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Chair

Mr. John Aldag

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• (1540)

[English]

The Chair (Mr. John Aldag (Cloverdale—Langley City, Lib.)): Good afternoon, everyone.

I'd like to welcome our departmental officials here today.

We set aside the meeting today to look at items that were referred to us from the finance committee on Bill C-86. We've allocated the full meeting today to hearing from our departmental officials. We've been asked to discuss three sections of Bill C-86. We'll go through a standard piece with department officials. I think both Finance and Natural Resources are going to make opening comments, but not Environment Canada.

You have up to 10 minutes for your opening statements. If you need less, that's fine. Then we'll go into our standard rounds of questions, at six minutes each.

Mr. Jovanovic, go ahead.

Mr. Miodrag Jovanovic (Associate Assistant Deputy Minister, Tax Policy Branch, Department of Finance): Thank you, Mr. Chair.

Thank you, committee members.

I'll say a few words regarding the proposal in Bill C-86 on the climate action incentive payment. My colleague Pierre Mercille will then say a few words about the proposal with respect to GST on emission allowances.

Bill C-86 proposes to amend the Income Tax Act to introduce a climate action incentive. This measure creates a mechanism by which direct proceeds collected under the fuel charge component of pollution pricing under the Greenhouse Gas Pollution Pricing Act can be returned to individuals in provinces and territories subject to the federal pollution pricing system if those proceeds are not returned directly to the government of that jurisdiction.

The climate action incentive payments enabled by this measure will be received by individuals when they file their tax returns for the 2018 taxation year—that is, when they file their tax returns in early 2019.

Calculation of the amount of the climate action incentive payment for an eligible individual will be based on the individual's province of residence and family circumstances, with province-specific amounts to be specified annually by the Minister of Finance. Individuals living in rural areas, defined as areas outside census

metropolitan areas as established by Statistics Canada, will receive a supplementary rebate equal to 10% of their baseline entitlement.

Distributions made through this mechanism will be deemed to have been paid as rebates in respect of fuel charges levied under part 1 of the Greenhouse Gas Pollution Pricing Act. This measure can be found in clauses 13, 18(1), 18(8), 18(9) and 19 in part 1 of Bill C-86.

Thank you.

[Translation]

Mr. Pierre Mercille (Director General, Sales Tax Division, Tax Policy Branch, Department of Finance): Good afternoon. My name is Pierre Mercille, and I am the Director General responsible for legislation in the Sales Tax Division of the Department of Finance. Part 2 of the bill amends part IX of the Excise Tax Act to implement amendments to the goods and services tax and the harmonized sales tax. The measure that I will describe is found in clauses 41, 44, 45, 48 and 53 of the bill.

[English]

The measure modifies the way the GST/HST that is payable on a sale of a carbon emission allowance in the secondary market is to be accounted for. These allowances or permits are created by government entities and issued to emitters of carbon and other greenhouse gases. At the end of a compliance period, emitters with surplus allowances may sell the surplus to other companies that have exceeded their emissions target. This is the case under a cap-and-trade system, for example.

The supply of these allowances between companies is taxable under the GST/HST. The amendment does not change the amount of GST/HST payable on such a sale, but it provides that the purchaser of the carbon emission allowance is responsible for self-assessing the tax amount. This replaces the previous requirement whereby the seller of the allowance collected the tax from the purchaser and remitted it to the Canada Revenue Agency.

This brings the Canadian rules in line with how these allowances are generally treated internationally, such as in most EU countries where value-added tax applies and where a cap-and-trade system exists. It should be noted that the companies purchasing these allowances are generally involved in commercial activities and would be generally allowed to claim an offsetting input tax credit.

[Translation]

That concludes my description of the amendments proposed by part 2 of the bill.

[English]

The Chair: Thank you, and that was well within the time limit.

We'll now move to the Department of Natural Resources for their statement, please.

Mr. Timothy Gardiner (Senior Director, Offshore Petroleum Management Division, Department of Natural Resources): My name is Timothy Gardiner, and I'm the acting director general of the petroleum resources branch at Natural Resources Canada.

[Translation]

I am pleased to have this opportunity today to introduce the contribution of Natural Resources Canada to the second act to implement certain provisions of the 2018 budget, specifically with regard to the proposal to amend the Canada-Newfoundland and Labrador Atlantic Accord Implementation Act and the Offshore Health and Safety Act.

[English]

Some of these amendments also relate to the federal Greenhouse Gas Pollution Pricing Act, and my colleagues from Environment and Climate Change Canada are here to answer any questions relating to that piece of legislation.

[Translation]

There are two components to these amendments. Clauses 176 to 178 and 181 make it easier to apply the carbon tax in the Canada-Newfoundland and Labrador offshore area in accordance with the joint management framework for offshore hydrocarbons. Clauses 179 and 180 extend the temporary measures on workplace health and safety in the Offshore Health and Safety Act.

[English]

The first set of amendments allow for the incorporation by reference of Newfoundland and Labrador's provincial carbon pricing regime in the Canada-Newfoundland and Labrador Atlantic Accord Implementation Act and its application to the Canada-Newfoundland and Labrador offshore area. These amendments reflect approaches to offshore carbon pricing that have been agreed upon by the federal and provincial governments, including alignment with the federal Greenhouse Gas Pollution Pricing Act.

• (1545)

[Translation]

The amendments will also empower the Canada-Newfoundland and Labrador Offshore Petroleum Board to act as the regulatory authority responsible for the provincial carbon tax system in the Canada-Newfoundland and Labrador offshore area.

[English]

The other set of amendments extend the expiration date of the transitional regulations under the Offshore Health and Safety Act, the OHSA. This act was passed in 2014 to implement a comprehensive set of occupational health and safety regimes under the accord acts.

[Translation]

The act allowed temporary regulations to come into effect in support of a workplace health and safety scheme in the areas covered by the accords, in anticipation of permanent regulations being developed.

[English]

The transitional regulations are set to expire at the end of 2019. This five-year time frame was originally deemed sufficient to develop permanent regulations, but additional time is now required, given the need to coordinate these regulations with other offshore regulations under development and to undertake additional consultations with the provinces, indigenous groups, and stakeholders.

These amendments are generally not seen as controversial. The oil and gas industry accepts that carbon pricing will be a cost of doing business in Canada going forward and understands that the OHSA regulations protect the safety of offshore workers and reduce the potential for regulatory uncertainty in the offshore.

Environmental and non-governmental organizations and indigenous groups are generally supportive of carbon pollution pricing as a tool to reduce emissions and address climate change. Nevertheless, some could take the opportunity to argue that these measures are not enough.

Thank you.

The Chair: Thank you.

Before we get into the questions and answers, I'll invite the Environment Canada officials to briefly introduce themselves and their position so we have it on the record.

Ms. Judy Meltzer (Director General, Carbon Pricing Bureau, Department of the Environment): Thank you very much.

I'm Judy Meltzer, and I'm the Director General of the Carbon Pricing Bureau in the Environmental Protection Branch at Environment and Climate Change Canada.

[Translation]

Mr. Philippe Giguère (Manager, Legislative Policy, Department of the Environment): Good afternoon.

My name is Philippe Giguère. I am the Manager of Legislative Policy at Environment and Climate Change Canada.

[English]

The Chair: Welcome, everybody.

Now we'll go into our series of six-minute rounds.

First we have Mr. Amos.

Mr. William Amos (Pontiac, Lib.): Thank you, Chair.

[Translation]

My thanks to all our witnesses. We are aware that this is a very complex subject that is sometimes very difficult to fully understand, not only for the general public but also for us as members of Parliament.

[English]

I find that it's actually very hard to understand. I think one of the biggest challenges that any government faces—and this goes for provincial governments as well, as they attempt to explain their own approaches to pollution pricing—is explaining the details to the public in a way that generates understanding and buy-in.

I think Canadians understand, and have understood for many years, that polluter pay is a principle of Canadian law. They appreciate that. Those are Canadian values, but they don't yet necessarily understand the system that is being put forward.

I have a couple of questions, and I'm hoping that this can be explained in terms that would be not just understood by experts, but also translated to the average constituent in Pontiac.

The 10% increase provided for in relation to a credit received by individuals living outside of a census metropolitan area is effectively a support for rural Canadians. In this, I think our government has done right by rural Canadians. However, it's not clear what the basis of that 10% determination was.

Could you please explain how we arrived at 10% and how that reflects the different realities of rural Canada?

Mr. Miodrag Jovanovic: Thank you for the question.

Before addressing your question directly, I think it's important to understand the general approach with respect to the climate action incentive payment. That payment will go to all qualifying or eligible individuals in relevant provinces—that is, in provinces where the federal backstop will apply and where it has been determined that the revenues will go back to individuals.

The base amount provided will be the same, and it's going to depend on family circumstances. It will be a base amount for the first individual, a lower amount for the spouse and then a lower amount for each child.

This 10% top-up is basically to recognize some unique circumstances of individuals not living close to large urban areas. The 10% is a level of top-up that has been determined by the government as being appropriate to reflect these special circumstances, which could include, for instance, the fact that these individuals may not have the same options with respect to public transit.

● (1550)

Mr. William Amos: I'm just going to push you a bit further, because I appreciate that there are differences in rural costs of transportation and access to public transit.

