HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Finance

FINA • NUMBER 003 • 2nd SESSION • 41st PARLIAMENT

EVIDENCE

Tuesday, November 5, 2013

Chair

Mr. James Rajotte

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● (1105)

[*English*]

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

This is meeting number three of the Standing Committee on Finance, and as per the orders of the day, pursuant to Standing Order 83.1, we are starting our pre-budget consultations.

Colleagues, before us today, first of all, we have the Canadian Council of Chief Executives, Ms. Ailish Campbell, vice-president. From the Conference Board of Canada, we have Glen Hodgson, senior vice-president and chief economist. Welcome.

From Financial Executives International Canada, we have the chair of the policy forum, Mr. Peter Effer.

Am I pronouncing your name correctly?

Mr. Peter Effer (Chair, Policy Forum, Financial Executives International Canada): Yes, sir.

The Chair: Welcome.

By video conference, we have Monsieur Yan Hamel, the chairman of the board of directors of the Association québécoise de l'industrie touristique.

Bienvenue à ce comité.

Mr. Yan Hamel (Chairman, Board of Directors, Association québécoise de l'industrie touristique): Thank you.

The Chair: And we have with us, from Toronto, Mr. Ian Russell, president and CEO of the Investment Industry Association of Canada.

Welcome to all of you. Thank you for being with us today.

You will each have five minutes maximum for your opening statements. We will begin with Mr. Hodgson, then, and proceed in that order.

Mr. Glen Hodgson (Senior Vice-President and Chief Economist, Conference Board of Canada): Thank you, Mr. Chairman.

Good morning to members of the committee. It's not the first time we've been here, and I hope it won't be the last. In view of the time constraint, I'm going to make three comments to start.

First of all, on our growth outlook for 2014, the Conference Board is one of the forecasters of record, I would argue, in the country. Right now our forecast is for growth to pick up a bit in 2014, to 2.4% in real terms. The key element is what's happening on the inflation front. Steve Poloz's last commentary about the Bank of Canada moving to a more balanced position on interest rates was interesting and probably is a leading indicator that inflation will not rebound, as we were forecasting earlier this year, to 2%. Now, that matters because what governments tax is the nominal economy.

Real growth is good, but you have to add the real growth forecast together with inflation. If we add them together, we end up with a nominal growth of around 2.25% to 2.50% next year, and I think there's more downside risk than upside. Normally low inflation sounds good, unless you're a government that's trying to generate revenues. The combination of recovering growth and inflation being fairly weak suggests that nominal growth will probably be below 4.4% next year. We do a revision of our forecast every quarter, and we'll have the numbers some time before the budget process starts up. By the end of the year or early into 2014, we'll have a revised number on the growth.

The other point I wanted to make, though—point number two—is that we do a long-term forecast for Canada as well. We'll do a short-term outlook for over the next 18 months to five years, but we're one of the few organizations to do a long-term forecast. Our view of the next 20 years going forward is that we're now entering a period of much slower growth potential for Canada, at around 2% after 2015. We're still not fully back to potential, to a kind of long-term growth path for our economy, because of the depth of the financial crisis recession. We're getting close to it, but after 2015, our view is that Canada can only grow on a sustained basis at 2% without feeding inflation.

That's a very different world from the world we've lived through in the last 25 years, where growth of 3% to 3.5% in real terms was the norm. That means that governments are going to have to learn how to live with slower growth on a going forward basis. That's why you see provincial governments, for example, all working hard to get back to balanced budgets right now. They know there's going to be pressure. The challenge of generating enough revenue to pay for health care and education going forward is going to be more acute.

As you think about the kind of advice you're going to give as a committee to the government, you have to look over the hill and think about what growth is going to look like after 2015. A world of 2% growth is very different from what we've lived through in the past, and that means that if you want to transfer more money to provinces, for example, you have to live within the growth constraint. If you want to put more funding into infrastructure, again, you have to live with a world of slower economic growth.

The theme we were given as witnesses was to talk about economic growth. We could go on at great length, but for my last point I'm going to put three markers down.

I think there are three things that governments and budgets going forward must address, almost as a chronic condition. One is investing in human capital. The reason growth is slowing is because of slower labour force growth and aging populations. We won't have as many workers entering the workforce, and that means we'll have to find a way to constantly upskill the workforce we have. The investment in human capital will be a critical piece of our growth strategy.

The second thing is investment in infrastructure. In the last budget, the government committed to increasing its investments in infrastructure. We think that's a good start, but probably not adequate for the long term. We haven't seen updated numbers from people at the Federation of Canadian Municipalities for a while, but they used to talk about an infrastructure deficit of about $125 billion for the country. Governments at all three levels are addressing that now. We have a long way to go. Look at the state of our transportation infrastructure at the border and elsewhere. It's a huge challenge.

With one minute left, the last point I'd make is on tax reform. We're creating a new centre at the Conference Board to use our research to try to identify areas where tax reform could contribute to economic growth. I know this committee has talked about that in the past. I think the time has come to have a serious national conversation about revamping our tax system to try to boost the growth potential of our economy.

Chairman, I'm going to stop there, but I'm quite happy to take questions.

● (1110)

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

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

Mr. Peter Effer: Good morning.

I'm Peter Effer, chair of the policy forum of Financial Executives International Canada, and we are honoured to be here today.

FEI Canada is a voluntary professional membership association comprised of 1,700 of Canada's chief financial officers and other senior financial executives who work in all industries and sectors across the country. The recommendations that we are presenting to you today were prepared by some of these volunteer members and are generally representative of the views of all our members.

As senior financial executives, we control costs in our organizations as much as possible while growing our businesses. We lead our organizations to do more with less. It should come as no surprise that Canada's financial executives agree that fiscal restraint should remain a top priority for the federal government.

FEI Canada recommends that the federal government retain its objective of balancing the budget in the near term, while Canada's economy is relatively stable, and then use any budgetary surplus to grow the economy and pay down some debt. Fiscal prudence will enable Canada to maintain social programs at the current levels as the population ages, to withstand future international economic headwinds, and to support high levels of employment during the slower periods of the economic cycle.

We encourage the government to balance the budget without raising corporate or personal income taxes so that Canada remains globally competitive and accessible to domestic and global investment capital. If additional tax revenue is required to balance the budget, the GST rate should be increased, as value-added taxes are viewed by most economists as an efficient and progressive form of taxation.

In our submission, FEI Canada offers suggestions that will save costs. One method involves simplifying the federal Income Tax Act by removing certain complexities and administration embedded in this act. This would save administrative costs for both the government and taxpayers, particularly small and medium-sized enterprises, which are key drivers of the economy.

For instance, the government should immediately allow a company to elect to include capital losses in its eligible capital expenditure pool. In the near term, a company should be allowed to transfer non-capital losses and net capital losses at least to another related company operating within the same provincial tax jurisdiction, and, when feasible, to any related company within the same corporate group, rather than, for those who can afford to, undertaking costly corporate reorganizations to achieve the same result.

For GST purposes, companies should be allowed to elect to claim input tax credits in a related company, similar to the election currently available that allows another taxpayer to remit GST. The election would simplify both taxpayer reporting and government audits of the GST by reducing the number of relevant GST returns that would be filed and then audited, with no change in net tax collected by the government.

Lastly, introducing legislation that requires a mandatory settlement process at the field audit and/or objection level for both income tax and GST would reduce tax audit dispute costs for both government and taxpayers.

Economic growth, driven by job creation, is enhanced when innovation is fostered and allowed to flourish. Innovation creates new products and services for use and sale by Canadian companies, which leads to increased productivity and employment. FEI Canada suggests that the federal government allow companies in all industries engaged in innovation to issue flow-through shares to access capital through the monetization of development and related commercialization expenses. This would be similar to the program that exists in the resource and mining industries. Companies issuing innovation flow-through shares would renounce qualifying SR and ED expenses and tax credits to shareholders, who would claim these amounts on their tax returns. This program simply transfers tax deductions and tax credits from one taxpayer to another.

We believe expenditures incurred up to product commercialization should also be eligible for this flow-through to encourage the private sector to fund costs associated with converting ideas into marketable products. This program would be beneficial for start-up firms that are not yet earning taxable revenue in excess of innovation expenses—

● (1115)

The Chair: You have one minute.

Mr. Peter Effer: —and particularly beneficial for similar public innovative companies that are not entitled to refundable SR and ED tax credits. This recommendation should attract investable capital from idle cash in the private sector that could be deployed to increase innovation activity in Canada, which in turn should reduce reliance on government-funded programs and increase economic activity and employment.

In conclusion, we believe our recommendations will promote fiscal sustainability by reducing government and taxpayer costs and foster economic growth through innovation.

Thank you.

The Chair: Thank you very much for your presentation.

Next,

[*Translation*]

Mr. Hamel, you have five minutes to make your presentation.

Mr. Yan Hamel: Mr. Chair, madam, and members of the committee, good morning, and thank you for this opportunity to discuss economic growth, an important target for the tourism industry, one for which we know we can play a capital role.

The tourism industry is a major source of wealth. Here in Canada in 2012, tourism accounted for 2% of the GDP, outperforming agriculture, fishery and the forestry industries combined. Last year, tourism generated $82 billion in revenue. For the same period, export revenue generated by international visitors spending in Canada reached $17 billion.

The 180,000 Canadian tourism businesses support 1.7 million jobs nation-wide, both directly and indirectly. Tourism is produced and consumed here. The jobs it creates can't be offshored. Tourism is good business for governments: in Quebec, $1 of public funds invested in the industry generates $5 in tax and incidental tax revenues. The positive economic impact of the tourism industry is crystal clear.

And the timing couldn't be better to capitalize on this industry since globally, tourism is booming. International tourism receipts reached USD 1 trillion in 2012—a 4% increase compared to the previous year. This performance makes tourism the fourth export sector worldwide and the World Tourism Organization is forecasting a continued growth of 3% to 4% annually until 2030.

One can easily conclude that the development of a strong Canadian tourism industry is perfectly aligned with the government's priority of fostering economic growth, job creation and long-term prosperity. However, as the industry is growing around the world, Canada is simply missing the boat and the country's market shares are plummeting! Canada's massive travel deficit is nearly $18 billion, having increased by 736% in 10 years. These incredibly poor results are extremely worrying.

Our industry has identified marketing, access and product as the three essential components of success for a destination. Here in Canada, we benefit from enviable product and infrastructures. Canada even sits at the top of the list when it comes to destination reputation. While we should be capitalizing on this positive sentiment, the lack of promotion of our destination and our aviation cost structure severely hinder our efforts and diminish the country's attractiveness.

Between 2002 and 2012, Canada cut its marketing budget by 42%. In 2014, that budget will be a mere $58 million. Over the past decade, Canada has seen a dramatic decline of its international arrivals, slipping from 7th to 16th position. Among the world's 50 most popular destinations, only 5 have seen a decrease in international arrivals and Canada is part of that group.

A competitive aviation cost structure is key for a destination aiming to attract international visitors and to encourage its population to visit and vacation in the country. Canada just doesn't cut it on that front. Our airport infrastructures are extremely well-ranked globally, but the Canadian aviation cost structure drags the country all the way down to 124th place out of 140 in terms of cost competitiveness.

We come to you with two crucial recommendations that will allow Canada to regain its strategic position on foreign markets. Firstly, for quick impact, we recommend creating "Reconquer USA", an additional marketing campaign aimed at our biggest proximity market and led by the Canadian Tourism Commission. Targeting a specific segment of the American market in order to generate immediate returns, this marketing campaign will utilize twinned cities to increase direct visitation from key regions across the US. "Reconquer USA" is a three-year, $35 million a year federal investment, which will be fully matched by the industry for an annual investment of $70 million. The campaign will generate $205 million in federal tax revenues; six times the investment.

Our second recommendation: a full review of Canada's aviation cost structure. Our current cost structure downloads the cost of the system onto the individual traveller, impeding the tourism industry and the economy. Just like successful tourism destinations, it is crucial to consider investment in the aviation sector as an instrument of economic development. By welcoming more international visitors through tourism, Canada has the potential to increase its exports and its overall revenues. The country must implement policies that will increase its competitiveness on the global stage.

● (1120)

In short, international tourism is booming. Canada has a huge travel deficit but the potential is there to generate far greater economic benefits. We must invest more in promotion and develop more competitive air travel access. Tourism is an investment. It pays off!

Thank you for your time and attention.

The Chair: Thank you very much for your presentation.

[*English*]

Next, we will have Mr. Russell, please, for your five-minute presentation.

[*Translation*]

Mr. Ian Russell (President and Chief Executive Officer, Investment Industry Association of Canada): Good morning, ladies and gentlemen. My name is Ian Russell and I am the president of the Investment Industry Association of Canada in Toronto. I am happy to have this opportunity to submit our recommendations to the Standing Committee on Finance.

[*English*]

In my remarks this morning I want to briefly sketch the background in the small business capital markets and describe in particular the capital-raising process in Canada and our policy recommendations.

Clearly, the challenge for your committee, Mr. Chairman, is to look at ways to reignite the growth in the Canadian economy. We've just heard a fairly pessimistic view of the economic outlook. The one fortunate element that Canada has is a little more fiscal manoeuvrability than our trading partners to find selective tax measures and spending measures to promote growth.

I want to talk about the capital-raising engine of the Canadian economy, which is essentially the marketplace that small businesses tap to raise capital. It's very important for the committee to understand that this marketplace is very successful, is envied around the world, and is probably the key reason why the London Stock Exchange was interested in merging with the Toronto Stock Exchange four years ago. It's a marketplace that's sophisticated, diversified in terms of the participants, very leading-edge and innovative in terms of the financing structures that have been in place, and also very diversified in terms of the size of companies that have been able to come to the market, even companies that one would describe as emerging companies in the Canadian corporate sector.

At the moment that infrastructure is under siege from two factors in particular. The obvious one is very slow growth in the Canadian economy and in the capital markets, but in addition to that, there's been a rather depressed sentiment among investors, particularly for speculative investments. As a consequence of all that, Canadian companies have had a very difficult time raising capital. In fact, this year we estimate in total—these would be small business capital raisings in the public market and in the private placement market—something in the order of $2.5 billion to $3 billion. That compares to roughly $10 billion pre-crisis period. And it has fallen pretty dramatically over the past two years. Two years ago those companies raised about $6 billion. So it's very difficult for companies to come to the market.

The other point that is important for the committee to understand is that this public marketplace is the prime source of capital raising for small companies. We have a venture capital sector. In 2012 it raised about $1 billion for small Canadian businesses, mainly emerging businesses. Half of that came from U.S. venture funds. We also have a vibrant angel network, which is difficult to get estimates on, but it probably would be in the order of $2 billion to $3 billion a year. That runs under the radar screen. That's important for small businesses, but it does not in any way compare to the size of our public and private marketplaces.

From a policy perspective, we need to find ways to assist companies to bring those issues to market, and also to encourage investors to invest in speculative risk investment. We have argued for selective tax incentives to promote that capital-raising process, which are outlined in my submission.

The last point I want to raise is that the other factor that is putting pressure on that marketplace is a very heavy regulatory burden that the securities industry, the capital markets at large, have faced over the last five years.

● (1125)

This is not to argue that all of that is not well intentioned or in fact needed. But our view is that it's moved very quickly, and it's been very extensive, in our industry in particular, and I think that has, in a way, contributed to the likelihood of excess costs and unintended consequences.

The solution to that is for more effective regulation. In our view, one of the ways that can be achieved is through the proposed cooperative securities regulator that's on the table now, put forward by the federal government. We're supportive of that for two reasons. One is that it will significantly strengthen the accountability and oversight of the regulator, which will provide a discipline to improve the effectiveness and efficiency of securities regulation.

The other is that it will clearly streamline regulation and lower costs that way. This is certainly a vehicle supported by the federal government, but I would like to see the House of Commons finance committee take up its support formally. It is something that would provide a benefit to this marketplace I've talked about.

