the nature of a health problem and to recommend the type and length of the treatment required. These assessments are necessary to demonstrate that the person has met the eligibility criteria to access the service and to receive the funds to pay for it.

Determining liability in a court proceeding or under an insurance policy is therefore essential for many Canadians to gain access to the mental health treatment they need.

Here are a few examples. A child with a developmental disorder might need a complex psychological assessment to determine the nature of the disorder and identify his or her specific cognitive and behavioural needs. This identification may be necessary to establish eligibility for specialized care through insurance or other programs that might offer financial relief for this care.

In another instance, a Canadian may suffer health effects as a result of having been a victim of crime. They may have a brain injury or post-traumatic stress disorder for which they must seek the services of a psychologist to establish a claim for treatment in a civil suit. While the need for an assessment might be identified immediately after the incident, it is not unusual for it to be identified later on. Someone with a brain injury may present symptoms such as lack of initiative, problems with concentration, or trouble problem-solving, that can take some time to accurately identify and distinguish from other conditions. Recovery can take months or years, and symptoms may never fully resolve. With the proposed changes, not only would this person have to cover the costs for the assessment and any necessary treatment, they would now also have to pay GST.

Finally, when someone is hurt in a motor vehicle accident, they require approval from an insurer for a needed psychological assessment to be covered. If the request for the assessment is denied by the insurer—and this can happen even with a physician referral—an independent examination is then triggered. With the changes outlined in the budget, any psychological assessment that is ordered or delivered after an examination is triggered will no longer be considered basic health care and will be subject to GST. We strongly believe it should not be up to the insurer to decide whether or not an assessment has a health care purpose.

It's important to note that this isn't a pocketbook issue for psychologists. It's not the psychologists who will have to pay this tax. It's going to be hard-working Canadians who have a health need that is not met by Canada's publicly funded health care system.

It's CPA's position that an assessment or intervention, when delivered even in a medical/legal context, or when privately insured, is a necessary basic health service. There's some urgency for clarity, given that changes outlined in the budget are retroactive to March, 2013, and many psychologists are also small-business owners.

We have brought forward the following recommendations for the consideration of the committee: that the budget be amended to note that psychological assessments and treatments are a necessary health service, and that psychological assessments used to determine liability in a court proceeding or under an insurance policy are basic health services and should therefore remain GST-exempt.

Thank you.

● (1040)

The Chair: Thank you for your presentation.

[*Translation*]

Mr. Savoie, you have the floor. You may begin your presentation.

Mr. Yves Savoie (President and Chief Executive Officer, Multiple Sclerosis Society of Canada): Thank you, Mr. Chair and honourable members.

On behalf of the Multiple Sclerosis Society of Canada, I thank you for the opportunity to speak to Bill C-60.

The society's mission is to take a leading role in efforts to find a cure for this disease and to help people with multiple sclerosis improve their quality of life. I want to point out that we are a member of Imagine Canada.

[*English*]

I plan to speak today about measures in Bill C-60 that strengthen the capacity of the Canadian charitable sector and support families and individuals living with a chronic illness or a disability.

We are encouraged by the recognition in Bill C-60 of the importance of and need to foster and promote a culture of giving in Canada. From 1990, the percentage of tax filers claiming donations has dropped from 29.5% to 23% in 2011. This is alarming. Over this period the number of tax filers has increased by approximately one-third, but the numbers claiming a donation have increased by just 3%. The "Canada Survey of Giving, Volunteering, and Participating" found that a majority of Canadians would give more if better tax incentives were in place. Therefore, the inclusion proposed in the budget of a new temporary first-time donor super credit for first-time claimants of the charitable donations tax credit will encourage young Canadians, in particular, and newcomers to Canada to donate to charity.

● (1045)

[*Translation*]

So that new credit will help stimulate the development of a new generation of donors. That's an urgent priority, given the reality many charities are facing today.

[*English*]

Furthermore, to build capacity in this charitable sector we recognize, as this committee did in its recent report, "Tax Incentives for Charitable Giving in Canada", the importance of considering future and additional measures such as the stretch tax credit, which provides incentives for existing donors to give more. The stretch tax credit for charitable giving would increase the federal charitable tax credit for individuals by 10% on all new giving that exceeds previous donation levels. This proposal, I would suggest, must be given priority in planning for next year's budget or as soon as our budget is returned to fiscal balance, and would build very nicely on the super credit introduced this year. They are companion pieces in promoting this culture of giving that I've spoken about before.

Bill C-60 also proposes to expand the GST and HST tax exemption for publicly funded homemaker services to include personal care services such as bathing and feeding provided to individuals who, due to age or living with a disability, require such assistance at home. This is of particular significance to people affected by MS across the country, as MS is a lifelong, often disabling condition affecting all aspects of life for individuals and their families, including employment and financial security. Overwhelmingly, people with disabilities, including those with MS, choose to live at home and in the community, and therefore the exemption is a welcome measure.

We are also pleased to see a commitment to improving labour market opportunities for Canadians living with disabilities. For people living with MS, the impact of illness on employment is far too high. Up to 60% of people with MS leave the workforce entirely between five to 17 years after diagnosis. We're hopeful that the additional research funds to the Social Sciences and Humanities Research Council of Canada and the creation of a Canadian employees' disability forum can help to improve employment rates for persons with disabilities, including those affected by episodic disabilities like MS, disabilities that vary over time.

We also believe that creating a more supportive and flexible sickness benefit in the employment insurance program would support the labour market participation of people with disabilities. We hope to see continuing improvements in the EI regime and also in the RDSP program.

Finally, I would just like to applaud and acknowledge the investment and commitments to fund world-class research and innovation in the Canada Foundation for Innovation and Genome Canada, and the announcement of $15 million in new money that was allocated to the Canadian Institutes of Health Research's strategy for patient-oriented research.

The CIHR's flagship SPOR strategy, as it's known, is critical to harness innovative discoveries and to translate them for the benefit of Canadians.

[*Translation*]

I want to thank you, once again, for your invitation to testify. I am available to answer your questions.

The Chair: Thank you for your presentation.

We will begin the members' question period.

Ms. Nash, you have the floor.

[*English*]

Ms. Peggy Nash: Good morning, everyone. Thank you for being here today.