In Pontiac, we have many municipalities.... Let's take a hypothetical scenario. Quebec is a province that has its own pricing system, which falls within the ambit of the law and therefore no backstop is required, but let's say that a government like Doug Ford's arrived in Quebec and decided to do away with it. In the Pontiac, there are a number of municipalities that are quite rural but actually fall within the national capital region.

How is that determination made around 10% specifically? Why not 12%? Why not 8%? Was there a rationale that led to that determination?

Mr. Miodrag Jovanovic: I think you're raising two things here: the 10% as well as the boundaries.

Why CMA? CMA is a useful tool to the extent that there's a clear definition determined by Statistics Canada. That's the advantage of using that. As I said, the 10% has been determined as being an appropriate level to recognize these unique circumstances. It is not based on any scientific assessment. The government has decided that 10% is appropriate in this context.

Mr. William Amos: Okay.

In terms of the collection of a carbon tax, I think we're hearing that in the industrial context.... When we're talking about shifting the burden of collecting the sales tax over to the purchaser, which is a bit of a shift, what is the rationale behind that?

Mr. Pierre Mercille: The main rationale is essentially to align it with the way other countries that have a VAT and a cap-and-trade system in place.... Basically, it's aligning our GST rule with the VAT rule, with the way those other countries have done it in the past.

Mr. William Amos: Can it be expected to be more efficient and less complicated for businesses outside of Canada to come and invest because they will understand how the system works?

Mr. Pierre Mercille: Yes, it kind of aligns internationally.

However, there's also a benefit there, because usually when the purchaser pays the vendor, they have to disperse the money, and then they have to wait a month, generally, to claim back their ITC. Now, with this system, they will essentially self-assess and, in the same return, claim their related input tax credit.

The Chair: You're out of time.

Now we will move to Mr. Warawa.

Mr. Mark Warawa (Langley—Aldergrove, CPC): Thank you, Chair.

When Mr. Amos began his comments, he said this is confusing, and I think that's quite right.

The different entities that are mentioned in the brief are not the average Canadian who fills up their gas tank at a local gas station. They will be paying the price that's on the pump, and that price will include a price on carbon, and a GST on that.

Is that correct?

● (1555)

Mr. Miodrag Jovanovic: The GST applies on the final price at the pump. That's a fact. That doesn't mean that all of the fuel charge will bear GST. There are situations where some of that may be reflected in the price of groceries, for instance. Groceries are a zero-rated product for GST purposes.

It will also depend on the behaviour of individuals. They may pay more at the pump, including some additional GST, but if there's a substitution that is happening, and to pay for that they reduce somewhat other discretionary expenses on which they would have paid GST, from looking at the application of a fuel charge, then it's a wash.

For the federal government, that doesn't result in additional GST, per se.

Mr. Mark Warawa: That wasn't my question.

My question is, when an average, middle-class Canadian, or even a vulnerable Canadian who is struggling on a fixed income, goes and fills up their gas tank—to take their children to hockey practice, or a senior going to the doctor—and there's now a price on carbon, the price of the gasoline that they put in their car will go up. It will go up even more because there will be GST charged on that carbon tax.

I think that's a pretty easy question; it's a yes or no.

The price will go up. They will have to pay an increased price. Is that not correct?

Mr. Miodrag Jovanovic: The price will go up. However, through the climate action incentive payment, particularly if they are low-income, it's very likely that they may receive more from that payment than what the fuel charge will cost them, even including GST.

Mr. Mark Warawa: I don't want to be rude, but I hope I'm not hearing that the government is going to go in the hole, increasingly going into deficit spending, so they can pay Canadians more in a rebate than what they are paying in a price on carbon.

I don't think that's what you said, because it wouldn't make sense to pay people more than what the government is collecting in taxes. There has to be a balance. Canadians are willing to pay their fair share, but Canadians in general....

This Parliament dealt with a bill, Bill C-342, and they said we shouldn't be charging a tax on a tax. In principle, they saw that as being very unfair. They said to just make the carbon tax GST-exempt. Unfortunately, Parliament said no.

What we're coming up with appears to be very confusing and hard to explain. However, the average Canadian who fills up their car is going to be paying more, and you're hoping they are going to get rebated. I think \$12.50 a month is not going to adequately cover the cost of heating their home and filling up their car.

In the limited time I have, I would like to ask about Volkswagen. Volkswagen has pleaded guilty on deceiving. They said they were fined \$14.7 billion in the United States. They were fined in Europe—

Mr. Darren Fisher (Dartmouth—Cole Harbour, Lib.): I have a point of order.

Do we have an idea of what's going to be considered relevant for this very narrow aspect of Bill C-86?

The Chair: I was going to hear Mr. Warawa's question.

Mr. Darren Fisher: Fair enough.

The Chair: I will leave it to the departmental officials in the first line to offer whether they can or can't comment on questions that come up from any of the members who are at the table today.

For the members, we are here to look at a specific part of Bill C-86 that has been sent to us, not at broader discussions.

Mr. Warawa may be able to thread this back to Bill C-86 in some form, and I'm willing to hear him, but if the departmental officials feel it is out of line, they can say that. If I need to rule on it, I will, but I'm going to give some latitude here for everybody.

Mr. Darren Fisher: And the clock stopped when—

The Chair: Yes, we stopped the clock.

Mr. Mark Warawa: How much time do I have left?

The Chair: You have a minute and a half.

Mr. Mark Warawa: Good. We're not talking about an investigation. What we're talking about is Volkswagen pleading guilty to not being truthful about their emissions.

The government has said there's going to be a price on pollution. This is pollution. These are pollutants, fine particulates that have been emitted into the air far in excess of what it should have been. Volkswagen has been fined. It pleaded guilty.

Is Environment Canada—and this is where we deal with the enforcement.... We've been sharing a lot about a vague, confusing program that is not based on science; it's based on what the government is going to do. Canadians want to know if Environment Canada is in the process of dealing with Volkswagen. It's been dealt with in the U.S.; it's been dealt with in Europe, and it appears to Canadians that Environment Canada is doing nothing.

It's a simple question. Is Environment Canada enforcement doing something?

• (1600)

Ms. Judy Meltzer: Thank you.

My understanding is that the answer to that question is yes. We don't have the folks at the table who are able to speak to that specifically from our enforcement branch, but we can follow up.

Mr. Mark Warawa: I hope we can invite them.

Thank you, Chair.

The Chair: Just on that—and I can stop it here for a second—we did invite the enforcement people. I think their response was shared with the entire committee about what they would and would not be able to do, so they have a standing offer to come if we want them to. I hadn't heard back from any of the committee members saying they were interested, given the parameters that were put around what they would be able to speak to.

If we want to invite them, we can, just knowing that, like today, there will be some tight constraints put around where we can go with that conversation.

Mr. Mark Warawa: At an appropriate time, I'd like to move that as a motion. I won't do that right now.

Thank you.

The Chair: You still have 20 seconds left. I've stopped the clock for you.

Mr. Mark Warawa: Thank you.

Maybe I'll just close by saying that to get a buy-in, Canadians need to be able to understand what's happening. I think what's being proposed has been confusing, and it doesn't seem fair that there is a tax on a tax in Canada.

Thank you.

The Chair: Perfect timing.

For our witnesses, if you haven't been here before, I use a card system. The yellow card simply means that there's one minute left on the time. That's a flag to the person asking the question. It gives you a sense of how much time you have left with that particular witness or MP, and then red means they're out of time. If you're in the middle of a sentence, you don't have to stop immediately, but wind it up and we'll move on to the next questioner.

Next up we have Mr. Stetski.

Mr. Wayne Stetski (Kootenay—Columbia, NDP): Thank you.

Thank you very much for being here today.

I'm trying to make it clear in my own mind, and hopefully for others, what the differences might be, if any. If you make \$50,000 as income and you live in British Columbia, or you make \$50,000 and you live in Alberta, is there any difference in terms of what you're going to get in the way of a cheque or in terms of taxation implications? This is when you're making the same amount of money, but you live in different provinces.

Mr. Miodrag Jovanovic: Just to be clear, are you talking about the climate action incentive payment?

Mr. Wayne Stetski: Yes.

Mr. Miodrag Jovanovic: That incentive payment will apply in specific provinces. It will actually not apply in B.C. and Alberta. It's going to apply in Ontario, Saskatchewan, Manitoba and New Brunswick.

Mr. Wayne Stetski: And the reason it's not going to apply in the other provinces....

Mr. Miodrag Jovanovic: It's going to apply in provinces where the federal backstop will apply and where revenues are not otherwise directly reimbursed to the government of that province, which means, as I said, Ontario, Saskatchewan, Manitoba and New Brunswick.

Mr. Wayne Stetski: So now I am confused, because in British Columbia, of course, we've had a tax in place since about 2008, I think. In 2007, we got a cheque from the government. In 2008 the tax came into effect. The money went into a green pot, and you could apply for green projects to come out of that pot. I think in the last couple of years the money ended up in general revenue, which is where this money should never go. It should be specifically to improve the environment in some fashion.

This will be brought in, but nobody in B.C. will get a cheque because we got ours in 2007. Is that how this works?

Mr. Miodrag Jovanovic: In a way, you can see that landscape as being composed of three different scenarios, if you will.

You can have the province deciding to have its own system, in which case they're going to directly collect the revenues of that regime and make their own decisions as to how best to recirculate these proceeds to their citizens or corporations.

You have the second scenario, in which the province decides not to have its own system but to ask the federal government to implement the federal backstop, in which case the federal government has said that the proceeds of the system will be returned to the government of that province, and then the province will decide how best to reallocate that money.