Those are my remarks, Mr. Chairman.

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

We'll go to Ms. Campbell, for your five-minute presentation, please.

Ms. Ailish Campbell (Vice-President, Policy, International and Fiscal Issues, Canadian Council of Chief Executives): Thank you so much, Mr. Chairman, committee members, for the invitation to appear here today.

Before I begin my specific comments, let me briefly introduce the Canadian Council of Chief Executives.

[*Translation*]

The Canadian Council of Chief Executives is a non-profit and non-partisan organization made up of 150 of the leaders of the largest companies in Canada.

[*English*]

CCCE members collectively administer $4.5 trillion in assets, have annual revenues in excess of $850 billion, employ close to 1,500,000 Canadians, and are responsible for the vast majority of Canada's exports, investment, research, and training.

The framework for my remarks today is the objective of a Canada that, looking out over the next 20 years, becomes the smartest, most global country in the world. Furthermore, we believe that the benchmarks to measure our progress towards this goal should be against the best in the world. We suggest that the critical questions in front of this committee, and indeed in front of Canada, related to this objective are: where will prosperity come in the future; where will jobs come in the future; and given where Canada can grow its wealth and create jobs, what are the best investments today to prepare us for that future?

Let me present a few ideas. The first concerns trade. Let me congratulate the government on the conclusion of the Canada–EU Comprehensive Economic and Trade Agreement. Canada has achieved an ambitious outcome that will deliver results for every region of the Canadian economy. CETA reminds Canada of its trading roots. In short, Canada has what the world needs: high quality and reliable services and goods; a reliable and diverse food supply chain; resources; and a stable investment climate. It is time, I would submit, for Canada to turn its attention to Asia. Our approach there should be rooted in promoting Canadian products and services and investment in Canada, not protectionism.

Looking forward, the critical steps are: an ambitious conclusion to the Trans-Pacific Partnership Agreement; conclusion of bilateral negotiations ongoing for some time with South Korea; conclusions with India and Japan to bilateral trade agreements; and a clear path forward for deeper cooperation, trade, and investment with China. A clearly articulated policy towards foreign direct investment is another key policy piece.

As your committee prepares for Budget 2014, we submit that specific and special attention be paid to full resources for Canada's trade negotiating teams, an ambitious budget for the trade commissioner service, so important to diversifying Canada's exports for firms of all sizes, and support for Export Development Canada, including permanent and flexible domestic financing provisions.

We also call on provincial governments to join with the federal government in committing, through the Agreement on Internal Trade, to extend to each other every market access opening we have provided through international agreements. We cannot treat foreign firms better than we treat one another. Federal and provincial leadership on the Agreement on Internal Trade is required. We have to up our game and eliminate any remaining internal barriers. We must also ensure that the required domestic infrastructure is in place to export. Landing Canadian products in diverse markets, especially in Asia, will drive demand, price, and Canadian prosperity into the future.

Second is North America. While emerging markets in Asia will be critical to Canada's future, especially growing new exports, the North American partnership remains Canada's most important economic driver. It is time to strengthen and renew this important trilateral relationship.

In our view, please consider three critical actions to upgrade the NAFTA relationship. First, add a mechanism for trilateral cooperation to the dual bilateral regulatory cooperation process already under way. Second, facilitate the movement of business travellers between our countries, including looking at the concept of a trusted employer program that would function like a NEXUS card for business.

● (1130)

The Chair: You have one minute, please.

Ms. Ailish Campbell: Third, realize the potential of the continent's energy resources while also increasing energy security, in particular through energy infrastructure and expanding opportunities for Canadian renewable energy.

On the Canadian labour market, Canadian Council of Chief Executive members are among the largest employers in Canada. Specific skill shortages in certain sectors, regions, and occupations and future demographic challenges are among the top concerns of Canada's business leaders. These issues must be addressed to create opportunities for private sector investment and economic growth. The Canadian Council of Chief Executives has adopted as one of its priorities an initiative to look at the jobs and skills of the future, and I look forward to reporting back to this committee on that work.

In conclusion, Canada operates from a position of strength. We fully support the government's efforts to achieve a balanced budget by 2015, and we also call on provincial governments to articulate a road map to fiscal sustainability. Competitive tax rates on all forms of taxation are also essential. It is not enough to have tax rates that ensure Canada is the destination of choice for investments in North America; we must be the best in the world.

Thank you. I'm happy to answer any questions.

The Chair: Thank you very much for your presentation.

We'll begin members' questions with five-minute rounds.

Ms. Nash, please.

Ms. Peggy Nash (Parkdale—High Park, NDP): Thank you, Mr. Chair.

Good morning, everyone. Welcome to the finance committee.

Mr. Hodgson, I'd like to start with you and the great work the Conference Board does in analyzing our economy and in giving us report cards about how we compare with our own record and how we compare internationally. There are a couple I'd like to get more information about.

In the recent economic performance report card, you noted that Canada has moved up to sixth place, and that's positive, except it reflects as much the weakness of many other countries at this time. But you noted that Canada fares poorly when compared with some top-ranking economies on many economic indicators, with the exception of inflation and employment growth. My question to you is, what are other countries doing to have better economic outcomes? What can the federal government learn from those other countries that we could do better here in Canada?

● (1135)

Mr. Glen Hodgson: Thank you very much for the questions.

You've done your homework, obviously. You looked at our website and saw the report cards we do across six different domains. I assume the sixth place was the economy domain.

Ms. Peggy Nash: Yes.

Mr. Glen Hodgson: What are others doing? It's interesting. The Nordic countries in northern Europe tend to be the star performers on almost all indicators. From the research we do, and from what I've read from other sources, the key difference-maker for the Nordic countries is governance, the quality of governance across the board in the private sector; in the public sector, it's the quality of public services, the ability to actually form consensus around the right policies. So if there's any one factor, I think, that anybody points to, it's probably around governance. It's not necessarily economic policy. That's the product of a governance process where they're prepared to take hard decisions in some cases about changing the course of the country and ensuring that they have the right kinds of anchors in place.

Ms. Peggy Nash: Can you elaborate a bit more on how they arrive at that consensus? And who is the consensus with?

Mr. Glen Hodgson: Remember, the Nordic countries for the most part are more homogeneous than we are, so Canada really stands out as quite a different place, compared to Sweden, Denmark, Norway, Finland. It's probably easier to form a social consensus in a homogeneous society. There have been, for example, some riots and other events in parts of urban communities where there have been large immigrant populations. So they're not Utopian states, by any means, but they do have the ability, and it's something they've developed over probably the last 100 years, to build social consensus in the way that most other countries marvel at.

Ms. Peggy Nash: Okay. Thank you.

I have two minutes left.

I also looked at the innovation report card, because we've talked about investment here, but you have to have the ideas, you have to have the innovation to move the economy forward. Your report card gave Canada a “D”, which is quite troubling. It's near the bottom of its peer group on innovation. You say that the “D” grade underlines a relative weakness in all three categories of the innovation process: creation, diffusion, and transformation. What can we do here in Canada to improve our standing on innovation?

Mr. Glen Hodgson: That's the $64,000 question. First of all, you're right, we've been giving Canada a “D” in innovation for probably most of the last decade. In fact, the flip side is, what are we doing on productivity growth where we've opened up a gap, probably about $7,000 per capita lower than the Americans, for the last 25 years?

What do we do about it? First of all, we stop relying on crutches to carry our economy forward. To a great degree, we think Canada didn't innovate because we didn't have to. Until 2003 or 2004, we were able to rely upon a soft dollar as a way to have a kind of price advantage in global markets, particularly in the United States. But with China's rise, with the rise of commodity prices, we've lost that crutch. We're now looking at a fundamental mindset, a change in mindset, both in the private sector and within government, about innovation.

We've created a centre at the Conference Board of Canada called the Centre for Business Innovation, where we're trying to get behind the numbers, not in terms of public policy but in terms of creating an innovation culture within organizations. As you're doing your research, you'll find reports now emerging from the centre talking about what it takes to actually create an innovation culture within an organization or within a country. There's no simple answer; there's clearly no silver bullet. It starts by actually treating innovation as a priority. If you start there and start asking yourself questions about all aspects of public policy, you might begin to discover various answers.

● (1140)

The Chair: Thank you very much.

Thank you very much, Ms. Nash.

We'll go to Mr. Saxton, please.

Mr. Andrew Saxton (North Vancouver, CPC): Thank you, Chair, and thanks to our witnesses for being here today.

My first question is for Ailish Campbell, the vice-president of the Canadian Council of Chief Executives.

Ms. Campbell, in your opening remarks you mentioned the importance of trade when it comes to securing Canada's prosperity and growth, and also for creating jobs. Our government, obviously, agrees with this, and this is the reason we've spent so much time negotiating free trade agreements. We now have 42 countries—if you include the recent European trade agreement—included in these free trade agreements.

You also mentioned that we should be concentrating on Asia. We've opened six new trade offices in China, for example, and two new trade offices in India. We've also spent over $1 billion in the Asia-Pacific gateway infrastructure to make sure that our goods and resources can make it to market in an efficient and expeditious way. Obviously, we're on the same track in that regard.

With regard to the free trade agreement with Europe, some people have called this an historic agreement that opens up 500 million new consumers for Canadian businesses. In your opinion, what will the impact of this free trade agreement with Europe be on the Canadian economy, and what opportunities will it create for Canadian businesses?

Ms. Ailish Campbell: On that, I would first and foremost say that investment is a leading indicator of success we will have in trade. We are already a very high-level source, after the U.S. The U.K. and France were very heavily invested in Canada, in terms of foreign direct investment stocks, but there are huge opportunities there for partnerships, particularly building on Peggy Nash's question, I would say, with the innovation leaders of Germany and Scandinavia, where partnerships between our research universities, our small and medium-sized enterprises, and large multinational firms that will land global mandates and then choose to locate them in Canada to supply the North American market and even the market of the Americas I think are an integral part of how we'll measure success out of that agreement.

I would also say that the circulation of highly qualified personnel is integral. I'm very interested to learn more details about the facilitation of business personnel through CIDA, specifically because firms have a choice about where to place investments. Sometimes, having a supply of highly qualified personnel is absolutely the critical factor to the location of that investment. Europe has an advantage over us. It's a very simple one: they have more than 15 times our population.

If we want to attract investments to Canada, we have to be sure that highly skilled personnel—professionals, after-market service individuals who have very specific skills—can come into Canada to maintain those investments, to locate global mandates in Canada, as opposed to the United States, which, again, has the population and therefore potentially a specialized skill advantage over Canada. I'm looking forward to those two aspects in particular.

Third, I would say it's a huge opportunity for our agricultural/agrifood exporters. This is a highly developed market, so I won't say it will be easy, but with promotion in a high-quality product and a very large market, we feel this is a huge advantage that Canada has over its competitors. The U.S. does not have this access to CIDA, so the imperative, really, is to conclude that agreement as quickly as possible to get those opportunities into the field and then promote Canadian products in that market.

Mr. Andrew Saxton: Thank you very much.

My next question is for Ian Russell, the president and CEO of the Investment Industry Association of Canada.

Mr. Russell, as a government we're always looking for better ways of doing things and for best practices, which sometimes means that we look at what's happening in other countries. You mentioned in your report the enterprise investment scheme, which was introduced in the U.K. and was widely successful, and which has attributes that could be applied here in Canada.

Could you share with us what some of those attributes are and your opinion on ways we could implement them here in Canada?

The Chair: Just make a brief response, Mr. Russell, please.

Mr. Ian Russell: I think the success of the enterprise investment scheme speaks for itself. Since 1993, some 19,000 companies have raised $8.6 billion. These are all very small companies, start-ups and emerging companies. The program, which has gone on since 1993, was expanded in 2012 after an independent Treasury review of its effectiveness.

It's a program that has attracted much interest from the small business sector in the U.K., and it has proven to be a vital financing vehicle—and, I might say, a very cost-effective financing vehicle—for getting needed capital into very small enterprises in the U.K.

As I said, I think the success of the program over the 20-year history of it speaks for itself.

● (1145)

The Chair: Okay, thank you.

Thank you very much, Mr. Saxton.

Mr. Brison, please.

Hon. Scott Brison (Kings—Hants, Lib.): Thank you, Chair.

Thanks to each of you for joining us today.

Ms. Campbell and Monsieur Hamel, I've spoken with some of your members, and I've also spoken with people in the tourism industry, who have expressed concerns over the impacts of the visa requirement on Mexico and also over the more recent changes to the visa requirement for Colombia.

Should these changes be reversed? Are they having a negative effect on the movement of people and decision-makers between our countries?

Ms. Ailish Campbell: The Canadian Council of Chief Executives firmly stands behind the most liberal and sensible visa regime possible.

It's very important that we differentiate between types of travellers. Perhaps a more granular approach to some of the visa issues we've been having may be a way to answer security concerns that have been stated by this government, but also, frankly, to keep our eye on the bigger picture, which is the economic activity between our two countries.

Anything we can do to narrowcast, shall we say, what our concerns are and move students, business people, and investors through we would firmly support, and not only from those two countries but from destinations around the world.

Hon. Scott Brison: Monsieur Hamel.

[*Translation*]

Mr. Yan Hamel: We did see a greater decline in the number of visitors from Mexico after the visa requirement was put in place. Is it possible to improve those figures? Certainly; but as we said earlier, we must not neglect security, however. We have to find a happy medium, so that we are very attractive to outside markets and also limit the potential obstacles to foreign tourists.

Hon. Scott Brison: Thank you.

[*English*]

Mr. Effer, your idea of innovation flow-through shares is an interesting one. Eighty per cent of the mining deals in the world over the last, I believe, 10 years were transacted in Toronto. There are not too many getting done these days because of the market slump in commodity prices.

But I'd like to ask Ian Russell, whose members have transacted a lot of these mining transactions over the last 10 years in Toronto, whether an innovation flow-through share model might contribute potentially to making Toronto and Canada a global centre for the financing of, say, biotech and IT, in the same way that it has contributed to the success we've had on the mining finance side.

Mr. Ian Russell: Thank you, Mr. Brison, for the question.

The short answer would be yes. As you point out, the flow-through share concept, which has been in the mining industry for about 30 years, has been hugely successful as a cost-effective vehicle for small mining companies and oil and gas companies to raise capital. As you point out, much of it has happened in Toronto, but it has not exclusively happened there. In the energy sector, flow-throughs have been an active market in western Canada. I might add that the mining industry in Quebec has been very dependent on flow-through shares.

There's no question about their success. Indeed, we have argued that the concept could be expanded into other sectors, particularly the knowledge-based sectors—biotech and high-tech companies—using a similar concept, again to provide a little lower cost of capital for those companies and to make it easier for them to raise capital.

So yes, we would be supportive of that idea.

Hon. Scott Brison: Thank you.

On the infrastructure side, we have provinces in tight fiscal situations and our federal government is continuing to struggle under a deficit. Do we need to have a more coherent and bolder strategy around public-private partnerships and engaging our pension funds? We have some of the most powerful and successful pension funds in the world, with CPP, OMERS, teachers, AIMCo. Should we be building a model here that is exportable in terms of its design, financing, and construction of infrastructure around the world? Should that be an industry concern?

● (1150)

The Chair: You have about 10 seconds. Who is that question directed to?

Mr. Hodgson, very briefly.

Mr. Glen Hodgson: I have been an advocate of P3s for about 15 or 20 years. Before it became the vogue in Ottawa to talk about it, we were talking about it at EDC.

Hon. Scott Brison: P3s became cool.

Mr. Glen Hodgson: Before they became cool. A province like Ontario, for example, has really leaped ahead building schools and hospitals in the P3 model. I think any serious examination, where you can get all the parties working together and come up with more innovative structures, would be a good thing, including bringing in the pension funds.