I'd like to start with some questions for Professor Moffatt on the general preferential tariff increases. We understand that these tariff increases to 72 countries will increase the consumer prices of a wide variety of goods. Of course, tariff increases are passed on to consumers if these are items they need to buy.

Can you give us a sense of the scope of the impact these tariff increases will have on Canadian consumers?

● (1050)

Prof. Mike Moffatt: Sure.

These tariff increases are on thousands and thousands of products. Just imagine an example. You get up in the morning and you brush your teeth; well, there's now a higher tariff on the toothbrush. You go downstairs, you get your newspaper that's lying on the doormat; well, there's a higher tariff on the doormat now. You go into your kitchen, you pour yourself a bowl of cereal; well, there's now a higher tariff on the bowl, the spoon, and your little plastic milk dispenser.

I could go on like this for the next five minutes. You get the general idea. From bicycles, to my daughter's little red wagon, a variety of products are seeing their tariffs increase.

Ms. Peggy Nash: As was pointed out in the last panel, many of these items are not manufactured in Canada. So we rely on imports from one country or another to get many of these consumer goods.

Something you pointed out, Professor Moffatt, is that the tariff legislation is already quite complex. Tariffs are extremely complex and these changes will put a further unnecessary burden on Canadian businesses that are trying to navigate their way through these tariffs. One example that's being debated is the tariff that applies to certain MP3 devices and iPod packs. As I understand it, it's the 9948 code. Is that correct?

Prof. Mike Moffatt: Yes.

The 9948 exemption may or may not apply to these items depending on whom you ask.

Ms. Peggy Nash: Can you describe for us this increased complexity as opposed to having a more simple system? You were describing this increased complexity. What does that mean? You talk about the impact on consumers. What about the impact on Canadian businesses?

Prof. Mike Moffatt: The system as it stands right now is already incredibly complex. Whenever the Auditor General looks at this, which goes back 20 or 30 years, he or she finds somewhere between one in five to one in three of these products being classified incorrectly by the importer. You have importers paying either too much or too little tax, because they're applying these tariffs incorrectly. This is a very, very burdensome system. There's a lot of red tape here. We really need to look at how we can decrease that. One of the ways we can decrease it is by having fewer tariff treatments. If we can harmonize MFN and GPT, that's one less thing that importers need to worry about.

Ms. Peggy Nash: Do you fear there's going to be an increase in red tape for Canadian businesses as a result of this? This is already a very complex tariff system.

Prof. Mike Moffatt: A little bit.

My larger concern is the fact that tariffs are going up on thousands and thousands of items, increasing prices for Canadian consumers. Certainly, this isn't helping those red tape issues.

Ms. Peggy Nash: It has been suggested that the point of increasing these tariffs is to help Canada in trade negotiations.

Are we in trade negotiations with 72 countries? Do you know that? Do you think this is an effective mechanism for helping Canada's bargaining stance in trade negotiations?

Prof. Mike Moffatt: It's very strange, because the countries that we're in trade negotiations with, such as those in the EU, aren't affected by this plan, and countries that are affected, such as China and Brazil, we're not in trade negotiations with. If you imagine a Venn diagram, that little overlap in the centre is very small. This may change in the future, but as it stands right now, this is affecting a number of countries that we're simply not negotiating with.

Ms. Peggy Nash: Thank you.

The Chair: Okay, thank you, Ms. Nash.

Ms. McLeod, please.

● (1055)

Mrs. Cathy McLeod: Thank you, Mr. Chair.

Mr. Cunningham, I come from a health care background, and I sat on the health committee as we looked at single-flavoured tobacco and some legislation around those cherry-flavoured cigarettes that were single-sold. Certainly, I think everyone recognizes the need for a multi-pronged approach in tackling this issue.

You have a number of examples. Can you talk to me a little about what impact the changes in pricing will have on the shelf pricing?

Mr. Rob Cunningham: Yes. It's about \$5 per 100 grams, so it depends on the size of the container. The price is made up of provincial taxes, federal tobacco taxes, and the manufacturer/wholesaler/retailer price. So there is an increase. It's not going to double the price, but it's certainly very beneficial.

Mrs. Cathy McLeod: Okay.

You talked earlier about the research clearly indicating that as the price goes up, it impacts usage. Have you done any detailed, sophisticated analysis of this change and what the potential health impacts might be in terms of decreasing usage, or is the analysis not quite that detailed?

Mr. Rob Cunningham: We have some very good examples from Newfoundland and Alberta, which have taken similar measures with respect to the roll-your-own loophole. That tax increase was followed by increased revenue and a big decrease in the roll-your-own category. We know that every 1% decrease in smoking has an enormous public health impact, so every bit makes a difference. We have some solid Canadian examples as well.

Mrs. Cathy McLeod: Thank you.

I certainly know there have been challenges with contraband, and price increases have sometimes created a bit of a challenge there. Do these products tend to include a lot of contraband, or is it more the cigarettes coming over that are already rolled? Could you share with us anything in terms of contraband and these sorts of products?

Mr. Rob Cunningham: The good news is that even the tobacco industry admits there have been significant decreases in contraband. According to their figures, it's almost been cut in half between 2008 and 2010, with some indications of further decreases since then. There are some examples of this, in terms of contraband. But there has been a reduction, and further government measures, including those that are currently before Parliament, will have a further impact.

Mrs. Cathy McLeod: That's great.

Overall, what will be the impact on how many Canadians a year will die from smoking or cancer caused by smoking?

Mr. Rob Cunningham: Every year 37,000 Canadians die from cancer, lung disease, heart disease, and stroke. It remains a leading preventable cause of disease and death, so this will have an impact. We're certainly very appreciative of the support for this.

Mrs. Cathy McLeod: Yes, of course. The numbers are the most important thing, but obviously there are also huge impacts in terms of the cost to the health care system.

Mr. Rob Cunningham: There's more than $4 billion a year in direct health care costs. If you look at indirect measures, absenteeism and lost productivity and fires, it's $17 billion a year in direct/indirect economic costs. So there's a huge burden on society, and that's why it's essential that these efforts continue.

Mrs. Cathy McLeod: Those costs you're citing are directly related to smoking—

Mr. Rob Cunningham: Yes.

Mrs. Cathy McLeod: —smoking-caused disease?

Mr. Rob Cunningham: The most recent cost estimate for smoking-caused disease each year in Canada is $4.4 billion, largely paid by provincial governments. With the indirect economic costs as well, the total then becomes $17 billion.