The third scenario, which gives rise to this climate action incentive payment, is where a province doesn't want to have its own system, or has a system that doesn't meet the minimum benchmark, if you will. At that point, the federal government will impose the federal backstop. As we're proposing here, it has been decided to redistribute about 90% of it directly to individuals in the form of an incentive payment, and then the residual will be allocated to different funds.

• (1605)

Mr. Wayne Stetski: Okay, so at this point we don't know what approach British Columbia will take come next year, and therefore whether or not people in my B.C. riding can expect a cheque.

Mr. Miodrag Jovanovic: Yes, that's going to be a B.C. decision.

Mr. Wayne Stetski: It would be up to the province to decide. Okay.

The second part of it is this. Regardless of where you are, if you make \$50,000 a year and somebody else makes \$20,000 a year, what might that look like in terms of a cheque?

Mr. Miodrag Jovanovic: The incentive amount will not be dependent on the income of the individual or family. It's going to be dependent on the number of individuals and the composition of the family. It's going to be a fixed amount for the first adult, then a lower amount—typically half of it—to the spouse, and then a smaller amount again for each child, regardless of the income.

The effect of that approach, however, is that it is still progressive in nature. If you give the same amount to low-income families, who would typically spend less and pay lower fuel charges than a higher-income family would, they will end up receiving more than what the fuel charge will cost them. This is not the case for the higher-income family. In that sense, it's progressive in nature. The overall amount is distributed, but when you look at different classes of individuals, distribution can be different.

Mr. Wayne Stetski: "Progressive" is a very optimistic word in that context.

When you get a rebate, will there be any encouragement to spend that rebate on something environmentally friendly or green? Are there any extra incentives at all?

Mr. Miodrag Jovanovic: The encouragement comes from what we call the price signal. If you look at the approach that is taken here—first the fuel charge, and also the OBPS regime—it will change the relative price of goods and services. These approaches will make goods and services with greater carbon content more expensive relative to other goods and services. That in itself will send a price signal, whereby individuals and different agents in the economy will change their behaviour and reassess their consumption choices given that prices have changed. That's the first component.

The second component is the fact that this charge is not there to raise revenue. It's not there to make people poorer. That is why the second component is important and intrinsically part of the whole approach, which is to return the proceeds from the fuel charge and the OBPS regime in particular to individuals and families, so that financially speaking they're not worse off. They will have the financial ability to now change their behaviour and decide where they want to consume and what kinds of new habits they want to develop based on these new prices.

That's how it would operate. Implicitly the incentives are coming from changing the relative prices of goods and services and making sure people are not worse off financially.

The Chair: With that, you're out of time.

Mr. Fisher, you're up next.

Mr. Darren Fisher: Thank you very much, Mr. Chair.

Thank you very much, folks, for being here. I appreciate it.

As we said at the start, it's not only a little confusing; it's extremely complex. I'll ask this first question of you folks, and the five of you can decide who you think is most appropriate to answer it.

We know that pollution isn't free. We're all paying already. We're already paying millions and millions of dollars due to severe weather damage and mitigation measures. Canadians know this.

Municipalities have a strong role in the fight against climate change, and I think many are doing quite incredible things, such as coming up with rise in sea level policies. As a former municipal councillor, it's important to me that municipalities and jurisdictions without a provincial or territorial pricing plan don't face undue burden from the federal backstop.

For jurisdictions where the backstop applies, besides the low carbon economy fund, what is in place to help take care of municipalities?

• (1610)

Mr. Miodrag Jovanovic: As part of the approach, as I said earlier, the bulk of the proceeds from the regime will be given back to individuals and families. There would still be a portion. It going to vary province by province, but it may be roughly about 10% that will be allocated to funds to address or to support actions taken by different entities that would allow them to gradually change the way they operate to be more efficient from a carbon emissions standpoint.

There will be a fund set up for the MUSH sector as well as for non-profits and indigenous groups, money put aside. Again, the amount of it will vary according to the province. As well, there will

be a fund created and set aside for small and medium-sized businesses. Details will be provided later, early in the year.

Mr. Darren Fisher: Do you know if it's application-based?

Mr. Miodrag Jovanovic: As I said, all those details—eligibility criteria and other aspects—will be released at a later time.

Mr. Darren Fisher: Mr. Chair, can you let me know when we're down to three and a half minutes? I had agreed to share my time.

The Chair: You're at three and a half minutes.

Mr. Darren Fisher: All right. I'll share the remainder of my time with Mr. Bossio in the first round. Thank you.

Mr. Mike Bossio (Hastings—Lennox and Addington, Lib.): Thank you so much, Darren, I appreciate that.

I do have a number of questions to follow up on from Mr. Warawa.

Mr. Jovanovic, is this carbon climate action incentive going to cost the government anything?

Mr. Miodrag Jovanovic: This is essentially a mechanism to redistribute the proceeds from the carbon pricing regime, so it will not cost more. There will be an annual assessment to reconcile the climate action incentive payment as well as the SME and the MUSH funds so they correspond with the proceeds from the regime.

Mr. Mike Bossio: That's the revenues that are collected, so it's revenue-neutral.

So 90% of those revenues will go to citizens who are under the federal backstop provision within those provinces, the four provinces you already mentioned.

Mr. Miodrag Jovanovic: Roughly, yes.

Mr. Mike Bossio: And 10% will go, as you said, to the MUSH sector and to the small business sector.

The average cost, as you've already pointed out, is \$244 a year. The GST on top of that would make it \$256 a year. The rebate, on average, is \$307 a year. Is that correct?

Mr. Miodrag Jovanovic: Yes, that's correct. I would just characterize a bit more the GST on that. I don't think it's possible to directly assess the amount of GST on that properly, because part of that charge is indirectly on costs of groceries and all that, so it's not all subject to GST.

Mr. Mike Bossio: I want to go back to Mr. Amos's questioning around the 10% for rural areas. I have a very rural riding. Was it done, essentially, in an ad hoc manner? Was it determined that we guesstimated it's going to be 10%? If it was done in more of an ad hoc manner, is there going to be a process in place to more closely monitor the true cost to rural residents and reflect that in future climate action incentive funds and rebates?

Mr. Miodrag Jovanovic: I can't really speculate on what will be done in the future. What I can just repeat is that this 10% is just an amount that has been determined by the government as being sufficient and appropriate to recognize the unique circumstances. There was no science behind that.

I don't think I have much more to say on that.

• (1615)

Mr. Mike Bossio: So, essentially, it's ad hoc now, but there has been no determination made at this point as to how we'll move forward in the future on that incentive rebate.

Just to kind of dwell on the rebate itself and reframe things from how they were described earlier, I will say that the rebate is essentially to incentivize people to reduce what we don't want: pollution. The less pollution they create, the more they will actually profit from the incentive.

Mr. Miodrag Jovanovic: The rebate is part of the incentive. The first aspect of it, which will change an individual's habits, is changing the prices through the fuel charge.

Mr. Mike Bossio: That's right.

Mr. Miodrag Jovanovic: The rebate is there to ensure that individuals are not worse off, that faced with these new prices, they still have the financial ability to actually change their behaviour.

Mr. Mike Bossio: Exactly.

Mr. Miodrag Jovanovic: So, they both go together.

Mr. Mike Bossio: In the long run, they reduce the costs.

Mr. Miodrag Jovanovic: Yes.

Mr. Mike Bossio: Okay. Thank you.

[Translation]

The Chair: Mr. Godin, the floor is yours.

Mr. Joël Godin (Portneuf—Jacques-Cartier, CPC): Thank you, Mr. Chair.

Thank you for being here this afternoon to help us to clarify our thinking on this section of Bill C-86. To be honest, I am having trouble finding my way around it. So it is very appropriate for you to be here, because I find it very difficult to understand the reason for these rules and the way in which you are going to apply them.

Mr. Mercille, since I got here late, I am going to use the text of your remarks, because I assume that it basically corresponds to what you said.

With the amendment dealing with the GST/HST, you say: "The amendment does not change the amount of GST/HST payable on such a sale. Instead, it provides that the purchaser of carbon emission allowances is responsible for self-assessing the tax amount." The key word there is "self-assessing". Can you explain how a company is going to be disciplined enough to do this self-assessing?

Mr. Pierre Mercille: Essentially, large companies make monthly declarations because they have a large sales volume. When they buy a carbon emission allowance, they will indicate a percentage of the price of the allowance in their declaration, depending on their province. In Ontario, for example, it is 13%. So that is how they will self-assess the amount in their declarations. If all their activities are commercial in nature, as is generally the case for most companies

that buy carbon emission allowances, they will at the same time request an input tax credit. In the example I have just given, nothing will be payable.

The GST program anticipates other cases where a company would self-assess. For example, if a company buys a carbon emission allowance overseas for use in Canada, and if the seller of the allowance is not registered, the company must self assess, unless it has an automatic right to input tax credits.

Mr. Joël Godin: In fact, what you are telling me is that it is all based on self-discipline, so to speak. You are counting on the companies' good faith: they will submit reports, you will conduct audits on occasion.

Mr. Pierre Mercille: Yes.

Mr. Joël Godin: Is it really necessary to have this whole mechanism, this administrative burden, in place? Once again, we are increasing the paperwork for our companies by requiring them to report the number of carbon emission allowances they buy in the name of protecting our planet. Shouldn't we rather decrease the mechanisms and increase the awareness? You are telling me that we are talking about self-discipline. So why not make Canadians and our companies aware of the importance of implementing measures that will protect our planet?