The Chair: Thank you.

Thank you, Mr. Brison.

Mr. Hoback, please.

Mr. Randy Hoback (Prince Albert, CPC): Thank you, Chair, and thank you, gentlemen. It's great to see you here this morning.

Ailish—have I pronounced that correctly? My daughter is Alicia.

Ms. Ailish Campbell: Gentlemen and a lady.

Mr. Randy Hoback: You talked about CETA and the importance of trade. I think what you said about agriculture is very true: $119 a tonne on oats or up to $190 a metric tonne on wheat. If we start putting that back to the farm gate and you start looking at what the Europeans are collecting in tariffs off just those two products alone.... We're not talking about pork or bison or beef and the market access there. I think that trade is very important.

I'm curious, Mr. Hodgson. When you did your analysis looking forward, did you take into consideration stuff like CETA, the Honduras agreement we signed today? How do they play into your numbers? Do you take any of those assumptions and plug them in there and see what the impact would be?

Mr. Glen Hodgson: Yes, we take the world as it is in doing our forecasts. We have the capacity to take things like a CETA deal and then run it through the numbers and see whether that adds to growth. It'll add a little bit. It won't add a quarter or a half a per cent annual growth, but it'll clearly be a positive net contributor, as we can access global markets, as you said, and get better prices for our sales around the world. Almost every economic model in the world shows that more free trade is good for an economy.

Mr. Randy Hoback: When you see this agreement come into play...of course, structural changes will happen in Canada now. You've got a new market access, so instead of stuff going through the west coast, now maybe it's going to go through Churchill or Thunder Bay or the Port of Montreal. Do you take those types of growth in your model and how that impact will domino through the whole economy?

Mr. Glen Hodgson: When we model economic growth it's very much a top-down exercise. We take the world as it is and then try to flow it through the various drivers of growth. But if you become more granular and look at the impact on a regional economy, for example, you would see it fairly quickly. You see the uptake in investment. You'd start doing port expansion, for example, in Vancouver, Montreal, and Halifax. Quickly that would translate into stronger growth numbers for the city or province concerned.

Mr. Randy Hoback: When you talk about infrastructure and investing in infrastructure itself, could you be a little more specific about what type of infrastructure you're talking about? Is it educational infrastructure? Is it roads and highways, or rail?

Mr. Glen Hodgson: I have to start with the raw physical infrastructure. I'm on the road almost every week. Every major Canadian city is half dug up. Downtown you're replacing water systems. We're focusing on transportation infrastructure in cities, between cities, at the border. Canada is not a market leader. If you travel in Asia or Europe, you see much more advanced public infrastructure systems getting people around much more efficiently.

Mr. Randy Hoback: Let's be fair. You've got denser populations in a smaller area in Europe and places like that. How do you take Canada, which is so widely spread out...? I have a five-hour plane ride every weekend just to go home. How do you take rail that they have in Europe and say that's what we're going to apply in Canada?

Mr. Glen Hodgson: Mr. Hoback, I think I've done that plane ride going west.

Start with your dense populations. We've debated things like high-speed rail in Canada for 25 to 30 years. Arguably, in the Windsor-Quebec corridor you probably have enough people, recognizing the fare box will not pay for things like high-speed rail. Nowhere in the world does the user pay the full cost. It's seen as a social benefit, taking people off the roads, out of airports. It's an alternative form of travel.

Southern Ontario would be the place I would start, and obviously the provincial government's committed to building public infrastructure, public transit, there. The question is whether we can do more, because clearly we need more if our economy is really going to function at a high level.

Mr. Randy Hoback: Mr. Effer, you talked about income tax and simplification of income tax. How do you see that moving forward? As we do our pre-budget talks we're not looking at increasing spending. As you said, we're on track for a balanced budget for 2015. I think it's very important we get there. We're hearing that very clearly right across Canada. They want to see our books balanced and they feel it's important.

What types of changes would you give as an example of simplification of income tax that would still allow us to do that but make it easier for businesses to operate?

● (1155)

Mr. Peter Effer: One of the principles we've spoken about when we've been here before is some consistency and clarity in the provisions of the Income Tax Act. We appreciate that we're not going to shrink it down to the act of World War I—

Mr. Randy Hoback: We just did a bill where we actually did a lot of clarity work—

Mr. Peter Effer: That was excellent to clear up a lot of old outstanding issues. It's that type of work that we're talking about.

There is also taking things such as what was mentioned in the submission—allowing more flexibility among corporations to move deductions. Losses are one example of the deductions. There are other examples; consolidated tax filings is another example. For simplicity, that will stop organizations from really jumping through hoops to accomplish the same thing.

The Chair: Mr. Hoback, your time is up. Thank you.

[*Translation*]

Mr. Caron, you have five minutes.

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

Lady and gentlemen, thank you for your presentations.

I would first like to speak to Mr. Effer regarding the issuing of flow-through shares for scientific research and experimental development.

Mr. Effer, I expect you have done your homework, but from my perspective, I fear that what you are proposing would have the same results as the Mulroney government scheme in the 1980s. At that time, it was possible for third parties to fund research and development in organizations, which led to extraordinary abuse because of the lack of oversight by the Department of Finance. Moreover this opened the door for enterprises to fund fictional projects simply to benefit from the tax credit, without any regard for the effectiveness of the research and its final commercialization.

Did you study what happened in the 1980s, when companies were allowed to claim that income tax credit? How is what you are proposing different from the scheme that led to so much abuse in the 1980s?

[*English*]

Mr. Peter Effer: As far as a study, no, we have not looked at the eighties. We know that audit techniques that have been undertaken in the last 20 years have improved, so we have confidence in the CRA to audit these projects. With the definitions of SR and ED, it's a critical program.

I'm sorry, the second question, sir?

[*Translation*]

Mr. Guy Caron: How is the tax credit you are proposing different from the one which led to so much abuse in the 1980s, to such an extent that the government had to put an end to the program because it was being improperly used?

[*English*]

Mr. Peter Effer: In fact, keeping with the theme of tax simplification, we would actually want to use the same model that's used in the oil and gas and the mining industries. We're not trying to recreate the wheel. Those programs are working effectively. The idea is simply to take a model that works and apply it to a different industry, an industry with companies across the nation. In particular, it is a program that would provide investment capital generally to smaller organizations in Canada.

The interesting thing about doing that is that those smaller organizations in Canada would use that capital to generate innovation; the innovation would stay in Canada, the products would then be commercialized in Canada, and they would create jobs in Canada.

[*Translation*]

Mr. Guy Caron: As opposed to the current tax credit for the oil and gas industry, you are proposing that we offer this possibility to all Canadian industries. Consequently, it would be much more difficult to supervise the effectiveness of the tax credit that would be assigned to the third party in this case.

[*English*]

Mr. Peter Effer: I think right now we have to appreciate that the SR and ED tax system deductions and credits are already being audited when companies are filing their tax returns and claiming these deductions and credits.

We're simply taking it one step further and issuing them out to shareholders.

[*Translation*]

Mr. Guy Caron: In the 1980s, those companies were also audited. So that is no guarantee that some will not slip through the cracks.

I'd like to use the last minute and a half I have left to speak to Mr. Russell. One of your recommendations, which seems innocuous but would have some quite serious repercussions, is to eliminate withholding taxes for businesses offering group RRSPs, that is to say tax withheld for employment insurance and the Canada Pension Plan. That recommendation seems quite innocuous, but it would have huge ramifications. Indeed, when income tax credits were created for RRSPs, it was quite well recognized that those credits complemented the Canada Pension Plan, but did not replace it. As for employment insurance, it is an entirely distinct system created to protect the unemployed in periods of inactivity and offset their loss of income.

In fact, what you are proposing is much more than a tax measure. It would change the philosophy of RRSPs in connection with the Canada Pension Plan.

● (1200)

[*English*]

Mr. Ian Russell: The point we had been making is that we're not taking issue with EI. In fact, it's not an issue directly related to EI; it is directly related to registered retirement savings plans. They are a bona fide retirement savings vehicle. They are analogous in terms of the function they perform as a defined benefit or a defined contribution plan. With a defined benefit and a defined contribution plan set up by an employer, the employer can deduct the EI—the payroll taxes, if you will—against the contributions to those plans.

What we have looked at is group RRSPs. Group RRSPs function as retirement savings vehicles no differently from the way defined benefit and defined contribution plans function. Very often for lower-income Canadians who are working with very small companies, companies that can't afford substantive retirement plans for their employees, it has turned out to be the case that group plans are very attractive.

The Chair: Could you wrap up, Mr. Russell? I'm sorry, but we are way over time here.

Mr. Ian Russell: The only point I'm making is that we think the payroll deductions should be provided for group RRSPs in the same way they are for other retirement plans.

The Chair: Thank you.

I'll remind colleagues to leave enough time for witnesses to address their questions.

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

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

Thank you all for being here today.

I want to begin with Mr. Russell. The spate of monetary stimulus over the last number of years has been very successful in increasing domestic demand. The problem it has led to is that consumers or households are somewhat over-leveraged, and as a result, domestic demand has decreased. Therefore, is it not prudent that we as a government have pursued a very aggressive trade strategy—Ms. Campbell, you may also want to chime in on this after—which is so important to our economy? The export sector can replace or lend that demand or that strength of the economy back such that the domestic demand has decreased.

Could you comment on how important the foreign trade has been and how important it is that we negotiate deals like CETA?

Mr. Ian Russell: I'd be pleased to do that. I think the government's strategy to increase dependency on exports is really well placed, at a time when investment spending is down, and at a time when consumer demand is down, except in certain sectors, such as housing, in which it has been very strong.

I think the fact that the Toronto Stock Exchange rose five percentage points at the end of October sent a very positive signal that the trade deal with the EU is going to have very important implications for Canada in terms of opening up markets.

Nobody here has spoken about the automobile sector or the auto parts sector, which is Ontario based. It's going to be a real shot in the arm to that manufacturing, and I think it's going to lead to more automobile manufacturing in Ontario by virtue of the content requirements to take advantage of the 10% tariff reductions in Europe. As was said here, the other parts of the country, from the east coast to the west coast, are going to benefit from the opening up of opportunities in the energy sector and the agribusinesses.

So this is a real win for Canada, on top of which it's going to be a win for Canadian consumers, because manufactured goods out of Europe are going to be coming into Canada, similarly without the tariff. There are going to be certain sectors that have been protected in the Canadian economy and that are going to need some kind of assistance, but overall I think this is a well-placed strategy. As was said earlier, the deal with the EU is unprecedented. It rivals the North American free trade deal. Canada is doing the same thing by opening up these trade deals and taxation agreements with jurisdictions all around the world, and that's all very positive for us.

● (1205)

Mr. Mark Adler: Thank you, Mr. Russell.

Just before I go to Ms. Campbell, how much time do I have, Mr. Chair?

The Chair: You have about one minute and 30 seconds.

Mr. Mark Adler: Thank you very much.

Ms. Campbell, we know that the industrial policy is very important, and we know where the NDP stands on industrial policy: they stand for a lower dollar, higher taxes, and higher tariffs, whereas we stand for lower taxes, lower tariffs, and free trade.

For the Liberals, on the other hand, their economic policy seems to be legalization of marijuana. Could you please comment on how disastrous for the Canadian economy the legalization of marijuana would be?

Ms. Ailish Campbell: I have no particular expertise in marijuana growth or consumption and therefore cannot comment—with respect.

Voices: Oh, oh!

Hon. Scott Brison: Just take a deep breath and think about it.

Ms. Ailish Campbell: I'm not aware that any of our members are producers or consumers.

Mr. Mark Adler: I didn't intimate that any of them were, nor yourself, but I'm—

Ms. Ailish Campbell: I'll leave it to you, Mr. Brison.

Mr. Mark Adler: —just curious to know how your members would respond. I mean, you're here before the finance committee, so you have opinions on economic policy. How would that would serve us as an economic policy?

Ms. Ailish Campbell: I think what I would say very clearly is that the right partners and the right products are very important. So I commend this House for the strong bipartisan support we've seen for improving the NAFTA relationship and for, I believe, the almost violent agreement, I might say, in welcoming the EU, which has a strong social safety net, respect for workers, and also an incredibly diverse market for our products.

I would commend anything that looks sensibly at those. I think the next challenge before you is to grow that bipartisan support for agreements such as the Pacific Alliance and, I would argue, our agenda in Asia. That's really our future challenge.

The Chair: Thank you.

Thank you, Mr. Adler.

[*Translation*]

Mr. Côté, you have five minutes.

Mr. Raymond Côté (Beauport—Limoilou, NDP): Thank you, Mr. Chair.

My first comments will be addressed to you, Mr. Hamel. Thank you for your presentation.

I'm quite privileged because in my riding of Beauport—Limoilou there are the Quebec carnival workshops, as well as the ExpoCité site with its future multifunction amphitheatre and perhaps a professional hockey team. We shall see what develops; man lives by hope.

I thank you very much for your presentation, because it in fact touched on concerns I have had for a long time. During my first year as a member of Parliament, I had the privilege of being my party's tourism critic. I was appalled by the massacre that took place at the Canadian Tourism Commission. There were some deep cuts. If the 2013 budget had simply not included an increase, there would only have been the inflation-related shortfall to deal with. But they clipped the wings and cut off one of the legs of the poor CCT bird. All that is left to do now is cut off its other leg and probably slit its throat.

All that to say that your approach is very interesting. A lot of your reflection is focused on the United States, which seems the obvious choice since it is a huge market just next door to us, basically.

Could you talk to us about the decline in tourism from the United States in connection with the American economic performance over the past two years? Has tourism declined more than expected given the performance of the American economy?

Mr. Yan Hamel: In fact, since September 11, 2011, there has been a sharp drop in the number of tourists from the United States. Given that fact, why reinvest in the United States? The answer is quite simple: 63% of our clientele from outside Canada comes from the United States. It constitutes a reliable market. Last year it allowed us to register a 4.3% increase in revenues as compared to the previous year.

Despite its economic situation, the United States still spends more tourist dollars here. This constitutes an interesting potential for Canada. As you said, they are right next door. So it is a very profitable choice, with immediate results.

We are also seeing good results with China. As we said earlier, China generates very good results, but we are mostly looking to the long term. It represents a vast potential at our doorstep. We can improve our inroads, but they are still quite simple. We really believe that investing in the United States will provide excellent, short term results.

● (1210)

Mr. Raymond Côté: Let's face it. On the global tourism scene, one of Canada's hallmarks is its very strong brand. Going back to hockey, people might say that Canada is sort of the Sydney Crosby of tourism when it comes to potential, but we really aren't making the most of it.

On the global markets—because there too there have been shutdowns and a decrease in our efforts—are there tourist areas other than China and the United States that we should be investing in?

Mr. Yan Hamel: Definitely. As mentioned earlier, Mexico has also experienced significant growth. It is a very good-sized market that should be developed. Europe has also had very good results, despite its economic situation. As you said, we have major potential. However, while everyone on around the world has experienced a 4% increase in revenues, we have only seen about half that, about 2%.

Why haven't we invested in promoting and highlighting to the world the advantages of travelling in Canada? Canada has some major assets. It is a very safe country that has a variety of attractions from east to west. This means that we must reinvest. As you said, the CTC website no longer has the funds it needs to market Canada abroad.

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

The Chair: You have 30 seconds left.

Mr. Raymond Côté: In that case, I would simply like to thank Mr. Hodgson for speaking about the high speed rail project. It's really a priority for Mayor Lebeaume, who was re-elected last Sunday. I would like to thank you on his behalf for your support and congratulate him for his re-election. We will leave it at that.

The Chair: Thank you, Mr. Côté.

[*English*]

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

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

Thank you all for coming here this morning.