Mrs. Cathy McLeod: Where are smoking rates these days?

Mr. Rob Cunningham: I know you want these figures given your previous work on the health committee and your own professional background. We're down to 17% of Canadians who smoke. That's still five million Canadians. In 1965, it was 50%, but an enormous amount of work still remains to be done.

Mrs. Cathy McLeod: That's great.

Mr. Savoie, could you talk a little about the anticipated impact on your organization of the first-time donor's super credit, and the important work you do?

Mr. Yves Savoie: Obviously, we welcome the super credit. I'll just take the MS Bike Tour, which takes place in communities across the country. The average participant is a young parent in their thirties. They're athletic. Some of them are in the early phases of the disease, and they'll do a bike ride on a weekend. They solicit friends and colleagues. This is the way in which people first attach to giving and volunteering and participating in the life of charities, and fund the work we do. Donations give us 97% of our revenue. With this measure, our focus will be on young Canadians in particular, and that's where we're very hopeful.

● (1100)

Mrs. Cathy McLeod: Thank you.

The Chair: Mr. Brison, please.

Hon. Scott Brison: Thank you very much.

Mr. Moffatt, the government has said that tariff reductions on hockey helmets and baby clothes will “benefit Canadian families and retailers”. These are worth about $80 million, whereas the increase is $330 million.

So if the government says that tariff reductions on helmets and baby clothes will benefit Canadian families and retailers, is it safe to say, applying their own logic to their disproportionate increases, that these increases will actually hurt “Canadian families and retailers”, to use their own words?

Prof. Mike Moffatt: Yes, based on the government's logic, absolutely this will harm Canadian retailers and consumers.

Hon. Scott Brison: It applies specifically to hockey helmets. Are you aware whether it applies to ski helmets?

Prof. Mike Moffatt: We're Canada, so everybody focuses on hockey, but the tariff changes that were made apply to sporting equipment and sporting helmets across the board.

Hon. Scott Brison: The tax code has grown significantly in recent years. Is there also a risk that we're making the tax code a lot more complicated, with these one-offs based on politics rather than economics?

Prof. Mike Moffatt: Absolutely, the fact that we're sitting here having this discussion about what kinds of helmets this does and does not apply to, other than just having a line item that says “helmets”, indicates that this is making the tariff code more complicated.

Hon. Scott Brison: We had the retailers here earlier. They said the cross-border shopping was going up. Do you believe that the risk of this represents a threat to Canadian jobs in the retail sector?

Prof. Mike Moffatt: Yes, absolutely. We're already seeing a great deal of cross-border shopping. Anybody who has gone to Sarnia, Ontario or to Windsor, Ontario sees first-hand the stream of cars going across the border.

We say that on average the tariffs are increasing by 3%, but the increases could be anywhere from 0.5% to 18%, depending on the goods. It makes far more sense to buy many of those goods in the United States and bring them back over, rather than purchase them in Canada, and that is going to harm retail jobs.

Hon. Scott Brison: Ms. Cohen, your association, the Canadian Psychological Association, expressed concerns several weeks ago about this bill and its application to certain services. You met recently with the CRA, yet your questions don't seem to have been answered. What clarity did you get from that meeting?

Dr. Karen Cohen: We had the opportunity to meet with the CRA just last week, and they provided some clarity, but the concerns we've outlined today reflect the continued concerns coming out of that meeting. It's really what it means to have solely a health care purpose and what it means to have an insurance purpose. I think there's still a lack of clarity on this question.

We're certainly willing to work with government, moving forward, really to ensure that Canadians are not taxed for necessary assessments. That issue, just to underscore the important point, is related to how health care services are funded in this country; you can't take the insurance part out of it.

Hon. Scott Brison: Thank you very much.

Mr. Bonnett, you raised the issue of agricultural research and the layoffs within the federal government research area. How important is decentralized agricultural research to Canadian agriculture?

Mr. Ron Bonnett: Part of the problem is that we haven't had a really clear discussion yet on what should be core funding for government and what should be project funding. Some of the announcements that have been made have increased the amount of money available for research and project funding, but then there have been cutbacks of the A-base funding. It goes back to my comment that decisions are being made, but there is not a long-term strategy in place for how you balance the core A-base funding and the project funding. Both are necessary.

Hon. Scott Brison: Has there been a reduction of personnel in the regional agricultural research centres? I'm told that as scientists retire, they're not being replaced in such places as our agricultural research station in Kentville, Nova Scotia, as an example. That represents a dimunition of the resources.

Is this something that is happening across the country?

● (1105)

Mr. Ron Bonnett: That's a concern that has been brought by our members from B.C. right through to the east coast: the fact that retiring scientists haven't been replaced. This gets back to the core discussion: what is the role of government research, and what type of mix of scientists do we need? I don't think those questions have been answered.

The Chair: Thank you. Thank you, Mr. Brison.

Mr. Van Kesteren, please.

Mr. Dave Van Kesteren: I thank everyone for appearing before us.

Mr. Bonnett, I'm going to talk to you. It's good to see you again.

You've expressed your pleasure and, I think, support of the GPT program. I wonder if you could tell us about Canadian companies that have been trying to export to some of these emerging economies that were graduating from the GPT program. They often run into brick walls. For example, I think in India, in some cases, we're facing up to 100% tariffs. Can you speak on these trade barriers that Canadian companies face and the impact your members?

Mr. Ron Bonnett: I think there are a number of trade barriers that do impact companies trading abroad; it is not only the tariffs. One of the things we're finding with a lot of the trade discussions now is that it's a matter of a combination of tariffs and non-tariff barriers. I think this is why it's important to have comprehensive trade agreements that broach a large number of items. It could be everything from environmental barriers to scientific barriers to regulatory barriers, but it's a combination of things creating obstacles for Canadian companies doing business.

Mr. Dave Van Kesteren: I want to zero down on countries like Brazil, Argentina, China, and Russia. How can removing those countries help farmers and agriculture producers sell their commodities?

Mr. Ron Bonnett: You mention a country like Brazil, which sort of pulls a cloak around itself as being a developing country and as needing all kinds of special support. But anybody who has been to Brazil recognizes that it has an advanced economy, with advanced agriculture. Actually, it gives them a very competitive advantage against Canadian producers. I think we have to make sure that when we're allowing benefits to developing countries, they truly are developing countries and not ones that are trying to wear this mask and use it to gain a competitive advantage for themselves.