Mr. Pierre Mercille: You have to look at what this proposal is replacing. In the current system, sellers collect the amount of tax from purchasers on top of the purchase price, add that amount to the tax already collected and send everything to the Canada Revenue Agency or Revenu Québec, depending. Purchasers then wait for the next declaration period, generally the next month, and reclaim the input tax credit. As I see it, the current system is more burdensome than the proposed system.

• (1620)

Mr. Joël Godin: I think I agree with you. I do not spend my days in the administrative offices of our companies. However, instead of saying that the current system is more burdensome than the one proposed, should we not be seeking instead to lighten the whole thing even more, at the same time as we protect our planet?

Mr. Pierre Mercille: In general terms, the government is open to consider any proposal to simplify the tax system, but I am not familiar with yours.

Mr. Joël Godin: I have another question and I think that it also goes to the Department of Finance. Just now, we heard that 90% of the taxes collected will be returned to Canadians and that the remaining 10% will be paid into a green fund. Are we doing all this work just to put 10% in a green fund? Does it also mean that the government will only have 10% of the money that it could have had to support innovation and green technology?

Mr. Miodrag Jovanovic: The incentive is not just about the 10% of the amounts collected under this system. Returning 90% to people is an incentive in itself, through which we want to see their behaviours changed, their purchases rethought, and a little more spent on green products and services.

Mr. Joël Godin: Let me stop you right there and provide an answer to my question about reducing the process. Why not simply bill everyone 10% as a kind of environmental user fee and put all that money into a green fund, instead of collecting 100% from Canadians and returning 90% to them? Doing that is useless administration.

Mr. Miodrag Jovanovic: Actually, most economists agree that the most effective way of changing people's behaviour in this respect is to increase the relative price of goods.

Mr. Joël Godin: That is one theory.

Mr. Miodrag Jovanovic: That is what the government is doing here. Giving the money back to the people guarantees that they will have and will keep a certain purchasing power and make their decisions accordingly.

Mr. Joël Godin: Thank you very much.

[English]

The Chair: Next up, we have Mr. Peschisolido.

Mr. Joe Peschisolido (Steveston—Richmond East, Lib.): Mr. Chair, thank you.

I'd like to thank all the officials for coming here and giving us a technical analysis of these provisions. As has been said, this is complex stuff, but under all the complexity there are some underlying mechanisms, principles. I don't think the Canadian public wants to get into the minutiae, but they do want to know that we know what we're doing. That's what I want to get at.

Before I ask some specific questions on the provisions, I'd like to ask some broad-stroke questions and get some context to deal with three main points: that climate change is real and it's out there; that the way to deal with it is to put a price on pollution; and that the goal, as has been discussed, is to change behaviour in order to transition from a carbon economy to a different kind of economy, which is greener but which also maintains economic activity and growth.

Having said that, what are the underlying principles and values to the two mechanisms that I'd like to deal with? That is, the federal backstop, the changes to the Income Tax Act, and then the changes to the goods and services tax. The second one is how it will not impact economic activity through small business activity.

Ms. Judy Meltzer: Thank you for that question.

I am mindful of time limits, but I'll start with just the broad question that you raise. I guess I'll just preface this by saying that obviously this is not a new tool. This is a well-established tool that's been in place—by many metrics, successfully—in Canadian jurisdictions and around the world for well over a decade, and the approach that the federal government is taking on this is aligned with those approaches.

I guess I'm always mindful of flagging that this is an important tool under the pan-Canadian framework, the national plan, but it's not the only one, so it's not always the most effective way. It's complemented by a range of measures, and they're based on evidence from other jurisdictions where this has been in place for a long time.

We know that a price on carbon pollution creates the incentives and the price signal to change behaviours. What it doesn't do is prescribe where those reductions need to take place. It doesn't tell industry and individuals the how. So it enables people to make choices about whether and how they reduce emissions, but in a way that makes sense for their particular circumstances.

You raised a second point, and I apologize that I might have missed something, but you asked about the underlying principles of the system that the federal government has developed.

• (1625)

Mr. Joe Peschisolido: Yes.

Ms. Judy Meltzer: I would point back to—and I won't be able to quote it verbatim.... This approach came out of a lot of engagement, not only with provinces and territories, but with a whole range of stakeholders, indigenous communities, industry and the Canadian public.

The broad pan-Canadian approach to pricing carbon pollution, which includes this federal backstop measure as one key element, is underpinned by some principles that were developed by the carbon pollution pricing working group. That was a cross-sector group. We'll share the actual proper link. It's available, and you can look at the specific bullets.

Some of the key ones were a combination of things. Obviously, a consistent one was the environmental outcomes, about ensuring that key sources of pollution were being addressed and covered. Timely implementation was an important one. There were other elements that are also informing some of the mechanisms, such as how proceeds are being returned. Some of those included ensuring that the approach was gradual and transparent, ensuring that policies take into account impacts on potentially vulnerable populations, as well as competitiveness impacts and carbon leakage risks for industry.

I'm not quoting these verbatim. I'm happy to point you to the specific underlying ones. I would point to that as underlying the overall pan-Canadian approach, which took into account the provincial and territorial systems as well as the federal approach.

We have some more specific, related principles that underpin the different pieces, and we'll make sure we share those with you afterwards.

Mr. Joe Peschisolido: Just like Mr. Stetski and Mr. Warawa, I come from B.C., Steveston and East Richmond.

There is a different approach in B.C. than in Ontario.

Ms. Judy Meltzer: That's right.

Mr. Joe Peschisolido: Mr. Jovanovic, you said something that struck me—that the goal here is not to make people poor. It's not to raise revenue. It's to change behaviour but keep the distribution of tax revenues pretty well the same.

Can you elaborate a little on that, that it isn't a tax grab? How will that work?

Mr. Miodrag Jovanovic: The first instrument, which is one of the components of the system, is the fuel charge. That in itself is there to change the prices, to increase the prices of those goods and services where there is bigger carbon content, to try to change behaviour.

You can look at it and say, well, that's interesting, because one of the side effects of that is that there will be money flowing in. However, the objective of that fuel charge is not to raise revenues. You need a second mechanism whereby you're going to take these proceeds and give them back to the economy: to individuals, businesses and the MUSH sector.

The government decided to have a specific approach, which is basically to take about 90% of these proceeds and give it back on a flat, almost per capita basis to all individuals in these implicated provinces. We're going to put aside about 10% and create a fund for MUSH, not-for-profits and indigenous groups, and another fund for SMEs. As I said, details of these funds will come later, but essentially their purpose would be to provide support for these entities' actions, if they want to take some actions to reduce their emissions.

That is the approach. Overall, it's revenue-neutral, but it maintains the price signal, which is key to this approach. Basically, that's where the incentive is coming from.

• (1630)

The Chair: Thank you.

Mr. Lake, go ahead.

Hon. Mike Lake (Edmonton—Wetaskiwin, CPC): I'm going to start with Ms. Meltzer.

In December 2017, we had a UN filing saying that we were 66 megatonnes behind on our Paris Agreement targets. Is that accurate?

Ms. Judy Meltzer: I can't confirm that currently, but I'm happy to follow up.

I know the report you're referring to, but I don't have that number on hand.

Hon. Mike Lake: Is there an updated number right now, or is that the last number available?

Ms. Judy Meltzer: My focus, singularly, is on the development of the carbon pollution pricing system. I want to make sure we give you accurate data. We will follow up to confirm.

I guess what I would point to is our recent... We submit reports to the UNFCCC—national communications in a biennial report. I would point out our last report, which was submitted to the UNFCCC in December 2017. There are a lot of elements to it, but one of them is to show the projected emissions to 2030.

What we see in that most recent report is that our projected emissions are approximately 583 megatonnes in 2030. That is approximately 230 megatonnes lower than what the projection was from the previous biennial report in 2016. Again, I will follow up to confirm the precise numbers.

I'm not sure if this was underpinning the question, but what we can see in that trajectory is the effect of a whole range of measures, and that does not take into account planned measures, measures that are still to come, not just at the federal level but provincial and

municipal investments in infrastructure and so on. I would point to that report as a sort of good, recent update, but I'm happy to do some further follow-up with colleagues who can speak to that in more detail.

Hon. Mike Lake: I'm looking at a CBC story from the spring. It says:

In December, the government delivered a report to the United Nations outlining progress on reaching that target. The report acknowledged that both current and planned policies are likely to leave the country 66 megatonnes short of its target.

That figure is 50 per cent higher than a similar report made to the UN 18 months ago.

That's the CBC article. The gap was actually higher in December than it was 18 months earlier. Is that accurate?

Ms. Judy Meltzer: When it comes to making sure you have the right figures, I want to make sure the right people provide that information, but I think there are two different things here. What I'm referring to is the projected emissions trajectory from the prior report. As you may be aware, year over year, in our national inventory report, for the amount of total emissions—the actual calculation—our methodologies improve and information is updated. In terms of the differences between reports, I think that would need to be taken into account.

Again, what I would point to is that this number, even though it does reflect existing and some planned measures, doesn't account for the full range of investments that are anticipated to be made to contribute to the path to 2030.

Hon. Mike Lake: One would expect, though, that those plans would be reflected in plans that have actually been made.

There hasn't been an update since then, at this point.