Mr. Hodgson, I want to go to you first. I agree with your analysis that we need to invest in human capital. You talked about infrastructure, which I'll touch on in just a second, and tax reform. I guess I agree—I think we all agree—with much of your analysis of what has to be done, but you know, I come from private business, and when we used to have a spreadsheet, we would always talk about income but we'd focus our attention more on the expenses. You can get all this stuff coming in, but if the back door is open and everything is blowing out the back door, you're kind of defeating the purpose.

I'm surprised—it's not a criticism, I'm just surprised—that no one has mentioned what I think is probably the biggest gravy-train wreck that's approaching us, and that's what's happening in terms of pensions down the road.

Mr. Hodgson, you talked about infrastructure. I would submit to you—this is my own observation, but I think I could probably get a lot of support for this—that especially for municipalities, and the same thing is true with both levels of government, federal and provincial, they have costs coming down the road that are so astronomical that they don't have a problem with income so much as those problems.

Take a city like London. It's a good example. I think the top ten wage earners in London will cost the city $240 million in ten years' time.

I know this government has struggled with that. We've introduced measures to help correct that. Let's face it, in this country we have a two-tier pension system. We talk about health care, and we don't like the health care tiers, but we have the same thing there. We have those who are lucky enough to work for either the public sector or maybe a few corporations, and then the 65% who don't.

Do you think that is an issue? I'll start with Mr. Hodgson, and then maybe we'll go to Mr. Effer after that, and Ms. Campbell as well—not that I'm excluding the other two gentlemen, but I don't know if I'm going to have time—on the efforts that have been made by the government to begin to correct that. Are the efforts sufficient? And where do we need to go so that we don't run off the tracks?

Mr. Hodgson.

● (1215)

Mr. Glen Hodgson: I'll start by saying that the numbers I've seen show that about 70% of Canadians are going to be under-saved for their retirement. There's a huge public policy issue here. That's why finance ministers are talking about CPP reform—

Mr. Dave Van Kesteren: Can I interrupt for just a second? I think it's probably 100% of Canadians, even those who have good pensions. But the difference is for those with good pensions, it's not a really big issue. Can we agree on that, too?

Mr. Glen Hodgson: I have to declare my interest here, because I was at Finance Canada for 10 years and EDC for another 10. So I'm one of those lucky beneficiaries of a very nice DB pension plan locked in with the federal government. It's one of the better career choices I've made.

But you're absolutely right. There are issues about adequacy across the economy, questions of fairness between the public and private sectors, and people in DB plans who are underfunded, which will probably not be sustained by their employers, as we saw with Nortel and many others. So pensions are a huge issue.

We are actually launching a series of research studies right now trying to examine questions of pension adequacy. There are different attitudes of young Canadians versus older Canadians. If I'm a young Canadian in a world where the DB plan no longer exists, I'm asking fundamental questions about social fairness. Your point about the ability of governments to afford the current pension plans is real. On the flip side, though, we're going to have a world where the labour market is going to be much tighter and employers are going to be competing for talent. So the pension issue becomes part of a whole compensation and benefits issue to attract and retain good employees.

Mr. Dave Van Kesteren: We're running out of time.

You hit another interesting point. I think most economists agree with this too. We're seeing a 2% growth, and let's face it, we have relied on 7%, 8%, 10%, 15% growth when we put these pension plans into being. With that kind of projection, can we realistically still expect to see the results that we're going to need to be able to pay out these pensions?

Mr. Glen Hodgson: We're going to face really tough funding questions when it comes to lots of social benefits: pensions, the health care system as well. It's the same sort of issue. That's why Mr. Flaherty has talked about 4% nominal growth in transfers after 2017. That's the future that we see coming down the road. I think the pension debate is just beginning now nationally: private sector, public sector.

The Chair: Okay.

Mr. Dave Van Kesteren: Can I ask Mr. Effer just to make a quick comment?

The Chair: Very briefly, please.

Mr. Peter Effer: I'll just make a few points.

FEI Canada has suggested this year and last year that there be a national framework on retirement planning, retirement income. It is an issue that's coming down the road. As far as pensions go, many corporations view pension plans as part of the compensation package, and fiscal prudence would just dictate that the government act in the same way, determining whether or not an individual's salary for a particular job is appropriate based on the base salary benefits and pension compensation.

Lastly, the CPP was mentioned....

Mr. Dave Van Kesteren: I'm going to get into trouble for that, sir.

Mr. Peter Effer: I'll stop if you like.

The Chair: Colleagues, you're asking very good questions, but I do not like cutting witnesses off, so please leave some time in your time for witnesses.

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

Mr. Murray Rankin (Victoria, NDP): Thank you, and thank you to all witnesses.

[*Translation*]

I would like to ask Mr. Hamel a question.

Like Mr. Côté, I represent a city, Victoria, British Columbia. Victoria is a city that depends on the tourism industry. I greatly appreciated your presentation, and I strongly support your idea for a campaign to reconquer the U.S.

You spoke about a $35 million investment that would be matched by the industry. That's what you said. Are you suggesting that the government contribution, the contribution of the CTC, should be conditional on an equal contribution from the industry?

Mr. Yan Hamel: Absolutely. The proof is that the industry wants to unite and invest to reclaim the U.S. market. The industry is very committed to the CTC with respect to this $35 million investment. It's a sine qua non equation: if the government invests $35 million, the industry will invest the same amount.

● (1220)

[*English*]

Mr. Murray Rankin: My next question is for Ms. Campbell. I don't think you had enough time, as you were going very quickly, to tell us about your ideas about NAFTA reform. You had three ideas, and the first one had to do with a mechanism that I would like you to expand upon, if you could.

Ms. Ailish Campbell: Certainly. We have the Regulatory Cooperation Council with the United States. We also have the Beyond the Border plan, with some very significant pilots that we'd like to see made permanent to facilitate trade. A number of members of the committee have talked about the importance of infrastructure for expanding trade, and we would agree with that wholeheartedly.

The first bullet was simply to suggest that there may also be trilateral opportunities there, specifically with Mexico on rail, and also a unique opportunity to ship more on the water, which of course bypasses a land mass in between us but requires very significant and properly developed ports on both sides.

Mr. Murray Rankin: The idea of a NEXUS card for business people was also suggested. Is that a realistic possibility?

Ms. Ailish Campbell: Absolutely. The NAFTA agreement, if you take a close look it, has not been updated in 20 years. It's based on, one could say, a very bureaucratic process of defining occupations. There are occupations from that list that existed 20 years ago that of course no longer exist, and new occupations that I can't even think of that my children will have the opportunity to apply to.

What I would argue is that this has to be a living and breathing document; it has to keep pace with business and business needs. But more than that, we have to really recognize that in some cases we have significant Canadian operations that are here because they can be serviced. Sometimes that requires “linchpin”, I would call them, employees—specific people with skills, who need to be able to travel across the border to provide service and then return, back to their home. We need to become smarter about facilitating that kind of business traveller.

Mr. Murray Rankin: Thank you.

How much longer do I have?

The Chair: You have two minutes.

Mr. Murray Rankin: All right. Good.

Mr. Hodgson, I'd like to ask you a question about one of the aspects of the education and skills report card that my colleague Ms. Nash referred to in her questions. You noted that there were some key areas of weakness. We got an A on one aspect, but where does Canada rank in the areas of workplace skills training, lifelong education, and the highest levels of skill attainment?

Mr. Glen Hodgson: We are in the top two—after Finland—when it comes to K to 12 education, so let's set that aside. We're not great when we get into post-secondary—graduate degrees, PhDs. We're actually a fairly weak performer compared with the market leaders.

In fact, I'll announce here that we're having in Toronto today a summit on post-secondary education and skills and are about to launch a new research centre at the Conference Board on that topic. Perhaps we can come back at some future date to talk more about the research, but we're going to examine in real detail the handovers between colleges, universities, employers, apprenticeships, and how to build the most skilled nation possible.

Mr. Murray Rankin: We would welcome that. As you well know, most of that jurisdiction is provincial, including skills development and post-secondary, so it's difficult for me to know precisely how the federal government could get its hands around your idea.

How could the federal government...? Is it just a matter of spending? Is it research and development, in which we've been perennially weak?

You talk about PhDs and so forth—that sector—being weaker compared with others. What precisely would you recommend the federal government do?

Mr. Glen Hodgson: We're not at the point of making recommendations yet. I won't announce it, but we've talked to senior levels of the federal government about joining the centre and being part of the research agenda, so that they can inform themselves about the role going forward.

But clearly, knitting together a balkanized provincial education system and actually having pass-over points and a sharing of best practice would be a huge step ahead.

Mr. Murray Rankin: I agree. Thank you very much.

The Chair: Thank you.

Thank you, Mr. Rankin.

Mr. Keddy, please.

Mr. Gerald Keddy (South Shore—St. Margaret's, CPC): Thank you, Mr. Chairman.

Welcome to our witnesses. I'll try to keep my questions short and allow the witnesses time to answer.

Mr. Russell, you've made a number of recommendations, one on the impact of a lower capital gains rate for small businesses, one on CPP and EI taxation of employer and employee contributions, specifically in RRSPs, and the other on a small business financing incentive program. All of them, I think, are worthy initiatives and deserve some discussion and have merit.

The challenge, of course, is that in this economic climate and at a time of fiscal restraint, it is difficult to look at all of them. If you could pick one of those three points, which one do you think would be the most responsible and reasonable to implement at this time?

● (1225)

Mr. Ian Russell: Thank you, Mr. Keddy; it's a pleasure to respond to your question.

You're quite right, I think, that when you're looking at the decision you would make, you have to take into account the cost-effectiveness of the measure, which is the cost of it to the treasury. The other part of it would be how effective it is.

If I had to pick one, I think I'd pick the enterprise investment scheme. We've looked very closely at this. This is a U.K. incentive vehicle for small, emerging businesses—start-ups and emerging companies—that has been highly successful in the U.K. It has been in place for 20 years. It has had scrutiny by Her Majesty's Treasury. It has done a very successful job and has been very popular, so it works.

It would be very cost-effective. We estimate that it might cost $200 million to $250 million in tax expenditure to put in place, which would be from a 30% deduction from income tax for the purchases of those shares. Also, the capital gains earned on the shares would be tax-free.

The most important thing about its effectiveness is that the market decides. This is not something like a venture capital labour-sponsored fund or any other kind of managed fund. These are decisions that individual investors would make on the merits of the investment.

I think something like that would be a huge shot in the arm, both for small businesses looking for capital and for the marketplace itself. So that's what I would recommend.

Mr. Gerald Keddy: Thank you for that.

My next question goes to Mr. Hodgson and Ms. Campbell.

There's a fair amount of discussion—and I think it relates to both of your interjections—on infrastructure and also on foreign direct investment. I'm reaching out here to link the two of those together, and I want to link those back to the CETA with the European Union. I think we have here an example of where you can blend all three to make it an advantage for Canada, quite simply, and I'll be a little closer to home by making it an advantage for Nova Scotia and the east coast.

We have a very enviable position now for Canada: 800 million consumers between the European Union and the United States and Mexico—more than 800 million consumers. We have an east coast port that's a post-Panamax port, which has lots of space in it still and some room to expand, but it will be challenged on room to expand. And we have a rail route to central Canada that's 32 hours closer to the central United States than the port in New York, and that rail route is running at 50% capacity. So if you were going to invest anywhere in the country in the short term, I think it's automatic that you'd look at eastern Canada and the advantages that are there to take advantage of the CETA.

The Chair: A brief response to that, please.

Mr. Glen Hodgson: I agree entirely. I think you made a very logical case for investing in the port of Halifax. In fact, the Port of Halifax has recently joined our Global Commerce Centre to do research with us on the benefits to Canada of globalization, so I support the logic of your argument.

Mr. Gerald Keddy: Thank you.

The Chair: Thank you.

Thank you, Mr. Keddy.

Mr. Jean, please, final round.

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

Thank you, everyone, for your attendance today.

I'd like to talk a little bit about free trade. I understand, in essence, that when we got into government there were about 9 free trade agreements, and today there are somewhere around 40. Is that correct? Is that your understanding?

Ms. Ailish Campbell: I'm more concerned with the size of the trade than the number, but yes.

Mr. Brian Jean: I do understand, but we have about 189 countries in the world—relative economies about 200—so with 4 a year and about 25 years of Conservative governments, we're going to have free trade with the whole world. That sounds like a pretty good campaign march, based upon what you're saying trade does for us.

Would you see anything else we could do more aggressively with low-hanging fruit, for instance, other countries out there that are waiting for us to sign free trade agreements? Is there anything we could do that would, in your opinion, move the free trade agenda forward, other than what we're doing now?

● (1230)

Ms. Ailish Campbell: I'll make three quick points.

The first is that Canada was the driving force behind the World Trade Organization, which of course was founded after the Second World War. It now has over 150 members. If you're looking for a good bang for your buck, it would be in upgrading and pushing the multilateral trading system toward a reset and a reorientation.

Building on that, the Bali ministerial conference is coming up in Indonesia at the beginning of December. Our group, the Canadian Council of Chief Executives, has joined with other business organizations to support a trade facilitation agreement that would reduce customs and border procedures for all exporters, firms of all sizes. We hope the Canadian government, which has been very active in this area of trade facilitation, can really help us bring that over the line at Bali, so we can perhaps have at least one substantive outcome at the WTO over 2013-14.

Third, I would say it would be interesting to explore the Pacific Alliance. This is a group with whom we already have an extensive network of free trade agreements. Whatever hurdles are in place between Canada and joining the Pacific Alliance, I'd suggest, would be a fruitful line of inquiry.

Thank you.

Mr. Brian Jean: Thank you.

Do you see the trade facilitation agreement as being able to expedite trade agreements, or expedite talks for trade agreements, or move nations toward talks? How do you see it facilitating or expediting the process?

Ms. Ailish Campbell: One, it reduces costs; two, it builds trust; and three, it creates new opportunities. These are all good things for Canada.

Mr. Brian Jean: That's great. Thank you.

Are there any other comments from Glen or Peter in relation to trade generally and what this government is doing that we could do better?

Mr. Peter Effer: I don't have comments on trade.

Mr. Glen Hodgson: Maybe I'll make one comment, simply to reinforce Ailish's point about Asia-Pacific.

That's where the action is right now. I hope that as the TPP negotiations advance, we're prepared to go all the way, treat it as a serious negotiation, the chance to really get involved in the most interesting trading region in the world. If we have sacred cows and other barriers, we're prepared to put our thinking caps on and be really innovative about how we're going to be full players in that deal. I would hate to see the TPP become anything less than a big deal. I talk a lot with the New Zealand high commissioner and with Australia. They're committed to a true free trade area, and I hope Canada can be there at the table with them.

Mr. Brian Jean: Thank you.

The Chair: You have about one minute and a bit.

Mr. Brian Jean: I'd like to ask you a question in relation to infrastructure. You mentioned that infrastructure is one of the greatest things we could do right now. A $123 billion deficit was identified in 2006. We leveraged about $45 billion of federal money in Canada's economic action plan, and then tried to triple it with the municipalities and provinces.

Did you find that effective, first of all? As well, is there anything else we could do more aggressively than what we have done in the P3 office? We assigned $2.1 billion in 2006 to the P3 office to set it up and get it going. Do you see anything we could have done better in relation to the P3 office, and generally in infrastructure, rolling it out as we did and keeping up with our payments?

The Chair: Give us just a brief response to that, please, Mr. Hodgson.

Mr. Glen Hodgson: I see the federal engagement in infrastructure as a kind of building block approach. So for P3s you get a big positive check mark.

I think it is a down payment, because the initial money is starting in FY 2015. But the federal government fundamentally has more fiscal capacity than anybody else, so I would hope that we keep trying to build partnerships with the provinces and cities to fill in the entire gap in infrastructure financing.

Mr. Brian Jean: With the FCM and groups like that, which we have done quite well....