Mr. Dave Van Kesteren: I'm glad you mentioned that about Brazil. Canada is in competition with these countries.

Mr. Ron Bonnett: Very much so.

Mr. Dave Van Kesteren: Can you touch on some areas where we're in competition.

Mr. Ron Bonnett: Well, it doesn't matter whether you're talking soybeans, beef, grain products or any other product, Brazil has become a leader in worldwide trade. If they get that advantage, it actually hurts Canadian producers, because some of these commodities trade with very small margins.

Mr. Dave Van Kesteren: You agree then that with these countries you mentioned, it's not reciprocal. Can you give us some examples of where farmers are losing out, in what specific areas it is really starting to hurt? Is it hurting Canadian farmers?

Mr. Ron Bonnett: Soybeans would be one that comes to mind fairly quickly. The corn trade, again, would be one where there's a big impact. With Brazil at the present time, it's predominantly the crop sector, but I think in the meat sector there's more work being done in Brazil on beef production and pork production as well. A lot of it is because they have this preferential treatment.

Mr. Dave Van Kesteren: Chair, how much time do I have left?

The Vice-Chair (Ms. Peggy Nash): You have about 30 seconds.

Mr. Dave Van Kesteren: Okay. I think Mr. Laws wants to say something, but I want to touch on something else.

You talked about the Nature Conservancy of Canada and the $20 million they received, and you're pleased with that. I'm pleased with that as well, because in Chatham-Kent—Essex we have something like 7% forest coverage. It might be lower than that. One of the big issues, of course, is that farmers are clearing land. We get into a really sensitive area here because the land is privately owned. By the same token, we understand the importance of the forest. Where can those funds be helpful in my neck of the woods, where this is becoming a really hot button?

● (1110)

Mr. Ron Bonnett: I think the big thing is to start partnering with some of the groups that are trying to do conservation outreach, whether it be conservation authorities, groups like Ducks Unlimited, or soil and crop association groups, which are working on some programs. I think the idea is to try to lever the funds as much as possible.

When we're making investments in conservation, I think the discussion in the farm community is more and more one of how farmers can be rewarded for some of the environmental benefits they've provided? I say this because if we set aside that land, there is an economic cost to that and the farmer shouldn't be the one absorbing all of that cost.

The Chair: Monsieur Caron.

[*Translation*]

Mr. Guy Caron: I will first go to Mr. Moffatt.

Thank you for joining us. Your various writings and analyses have been extremely useful. They have really helped us understand the issue of tariffs and the impact of government initiatives.

Minister Flaherty tried to justify the measure in his open letter published in *The Globe and Mail*. He put forward three main arguments. His first argument was that this was a foreign aid program. He talked about countries such as China and India—so once again, BRIC countries—which no longer need international aid. However, 72 countries still need that kind of assistance. Some countries that cannot be considered economically developed now find themselves on the list of countries that can no longer benefit from the general preferential tariff. The list includes countries such as Equatorial Guinea, Gabon and Namibia.

Why have those countries been excluded even though they are still not economically developed?

[*English*]

Prof. Mike Moffatt: There are two criteria that the government uses, but the major one is basically where countries have more than $4,000 a year in per capita GDP. That's really small. We're talking about a number of countries whose per capita wealth is one tenth of Canada's, so they're still quite developing.

The problem is that once you start raising that up to $5,000, $6000, or $7,000, you start hitting countries such as India and Indonesia. So basically, if you want to include a set that includes India and Indonesia, and even China, there's a lot of collateral damage there, unless you're going to specify them.

I think that's really what has happened. They had to set the bar so low that they caught a number of countries—like Equatorial Guinea, as you pointed out—that no one would really think of as being developed.

[*Translation*]

Mr. Guy Caron: Thank you very much. I have only five minutes, and I would like to ask you three questions.

Would it have been possible to exclude only the BRIC countries without providing any further justifications?

[*English*]

Prof. Mike Moffatt: It would be somewhat difficult because then they would come back and say, “Why are you including us and not including this other country that has the same per capita GDP wealth?”

It would be very difficult to come up with a criterion that doesn't make it obvious that we're just saying, “Well, we think you're really big, so we're going to put some tariffs on you.”

[*Translation*]

Mr. Guy Caron: Thank you.

So the initiative is aimed at certain countries, but other countries are collateral damage resulting from the measure the government has decided to implement.

The second argument was that these were subsidies for foreign companies, such as those from China. You touched on that briefly.

Could you tell us more about that in 45 seconds?

[*English*]

Prof. Mike Moffatt: Keep in mind here that at the end of the day it's the importer who legally pays these tariffs. We can't tax some entity in China simply for jurisdictional reasons.

The idea here is that if this does affect China somehow, the importers will say, “Well now, I have to pay this tax, I'm not going to buy from you”, or “If I am going to buy from you, you're going to have to lower your price.”

Keep in mind that we're only 2.4% of China's market. We don't have a lot of clout in China. It's going to be difficult for Canadian importers to go to China and say, “Hey, lower your price because now we have to pay these tariffs.” The Chinese are just going to expect us to suck it up.

At the end of the day it's going to be Canadian importers, retailers, and consumers who are paying these, not entities in China.

● (1115)

[*Translation*]

Mr. Guy Caron: Thank you very much.

My last question is about the third argument put forward by Minister Flaherty in *The Globe and Mail*. He argued that this was a way to encourage those countries to negotiate.

However, we already have a trade agreement with 7 of the 72 countries on the list—Jordan, Colombia, Panama, Peru, Costa Rica, Israel and Mexico. In other words, 10% of the countries are already excluded.

Do you think the argument whereby the objective is to encourage those countries to negotiate is actually valid?

[*English*]

The Chair: Just a brief response, please.

Prof. Mike Moffatt: If it is valid, it's a very unusual one, given that we're not negotiating with the vast majority of these countries, including China and Brazil.

[*Translation*]

Mr. Guy Caron: Thank you.

[*English*]

The Chair: Thank you.

Merci.

Mr. Adler, please, for your round.

Mr. Mark Adler: Thank you, Chair.