Ms. Judy Meltzer: Not that I'm aware of.

Hon. Mike Lake: The minister or the parliamentary secretary wouldn't have access to an update at all.

Ms. Judy Meltzer: Not that I'm aware of, but again, I would just caveat that this is beyond my general scope of expertise.

Hon. Mike Lake: Is it safe to say that when the parliamentary secretary stood up in the House of Commons and said, "With respect to the question on the Paris agreement, we are confident that we can reach the Paris agreement without question," he would have had information different from the 66-megatonne gap that we have? It sounds like he may have information that might be different from that.

Ms. Judy Meltzer: Again, I'm not your number one numbers person on the overarching projections, but I think it's just what I was pointing to before. What's not reflected in those numbers is the additional measures that are expected to occur, out to 2030—municipal, provincial, federal, investments in infrastructure and so on. I think that's likely the context, but I can't comment on those specific remarks.

•(1635)

Hon. Mike Lake: In the same CBC report that I cited earlier, in explaining that the gap was actually going up over an 18-month period, the minister said, “Our economy is growing and our projections are based on our economic growth.” Later, a public servant, someone from Environment Canada, said something similar to that.

Is that the information you have—that as the economy grows, it becomes harder and harder for us to reach our Paris Agreement targets and the gap will actually increase?

Ms. Judy Meltzer: Again, I apologize for reiterating the caveat, but I think it's important. There are other people from the department who can give you more detailed answers, and we can follow up, but I think there are two points that I'd flag. One is that every country's emissions change day over day, year over year, and that's tracked in a public national inventory report that our department compiles and releases each year.

I think one thing that these reports have pointed to or noted in the past few years is the decoupling of the growth of the economy and the concomitant growth in emissions. It's not that as economic growth occurs, you can't see growth in emissions, but I think that the trend, in general, over the past few years is a decoupling of emissions growth and economic growth. Again, I would need to follow up to provide you with details on that.

The Chair: Thank you.

Ms. Dzerowicz, you're up next.

Ms. Julie Dzerowicz (Davenport, Lib.): Thank you.

How long do I have, please?

The Chair: You have six minutes.

Ms. Julie Dzerowicz: Thank you for your great presentation.

I have a number of questions. If I'm a solo homeowner who has a car, the way the climate action incentive is going to impact me is through my home heating prices, as well as filling up on gas at the pump. Is that true? Is there anything else that would actually impact me?

Mr. Miodrag Jovanovic: I think that's true. There are direct impacts, which you would see directly at the pump, and there are what we call indirect impacts, which are basically what is embedded in the price of other goods and services, which you don't necessarily directly see but will be there.

Ms. Julie Dzerowicz: Would you give me an example of that? It's just because I want to understand how a simple person who lives in a home and has a car might see an increase of prices.

Mr. Miodrag Jovanovic: I think you mentioned heating. For instance, it could be in grocery products such as fruits, vegetables and all of that—if there's a substantial transportation cost component within products and services. Basically, it's going to fuel from all of these products where there's a combustion of fuel being used in the production of them. At the end of the day, it will be reflected.

It will also depend on the extent to which these costs are shifted to the consumer at the end.

Ms. Julie Dzerowicz: That makes sense. It just helps me because I knew about the heating and I knew about the gas price, and now it makes sense that even food will be affected—I might buy locally produced food, and that might be different from buying something that comes in from South Africa or New Zealand. It all depends on the products and how they're actually brought in. That makes sense.

I want to go back to something Mr. Warawa mentioned. I think you were going through a bit of an example around how low-income people might get more money back than they've actually paid out. My understanding is that Mr. Warawa made some sort of reference that the government shouldn't go into a deficit to be able to zero in on this. My understanding is that this is not at all what's going to be happening. Maybe you can explain a bit more about how that is the case.

I think it has to do with how, if you look at the overall pool of what comes in, it includes businesses and large polluters that come back into the pool, and that's how we can actually move more money back into low-income earners.

I just wanted to see if you could maybe elaborate on that.

Mr. Miodrag Jovanovic: Yes. I think the first point is that the climate action incentive payment is just a mechanism to redistribute the proceeds from the carbon pricing system, which is the OBPS component and the fuel charge component. There will be a reconciliation every year to make sure that no more and no less is given back—and this is all based initially on estimate, of course. If there's any discrepancy, then adjustments will be made the following year in the climate action incentive payments, as well as in the amount allocated to the SME and MUSH funds.

There's an accounting that will support that. It will be perfectly revenue-neutral. Just to clarify, the government will not actually use other sources of funds to supplement. It will be neutral.

The other thing is why, despite its being revenue-neutral on an aggregate basis, we can still say that lower-income families will get more. It's because, again, we're giving the same amount per capita, regardless of income. By doing so, effectively, we give relatively less to higher-income individuals or families than we give to lower-income families, because higher-income families have more money and are spending more, particularly on discretionary items, which may have greater content as well. They're spending more, so they would be paying more fuel charges than lower-income families would.

By giving the same amount to these two families, you're effectively giving more than they need to lower-income families and less than they need to higher-income families to compensate for the fuel charge. That's why I said it was progressive by nature. That's the effect of it.

The point here was just to find a simple mechanism to give back the money or the proceeds from the regime to individuals, and that is the climate action incentive payment through the T1 regime.

•(1640)

Ms. Julie Dzerowicz: Great. Thank you.

Just because Mr. Gardiner hasn't received a question yet, I'm curious about this: Why is the federal government delegating the decision to price carbon gas emissions in the offshore area of Newfoundland and Labrador to the province, instead of determining a price on greenhouse gas emissions for the designated offshore area itself, as it could do under part 2 of schedule 1 of the Greenhouse Gas Pollution Pricing Act?

Do you have all that?

A voice: [*Inaudible—Editor*]

Ms. Julie Dzerowicz: No, you have to let him answer. I'm kidding. Anybody can answer.

Mr. Timothy Gardiner: I can give you the short answer. The technical answer will come from my colleague.

It was at the request of the province. It reflects their view that all aspects of the oil and gas regime, including emissions, should be regulated under the accord acts.

Ms. Julie Dzerowicz: Perfect.

I think I'm done.

The Chair: You have five seconds.

Ms. Julie Dzerowicz: So, thank you.

The Chair: Mr. Stetski, you have three minutes.

Mr. Wayne Stetski: I am very supportive of a price on carbon pollution as a suite of initiatives that we should have in place to deal with climate change. But I'm also interested in the effectiveness and the efficiency around that.

I was mayor of Cranbrook from 2011 to 2014. About 2013, the way the price worked there, the municipality owed about \$60,000 or \$70,000, in theory, to the province for our carbon costs. We were to write them a cheque. Instead of doing that, I asked them whether we could invest that \$60,000 back into the community on energy efficiency and reducing carbon, and whether that would work. They said yes.

I'm interested in whether there's anything in this proposal to encourage municipalities to do the right thing, other than perhaps not to buy as much gas. Are there any other kinds of incentives here that can go back to municipalities to benefit the environment in their local communities?

Mr. Miodrag Jovanovic: I think that this is effectively the purpose of the funds that have been created. In addition to giving back the money to individuals, it recognizes that some of these entities may decide to take action. These funds would be there to support these actions.

Ms. Judy Meltzer: I would just add a bit of a broader context. While this is one important tool, there are other funds—including, for example, the low-carbon economy fund—and other types of initiatives that are there to provide that kind of support for municipalities, such as investments related to their own carbon footprint and others. There's a suite of different ways in which those incentives may be generated at the municipal level beyond the pricing mechanism itself.

Mr. Wayne Stetski: The taxation system can be very confusing to Canadians. Is there any information that the federal government

needs to be providing to taxpayers to make sure they are maximizing their opportunity to benefit from any of these initiatives? Right now, if I go to an accountant, they may pick up on something that could benefit me that normally I wouldn't even know was there.

Is this simple enough that it will all be done automatically for Canadians?

• (1645)

Mr. Miodrag Jovanovic: The interaction with tax would be limited to claiming the climate action incentive payment, basically. The tax system is the vehicle that has been selected to give back that money. That's going to be the tax interaction with this system, with the carbon-pricing regime, in a way.

Mr. Wayne Stetski: Perhaps you could include small businesses in your answer as well.

Mr. Miodrag Jovanovic: Again, for small businesses, the approach is slightly different to the extent that there will be a fund set up to help them transition or take action.

For individuals, basically, in order to get the incentive payment, they have to file a tax return, starting in 2018. The Canada Revenue Agency will determine how best to modify the T1 return to facilitate that claim. They will also have to identify whether they are outside of a CMA to be able to claim the 10% top-up. On that basis, the CRA will be able to pay the incentive. That's going to be, again, in implicated provinces.

The Chair: You're out of time.

Colleagues, we have 14 minutes left for the meeting. I was going to do five, five and five.

Hon. Mike Lake: I'm seeing that the meeting was scheduled until 5:30, which is the normal time. Why would we be ending half an hour early?

The Chair: Oh, sorry, we wouldn't be. For some reason, there's a New Zealand and Australia wine tasting at 5:00 that somehow got into my mind.

Some hon. members: Oh, oh!

The Chair: We will go until 5:30, the appointed time, so we have more time than that.

Why don't we start with some five-minute rounds? We'll just move it around as I redo my math.

Mr. William Amos: On a point of order, Mr. Chair, where is that wine tasting?

The Chair: I'll find out. I think it's next door.