Mr. Glen Hodgson: Absolutely, and provincial governments are finding out what their capacity is and how you can actually work with them to move the ball forward.

Mr. Brian Jean: Great. Thank you very much.

The Chair: Thank you, Mr. Jean.

Mr. Effer, I stopped you, and I think you had one more point in answer to Mr. Van Kesteren. Could you state that now for us?

Mr. Peter Effer: The last point I was going to make was with respect to pensions related to the Canada Pension Plan and retirement funding.

Financial Executives has discussed the concept of expanding the Canada Pension Plan program to allow employees to elect to contribute more to their Canada Pension Plan. Such a program would give access to individuals across the country to expert investment advice at a low cost. It also is a program that's portable from one job to another and it is something one can invest in, in the long term.

We don't support forcing a larger corporate contribution, simply from the standpoint that it represents an additional corporate tax.

The Chair: Okay, thank you.

I want to thank all of our guests from our first panel for your presentations and your responses to our questions.

● (1235)

[*Translation*]

Thank you very much everyone.

[*English*]

Colleagues, we will change panels, but I am not going to suspend, because I'm hoping we can deal with the motion from Mr. Saxton and the proposed budget.

So I will thank all of our witnesses from the first panel and then we'll ask the second panel to come forward while we're debating the motion.

Are there any problems with the request for the proposed budget, colleagues? Can I have someone to move this?

It's moved by Mr. Van Kesteren.

(Motion agreed to [See *Minutes of Proceedings*])

The Chair: Thank you.

Secondly, you all have in front of you the notice of motion by Mr. Saxton. It obviously has the proper notice.

Mr. Saxton, do you want to speak briefly to your motion?

Mr. Andrew Saxton: Thank you, Chair.

As I said yesterday, we are trying to have three other committees look at the budget implementation act. Those three committees are justice and human rights; human resources, skills and social development; and citizenship and immigration.

We feel there are specific divisions and clauses within the budget implementation act that would be appropriately studied by these three other committees. It would also give us, on the finance committee, more time to study other divisions and clauses.

That's why this motion has been put forward. It is similar to other motions that have been put forward while studying other budget implementation acts, including BIA 1.

Thank you.

The Chair: Thank you, Mr. Saxton.

Ms. Nash.

Ms. Peggy Nash: Mr. Chair, again, I want to say that on this side we're—

The Chair: Could we have order in the room, please?

Thank you.

Go ahead, Ms. Nash.

Ms. Peggy Nash: Thank you, Mr. Chair.

On this side we're very concerned about this motion. It stems from our concern about Bill C-4 as a whole. This motion, of course, deals with the omnibus budget implementation act, which is, yet again, another attempt by this government to throw several legislative changes into one large bill. Many of the provisions in this bill, which have nothing to do with the budget, are meant to limit time for debate, limit discussion, limit any changes, limit input, and to then pass this through as quickly as possible. Frankly, it's a bad way to make legislation. It's disrespectful to the democratic process.

I do want to say that I agree with Mr. Saxton that there are elements of Bill C-4 that should be debated in other committees, and we can discuss which committees. There are three that are proposed: justice and human rights; human resources, skills and social development and the status of persons with disabilities; and citizenship and immigration.

Yes, there are provisions that should be discussed and debated at these committees, but what is being proposed is that there would be a very, very limited time for review at these committees, and these committees won't have had the opportunity to vote on any amendments or to adopt or reject any parts of this proposed law, because ultimately the bill would all come back to the finance committee. We won't have had the benefit of any of the testimony that had been before the other committees. The power to vote on any amendments and to finally vote on the bill is taken away from the committees that have the expertise and that ought to be looking at these sections of the bill. It's a terrible process. It's a bad way to make legislation.

We want to register our protest. We do not think these omnibus bills should make massive changes by throwing the government's almost entire legislative agenda into one large bill. This omnibus budget bill, C-4, would change over 70 pieces of legislation. Some of it is tax legislation and should quite rightly be before the finance committee. But changes to how Supreme Court judges are appointed? Really? Changes to health and safety protection for workers at banks or airlines? Really? We're dealing with that at the finance committee? It makes absolutely no sense.

We want to register our protest against this format. Our message to the government, once again, is to break up these bills. Send the pieces that affect different committees to the appropriate committees, not only for one or two days of witnesses, but for a thorough review, a normal legislative process. Let those committees discuss, debate, propose amendments, and vote on separate pieces of legislation.

Our message is that we should be breaking up these bills, not cramming all these changes into one omnibus budget bill. We think this is a bad way to make legislation.

Mr. Chair, we will be voting against this motion.

● (1240)

The Chair: Thank you, Ms. Nash.

We will now go to Mr. Brison, please.

Hon. Scott Brison: Thank you, Mr. Chair.

Similarly, we will be voting against this motion. I will be voting against this motion on behalf of the Liberal Party.

The power to vote on these measures is essential. To not be able to not only study at the individual committees but to actually vote at the individual committees I think is a mistake.

It's notable that in this budget implementation act, Bill C-4, we are correcting errors made in previous budget implementation acts. Errors are more likely to happen when Parliament is denied the opportunity to fulfill our responsibilities in terms of the type of due diligence that is required in the scrutinization of legislation. We have seen errors in previous budget implementation acts resulting from this kind of kitchen-sink, omnibus-bill approach, whether it is changing the Supreme Court Act or overhauling the management and labour relations within the public service, as well as all the technical tax changes the Auditor General has recommended be in separate legislation, not as part of the budget implementation act.

The government has determined that this is the course they're going to pursue. Ultimately, we'll register our concern and our objection to this and our opposition to it. I don't think it yields optimal public policy results when we take this kind of approach. It denies the ability for individual members of Parliament from all parties, not just the opposition parties...government members ought to be similarly concerned that they are being denied the opportunity to do their jobs, to fulfill their responsibilities as members of Parliament, and to scrutinize legislation to the best of their abilities.

The Chair: Thank you, Mr. Brison.

I will then call a vote on this motion.

(Motion agreed to)

The Chair: Colleagues, I am advised that I have to suspend for 45 seconds to allow the teleconference to come in, so I will suspend very briefly here.

● (1240)

(Pause)

● (1245)

The Chair: I call this meeting back to order. This is meeting number three of the Standing Committee on Finance. We are continuing our consultations for pre-budget 2013.

We are pleased to have another panel with us here for the second part of this meeting. First of all, as an individual, we have professor and researcher, Monsieur Luc Godbout.

[*Translation*]

Welcome.

[*English*]

We also have Mr. David Macdonald, a senior economist from the Canadian Centre for Policy Alternatives; Madame Carole Presseault, the vice-president of the Certified General Accountants Association of Canada; Mr. Richard Monk, an advisor with the Chartered Professional Accountants of Canada, and we welcome Mr. Kevin Page back to the committee in his new role at the University of Ottawa.

We have by teleconference from British Columbia, Kitimat Clean Ltd. —and I hope, Mr. Black, you can hear me.

Mr. David Black (President, Kitimat Clean Ltd.): Yes, I can hear you fine, thank you.

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

[*Translation*]

We will start with Professor Godbout.

Professor Luc Godbout (Professor and Researcher, Fiscality and Public Finances Research Chair, As an Individual): I'm going to start, Mr. Chair?

[*English*]

The Chair: Yes, you start, please, for five minutes.

[*Translation*]

Prof. Luc Godbout: First of all, I would like to thank you for this invitation.

In the most recent throne speech, the government announced its intent to develop a framework for the budgetary process through balanced budget legislation. I am going to address the aspects of such legislation that are in the brief I gave you.

If it is normal for a government to incur a deficit during recession periods so that the system will function properly, it is entirely reasonable that the budgets be balanced during periods of economic growth. In section one of the brief, I look at fiscal rules to promote the healthier public finance. The section provides examples of countries that use such rules. For example, countries like Switzerland suggest that the government's budget be balanced over an entire business cycle. Sweden goes further and proposes an average budgetary surplus over the business cycle. Other countries, like Germany and the United Kingdom, do not authorize deficits unless they are for investment purposes. In other words, a deficit may be incurred only for an investment. Countries like Poland have gone even further by enshrining in their constitution the limit for the total public debt. That may cause some problems.

In the 1980s and 1990s, Canadian provinces also had fiscal rules, some stricter than others. In Quebec, for example, the Balanced Budget Act provides that the government must maintain a balanced budget, but it allows a certain degree of flexibility to permit overruns under certain circumstances. An example would be a decrease in federal transfers.

Section two explains why it is important to return to a balanced budget. I would like to turn your attention to figure 1.

First of all, it is important to understand that the OECD data relates to all public administrations in Canada, including the federal and provincial governments. The figures show that from 1996 to 2008, Canada has had a balanced budget in 11 years out of 12, meaning that the debt-to-GDP ratio declined. In figure 1, it is the ratio in black. In 1996, the debt-to-GDP ratio was 100%, and in 2007, it dropped to 65%.

At that point, I did another simulation. I wondered what would happen in Canada if all public administrations had had deficits of 3% of the GDP during that same period. During the recession in 2008, governments would have already been in a deficit situation of 3%. It isn't some crazy example. That is roughly what France experienced: 12 consecutive years of deficit from 1996 to 2008, at about 3%.

During the economic growth period, the debt would not have really declined, but it would have stayed the same. However, when the recession hit in 2008, the debt level would have increased. In that situation, the debt-to-GDP ratio would be 126% in 2014, while in the current situation, the debt-to-GDP ratio is 85%, or lower than it was in 1996.

I will wrap up with four parameters that should be considered when drafting balanced budget legislation.

First, it is important to aim for an average budget surplus of 1% of the GDP over the business cycle. Some years don't go well and there's a recession, but it's important to aim for a budget surplus over the business cycle. That's the only way to intervene when the economy is failing without increased debt from one recession to another.

Second, the legislation must make a contingency reserve fund mandatory. The federal government manages an annual budget of $300 billion. It seems quite reasonable to establish an annual budget reserve of $5 billion. If the annual reserve fund is not needed, it can go toward the debt.

Of note, in 2008 the federal government's budget no longer had this flexibility; there was no surplus anymore. The projected surplus for 2009 was $1 billion. As a result, when the recession hit, it had reduced contingency reserves.

Third, the Balanced Budget Act must plan how unanticipated surpluses will be allocated. In the 1990s and the early 2000s, federal surpluses were systematically higher than the budgetary surpluses provided for in the budget. In such a case, it would be useful to determine immediately how the surplus should be used. Should it be applied to the debt? A lost idea from the 2006 budget was to consider allocating unplanned surpluses to the Canada pension plan and Quebec pension plan in the name of intergenerational equality.

● (1250)

Lastly, the legislation must take into account the state of the economy and provide for situations in which deficits are allowed when things go wrong, as well as outline the repayment terms to re-balance the budget.

Thank you very much.

The Chair: Thank you for your presentation.

[*English*]

Mr. Macdonald, we'll hear from you now.

Mr. David Macdonald (Senior Economist, Canadian Centre for Policy Alternatives): I'd like to thank the committee today for their invitation on this important and ongoing issue of fiscal sustainability and economic growth.

It is unfortunate that five years after the recession we are here still talking about economic growth and the lack of a full recovery in either GDP growth or the labour market. I think that growth is exacerbated by federal government austerity as well as by provincial government austerity. While government spending was a significant driver of economic growth in the year after the recession, that influence has now waned. The federal and provincial government cutbacks inevitably mean lower growth and less employment, both within the public service and in private sector companies that contract with governments for service.

As well, many of the other drivers of economic growth in the past year have been muted. For instance, the balance of trade since 2009 has turned negative, meaning that we import more than we export, and trade becomes a drag and not a driver of GDP growth in Canada.

Increased resource exports have not made up for a collapse in the manufacturing sector. Every year, we are exporting our national wealth and no longer using international trade to our advantage. Instead, other countries are using us to their advantage.

Business investment has added little to economic growth over the past year. Instead, the cash holdings of corporate Canada continue to grow, and appear to continue to grow, in good times and in bad.

Economic growth over the past year has come almost entirely from consumers, through household consumption, although interestingly this is not through housing construction, which has been the case previously. Given stagnant wages for most households, the increase in consumer spending in the past year has come almost entirely from an increase in household debt. This increase comes as households already have historically high debt levels.

Fiscal sustainability at the federal level is often taken in isolation from the rest of the economy. For instance, federal fiscal sustainability is presently defined as reducing the federal government's debt-to-GDP ratio from its present level of 33% down to 25%. Even at 33%, Canada's federal government has the lowest debt-to-GDP ratio of any federal government in the G-7. There's no pressing economic need to further widen this gap. Moreover, there are much more pressing sustainability issues in the Canadian economy outside of the federal government's relatively small and manageable debt.

As I mentioned earlier, households have been doing the heavy lifting in terms of economic growth since the recession. The federal government is concerned with its small 33% debt-to-GDP ratio while households have a record debt-to-GDP ratio of 95%, up from the 50% levels in the 1990s. If any sector in the Canadian economy is over-leveraged with debt, it is surely the household sector, not the federal or provincial governments. Household incomes have been constrained, among other things, by a labour market that has still not seen a full recovery, either in the unemployment rate or, perhaps more importantly, in the employment rate or the percentage of working-age Canadians who have a job.

While there has been a decline in the unemployment rate, part of this is due to discouraged workers simply giving up looking for a job. Excluding this effect by using the employment rate, there has been much less recovery in the percentage of working-age Canadians that have a job compared to pre-recession levels. Moreover, those that have jobs don't see the sort of regular wage increases they saw in previous decades. In Canada's largest cities of Montreal, Toronto, and Vancouver, the average real income of the bottom 90% is lower today than it was in the 1980s. For lower-income Canadians, programs like the temporary foreign worker program likely further suppress wages. In fact, about 10% of all the jobs created since the recession went to temporary foreign workers.

Stagnant incomes mean that increased consumer spending comes from debt accumulation and not from rising incomes for middle-class households. This should be the target of federal government policy. Real wage increases in the middle, better support for low-income Canadians, and more job creation, particularly for youth, should be the federal government's goals. These broad strokes will hopefully result in an orderly de-leveraging of households, by and large the largest sustainability threat that Canada currently faces.

Thank you.

● (1255)

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

We'll now hear from Madame Presseault, *s'il vous plaît*.

[*Translation*]

Ms. Carole Presseault (Vice-President, Government and Regulatory Affairs, Certified General Accountants Association of Canada): Thank you, Mr. Chair.

Honourable members, thank you for the opportunity to participate in the pre-budget consultations leading up to Budget 2014.

I am pleased to be here today to deliver remarks and recommendations on behalf of the Certified General Accountants Association of Canada. CGA-Canada is currently working with the Chartered Professional Accountants of Canada to integrate operations under the CPA banner. My colleague to my left will go into this unification initiative in a little more detail. We think unification will enhance the influence, relevance and contribution of the Canadian accounting profession, both at home and internationally.

[*English*]

I'm very pleased to present to you today alongside my colleagues from CPA Canada. You will note that this is the first time that the accounting profession, comprising the three legacy bodies of CGA, CMA, and CA, has joined forces to deliver a coordinated message on the making of the federal budget. We really wanted to make your life easier, didn't we?

My comments will be brief and will be focused on two specific issues, taxation and internal trade, both of which are important to Canada's fiscal sustainability and economic growth. We support, as part of our co-branded brief with CPA Canada, the recommendations regarding standard business reporting and the patent box.

Let me talk about tax simplification. As a committee, you've acknowledged that the tax system needs to be simplified by recommending in your last two pre-budget reports that an expert panel or a royal commission be established to undertake a comprehensive review of the income tax.

Tax reform is like the weather. Everyone talks about it, but we can't do very much about it, or nothing very much is done about it. But in this case, we think a lot could be done.