Mr. Moffatt, you just mentioned in your last statement that we're not currently negotiating with China and some of the other countries in the Asia-Pacific. I would propose to you, why would they want to negotiate with us? If they have total unfettered access to our market, and we have restricted access to theirs by virtue of the general preferential tariff, there's no incentive there whatsoever for them to negotiate any kind of free trade agreement or any kind of preferential trade agreement.

Prof. Mike Moffatt: Well, keep in mind that the GDP—

Mr. Mark Adler: That wasn't a question.

Prof. Mike Moffatt: Okay, sorry.

Mr. Mark Adler: Our government since 2006 has eliminated $590 million worth of tariffs. Under the proposed Canada-EU agreement, it will eliminate another $750 million in tariffs.

We import roughly 7,400 items. Here, Mr. Moffatt, just as a point of clarification, you had mentioned earlier that the GPT will affect thousands and thousands of products. That's not in fact true. The GPT will affect 1,200 imported products. So it's important just to be clear on that.

Your comments on cross-border shopping also intrigued me a little bit. When the Canadian dollar was roughly 67¢, 68¢, 69¢, there was a flood of Americans coming into Canada to shop at the expense of their own border towns in U.S. states. I didn't hear any complaints from the Canadian retail association then, nor from people such as you, that we should somehow put an end to that because it was not fair. This is just the normal kind of ebb and flow of the marketplace. I would be in favour of freer markets as opposed to restricted markets, and I suspect you would be the same.

I want to ask you also, Mr. Moffatt, have you ever been a candidate for the Green Party of Canada?

Prof. Mike Moffatt: Okay, so....

No, I have not been a candidate for the Green Party of Canada.

Why don't I give you my entire political history?

Federally I was a Progressive Conservative for a number of years.

Some hon. members: Oh, oh!

The Chair: Order, please.

Mr. Mark Adler: This is coming out of my time, Mr. Chair.

Prof. Mike Moffatt: After the merger, I took out a membership in the Conservative Party of Canada. I went to the first leadership convention and I voted for Mr. Tony Clement. Unfortunately, he did not win. I left the party shortly afterwards.

I was in the Green Party for a while and I held a number of roles, including riding president of London North Centre. I left the Greens a number of years ago and am no longer affiliated with them.

Mr. Mark Adler: In 2007 you wrote in an article, in which you said, “Together we can help defeat the Conservatives”. That was when you were with the Green Party?

Prof. Mike Moffatt: Yes.

Mr. Mark Adler: Okay.

The accelerated capital cost allowance: Mr. Laws, you're with the —

Did I miss something humorous?

A voice: No.

The Chair: You have a little over a minute, Mr. Adler.

Mr. Mark Adler: Mr. Laws, the accelerated capital cost allowance, you would like to see that permanent?

Mr. James Laws: Yes, absolutely. The reason, as I think another witness prior to me said, is that it takes about five years to fully commission the project. So if these particular items were even allowed to be reclassified, or whatever way in which it would be done, that would be very helpful for our industry. Especially with the strong Canadian dollar, it is an opportunity for our members to purchase equipment and to invest. It's certainly a challenge finding enough labour to work in the facilities. If they can buy new equipment and write it off more quickly, they can afford to do so. It really does help the Canadian meat industry to remain competitive.

● (1120)

Mr. Mark Adler: We heard earlier about the 60% writedown in the U.S., the double-declining writedown.

In your opinion, how do we compare to what the U.S. is offering? Does the ACCA in essence create a level playing field for us on the international scene?

Mr. James Laws: That's a good question. I don't have that answer. But certainly, the accelerated capital cost allowance really does help our members to purchase new capital equipment.

The Chair: Thank you.

Thank you, Mr. Adler.

[*Translation*]

Mr. Côté, go ahead.

Mr. Raymond Côté: Thank you very much, Mr. Chair.

Mr. Moffatt, it's too bad you are being criticized for your opinions. I hope that my colleagues will not hold against you the fact that you have been a member of the Progressive Conservative Party and the Conservative Party. Let's move on to another topic.

When we had before us the Bank of Canada Governor, Mark Carney, one of my colleagues, Randy Hoback, said that the decision to impose certain tariffs should have been made 20 years ago. He was clearly focusing on China, as is the government doing when it comes to the general preferential tariff.

When we look at China's track record, we must acknowledge that the country has taken some fairly extraordinary measures to establish its current position within the global economy. It has been using some very questionable methods, which sometimes border on dumping.

Could you comment on that very late adjustment in China's case?

[*English*]

Prof. Mike Moffatt: It is a little surprising, so I fully agreed with the government when they said that the GPT is out of date and needs to be updated—absolutely. It probably needed to be updated 10 or 20 years ago, and for whatever reason.... I was in high school, so I don't know why it wasn't updated, but it was not.

[*Translation*]

Mr. Raymond Côté: As for the general preferential tariff, I would like to discuss another topic—the regressive aspect, economically speaking, of those tariff increases.

Let's take the example I have already used in committee and in the House. When I was a boy, my geometry kit was made in Canada. That's a good example. Today, I think it's impossible to find such a kit made in Canada.

Mostly low-income households will be hit hard by those tariff increases. Clearly, this is a matter of proportion.

Do you want to comment on the regressive aspect of those tariff increases?

[*English*]

Prof. Mike Moffatt: Absolutely.

Consider a coffee maker. A low-income household is probably going to buy an entry-level coffee maker that is built in China. Somebody who makes six or seven figures a year is probably going to buy an expensive espresso machine built in Switzerland that is not affected by these changes. So these changes are really focused at low-end, sort of plastic goods, which are more likely to be purchased by low-income households.

So absolutely, there is a regressive element to this.

[*Translation*]

Mr. Raymond Côté: Thank you for the information. I am especially sensitive to that.

Before I was elected in 2010, my gross salary was only about $30,000. Of course, my situation has changed radically, and I am now less affected by those kinds of increases.

Do you think we can expect additional impacts, imbalances and other economic consequences to arise?

[*English*]

Prof. Mike Moffatt: The regressive issue is a large one. What I worry about—and again, this is coming from southwestern Ontario, from seeing the job losses in our area—is a weakened retail sector. At the end of the day somebody is going to end up paying these taxes, and Canadian consumers are increasingly deciding to go across the border.

Are tariffs the only issue? No, I agree with Mr. Adler on the Canadian dollar, and there are a number of reasons why people cross the border. But this is just one thing pushing at the margin that's going to get more and more people shopping in Port Huron instead of in Sarnia.