Mr. Bossio, do you want to start? We'll go with six-minute rounds to start.

Mr. Mike Bossio: Thank you.

A common refrain we hear around the pricing mechanism is “Why are we doing this? It's not going to make a difference. It's not really going to change people's behaviour.” Can you give us an explanation as to why economists feel that a pricing mechanism is the most efficient and cost-effective way to change behaviour? Are there any examples out there that you can provide that are being used to shine a light on the fact that this does work?

Ms. Judy Meltzer: As was noted earlier, there is a lot of consensus around the cost-efficiency and effectiveness of this model, but I take your point that it's important to point to some concrete examples, and there is a lot of evidence for that.

We can look at our own country, at British Columbia. Outside estimates see that the reductions in emissions in the province since its carbon tax was implemented in 2008—I think it's a range of emissions reductions—are between 5% and 15% lower than what you would have had in the absence of this carbon tax. That's one example. There are a lot of other examples from different jurisdictions around the world where we see the effectiveness.

I guess I'd flag the point I made earlier, which is that it's a common mechanism to basically put a price on pollution to change the incentives people have when they make choices. Whether it's to individual consumers, to businesses or to households, it creates a signal and an incentive to make lower-carbon choices. It's as simple as that.

There is one example that I don't think gets flagged as often, but I'll point to it again. This is an old mechanism, but it's a similar tool that was effective in eliminating acid rain. This is going back many decades, but these are kind of the same market tools that allow emissions of pollution, whether it's greenhouse gas pollution or other forms of pollution, to be reduced in a way that doesn't prescribe how and enables low-cost reduction.

We can follow up to provide other examples, but there is a lot of evidence we could point to in order to show the effectiveness. There is a lot of support across stakeholders from a lot of industry and the big banks in Canada. We do have a lot of support. We're still working through some of the details of how; for example, the output-based pricing system is under development. I think we could provide some follow-up examples, if that would be helpful.

• (1650)

Mr. Mike Bossio: When you say there's consensus out there that this is the best and most efficient mechanism, could you give us a sense of that consensus within our own country? What does that consensus look like out there from different stakeholders?

Ms. Judy Meltzer: I'm not speaking about consensus with stakeholders per se. I'm speaking about the economists—including the most recent Nobel Prize-winning economists—the various expert panels that have been put together on sustainable financing, and the World Bank's initiative of the Carbon Leadership Pricing Coalition. We can point to leading economists, other scientists and social scientists around the world who, based on evidence, point to this as an effective lower-cost tool to reduce emissions.

I always mention the caveat that it's not the only tool, and it's important to note that there are a range of complementary measures.

Mr. Mike Bossio: I guess that's what I'd like to go to next. If you look at the cost of this tool, would you say that the costs of this would be less than they would be through regulations—trying to achieve our targets through regulations?

Ms. Judy Meltzer: It is important.... I'd go back to the point that carbon pollution pricing isn't the only tool and there is a strong rationale for complementary measures. That includes regulatory measures in some circumstances, and it could include other types of

tools. The government has a range of tools it can use to try to incent emissions reductions, but certainly the reason carbon pollution pricing is being deployed is that it enables emissions reductions at a lower cost, which is a strong rationale for using it, at least for us and for other jurisdictions that have been using it for some time.

Again, I'll go back and point out that one of the reasons carbon pricing is able to create incentives to reduce emissions at a low cost is that it's not prescribing where and how. An example I would give would be about industrial facilities. There may be one facility that may actually have some relatively low-cost options to reduce its emissions, and maybe there is some easy low-hanging fruit to improve processes and improve energy efficiency. There may be another facility where making that same level of reductions would mean a more costly investment.

What a carbon pricing mechanism does—and I'm referring here particularly to the emissions trading system that we're enabling under our system for heavy industry—is allow those emissions to be made where they have the lowest cost, and for those kinds of reductions to be used, it's agnostic as to where and how. It's getting the reductions at the lowest cost. That's an advantage of this tool.

Mr. Mike Bossio: That's exactly what I want to get at. Yes, it's important to do all these other things—regulations, investments in innovation, public transit, water and waste water, emission controls and all the rest of it—but of all of those, this is the most cost-effective approach to do it, and really the one that can put you over the top in terms of being able to meet those targets.

Ms. Judy Meltzer: That's correct. Again, we're still in the process of intensive engagement with a range of stakeholders, including industrial stakeholders, but there is widespread support for a mechanism that doesn't prescribe necessarily where and how those reductions need to take place. I would have to agree with the comment.

The Chair: Thanks.

Mr. Warawa, you have six minutes.

Mr. Mark Warawa: Thank you.

I spent 14 years in local government as a councillor, and if there was a million-dollar project, 20% was allotted for administration. On a million-dollar project, \$200,000 would be administrative, and then you would budget and you would not go over budget. You hopefully would be on budget and on time. Administrative costs were very important to include in all projects.

On this project, is it 20%, 25%, 30%? In the accounting, what is the allowance for administrative costs?

•(1655)

Mr. Miodrag Jovanovic: I can talk about the fuel charge. We don't have a specific estimate. The expectation is that it's not typically seen as a very costly approach from an administrative standpoint.

Mr. Mark Warawa: I think you said the accounting to support the programs was revenue-neutral. You're saying that the administrative cost is zero: 90% is sent back and 10% is saved for green projects. In your accounting, the administrative cost is zero.

Is that what I'm hearing?

Mr. Miodrag Jovanovic: I would say that the administrative costs are not considered, or not deducted from the proceeds in determining how much will be returned to the province or—

Mr. Mark Warawa: Okay, so I am hearing that there is zero allotment for administrative cost in the program, that 90% is being sent back and 10% is being saved. That is what I'm hearing. Is that correct?

Mr. Miodrag Jovanovic: Nothing is put aside for that purpose.

Mr. Mark Warawa: That was the point I made. If you have a program that is zero.... In a bureaucracy, whether for local government, provincial government, or federal government, there is a cost associated with running a program and having expert people who advise us and run programs. There is an administrative cost, and to ignore that, I believe, would not be acknowledged as good accounting. The comment that the accounting to support the program is revenue-neutral is not true, I think, in any accounting ledger sheet.

I have a question on its not being controversial and having general support. I had a meeting—many of us did—with Transat A.T. Inc. They had a meeting with the environment minister, and they are a member of the National Airlines Council of Canada. They're saying that since 2005, they've had a reduction in the fuel they've been using to fly all over Canada and around the world, a reduction of 30% through efficiencies. They've done a great job.

Their point is that when this comes into effect on January 1, they will have already achieved the goal. They have the prize. They have reduced fuel consumption by 30%. That's the target for 2030 for Paris. Now that they've achieved this, through billions of dollars in investment, this is going to be added. They're saying, "What better can we do? We've done as much good as we possibly can, and then you're going to be putting this carbon expense onto us, making flight within Canada more expensive. It's not justified." So they're asking to be exempted from this.

The government has exempted a number of other big emitters. This is an industry that has already done it. Air Canada, Air Transat, WestJet and Jazz Aviation AP together have sent a letter, and they're very opposed. It is controversial. There are industries that have already done the job, and now they're going to be punished. Why?

Mr. Miodrag Jovanovic: Under the fuel charge, there will be an exemption on aviation fuel for interprovincial and international flights. It's going to apply, though, for flights within a province, and now there's a proposal on the table to also create an exemption for internal flights within territories.

Mr. Mark Warawa: Will it cause flights within Ontario to be more expensive than from Quebec, inter-province?

Mr. Miodrag Jovanovic: Quebec has its own regime, so presumably the—

Mr. Mark Warawa: Will it be more expensive?

Mr. Miodrag Jovanovic: I don't know, but what I'm saying is that there is a regime in place in Quebec.

Mr. Mark Warawa: This is all the industries in Canada. Air Canada, Air Transat, Jazz Aviation AP, and WestJet are saying this is going to make life more expensive in Ontario, and they're opposed to it.

Are you aware of that?

Mr. Miodrag Jovanovic: What I would like to raise as well is that this is also why this approach has been taken—to return revenue to the pockets of Canadians so that they are able to maintain purchasing power. For Canadian businesses, that means they will be able to face a continuously strong demand from their customers.

•(1700)

The Chair: You have 20 seconds.

Mr. Mark Warawa: I live in British Columbia. It was suggested that emissions would have gone up even more. Could you provide the study that supports that? I've heard the opposite—that it had no effect. The fact is that emissions have grown in British Columbia, and the carbon tax has had zero impact, so I'd ask for a copy of the study that you're referencing.

Ms. Judy Meltzer: Absolutely. The study I'm referencing is one that was undertaken by Nic Rivers, and we'll be happy to provide the reference.

The Chair: Mr. Stetski, with the sound of a nice Australian Shiraz popping in my mind, I turn the microphone over to you for six minutes.

Mr. Wayne Stetski: Just to follow up on that, the other thing I've heard about British Columbia is that emissions were going down until the year the province stopped increasing the price. There was an annual price increase that was part of it, and when that price stopped increasing, that's when, potentially, emissions started to go up a little bit. If you could find that study, that would be great, because there are lots of different versions around.

There's a positive statement with regard to Bill C-86, for someone coming from a rural riding. I'll just reference it and then ask you to talk about it a little bit. It says, "Individuals living in rural areas, defined as areas outside of census metropolitan areas...as established by Statistics Canada for the purposes of this measure, will receive a supplementary rebate equal to 10 per cent of their baseline entitlement."