We know that Canadians want a simpler, fairer, and more efficient tax system. We've asked them. These are some of the data that we have in a recent survey: 62% say that having a simple tax system is important; 81% of people surveyed ranked having a fair system a top priority; and 68% of Canadians favour eliminating some special tax credits to have their overall personal income tax lowered.

Canadians want tax reform, and we need to start the process. What a better place to start building consensus, we think, than here in Parliament and in this committee. We submit today that the Commons finance committee ought to consider setting the stage by undertaking a study that could examine how tax reform could be moved forward.

We know the benefits of tax simplification: lower compliance costs, higher compliance rates, less admin costs for the government, and a strong tax system with a more secure tax base and predictable revenue. The cost of a complex tax system? It's a barrier to jobs, growth, and long-term prosperity.

One last comment I want to make on tax is that we were very pleased with the passage of Bill C-48, the Technical Tax Amendments Act, 2012, because it helped clear a backlog of unlegislated tax measures that had accumulated over 12 years. But we know that more work can be done in this respect. Going forward, we need to prevent legislative backlogs from developing. We very strongly feel that a process needs to be established to deal with these technical tax amendments in a timely manner, such as incorporating them in legislation on an annual basis, and parliamentarians have the ability to improve the process.

[*Translation*]

Last, but not least, permit me to say a few words about internal trade.

CGA-Canada is pleased a comprehensive economic trade agreement with the European Union has been signed in principle. But we caution that, here at home, unfinished business remains. The federal government must work with its provincial and territorial partners to eliminate internal trade barriers to ensure that Canadian companies have the same access to local markets as our European competitors.

This means removing unnecessary and duplicative regulations that overlap from one jurisdiction to another, inhibiting trade. And it means establishing an effective dispute resolution mechanism that is more accessible to Canadians.

Governments must make progress on this issue. Persistent internal trade barriers and the ongoing perception of a fragmented economic union continue to hurt consumers, discourage investment and damage Canada's reputation as a place to do business.

The next meeting of the Committee on Internal Trade, which is comprised of the federal/provincial/territorial ministers, is fast approaching. CGA-Canada urges all governments to use this opportunity to work together to strengthen Canada's economic union.

● (1300)

[*English*]

Mr. Chairman, I thank you for your time. I would be pleased to respond, of course, to any questions the committee may have.

The Chair: Thank you very much for your presentation.

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

Mr. Richard Monk (Advisor, Past Chair, Certified Management Accountants of Canada, Chartered Professional Accountants of Canada): Mr. Chairman, committee members, and fellow witnesses, I am pleased to be with you this afternoon representing the Chartered Professional Accountants of Canada. Thank you for inviting us.

As this is the first time CPA Canada is appearing before the committee, I would like to provide a background of our organization. CPA Canada is a national organization established to support and represent the new chartered professional accountant, or CPA, designation. It was created by the Canadian Institute of Chartered Accountants and the Society of Management Accountants of Canada to provide services to all CPA, CA, CMA, and CGA accounting bodies that have unified or are committed to unification.

The unified body will have approximately 170,000 members. As part of the unification effort, CPA Canada and the Certified General Accountants Association of Canada are working toward integrating their operations, including the development this year of a co-branded 2013 pre-budget submission, and I'm pleased to be presenting alongside our colleague from the Certified General Accountants Association here today.

At the outset, I want to underscore the crucial role that strong management of government finances plays in achieving a sustained economic recovery and enhancing economic growth. CPA Canada applauds the government for its continued commitment to balancing the budget, now estimated to happen in 2015, largely through expenditure controls.

Mr. Chairman, we made three recommendations in our written submission that would encourage economic growth, promote job creation, and help improve Canada's productivity record.

First, we call upon the federal government to undertake a comprehensive review of Canada's tax system to reduce complexities and inefficiencies. Tax simplification recommended by this committee in recent years would increase productivity, improve Canada's competitiveness, and eliminate a barrier to jobs, growth, and long-term prosperity. We recommend a two-staged approach. The federal government should undertake a comprehensive review of Canada's tax system and appoint an independent expert panel to provide advice on short- and long-term options to streamline and modernize Canada's tax system.

In addition, consider creating an independent tax simplification office to provide advice on reducing its complexity. The U.K. office of tax simplification could serve as a model. Taxpayers would benefit from lower compliance costs, businesses would face less red tape and have more time to devote to productive endeavours, and government would have lower administrative costs and more predictable revenues.

Second, we recommend that standard business reporting, specifically XBRL, be adopted for use by businesses for all government filings. This would cut the red tape and compliance costs of businesses of all sizes. Standard business reporting would enhance the government's data collection, which could be shared among departments and agencies. We were pleased that XBRL was included in this committee's recommendations in 2012.

Indeed, adopting standard business reporting would benefit business, taxpayers, and the federal government. Of note, the Canadian Federation of Independent Business identified compliance cost as a significant issue to Canadian business. We ask that the committee repeat its recommendation and issue a report and that a cross-departmental study and cost study be undertaken, with results forming the basis for developing an implementation plan.

Third, capitalizing on the creativity of Canadians by transforming their knowledge into products and services in the global marketplace —what we call commercializing innovation—can improve Canada's productivity record. Several countries encourage the commercialization of innovation by a tax incentive known as a patent box. A patent box reduces the tax rate on income derived from the exploitation of research and development and the ownership of intellectual property rights flowing from R and D. The objective is to encourage R and D activity and the commercialization and adoption of intellectual property developed from R and D by domestic firms.

Canadian businesses would benefit by paying a lower rate of tax on profits earned from commercializing their innovations. A ripple effect of high-value employment opportunities would emerge as companies increased their research, development, and exploitation of innovation in Canada. We recommend, therefore, that the federal government implement a patent box regime to incent Canadian companies to develop and commercialize their innovation in Canada.

In closing, CPA Canada continues its commitment to financial literacy, to foreign credential assessment initiatives, and to helping internationally trained accounting professionals, and we remain committed to working with you to promote economic growth, job creation, and increased productivity.

Mr. Chairman, thank you very much.

● (1305)

The Chair: Thank you very much for your presentation, Mr. Monk.

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

Mr. Kevin Page (Research Chair, Jean-Luc Pépin, Faculty of Social Sciences, University of Ottawa): Thank you, Chair, Vice-Chairs, and members of the House of Commons Standing Committee on Finance. It is an honour to be with you today.

I would like to make some brief remarks with respect to long-term fiscal sustainability, balanced budget legislation, and productivity trends.

On fiscal sustainability, Canada's fiscal sustainability situation is likely better than many other countries. As Warren Buffett says, “Doing good does not excuse us from doing better.” According to the Parliamentary Budget Office, the federal fiscal structure is sustainable, meaning we have a fiscal structure that will stabilize debt relative to the size of our economy in the face of demographic change. Similarly, the Canada Pension Plan and the Quebec Pension Plan are sustainable, meaning we have a pension structure in place that will stabilize the relationship between net assets and expenditures over time.

We do have a fiscal sustainability issue, a positive fiscal gap, at the provincial and territorial levels of government. The size of the gap at the provincial level was exacerbated by the federal policy change to the escalator for the Canada health transfer.

You may wish to recommend in your pre-budget consultations report that the Government of Canada prepare annual sustainability reports, like other OECD countries, and that the analysis be done to reflect all levels of government.

Health care is a major pressure on fiscal sustainability in Canada. Do we want a one-taxpayer approach to fiscal management? Do we want a national approach to health care cost management? If we do, the committee may wish to recommend a national dialogue on health care policy and finance involving all stakeholders. You may wish to consider options to reform federal transfers to provinces.

On balanced budget legislation, the federal government is largely on track to balance its budget in 2015. The current growth is sluggish due to a number of factors, including fiscal austerity, as Mr. Macdonald mentioned.

The committee may wish to recommend that the federal government provide five-year spending plans by department and agency outlining areas of spending reduction and changes to service levels. Spending restraint plans that generate fiscal and service-level risk create spending pressures into the future.

Balanced budget legislation, as highlighted in the Speech from the Throne, could provide a strong fiscal signal that the government is managing within a fiscal target.

The experience in developed countries, as Professor Godbout has noted, particularly in the European Union, highlights the additional demand for analysis to mitigate the negative impacts of counter-cyclical fiscal policy. This includes the calculation of output gaps, cyclically adjusted budget balances, the need for corrective enforcement type mechanisms, and stronger roles for independent fiscal institutions like PBO on assessment of achieving targets.

The committee may wish to undertake analysis of varying experiences with fiscal rules, targets, and balanced budget legislation and make suggestions on the necessary analytical requirements so that any balanced budget legislation is based on best practices, as highlighted by Professor Godbout.

On economic growth and productivity, Canada's productivity growth since 2000 has lagged that of the U.S. and is below OECD averages. Aging demographics will reduce our labour input, and the continuation of modest productivity growth suggests that Canada's potential long-term growth rate will decline significantly over the next few decades, from about the 2.5% range to the 1.5% range.

The causes for Canada's weak productivity growth and impacts of a declining potential growth rate warrants significant analysis and debate. This committee may wish to consider undertaking or commissioning a research project involving experts and stakeholders from different domains and reporting back after an appropriate period of time to strengthen debate and decision-making for the 2015 budget. On productivity, this research planning could examine all the principal drivers of productivity growth where analysis has suggested we have fallen behind or could do much better. Innovation, investment, human capital, and micro-economics frame our policies.

Thank you.

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

We'll now go to Mr. Black for your five-minute presentation, please.

Mr. David Black: Good afternoon, Chairman.

Thank you for this opportunity. If you have seen my face, you know it's better suited to a teleconference than a video conference, so in a way I'm doing you a favour here, but I apologize if there's no video conference in this small town we're in.

My presentation is not so much about policy advice; it's directly, though, about increasing jobs and taxes for Canada.

May I ask, Chairman, if you and the panel have had a chance to glance at the pages I provided? If not, I will—

● (1310)

The Chair: Yes, all members of the committee do have your presentations.

Mr. David Black: All right. Then I won't review the size or the basic elements of it. Instead I'll just talk a little about the progress to date and leave time for questions.

We have made significant progress in all areas of the project. Almost all issues are resolved. We've chosen the refinery site and British Columbia has reserved the crown land for us. All levels of government in British Columbia and the Canadian government indicate support for the endeavour. We've had consultations with 25 first nations chiefs thus far. We believe we will reach agreements with most, if not all. There don't seem to be any big roadblocks. The public is supportive locally, and, most importantly, all polls indicate that the public is solidly behind us throughout the province. Two-thirds of the public are behind a pipeline across B.C. if there is a refinery. Two-thirds are against the idea of a pipeline across B.C. without a refinery, just putting our raw resources onto tankers and endangering the coastline with the diluted bitumen.

A strategy for financing the project has been developed. We've signed a memo of understanding with ICBC, the Industrial and Commercial Bank of China, which is the largest bank in the world. We're working to sign another with the China Development Bank, which is their mandated bank to invest outside China. China wants to take all the refined fuel, so the off-take agreement is in the process of being drawn up.

We have agreed on the technology for the refinery. It is new technology, never used before in a heavy oil refinery. It will maximize the product yields and provide for far better environmental impacts than any other refinery in the world—half of the greenhouse gas. We expect to submit our environmental application this fall. This will take two and a half years, probably, and during that time we'll be putting contracts in place in all the foregoing matters. We will also be completing a major feasibility study, which is a prerequisite to financing the project, during that timeframe.

Thank you.

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

We will begin members' questions with five-minute rounds again with Ms. Nash, please.

Ms. Peggy Nash: Thank you, Mr. Chair.

Hello to all the panellists. Thank you for being here today.

Mr. Page, welcome back. It's very nice to see you again. I'd like to start with you. You had very interesting comments.

One of the things you mentioned was austerity and the impact of austerity measures on economic growth and on our sustainability. Can you describe for us the impact of the government's austerity measures? The government, of course, wants to make sure its finances are in order, but is there a downside, or can you describe the downside to austerity measures?

Mr. Kevin Page: Thank you.

Mr. Chair, I think the way economists tend to look at austerity is very similar to the mirror image of the way we looked at stimulus. In the case of stimulus, when the government implemented a very large stimulus package in 2009 they used economic analysis, effectively what we called multipliers, to estimate what would be—if we had a stimulus package—the additional increase in output and in jobs. They calculated with a stimulus package in the neighbourhood of $50 billion that we could achieve an additional two percentage points to GDP and an additional couple of hundred thousand jobs.

In 2012, the government moved to freeze direct program spending effectively for five years. Direct program spending is in the neighbourhood of $115 billion to $120 billion. So we're effectively reducing spending by almost $15 billion over that period of time from what the trend growth rate was. Again, we're talking about loss overall since 2012 of probably something in the neighbourhood of one percentage point in terms of output and 100,000 jobs. This is taking place at a time when our economy is operating below potential. We have unemployment rates in the 7% range. We have capacity utilization rates in the 80% range. These are different rates from what existed prior to the recession. There are costs to austerity just as there were positive benefits to stimulus.

● (1315)

Ms. Peggy Nash: Austerity, as you've described it, is a drag on our economic growth.

Mr. Macdonald, you talked about the slow growth and the lack of growth as one of our major problems. We have trade deficits. You talked about the collapse of the manufacturing sector, stagnating wages. Yet so much of our recovery seems to depend on consumer spending, which is translated increasingly into high personal debt. How sustainable is this in the long run, or even in the short run?

Mr. David Macdonald: Looking at the debt levels of households, we have seen some levelling off in terms of increasing household debt, although that has been picking up again in the last year.

With regard to debt sustainability, clearly the sector that is most over-leveraged in the Canadian economy is household. This isn't news to this committee, and it's not news to the folks at the Bank of Canada or to economists in general, who have been highlighting the issue of high household debt.

In the short term, it may well be sustainable, given historically low interest rates and, importantly, historically low mortgage rates, that the vast majority of the debt in fact is mortgage debt and is not debt from buying household items like computers, TVs, and so on. In the short term, it may well be sustainable, given that the mortgage payments are quite low. The real problem it presents is that it has leveraged up the household sector, and changes in the mortgage rate going forward will have a much bigger impact on the household sector than it would have if the household sector had seen lower rates of indebtedness.

So that's the real concern. When and if economic growth begins again and we do see mortgage rates start to climb up again from historic lows, the real danger is that an over-leveraged household sector cuts back on its spending—it has been the primary driver of economic growth—and we see a real drag on growth once we start to see some pickup.

Ms. Peggy Nash: I'd like to follow up on that. You talked about how we're right now in a period of very slow growth, and the government's austerity measures are designed to get us to a balanced budget situation quite quickly.

Now, one of the things the government has said it wants to do if we get to a balanced budget situation is to introduce income splitting. Is that a good idea for Canada?

Mr. David Macdonald: Income splitting would act against the government's goals of reducing its debt more rapidly, if that is the government's goal. Income splitting is relatively expensive. It's in the neighbourhood of $2.5 billion to $3 billion a year at the federal level. It's about half that at the provincial level, from studies that have been done previously.

So it would be quite expensive, which would mean that if the government wants to maintain its path toward a balanced budget in a certain year, let's say 2015-16, then it would have to cut those expenditures someplace else out of the budget to make room for this tax expenditure of income splitting.

The Chair: Thank you.

Thank you very much, Ms. Nash.

We'll go to Mr. Saxton, please.

Mr. Andrew Saxton: Thank you, Chair.

Thanks to our witnesses for being here today.

My questions will be directed to the accounting representatives here today—Richard Monk, adviser to the Chartered Professional Accountants of Canada, and Carole Presseault, vice-president of the Certified General Accountants Association of Canada.

First of all, I look forward to the amalgamation of accountants in Canada. It's very confusing to remember who is chartered and who is certified. I'm sure this will be taken care of once you finally amalgamate.