● (1125)

[*Translation*]

Mr. Raymond Côté: We have discussed cross-border trade and the reversal of the situation. That objective fact is fairly significant.

I totally understand the comments of my colleague Mark Adler, who was explaining that the Americans used to suffer the consequences. However, that's not really a reason for us to stand idly by.

What do you think should be done to try to address this issue?

[*English*]

Prof. Mike Moffatt: Absolutely. We need to do whatever we can to help the retail sector here. So the idea that we can just hope that these tariffs are somehow going to get absorbed by the retailer and not be passed along to the consumers and not affect cross-border shopping, I think, is unrealistic.

The Chair: Thank you.

Mr. Jean, please.

Mr. Brian Jean: Mr. Moffatt, you are a popular gentleman today. I am curious if you are still part-time at the Richard Ivey School of Business.

Prof. Mike Moffatt: Yes I am.

Mr. Brian Jean: Are you still an assistant professor at that school?

Prof. Mike Moffatt: Yes.

Mr. Brian Jean: And you're still dodge ball's answer to Gordie Howe?

Prof. Mike Moffatt: I'd like to think so, yes I am.

Mr. Brian Jean: Just checking.

I agree with some of what you said. I think right now I wake up and use a Chinese toothbrush, a Chinese glass out of a Chinese bed, Chinese clothes, Chinese or Korean cars, and a Korean or Chinese iPod. I would like to see, as I'm sure you would, those products, including the toothbrush and the iPod and cars made by Canadians. I think that would be fair to say.

I'm from Fort McMurray, so you can slam me for that if you like, but I love it there and it's a fantastic place. We all know in this room that the resource sector is keeping Canadians with the great quality of life it has, but that's not forever. We all know it's not forever. So we have to build a manufacturing society—I see you nodding your head in agreement.

Prof. Mike Moffatt: I'm from southwestern Ontario, so you'd expect me to agree.

Mr. Brian Jean: I understand and I think we have to use the great economics we have today to give at least our manufacturers a fair playing field with the rest of the world. Wouldn't you agree with that?

Prof. Mike Moffatt: Sure. No argument there.

Mr. Brian Jean: That's great because it is about jobs for Canadians and about having an even playing field. So I appreciate your input on that.

I would like to talk to Ms. Cohen. First of all I'd like to say that I was a litigator in Fort McMurray for some period of time. I dealt with many criminals. I had one particular gentleman whom we used to call the “one shot wonder” because he hired me three or four times for assault causing bodily harm as a result of his hitting people. He would hit them once and break their jaw. He was 140 pounds and he would hit them seriously once and they would have a broken jaw and would have to sue him for compensation. They'd have to go through all of these medical tests and other things.

But at the end of the day with him and with many personal injury clients that I had, what would happen is that the insurance company or the individual would be responsible to pay those bills. Is that fair?

Dr. Karen Cohen: Yes, absolutely. Either the person pays out-of-pocket or if there is insurance to cover it, that is how it gets paid.

Mr. Brian Jean: Usually house insurance or car insurance.

Dr. Karen Cohen: Yes.

Mr. Brian Jean: In 99% of the cases the insurance covers it because that's what it's there for.

Dr. Karen Cohen: It's a little bit different whether it's an insured service that you have through employment versus—

Mr. Brian Jean: I understand. But in these cases you're talking about—criminal cases or personal injuries—99% of cases involve somebody going for these non-medical cases and they're being paid by somebody, usually by the individual who caused the incident or somebody else. In this particular case, this one-shot-wonder person, don't you think that they should be responsible for that GST and that medical certificate and that medical assessment? That's what happens. When you have your client assessed by a medical professional—either a psychological assessment or otherwise—it is ultimately paid by the person who caused that harm to them, including the GST, including if they had insurance or whatever. It's still paid by them.

Dr. Karen Cohen: Are you talking about the assessment of the person who caused the injury, or who received it—

● (1130)

Mr. Brian Jean: No, I'm talking about the assessment of the victim. I've worked for both sides, the accused and the defendant. So that amount of money after the assessment, including the GST, would be paid by the insurance company and by the person who caused that.

What I'm asking you is for that particular person whom I represented on a continuous basis, who knew he could punch somebody and put them out, shouldn't he pay for that and be on an even playing field, the same as everybody else in the country where they pay tax?

Dr. Karen Cohen: There's no doubt there's variability in the cases that come before the courts that involve personal injury, and I wouldn't pretend to be expert in all of them. However—

Mr. Brian Jean: I'm just going on with my line of questioning here because I think you would agree with most of what I'm saying, if not all, that there are also criminal compensation acts in all of the provinces that I'm aware, which will actually help individuals like these. In fact, most lawyers will cover the costs—and I see you agreeing with me—of all of these disbursements, every single one of them upfront, if there's a good case there and a reasonable expectation of winning.

So the person who has to lay out this GST or PST, or whatever it may be, will not have to pay one cent.

Dr. Karen Cohen: My understanding from speaking with colleagues who actually do this work, members of our association, is that if the assessment is not approved by the insured, even in cases like you described, then it no longer has a medical purpose.

Mr. Brian Jean: I understand that you may talk to professionals who do that, but a lawyer who is involved will assess the case on a different basis. They're on a contingency fee, and they write up agreements at the start on a contingency fee. They will take all of the costs and disbursements upfront if there's a possibility of winning. When there's not a successful possibility of winning, then it takes care of itself, because nobody is going to cover it. It's fair to say that those are the cases you're talking about, when there is not an expectation of winning.

Dr. Karen Cohen: The only thing I would say in response to that is an expectation of winning is different than establishing whether there is a health purpose to someone's complaint.

Mr. Brian Jean: I understand, but it certainly makes it more relevant for taxpayers.

The Chair: Thank you, Mr. Jean.

Mr. Rankin.

Mr. Murray Rankin: Thank you, Chair, and my thanks to the witnesses.

I'd like to go back to Professor Moffatt, who is popular.

First of all, I want to say how much I love your blog and your writing in *The Globe and Mail*. It's very clear and helpful, as you cut through the complexity. You're famous on whether there is or is not an iPod tax in this country. Is it still your view that there is?

Prof. Mike Moffatt: As far as I've seen, Sony has actually paid an iPod tax. So either an iPod tax exists or Sony should be granted a refund.