I wonder if you could speak to that for a minute. I'm assuming that's because we have to drive more often and drive further.

Mr. Miodrag Jovanovic: That's it. The government wanted to recognize some unique circumstances in this case, that these individuals may not have the same opportunities to, let's say, leave their cars at home and take public transit, because there is no public transit. In a way, this is a simplified explanation, but it is to recognize some unique circumstances for individuals living in rural areas. They've decided to increase the incentive by 10%.

Mr. Wayne Stetski: The largest community in my riding is the city of Cranbrook, with about 20,000 people. Do you know whether under this we are still considered rural? Quite frankly, I haven't gone to look at how Statistics Canada defines that.

Mr. Miodrag Jovanovic: I'm not sure I can answer that, but the Statistics Canada website would be the source to consult. They have a clear explanation of how they set up their CMAs. My understanding is that they start with a city with a certain minimum core population and then look at cities around that. If there are enough people commuting to work in the core, for instance, and vice versa, they will include that. They'll do their work like that, and increase the region, as long as any nearby city meets these criteria. They will look at the map, and if there are holes in that map, they will fill these holes, and that will be the CMA. That's how they create that.

Mr. Wayne Stetski: Back to my interest in simplicity: How would the average individual know whether they're eligible for the extra 10% or not? Will Revenue Canada let them know that?

Mr. Miodrag Jovanovic: There will be an indication and help, certainly. CRA will determine how best to provide guidance to individuals. We have a self-assessment system. In many instances where individuals have to do a bit of their own work to determine whether they are in this situation or not, CRA is there to provide them with guidance in determining their situation. I don't know exactly what CRA will provide in terms of guidance in this respect, but I'm sure they will do their best to ensure that individuals have the information to be able to make that self-assessment.

Mr. Wayne Stetski: My advice would be for every constituent to check every box that might benefit them, and let CRA figure out whether they are qualified or not.

Ms. Judy Meltzer: If I may, just to clarify, you were referring to British Columbia. The federal system will not apply in British Columbia. That was already reiterated. British Columbia has had a system in place, and it was assessed as meeting the federal requirements.

Mr. Wayne Stetski: That is, unless B.C. decides to adopt the federal approach.

Ms. Judy Meltzer: That's correct, yes. That assessment, those common criteria, is an annual process.

• (1705)

Mr. Wayne Stetski: Early on, the words "self-assessment" were used in terms of the process. Flags often go up when someone is asked to self-assess, particularly industry. Could you explain that a little more? It just kind of raised a flag. What does self-assessment mean in that context?

Mr. Pierre Mercille: That was in the context of the sale of an emission allowance on the secondary market. If a business has a surplus of emission allowance and they sell it to another business

that needs the emission allowance to meet its targets for the provincial regime, for example, the general rule with the GST is that the vendor collects the tax from the purchaser and remits it to the CRA.

The amendment here essentially says that, in the case of those emission allowances that are created by a government entity, the business—we're talking about large businesses here, not individuals—that was going to purchase those allowances from someone else, instead of disbursing the GST up front and waiting a month to claim the input tax credit, will not disburse it. It will not be collected by the vendor, but there will be a line on the return where the purchaser will self-assess the amount.

But as I said, since those businesses are usually involved in commercial activity, they will be allowed to take an offsetting input tax credit.

Mr. Wayne Stetski: So if you're my brother and we both own companies, and I have an opportunity for you to buy something from me, how is that going to be monitored, to know that you and I aren't just working to help each other? What kind of government oversight will there be on this self-assessment?

Mr. Pierre Mercille: The self-assessment is done through the return of the business, essentially, and from time to time CRA audits those returns. They go on site or request information from the person and basically say, "You self-assessed this amount. Can you give us more information?" They have powers to request information from the business and essentially assess the situation of the business and see whether the self-assessment was conducted properly.

The Chair: You're out of time.

We should have time for three more six-minute rounds, one for each side.

Ms. Dzerowicz, you're up first.

Ms. Julie Dzerowicz: I'm going to share my time with Mr. Amos.

I'm just going to continue on the thread that Mr. Stetski started. He talked about simplicity, and I'll also gather that into practicality.

I file my taxes every single year. I can start filing my 2019 taxes in January. The price on pollution doesn't go into effect until April 1. Is that correct? Yes?

I am assuming I just check a box that says, "Yes, I want my climate action incentive." Is that true, or do I have to write an essay about why it's good to actually provide this to me, and what I will do with it?

Mr. Miodrag Jovanovic: As I said, the Canada Revenue Agency will determine how best to modify the form, but I assume they will aim for a minimalist approach. They won't ask us to create a two-page schedule. Given the nature of this and the fact that it's been designed in a very simple manner, that it's uncontested and that it's a flat amount depending on the individuals in the family, it should be simple enough.

Ms. Julie Dzerowicz: I don't know if anybody knows this. This might actually be a CRA question. Do we know what percentage of Canadians actually file their taxes on time, before April 30? Do you actually know the answer to that question?

Mr. Miodrag Jovanovic: I don't have the percentage, but I assume it's the vast majority.

Ms. Julie Dzerowicz: Okay. I just wondered.

My next question was triggered by the conversation about B.C. not receiving it. We know it's for the four provinces that don't have a price on pollution at the moment. I'm an eternal optimist and hope that all provinces will somehow come up with their own plan. If a province decides to come up with its own plan after we've put this price on pollution, how will that work?

Ms. Judy Meltzer: In this first instance, provinces were given until September 2018 to indicate their plans. We have indicated where the federal system will apply going forward.

In a letter from Minister McKenna and Minister Morneau to their provincial and territorial counterparts in December 2017, in order to provide certainty—for example, for business decisions and investors and consumers—they indicated that where the federal system applied, it would stay in effect until 2022. That coincides with the timing of the commitment to do a federal-provincial-territorial review of the system to help inform the path forward.

Conversely, as you noted, there may be changes over time in terms of different systems. For example, the assessment process to ensure that all proposed or existing systems align with the common criteria, which we refer to as a benchmark, is done on an ongoing basis. The systems will be assessed annually to ensure they continue to align with those common criteria.

That will be ongoing monitoring in terms of changes over time, but where the federal system applies, the intent is that it stays in effect until 2022.

• (1710)

Ms. Julie Dzerowicz: Thank you.

Will, it's over to you.

Mr. William Amos: Thank you.

I want to go back to a theme that has been addressed, but that I'd like to explore more deeply.

You mentioned that certain goods, such as those that are transported long distances, would be affected through market impacts in a more significant manner than would products that are produced locally and transported less far.

How can we expect the pollution pricing system that our government is putting into place to benefit our farmers who are intent on selling more local products to more communities in proximity?

Mr. Miodrag Jovanovic: I can talk about the fuel charge, for instance. There are probably at least a couple of exemptions for farmers that would be relevant.

First of all, there's an exemption on the fuel charge, so no fuel charge would be charged if the gasoline or diesel, for instance, is

used in machinery and equipment in the conduct of farming activities. There are some conditions to qualify around that, but basically as long as it is used for eligible machinery and equipment that are used exclusively for the purpose of carrying out activities like farm activities, then farmers would be exempt.

There's an equivalent exemption that is proposed for fishers.

There's also a proposed exemption for a greenhouse. That is an 80% exemption. That is similar to the one on the farmers for their diesel and gasoline used in their machinery, but it is essentially for the energy use in the context of commercially growing plants in greenhouses. You have an 80% exemption on the fuel charge there as well, so local tomato growers, for example, would benefit from that exemption.

Mr. William Amos: Okay. I know I don't have much time. I appreciate that there are exemptions for farmers and fishers for specific fuels, but my understanding is that, pursuant to this pollution pricing system, locally grown vegetables will be more competitive vis-à-vis vegetables or fruits grown far away. Let's take the example of Chilean apples. A locally grown apple will be more competitive, because it won't be subject to the same transportation costs. Is that a fair assessment?

Mr. Miodrag Jovanovic: I think it is. That is the objective, and that's why this instrument is being used and is thought to be effective. It allows people and families to continue to make the choices they want, but by changing prices there's an incentive to actually look again at their basket and make the appropriate choice.

The Chair: Thank you.

Mr. Lake, go ahead.

Hon. Mike Lake: My question is for Mr. Jovanovic.

The climate action incentive initiative is referring to the payments to Canadians. Is that right?

• (1715)

Mr. Miodrag Jovanovic: Yes.

Hon. Mike Lake: Just looking at the name, one would assume that there would be some incentive to take climate action. What is the incentive part of the payment initiative?

Mr. Miodrag Jovanovic: It's basically a way to say that we want to continue to provide you with enough financial capacity, in a way, to be able to make these choices. It's one thing to raise prices on those goods and services with a carbon content, but if at the same time I make you poorer because I created a charge there, it may not be as efficient—

Hon. Mike Lake: You're talking about the tax part—

Mr. Miodrag Jovanovic: It's the charge part, yes.

Hon. Mike Lake: —but the government is using “climate action incentive” to refer to the payments, so what is the incentive to change behaviour, to take climate action from receiving a payment? Ms. Dzerowicz made the point that there is no requirement to actually apply for anything; you just automatically get the money, so what is the incentive to take climate action?