I want to address both of you, because your submissions were quite similar in some respects. First of all, you both gave suggestions on how to reduce red tape. Of course, this is something that our government has been focusing on. We have the red tape reduction plan, which was the result of the red tape reduction committee's cross-country meetings and round tables to come up with ideas to reduce red tape, specifically for small and medium-sized businesses.

Mr. Monk, you have a suggestion that you call “eXtensible business reporting language”.

Madam Presseault, you have a suggestion that you call “standardized business reporting”.

Perhaps you could both elaborate briefly on your recommendations in this regard.

Mr. Richard Monk: I'll start off.

The concept is standardized business reporting. XBRL is a platform that allows that standard to go forward. XBRL essentially is a subset of the SBR that we're suggesting.

Really what it does—and this has come before the committee before—is it reduces complexities in filing for businesses and it lowers the cost of transferring data between departments within the federal government.

● (1320)

Mr. Andrew Saxton: Madam Presseault, have you any further follow-up on that, on your recommendation?

Ms. Carole Presseault: Certainly we're supportive of that recommendation. As Mr. Monk pointed out, in terms of standard business reporting the platform is XBRL.

Essentially, as I understand it, it's really allowing businesses to communicate with government in one financial reporting language so that information can easily be transferred and shared across. That's where it simplifies business reporting and reduces the compliance costs.

Mr. Andrew Saxton: Thank you very much.

I think both of you mentioned the patent box and how this could help improve innovation. Could you elaborate more on how the government could implement such a measure?

Mr. Richard Monk: Sure.

The patent box is essentially a way of commercializing our innovation by providing for a low rate of tax on revenues, profits generated from that commercialization within Canada. The U.K. launched its patent box in early 2012, and it's now in process. The name comes from a little box that you tick on the filing form that says you qualify for a patent box; that's where the name “patent box” comes from.

Mr. Andrew Saxton: Thank you.

You both also touched on the need for tax simplification.

Would you like to elaborate on that?

Ms. Carole Presseault: I will.

Thank you very much for your question.

I think this committee has heard me, a few times, talk about taxification. And welcome, Mr. Saxton, to this committee. I have a new audience for this topic that is near and dear to the hearts of accountants.

Despite it being counterintuitive, accountants do want a simpler tax system. Essentially what is suggested is that we re-examine the tax system to make it more fair and efficient, to ensure the taxpayer pays the right share and that the right taxpayer pays the right share. There are a couple of building blocks toward that, and the first building block is the red tape reduction system and some of the administrative aspects that are already under way through the Canada Revenue Agency. These are very welcome by our members.

The second aspect is to look at it from a legislative perspective. Again, the passage of the Technical Tax Amendments Act last year was a very welcome addition to addressing the growing backlog. It's a complex tax system that doesn't bring forward amendments on a timely basis. We have to look at how we can correct that process. What are the mechanisms we should have in place to have a regular technical tax bill come forward?

The last aspect is who undertakes this review and how you go about it. This is why we challenged that perhaps it is the committee's task to start looking at how to undergo tax reform.

The Chair: Thank you.

Thank you, Mr. Saxton.

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

Hon. Scott Brison: Thank you, Mr. Chair.

Mr. Macdonald, you referenced the federal debt as a percentage of GDP. We're often being compared with unitary states, as opposed to our country, which has significant provincial debt loads as well. When you calculate some of the provincial debt loads and their portion of the federal debt, some provinces are carrying debt-to-GDP levels that are close to where Greece and Portugal and Italy and Spain were prior to the downturn. If we consider those obligations, I'd just caution that in terms of the fiscal situation in Canada, it may appear a little rosier than it actually is.

You're quite right to identify the household debt risk in Canada. It's at record highs today. Have you considered the degree to which that is being driven...? Two recent bank economist reports are telling us it's being driven by the direct subsidization by parents and grandparents of Canadian youth who are having difficulty finding work. Has your organization looked at that challenge faced by young Canadians, the fact that there are 224,000 fewer jobs for young Canadians today than before the downturn?

● (1325)

Mr. David Macdonald: Certainly youth unemployment is approximately double the regular rate. We have quite a concentration of unemployed youth, and I think that is one of the long-term sustainability problems. I'd argue that household debt is probably much more related to interest rates and stagnant incomes than it is to supporting youth who can't find a job. That would certainly be a part of it, but I think the major components are the interest rate and stagnant incomes.

Hon. Scott Brison: I'm very interested in the increased calls for tax simplification and tax reform. We haven't really considered an overhaul of the tax system since the Carter commission in 1971. Has the tax system become more complicated in the last few years with the boutique tax credits that we've added? Have we not gone in the opposite direction of tax simplification in the last several years?

Ms. Carole Presseault: Certainly tax expenditures contribute to the complexity, and there's more information coming out on exactly who benefits from these tax expenditures. An interesting study was published last week or the week before about that. In the study they showed that the actual net benefit is quite low because the additional costs of complying with or actually applying for that benefit reduce the availability.

That's part of the whole picture. It's not the sole aspect of it. Tax expenditures are a small part, but certainly when you look at the personal income tax system, that's what—

Hon. Scott Brison: These targeted tax expenditures add up, some would argue, to billions of dollars. Potentially, with that kind of fiscal impact, we could actually have significant tax reform and simplification if we were willing to do that.

Mr. Page, you mentioned that some types of cutting occurring today could have, I believe you said, increased “spending pressures into the future”.

Are you suggesting that some of the cuts today may actually be kicking the can down the road and may actually obligate future governments to spend more money, potentially putting us into future deficits?

Mr. Kevin Page: I certainly think there is a risk that without a lot of transparency on where those cuts are taking place, we could be kicking the can down the road in terms of future spending pressures. I think the government, the public service, should be providing those five-year spending plans by department. Where are those cuts taking place? Is it in operating? Is it in capital? Which program activities are affected? How are they managing those service levels?

We've had our own experiences in Canada, which I lived through in the 1990s, in which we went through massive fiscal restraint. There was very depressed capital spending going on. We built up capital spending pressures and we had to put money back in the system.

I think with greater transparency we could manage the overall fiscal and service-level risk much better.

Hon. Scott Brison: Thanks.

Mr. Page, you mentioned balanced budget legislation. The legislation, according to the throne speech, will apply only during normal economic times. Minister Flaherty has told the House that normal economic times are when budgets are balanced, which would mean that the balanced budget legislation will apply only when budgets are already balanced.

What do you think broadly of balanced budget legislation and its applicability in other jurisdictions and its general success rate as a measure?

The Vice-Chair (Ms. Peggy Nash): Be very quick, Mr. Page.

You're out of time on this round.

Hon. Scott Brison: Oh, sorry.

Mr. Kevin Page: Very quickly, I think balanced budget legislation, perhaps in the context of a country that's experiencing very high debt relative to GDP.... We don't have that. We had that in the 1990s. I think “normal” times to economists means when the economy's operating at its potential, and that's when the budget is balanced.

The government right now has a strong commitment to get back to balance. We see progress towards getting back to balance. Personally, I don't see the need for legislation.

The Vice-Chair (Ms. Peggy Nash): Thank you.

Mr. Jean.

Mr. Brian Jean: Thank you very much.

I appreciate everybody coming today to testify.

Mr. Black, my questions will be directed towards you. I would suggest your testimony today is very appropriate, in that our job is, in part, to improve the Canadian economy, to build and secure our economy, and to increase productivity numbers. I would suggest and submit that your proposal does exactly that.

The future, indeed, looks bleak for our oil industry, which is obviously an economic driver now for our economy. We expect the United States to import less oil. We have constrained pipeline capacity, and we're, in essence, landlocked out of the world market. We're getting minimum value added to our Canadian oil, as most of our refining is done in the United States. Our real threats are not in relation to the supply, because we have one of the largest supplies in the world, but in the constraint in delivery to the world market. In fact, some experts have indicated that we lose $30 million to $50 million per day in the Canadian economy as we're forced to sell to the United States.

Now I understand your proposal is economical. It's a $25 billion investment, one of the largest investments, if not the largest investment, in B.C.'s history—6,000 construction jobs, 3,000 permanent jobs, 3,000 indirect jobs, annual revenues of $25 billion, with a 10-year payback. It sounds like an incredible investment, with one of the greenest, if not the greenest, refineries in the world proposed. Two-thirds of the investment capital is guaranteed, and you have a guaranteed customer with one of the largest refineries in the world going forward. I also understand you're working well with aboriginals.

My question to you today, Mr. Black, is this: what can the federal government do? I saw in your proposal two things in particular, one in relation to a study and the other in relation to a loan guarantee. Is there a precedent? Do you see that this particular proposal you're coming forward with is similar to, for instance, the Muskrat Falls proposal that went forward recently and was supported by this government?

● (1330)

Mr. David Black: Yes, sir. In my discussions with Mr. Oliver, he mentioned that he thinks there's adequate precedent for this. I believe the Canadian government stepped up at least ten times. He showed me a sheet starting with the Lloydminster upgrader, Hibernia—there are a lot of projects where the government has guaranteed bank funds in order to get major projects that are vital to Canada's future off the ground. The last one, of course, is Muskrat Falls; I think it was $6.6 billion.

Mr. Brian Jean: Related to this particular proposal, do you see anything being a stumbling block from here on? Do you see the aboriginal issues being a stumbling block?

On page 6 of your proposal you talk about B.C. social licence. The statistics you quote show that British Columbians look very favourably indeed on your proposal. But I am wondering in particular about the aboriginal issues.

Mr. David Black: I think we will be able to solve the aboriginal issues. I think we need to play our cards close to the chest for the time being, because certainly no one wants that kind of thing to be said publicly; it just raises hackles. We have, as I said, spoken to 25 chiefs directly so far; we have not had a solid no. There are a couple who are going to be a little tougher to convince—and they have been publicly dismissive of Northern Gateway—but even those two are saying "David, you show us statistics that prove your statement that modern pipelines are safe and we will change our minds." I can show them those statistics; they are available. So I'm quite confident that we will get almost all, if not all, of the first nations on side.

They do understand that if it doesn't come by pipeline, the pressures are such that it will come by rail. They do understand that that is not as good, that is not as safe, and it is much more disruptive of small town life—there are a lot of level crossings out here in the west—because it would add 12 trains a day, and of course there's no extra money in it for first nations or for the communities and the tax base, whereas if you put a pipeline through, there's a lot of extra money. They do understand that there are a lot of reasons for this.

We're in Kitimat right now talking again to three of the first nations and the town councils, just keeping everybody up to speed, and it's going very well.

Mr. Brian Jean: Very briefly—I only have 30 seconds left—you mentioned something in your brief about neutralizing the current amount of GHGs from the oil sands because of the savings on the per barrel production that your refinery would do. Could you explain just very briefly how you came to that conclusion?

Mr. David Black: Yes. Under the new approach we will use, greenhouse gas emissions will drop. The CO_2 emissions will drop from seven million tonnes a year to three and a half million tonnes a year. That saving of three and a half million tonnes pretty much neutralizes the extra tonnes of CO_2 given off by creating steam over in the oil patch. In tandem, the extraction and the refining aren't that much different now from any other oil field and refining in the world.

We do believe that the—

● (1335)

The Vice-Chair (Ms. Peggy Nash): Thank you, Mr. Black. I'm afraid we're out of time.

Thank you very much. Maybe we can come back to you in another round of questioning.

Monsieur Caron.

[*Translation*]

Mr. Guy Caron: Thank you very much, Mr. Chair.

I would like to welcome everyone.

My first question is for Mr. Godbout.

Mr. Godbout, you spoke about balanced budgets and having balanced budget legislation. The NDP has said many times that it is in favour of balanced budgets, but over a business cycle. We heard in the throne speech and in conversations with Minister Flaherty that he provided balanced budgets for each so-called "normal" year. Normal remains to be defined.

First, do you think the approach of the annual balanced budgets—depending on how you define the word "normal"—is too restrictive compared to the approach of balanced budgets over the entire business cycle?

Second, what would be the consequences of not attaining this balanced budget if a specific situation means that we cannot balance it? Would the Minister of Finance go to jail? How would that work?

Prof. Luc Godbout: As I was saying, there are rules. In Sweden and Switzerland, the rules apply to an entire business cycle. You still need parameters. Quebec's balanced budget legislation says that you can have a deficit as long as, if you have a surplus, you put it in the bank virtually. The next year you have a deficit, you dip into the surplus to absorb the deficit. That is basically the same thing. The idea is to have a balanced budget throughout the business cycle. It is a good thing.

However, you don't need legislation for that, but you need a rule to know where you are heading. Of course, the rule is simple: you have a deficit when things go wrong and you have a surplus when things go well. However, even when things go well, it is hard for a politician to find the right time. The federal government has had a deficit for 25 consecutive years. I am not sure things have been bad for 25 years. Quebec has had a deficit for 40 consecutive years, and I am not sure things have been bad for 40 years. Allowing deficits to linger for a long time means that other generations will have to pay for our spending, which is not any better either.

Mr. Guy Caron: When all is said and done, you are telling us that this measure is more symbolic than anything, but it is sending messages similar to the message sent by the governor of the Bank of Canada when he talked about his forward guiding.

Prof. Luc Godbout: It is sending clear messages.

Second, we have to look at the consequences of not complying with a rule like that. In Quebec, the only consequence is moral authority based on what editorialists say and so on, but the minister will not go to jail. In some other provinces, however, when a deficit is looming, the ministers see their wages cut. The consequence is not the same, and I am not sure whether the impact is stronger, but you see how you can play with either the ministers' wallets or the media reaction to the news.

Mr. Guy Caron: Thank you very much.

Mr. Page, I would like to ask you a quick question.

You talked about the GDP being reduced and jobs being cut because of austerity budgets. You are talking about potential jobs not being created and growth not taking place. Is that correct?

[*English*]

Mr. Kevin Page: That's correct.

[*Translation*]

Mr. Guy Caron: I have a second question for you about the statement Minister Flaherty made a bit earlier. He said that the government's objective was to reach a debt-to-GDP ratio of 25% by 2021. Is 25% a meaningful number? What are the pros and cons of achieving a target of 25% rather than 24%, 26% or 27% by 2021?

[*English*]

Mr. Kevin Page: It was just a few years ago when the previous government had a debt-to-GDP and net debt-to-GDP target, or accumulated debt target, of 25% in 2011 and 2012. Now we're dealing with a net debt-to-GDP of about 34%. Now we're talking about trying to get back because of the recession, because of the stimulus package. We're trying to get back to something that will look like 25% in 2020 and 2021.

I don't think economists could tell political leaders that there's a right level of debt relative to GDP. I think it's your decision. One thing that's important, as somebody who worked at the finance department for years, is the carrying cost of that debt. When this government inherited a pretty strong fiscal structure, a fiscal surplus, they were paying roughly 13 cents of every revenue dollar for debt interest charges. In the 1990s, just as an example, we were paying 38 cents on every revenue dollar in public debt interest.

As we move forward, you want to keep debt relatively low so we can keep the carrying cost low on that debt.

[*Translation*]

Mr. Guy Caron: Thank you very much.

I have one last question for Ms. Presseault about the concept of tax simplification.

Is it possible to do a comprehensive review on tax simplification without reviewing the tax system as a whole? You are suggesting a panel of independent experts, but that sounds a lot like a simplified version of a royal commission such as the Carter commission. Would it be better to do a study on the tax system or a study on just tax simplification?

● (1340)

[*English*]

The Vice-Chair (Ms. Peggy Nash): If I could just interject, you're actually out of time. Could you please give a brief answer to that huge question?

[*Translation*]

Ms. Carole Presseault: The objective of the review is tax simplification, the process and tax reform.

[*English*]

The Vice-Chair (Ms. Peggy Nash): Merci.

Mr. Van Kesteren.

Mr. Dave Van Kesteren: Thank you, Chair. Thank you all for being here today. Mr. Page, thank you for that explanation. I think that was most helpful when you talked about the importance of keeping our debt level down.