Mr. Murray Rankin: So it demonstrates the complexity involved, that even Sony isn't entirely sure whether there is or isn't.

Prof. Mike Moffatt: Yes, and it all goes to this 9948 issue of whether or not you need end-use certificates. Sony believed that they did not, that end-use certificates were not required. The CBSA saw it differently, and Sony ended up paying back tariffs because of that. A CBSA memo was released, an enforcement memo, saying that it was really not feasible, that they did not expect retailers to be able to collect these end-use certificates. So if these items are being sold at retail, and end-use certificates are required, then there's really no feasible way to get them. Therefore the tariff would apply.

Mr. Murray Rankin: So even if de jure it is, it's not de facto. In other words, it's possible in the real world that it would just be a tax.

Prof. Mike Moffatt: Exactly.

Mr. Murray Rankin: Is there a list of common consumer goods, electronic goods, that you know will be affected by this graduation of certain countries from the GPT regime?

Prof. Mike Moffatt: I haven't seen any, and there actually aren't too many. It's difficult to say. Even if the tariff is going up, is there some exemption under chapter 99 of the customs tariff document from CBSA? There aren't too many that I've found—just this whole class of iPods and MP3 players.

Mr. Murray Rankin: I want to give you an opportunity, maybe just for my benefit, to clear up something you said in your opening remarks. You referred to some 16 jurisdictions. Could you just explain a little bit more what you were getting at there? I didn't grasp that.

Prof. Mike Moffatt: We talk about China having preferential tariff treatment over a number of countries, but right now there are only 43 or 45 countries that pay higher tariffs than China, and 27 of those are in the European Union. So once we have a trade deal with 27 of those countries, there are only going to be 16 countries with a worse tariff treatment than China. So China is really only getting preferential treatment over 16 countries, and those countries include places like Andorra, the Isle of Man, and San Marino, so we're talking about a lot of really small European city-states, including the Vatican.

● (1135)

Mr. Murray Rankin: I see.

Dr. Cohen, I appreciated what you were saying and the clarity with which you suggested a specific recommendation at the end of your remarks. Psychological assessments, you say, are a necessary health service, and they are necessary for lawsuits. In your view, there should be an exemption from GST/HST. My question is, has the CPA done any economic analysis of such a change, or are you aware of what the government intended to get from the change they've implemented in Bill C-60?

Dr. Karen Cohen: In relation to Bill C-60, I don't know, given the length of time that it's taken to come to our attention. I want to underscore that it's not just in relation to court proceedings. It also has to do with insurance, because that's how psychological services and care are delivered in this country. We have recently commissioned a business case for how to enhance access to psychological services for Canadians—through a variety of models, whether they be insurance, publicly or privately funded, or employer-supported programs.

The Chair: You have about 30 seconds.

Mr. Murray Rankin: I'll pass.

The Chair: Thank you.

I'm going to take the next round as the chair.

I did want to thank all of you for coming, obviously, and I did want to focus my questions, if I could, on the two agricultural witnesses.

I appreciate your talking about the supply chain and drawing the linkage between the agricultural and manufacturing sectors. We often silo sectors. We say that ag is over here and manufacturing is over there, and that's not true. In fact, all these sectors are very much linked, so I appreciate your support for the capital cost allowance changes.

Mr. Laws, the Meat Council and your industry have been very pro-free trade. I did want you to comment further, though, on the general preferential tariff changes, because in your opening statement you supported the government. We've heard a lot of discussion about it today. I'd just like to get your further reaction to this discussion.

Mr. James Laws: Sure. Thank you very much.

I think it's important for people to realize—and I'm sure they do—that the changes to Bill C-60 actually extend the ability of the government beyond June of next year to offer these preferential tariff rates to developing and least developed countries. I think, as my colleague at the end of the table mentioned, that there are actually two separate issues: who's on the actual list versus what Bill C-60 is doing.

So we do support the Meat Council's standpoint that Canada does offer these preferential tariff rates to these countries. That's important.

The other point is that we also agree that if we are negotiating with a country.... For instance, Canada has a 0% tariff on pork from all countries, so if we go to negotiate with another country, it's very difficult because we're already completely duty free, but we are very.... So that's challenging.

On the beef side, we do have a 26.5% tariff on beef for most countries, except those that we have a free trade agreement with, so we do have something to trade. With the Europeans, we have a tariff to trade off with them. With the Japanese, we have something to trade with them. But we do believe that the list of countries that qualify for the general preferential tariff rate should be reviewed every now and again.

I didn't mention it before, but it's my view that there probably should be some international reference to which developed countries could refer to, a separate list that everyone accepts, such that these countries meet these criteria or not. That's my personal opinion.

It's true that if we are negotiating with another country we want to see also the elimination of all tariffs, all of them, but we believe, though, that it should be done bilaterally with a country or multilaterally through the World Trade Organization. That's important. It is indeed.

The Chair: I appreciate that comment. Similar to what was done in budgets 2009 and 2010, where there was a five-year elimination of all inputs in terms of machinery, this is something that I think you and Mr. Bonnett would very much support, I would say.

Mr. Ron Bonnett: That's right.

Mr. James Laws: Absolutely. That was fantastic.

The Chair: Okay.

In the time I have left, I did want to get the two of you to comment on the temporary foreign worker program. As an MP from Alberta, where there's a real labour shortage, I do my best to try to explain to people the necessity of this program.

As you've mentioned in your opening remarks, there has been a lot of misinformation spread about this program, implying that its purpose is to actually lower the wages of Canadian workers or to abuse foreign workers. Can I get both of you to comment very briefly on the necessity for this program, especially for your sectors?

Mr. Ron Bonnett: Would you care to lead off?

Mr. James Laws: Sure.

I'll repeat that Canada's meat industry has many, many temporary foreign workers working in meat processing facilities across the country, especially in some more remote facilities, and, very important for us, we don't pay workers less than what Canadians make. They all pay union dues. They all have guaranteed housing. The companies pay for airfare to and from the country. We were very pleased a couple of years ago when the government extended it to two years.

We worked with the Province of Quebec for many years because the Province of Quebec wasn't allowing temporary foreign workers. What was happening was that companies in Quebec that operated in other parts of Canada were having to decide whether they would actually move their processing capacity outside of Quebec. Luckily, Quebec finally agreed that, yes, they needed to bring them in.