Mr. Miodrag Jovanovic: The incentive is coming from the fact that we maintain their financial ability to make these choices. So if, for instance, the effect of the charge is such that a family may think a bit more about making the big jump in buying an electric car or a hybrid—

Hon. Mike Lake: Just to be clear, though, the incentive doesn't refer to the charge. The incentive refers only to the payment that—

Mr. Miodrag Jovanovic: They are complementary.

Hon. Mike Lake: Yes, but the incentive is... There was a big announcement made.

Actually, I'm running out of time here, and I just want to have another question for the environment folks.

This follows on Mr. Warawa's questioning about cost. One would assume the carbon pricing bureau didn't exist prior to 2015. It's obviously a new entity. First of all, when was it established?

Ms. Judy Meltzer: The carbon pricing bureau was established formally as a structure on April 1, 2017, I think. That said, it is made up largely of people like me, who were in the department working on related policy. While there was a structural shift to focus capacity on a particular area at a particular point in time, it doesn't translate into new resources necessarily being brought on board.

Hon. Mike Lake: How many staff are there?

Ms. Judy Meltzer: I'd have to look. I can follow up to provide you with the specifics.

The bureau itself has approximately 18 full-time employees—FTEs, as we refer to them, permanent government employees. We're a relatively small team. As I said, a lot of people worked on similar files and have been in government for some time. We leverage a lot of analysis and input from different groups that exist across the department, including our economic analysis division, our legislative and regulatory affairs folks, and other government departments.

It's a relatively small group, and we do rely on a lot of different expertise, including sector-specific expertise. Environment is a very regulatory department, and we have a lot of sector-specific engineers who focus on specific industrial sectors. We rely heavily on that.

Hon. Mike Lake: You talked about consensus, but you were very clear to point out that the consensus isn't among stakeholders or Canadians; the consensus is among a small group of economists who are in favour of carbon taxes. Does the bureau do polling among Canadians to gauge where they are at in terms of the carbon tax?

Ms. Judy Meltzer: No, we don't. Any of that type of work might be done by a communications branch or elsewhere, but that's certainly not part of our mandate. We have a mixture of legislative policy and regulatory and technical work that's under way in our group.

Hon. Mike Lake: You're talking about your bureau. How about within the department?

Ms. Judy Meltzer: I can't comment on any polling that may have been done. That's well beyond my area.

Hon. Mike Lake: If you could endeavour to find out and get some information to the committee regarding that, it would be fantastic.

I'll just reference a few points made by some members of the committee. Mr. Fisher said that carbon pricing is "not only a little confusing; it's extremely complex." Mr. Peschisolido talked about the complexity and said, "but they do want to know that we know what we're doing." I think other members talked about the complexity of it as well.

Do you think that if the committee was to undertake a study of carbon pricing as part of its overall study of the framework, we could find 24 witnesses from across Canada or around the globe who could actually talk in some meaningful way about carbon pricing?

• (1720)

Ms. Judy Meltzer: Absolutely. But I would also point you to a lot of accessible material.

The one that stands out is the really comprehensive report that was done with provinces and territories, with a lot of input from a whole range of stakeholders. It was released, I believe, in early 2016, or possibly 2015. It's the carbon pricing working group report.

There's a whole host of resources that can be pointed to that explain how it's been working in jurisdictions for well over a decade, and the different ways it can be applied. There are different ways to put a price on carbon pollution. We see that in Canada. There are different ways in Quebec versus B.C. and Alberta, for example. They also explain what makes it effective and what considerations need to be taken into account to mitigate the risk of carbon leakage, for example, as we're doing now.

I'm certainly happy to share those, and I do think there's deep expertise, including in the Canadian context.

Hon. Mike Lake: As a point of order, Mr. Chair, just going back to my first question, I'd be interested if we could have the Department of Finance get back to us on where the name "climate action incentive" actually came from. I'd be curious to know the origin of the title. The payments are clearly not an incentive to take climate action.

Ms. Judy Meltzer: Can I just—

The Chair: That's not a point of order, but nice try.

Hon. Mike Lake: It's just a request, then.

The Chair: We can absolutely make that request.

Hon. Mike Lake: Maybe we can get unanimous consent to make that request.

Mr. Darren Fisher: I have a point of order.

The Chair: Just quickly, before you do, for any of the departments, if you have additional information you think would be of use to the committee in the discussion we've had, you're invited to send that in through the clerk.

What is your point of order?

Mr. Darren Fisher: Thank you.

What I intended to say—and I'll read the blues when they come out—was that was what was “complex” and “confusing” was the provisions of Bill C-86 that the committee has been asked to study, not the price on carbon.

The Chair: Thank you.

Mr. Stetski, you have six minutes.

Mr. Wayne Stetski: I have a couple of quick questions, and then maybe I'll give a few minutes to my friend Mr. Bossio for future considerations.

Ms. Julie Dzerowicz: Oh, look at that.

Mr. Mike Bossio: You're awesome.

Mr. Wayne Stetski: I'll start by quickly asking you to answer Mr. Lake's question about where the name came from.

Ms. Judy Meltzer: I can't speak to the name, but what I was going to give by way of example is an indication of where this incentive might lie, just going back to the principles of how price signals work.

I'll give again a coarse example, one not borne out by specific numbers. If a household received a carbon action incentive payment of \$500 one year, they would have an incentive if that same household invested, for example, in some energy efficiency measures that year. Again, this goes back to basic price signals and the consumer and business choices that are made based on a price signal.

In that first example, let's say they received \$500 and their costs were \$500, again, hypothetically. If they make some investments to reduce their emissions so that the cost to them is \$400 the next year, they still get \$500. There is, then, a continual price signal incentive.

This kind of underpins the logic of putting a price on pollution: the more you reduce, the more you save.

Mr. Wayne Stetski: I'll have to be very quick with my question.

Is the bonus, let's call it, for greenhouses across the board for whatever is grown in that greenhouse? I'm just wondering whether it applies to cannabis greenhouses as well.

Mr. Pierre Mercille: It applies to any plants grown in a greenhouse.

Mr. Wayne Stetski: Okay.

Just quickly, there are four provinces this would apply in, where 90% goes back to individuals and 10% goes into a green fund. Have you estimated how much that green fund might be worth in any of those provinces? I'm curious as to the magnitude and what might be available for green projects.

Mr. Miodrag Jovanovic: Yes, we have an estimate.

Mr. Wayne Stetski: Can you send us that information? I'm going to run out of time, and I made a promise to Mr. Bossio.

Mr. Miodrag Jovanovic: Sure.

Mr. Wayne Stetski: Okay, thank you.

Mr. Mike Bossio: Thank you so much, Wayne. I appreciate this opportunity.

I'd like to follow up on some of the questions from Mr. Lake and Mr. Warawa.

Administratively, because we picked such a simplistic plan, if you compare the mechanism we're using around the price on pollution with other mechanisms that could be used, is this not actually more cost-effective from an administrative standpoint than a regulatory regime, with the enforcement regime around it?

• (1725)

Mr. Miodrag Jovanovic: I would say that's probably a fair statement with respect to the fuel charge. I mean, we're using common approaches. With respect to the climate incentive payment, using the tax return and the Canada Revenue Agency experience in delivery is a very effective mechanism. I would say that this is probably a fair statement.

Mr. Mike Bossio: Thank you.

Once again, with respect to the price on pollution being complex, I don't see much complexity. You're putting a price on pollution and you're rebating 90% of that directly to individuals, and 10% is going to the MUSH sector and to small businesses. Am I missing something? To me, that doesn't really appear to be overly complex from a pricing mechanism standpoint. The pricing mechanism itself is not that complex, really, to understand.

Would you agree with that?

Mr. Miodrag Jovanovic: Yes, I would agree with that.

Mr. Mike Bossio: They're saying, “This is not going to make a difference. It's really small numbers and you can't really do anything with that.” It's as simple as buying a programmable thermostat, or putting weather stripping in your windows, or unplugging your appliances, or doing better planning when you're going out to shop. These are all ways that people can reduce their emissions and save money.

Is that not correct?

Ms. Judy Meltzer: That's correct. Also, incentives change. Different technologies come online—as we refer to it—at different price points, but that's correct.

Mr. Mike Bossio: I'd like to pass the floor back to Mr. Stetski, if he has anything else he wants to ask. I really just wanted to get those three points put out there. Thank you.

The Chair: You have just over a minute, Wayne.

Mr. Wayne Stetski: We've heard several times in question period in Parliament in the last little while that the heaviest polluters are exempt. Is that true?

Ms. Judy Meltzer: No. We are developing a separate component for heavy industry. We're talking about industry that's emitting 50,000 tonnes of greenhouse gas emissions a year or more. Again, this is a fairly common approach that's used in different systems, including Alberta, and in other jurisdictions as well. The reason we're doing a separate approach is to ensure that any competitiveness and carbon leakage risks are minimized. I'm talking about the risk of displacement of economic activity.

That system is currently being developed, and draft regulations will be coming out later this fall that provide details on that. In short, the output-based pricing component system, the component for heavy industry, will put a price signal on emissions to create an incentive to reduce emissions and innovate, but at the same time it will mitigate competitiveness and carbon leakage risks.

The Chair: That takes us pretty much to the end of our meeting time today.

I'd like to thank all of the witnesses for being here today. I think you've given us some really good information, and that will be useful for Thursday when we get into our discussion.

With regard to Thursday, we have 46 hours for all members to figure out their technology and how to make it not ding, so I would encourage you to look into that if you need some time to prepare for the next meeting.

The meeting is adjourned.

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