Speaking of debt, Mr. Macdonald, you mentioned, and statistics prove, that household debt is far too high. Is it a bad thing to increase your debt when one is having personal financial difficulty? A simple answer will do.

Mr. David Macdonald: It may be a potentially bad thing to increase personal debt.

Mr. Dave Van Kesteren: Would you say in most cases it's a bad thing?

Mr. David Macdonald: It depends on what you're paying for, I suppose, with that money you're taking out through a line of debt.

Mr. Dave Van Kesteren: I think you know where I'm going with this, because I looked up on my BlackBerry the word “austerity”, and these are all terms that we keep coming up with. It's an economic term, and here's the definition: reducing budget deficits during adverse economic times. You would agree, then, that we need to lower the debt, and it's not a good thing to increase that debt.

Forgive me, I'm not trying to be hard or crass about this, but I wonder if you have done a study—and if you haven't, this would be a great suggestion—to analyze personal debt and find out what it is. You've said—and if you have statistics to prove it, that's great, because that would help this committee as well—that when people increase their debt, it's a result oftentimes, or many times, and I'd love to have that percentage, of when they're having financial difficulties. I've wondered about that. If that's the case, that's a good thing to know. But if it's not the case, I want to just give our chair here some kudos. Our chair has introduced financial literacy as legislation, and I don't think there are too many people who have the knowledge and depth and breadth of finances as our illustrious chair. I appreciate what he's doing because he wants to pass that on to everyone.

But I'm curious, is there a study, has a study been done, to determine where that debt is coming from?

We live in an age where we're bombarded with advertising, and it's so easy to get in debt. Is the problem because people are in financial difficulty? I guess that's not the right question. Is it because they're unemployed, or is it because we just spend too much money on areas where we shouldn't spend it?

Mr. David Macdonald: Thank you for the question, and I think it's a good one, particularly on what's causing the personal debt increase. The personal debt increase is largely tied to the increase in house prices, and that debt is largely mortgage debt. What we're seeing is an accumulation of mortgage debt in the household sector.

Mr. Dave Van Kesteren: [*Inaudible—Editor*]...bubble, too, though?

Mr. David Macdonald: It could be, and that has certainly been an argument that I've made, particularly if we do see interest rates rise rapidly. We would see households under some duress to try to make increased interest payments, because this household debt is much larger than it has been historically.

Mr. Dave Van Kesteren: Have you done a study, though, to determine where all that debt is going? If you have it, great. I think our committee needs to see it. If not, is it something you—

Mr. David Macdonald: Where which debt is going?

Mr. Dave Van Kesteren: To see where the debt is accumulating. What is causing this rapid increase in personal debt?

Mr. David Macdonald: As I said, it's people in Toronto or Vancouver trying to buy more and more expensive houses. One of the reasons they've been able to run up these types of debt levels is because mortgage rates have been going down. They're now hitting historic lows, so your monthly payment is actually quite affordable for big leverage to get into large houses, or to get into small houses that cost a lot. One of the challenges for households that are entering the market, particularly for young households, is they're paying substantially more than their parents to get into the household, but they can still make the monthly payments at record-low mortgage rates. The real question is, when mortgage rates rise, how much pressure does that put on households and constrain consumer spending?

Mr. Dave Van Kesteren: It was just a quick question, because I have 30 seconds.

The other question I wanted answered was, why is it a good thing to lower household debt and why is it not a good thing to lower government debt?

● (1345)

Mr. David Macdonald: I think the issue is that household debt is dramatically higher than government debt. I think if the situation was reversed, if we had a debt-to-GDP ratio in the federal government of 100% and households were at 10% or 20%, it would be a very different conversation.

What we are seeing is that the federal government is ideally placed compared to both households and provincial governments, going back to Mr. Brison's question. It has more fiscal capacity and is better able to drive economic growth than the household sector or the provinces.

The Chair: Okay. Thank you.

Thank you, Mr. Van Kesteren.

I'll start with Mr. Rankin. I understand you're sharing your time.

Mr. Murray Rankin: That's correct.

I want to thank all the witnesses for being here. I'd like particularly to welcome my fellow Victorian, Mr. Black, all the way from the northwest of British Columbia. Welcome.

I want to ask a question about your project, if I could. I think you accurately report the results of the Mustel report that says only 30% of British Columbia residents support the Enbridge Northern Gateway pipeline project, and I think 70% are opposed or are unsure. That seems to me to ring true, with my experience. But I want to talk about support from the oil sands producers as well. Is your project supported by them? Don't they simply want to sell raw bitumen abroad?

Mr. David Black: Pretty much, Mr. Rankin. That's correct.

Mr. Murray Rankin: How are you going to garner their support? Won't they be critically important to your venture?

Mr. David Black: Well, we need their crude oil, but that won't be a problem. They are more than ready to sell the crude oil, but they don't particularly want to invest.

Of course, the main reason is that we have allowed that whole industry to escape us. All of the majors that we think about every day are owned by parent companies elsewhere. One of our biggest oil companies, in fact, took a look at all of my numbers. I mean, I wasn't trying to be the owner of this refinery; I was trying to get them to do it in order to protect our coastline. One of our biggest oil companies looked at our numbers, was quite keen, and took three weeks to study it. They came back and said, “We agree with all your numbers. This is quite viable, but we can't do it.”

I took that as code to mean that their parent said no, because their parent has huge refineries down in the gulf and they probably didn't want their Canadian subsidiary screwing up a wonderful thing. They're making a fortune.

Mr. Murray Rankin: Yes, that's right.

Mr. Black, when you talk about submitting your environmental application this fall, we're already at this fall. Are you going to wait until the joint review panel gives us its report on the Enbridge project before you submit yours?

Mr. David Black: No, I think I'll get it in this fall.

Mr. Murray Rankin: All right. Thank you.

Monsieur Côté.

[*Translation*]

The Chair: You have three minutes.

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

Mr. Black, I have a General Electric toaster that my grandmother bought in the 1960s. It works perfectly. In fact, it is as young as I am, but I feel it is a symbol of our national pride being relinquished when it comes to production. In your project specifications, you talk about the installation of large refinery components from lower wage countries.

Could you tell me how you justify your request for support from the Government of Canada when you are looking for cheap labour elsewhere in the world?

[*English*]

Mr. David Black: In terms of the way all big refineries are built, they build them out of prefabricated components built in parts of the world where the costs are low—just like all big ships—and then they're assembled. That's why all major export refineries are on the coast. It doesn't matter where you are in the world, that's the way it's done.

Even so, even though all those components will be built elsewhere, we still need 6,000 people in British Columbia for five years to build this refinery. It's a very, very big plant, the biggest ever in the history of Canada.

[*Translation*]

Mr. Raymond Côté: Thank you, Mr. Black.

How much time do I have left, Mr. Chair?

The Chair: One minute.

Mr. Raymond Côté: Mr. Godbout, I would like to talk about the fiscal sustainability of the federal government compared to other levels of government, particularly provincial governments. There is a real discrepancy. I would like to focus on the issue of health care transfers. I have been describing those as chainsaw massacres for 20 years.

Do you think slowing the growth in provincial health care spending is a responsible approach, considering what the system needs and especially since the provinces have made a significant effort to support their health care system?

● (1350)

Prof. Luc Godbout: It is important to understand that, because of an aging population, the provinces will feel pressure on their health care spending in the coming decades. Spending will outpace economic growth. With that in mind, we can strive for health care innovation to get the best value for our money.

The fact remains that health care spending will increase at a faster rate than the economic growth because of demographic pressures. If the federal government keeps its health care transfers at the same level as the economic growth, federal health care transfers to the provinces will have to drop significantly over time.

Mr. Raymond Côté: Mr. Chair, is there enough time for other witnesses to comment on that?

[*English*]

The Chair: Very briefly, please, if other witnesses wish to comment on that.

Mr. Page, briefly.

Mr. Kevin Page: Yes, I think that certainly there's an issue of what is the current structure for provincial health care costs going forward. Can they maintain the current low growth rates that we've seen in recent years?

If you look over the long-term trends, you're probably talking about growth in the 5% to 5.5% range if you project forward. That's much faster that anybody would expect nominal GDP to grow going forward over the next 20 years, because of declining labour input, as Professor Godbout has highlighted, and weak productivity growth, so I think we have an issue.

Also, we have a federal transfer system right now for health care, and when we look at the rising growth in health care costs and the federal contribution, our federal contribution will go from roughly 20% to 12%. Then the question is, how do we maintain a health care system going forward?

The Chair: Thank you. Merci.

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

First, as a comment to accounting organizations—and I echo my colleague's sentiment concerning your merger and I look forward to it—I know that you have argued in the past for a comprehensive review. We've recommended that in the last two reports. Perhaps it will be “third time lucky” this year. We'll see what happens.

My next point is with respect to Mr. Black.

You've identified in your presentation a government loan or guarantee of one half of these funds, or $100 million, with respect to the major feasibility study. In the last pre-budget report that this committee did, it recommended looking at accelerated depreciation for upgraders and refineries. Would something like that make this project more feasible?

Mr. David Black: I think the tax situation is already fine. We have done the cashflows and they work out fine.

The Chair: So something like that would not alter whether this project would go forward or not?

Mr. David Black: No, it wouldn't. We do need the kinds of funds I'm asking for to get it going, but it is nicely sustaining after that. It's a really strong business case.

The Chair: Okay. I appreciate that.

I want to return to the conversation we've had at this committee today concerning austerity. Like my colleague Mr. Van Kesteren, I am trying to understand exactly what people mean when they say “austerity”. The Oxford definition is: difficult economic conditions created by government measures to reduce public expenditure.

Mr. MacDonald, you raised this initially. I presume austerity would be reducing public expenditures, not increasing them. Would you agree with that?

Mr. David Macdonald: That's right. Austerity generally reduces the rate of growth of public expenditures over time.

The Chair: I'm looking at the annual financial report that was put out recently, pages 17 to 20. Among transfers to persons, elderly benefits go up 5.8% from last year; children's benefits are up 2%. Transfers to provinces for health and other social programs are up by 5.4% over last year—that's 6% for health and 3% for the Canada social transfer. I find it very odd that we use terms such as “austerity”.

In the mid 1990s, the government cut very substantially the transfers to provinces, so I can see defining that as austerity. When people use “austerity” to describe a situation when transfers to persons and transfers to provinces are both increasing, I find it very confusing to determine why those terms are used to describe increasing public expenditure. It seems to me to be the exact opposite of the definition.

Mr. David Macdonald: What may be confusing is that in this case we're talking about the change in the rate of growth over time.

For instance, if you take a look at the operating budgets of the federal government, which had been frozen, they're not declining in that sense; however, inflation still eats away at their value and the amount of services they can deliver, one thing that Kevin Page has highlighted.

For those speaking about austerity, particularly when we look at it from the perspective of economic growth, the question is how much governments are contributing to or withdrawing from economic growth over time. Are they continuing to push economic growth, or are they becoming a drag on economic growth?

Certainly in the past year they were a much less important portion of economic growth than they were, say, in 2009 and 2010—following the stimulus years, when they were a much more important component of economic growth.

● (1355)

The Chair: I think we have to admit that those are two extraordinary years of responding in concert with the other G-20 nations to the global recession, spending 2% of GDP on massive stimulus programs, which the government put in place. But also, at the same time it had, as a result, a deficit of $56 billion.

You also talked about the importance of getting back to a balanced budget position, so this is a very confusing message, frankly. To use "austerity" when we're increasing by 5.4% to 5.8% the major transfers from the federal government to persons and provinces is I think language that's frankly not appropriate.

And you can say that of the $70 billion of the rest of spending, government sought between 5% and 10% reductions from departments. But to describe that as austerity, compared with what some other western industrialized countries have had to do with respect to their public benefits is I think language that's not appropriate.

Mr. David Macdonald: I think you're absolutely right, in that the Canadian government's austerity measures were not nearly as severe as other governments'—particularly European governments'—austerity measures. Those have been a complete disaster. Austerity measures in southern Europe, for instance, have caused a wholesale depression there. Certainly, it's a much smaller scale that we're speaking about here in Canada.

However, I would point out that economic growth has been quite slow, despite the fact that we are seeing small amounts of economic growth—well under the 2.5% to 3% that we saw in the decade of the 2000s. Driving that growth back up more to the potential of the Canadian economy should be a key concern of the federal government.

The Chair: It absolutely is, and I think that's a very large discussion we can have. Unfortunately, I'm.... Mr. Keddy wanted one minute for one question.

Please, very briefly.

Mr. Gerald Keddy: Mr. Chairman, you looked at me like you didn't believe I could do this in a minute.

There are a number of questions I'd like to ask, but the one I have is for Mr. Black.

Your project sounds quite phenomenal, actually. I think most Canadians certainly see the merit in it. The only problem that I can see with it is that you're looking at a 10-year payback period on a multi-billion dollar project, which is a very quick return on your investment, and you only have one customer. I see that as extremely problematic. Have you looked at the rest of Southeast Asia and how you get away from the one customer conundrum?

Mr. David Black: Yes, sir. I think you've named two potential problems. The first is on the ROI. The ROI turns out to be very good. I can take you through the P and Ls, the cashflows, and the ROIs, but it's very strong, partly because there really isn't very much expenditure for the first three years. That's the permitting period. That's when we have to spend $100 million to $200 million, but that's about it.

The construction period is five years after that, and for much of that we don't have to put out big money because export development agencies elsewhere will pay for the building of the prefabricated components. The money we have to spend comes late in the construction cycle, and it ends up turning a very good ROI.

In terms of one customer, we're safe on that front. What we will do is have a take or pay contract with a country like China that wants all of the fuel, and of course they're prepared to put up most of the money to build the project. If they were to pull away from their take or pay contract and say "sue us", which could be a problem, they would leave behind all of the financing that they put in place for the project. I think we're rock steady there.

The most important thing I've learned over 45 years in business is that it isn't the contracts we write; it's what's driving the partners to a deal. In this case, the Chinese are driven to this deal because we are simply the best supplier of fuel for them for the next 100 years. Remember, they're dealing with every dictator in the Middle East and Africa. They need more fuel every year. They need 500,000 barrels more every year, and we're the best.

● (1400)

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

[*Translation*]

Mr. Côté, you have two minutes.

Mr. Raymond Côté: What a luxury. Thank you very much, Mr. Chair.

I will address Mr. Macdonald.

I am sorry I did not have enough time to ask Mr. Hodgson a question about the innovation report card provided by the Conference Board of Canada. In terms of Canada's performance, the Conference Board says that Canada's improved showing is fairly minimal and more a reflection of weakness among the other peer countries than of a stellar economy. It also says that Canada has been a chronic laggard on several of the more important indicators—notably, labour productivity growth and competition for global investment.

Could you comment on the fact that we are so vulnerable and that we depend heavily on the rest of the world to save our skin to some extent?

[*English*]

Mr. David Macdonald: Thank you very much for your question.

In terms of Canadian innovation and some of the productivity problems that we're seeing going forward, one of the things that I think we need to remember is that in some sense, slow productivity is offset by a significant increase in the labour force, particularly since the 1980s, as women entered the labour force. There may well be a trade-off that we're having there. Lower productivity means we can employ more people. It may well be as labour markets tighten, as Canadians retire, the productivity will increase as we have fewer people to fill those positions. There is some international evidence to that effect, so we'll see how that plays out on the international stage.

Certainly trying to help our companies improve and drive productivity forward is something we should be looking at, irrespective of some of this international evidence.

[*Translation*]

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

[*English*]

The Chair: Merci beaucoup, Monsieur Côté.

Thank you very much to all of our panellists, all of our guests, both here in Ottawa and Mr. Black in British Columbia. Thank you so much for being with us here today. Thank you for your input into pre-budget consultations.

This meeting is adjourned.