It's very important to us. We welcome all Canadians, all the time, and we try very hard to get Canadians to work in these meat facilities.

● (1140)

The Chair: On this issue, Mr. Bonnett, you have about a minute.

Mr. Ron Bonnett: I have just a couple of quick comments. I think the discussion around temporary foreign workers has been taken off in a different direction because of some examples that really weren't accurate.

If you look at agriculture from the primary production side, you'll see that the seasonal agricultural worker program is one of the most valuable programs and has been around for a number of years. Actually, some of the workers from the Mediterranean countries and Mexico are looking at this as one of the best development programs they have for their countries, because workers are coming here, making money, and then going back.

That program is separate from the temporary foreign worker program, which, as James has outlined, is extremely important for the agricultural processing sector. We depend on that sector to buy our products. There's that integration.

There are also temporary foreign workers used in between there, too, for everything from chicken catchers to some of the contract jobs that are done.

I think one of the things we want to emphasize is to make sure that we don't get hamstrung with approval mechanisms such that we can't get the labour sources we need, and we also want to try to dispel this myth that we're paying those workers less than any other worker would be paid.

The Chair: I appreciate that clarification very much.

I'll go to Ms. Glover for the final round, please.

Mrs. Shelly Glover: Thank you, Mr. Chair, and welcome to the witnesses.

I want to say that the two panels we've heard from today have been very interesting, particularly when we're talking about the GPT, the general preferential tariff. We've heard just today from the Canadian Manufacturers and Exporters that it's a good thing that the government has changed this. The chemistry folks who appeared today said the same thing, as did the agriculture federation, the meat council.... Even trade law firms, who weren't here today, such as McMillan LLP, have said that it's a good thing that we've finally changed this after 40 years.

We have heard from Mr. Moffatt, the only one who has said some things that he's actually had to correct, as when he said that thousands and thousands of products are going to be affected, and then he of course—

Prof. Mike Moffatt: Well, keep in mind—

Mrs. Shelly Glover: Let me finish, and then I'll let you respond.

Then, of course, we said that there are 1,200.

I'm going to give you the opportunity, Mr. Moffatt, to correct the “thousands and thousands” comment that you have made in newspapers, etc., when it really is only 1,200—to which you nodded your head in agreement with when it was brought to light, and on which officials have been very clear about.

Prof. Mike Moffatt: Well, it's 1,290 tariff classifications, but each individual classification can and does affect multiple products. Take the sporting helmet classification. It affects hockey helmets, baseball helmets, ski helmets, and so on.

Mrs. Shelly Glover: Hockey helmets are a completely different thing; they're not under general preferential tariffs. If we are clear, that was under custom tariffs.

Nevertheless, Mr. Moffatt, there is one of you, and several other people who have said it's a good measure. I really want to hear from them and give them an opportunity, because you have had quite a bit of time this morning from opposition members.

Prof. Mike Moffatt: I'm more than happy to yield the floor.

Mrs. Shelly Glover: I would like Mr. Bonnett, and of course Mr. Laws, to tell us what other western countries are doing with regard to GPT. Are there other western countries that provide preferential treatment to countries like Brazil, India, and South Korea, in your industry?

Mr. James Laws: Are you asking whether there are other countries that, like Canada, offer developing nations a general preferential tariff?

Mrs. Shelly Glover: With regard to your industry, are there other western countries who provide preferential tariff treatment to countries like Brazil, India, and South Korea?

Mr. James Laws: I really don't know the answer. I'd have to go back and check that specifically.

Mrs. Shelly Glover: If you get an answer for us, we'd love to have the answer sent to us afterward.

Do you know, Mr. Bonnett?

Mr. Ron Bonnett: I wouldn't have details on that.

But I think what this speaks to is a need, even though we're working with a number of bilateral and regional agreements, somehow or other to take a look at the WTO to see whether we can get a multilateral agreement in place, because it is the vehicle that would really deal with these issues. As frustrating as it has been to try to bring this to a conclusion, I think that seeing whether you could get a multilateral agreement at WTO is something a large number of groups would support.

● (1145)

Mrs. Shelly Glover: We've heard that before. In fact, we've heard from other experts who say that multilaterals would be the ideal.

Failing that, what is the best option for reciprocal agreements? Is it simply providing a one-way GPT, or is it trade agreements?

Mr. Ron Bonnett: I would agree with your strategy right now. With the stalemate that has taken place with WTO, yes, you have to look into multilateral agreements and also identify a number of different countries, not just one country that you're dealing with.

But I wouldn't lose hope that you could somehow stimulate discussion and make the WTO move forward as well—

Mrs. Shelly Glover: Sure. I appreciate that.

Mr. Ron Bonnett: —because it also has value, as we saw with the rulings on country of origin labelling. We sometimes forget that WTO has two roles. One is as a negotiating framework; the other is as a decision-making body that can bring some sort of justice to the whole trade discussion.

Mrs. Shelly Glover: I would like to know—Mr. Laws, you can add to this, because I'm going to ask you a question anyway—how the GPT, the preferential tariff, especially for a place such as China, hurts your members.

Mr. James Laws: I just want to reiterate that Bill C-60, from what I read, actually extends the ability of the government to offer these developed nations a preferential tariff rate. Deciding which country gets on the list is not, from what I read, part of Bill C-60. It's a separate process. I think it would be logical for list to be reviewed, because it is intended to offer preferential tariffs for specific countries to help them to improve their exports.

I'll reiterate that in terms of meat per se, it doesn't affect us specifically, because Canada already has a zero per cent tariff for pork, for instance, for all the countries in the world. But purely from a development standpoint, I think it is important for Canada to offer to those countries that are truly least developed and developing the chance to be on the list.

Again, my personal opinion is that there should be such an opportunity when, as I'm sure it will, the government convenes a meeting to review who gets on the list or posts information on how a country gets on the list. But referring to some international list would, I think, be a very good solution. The World Bank, for instance, I believe posts a list of what countries are under which classification. That would be the way to go.

Mrs. Shelly Glover: Thank you.

The Chair: Thank you very much.

Thank you, Ms. Glover.

I want to thank all our witnesses for being here this morning and for responding to our questions and presenting their remarks. It was a very interesting discussion.

Colleagues, we will convene again tomorrow afternoon. We'll see you then.

The meeting is adjourned.