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Chair

The Honourable Wayne Easter

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● (1535)

[*English*]

The Chair (Hon. Wayne Easter (Malpeque, Lib.)): I will call the meeting to order. We are dealing with the budget implementation act, Bill C-44. We have with us today a number of individuals from Finance Canada.

Sometimes we deal with each part, and then go to questions. We'll have the presentations on part 1, then the presentations on part 2, then the presentations on part 3, and then we'll go to questioning of all of the witnesses.

Are people okay with that?

Starting with part 1, we have Mr. McGowan, Mr. LeBlanc, and Mr. Greene.

I don't know if in your opening statements you want to mention your areas of responsibility, because I don't have that information in my documents.

Oh, yes I do.

I'll give your title, Trevor. Mr. McGowan is the senior legislative chief, tax legislation division, tax policy branch. Mr. LeBlanc is the director, personal income tax division, tax policy branch. Mr. Greene is the director, tax policy branch.

Welcome. The floor is yours on part 1, amendments to the Income Tax Act and to related legislation.

Mr. Trevor McGowan (Senior Legislative Chief, Legislative Review, Tax Legislation Division, Tax Policy Branch, Department of Finance): Thank you.

As you said, I'll be providing the introductory remarks relating to part 1, the income tax amendments. My colleagues, Pierre and Gervais, will discuss part 2 and part 3 respectively.

To provide a brief overview of the measures, the first are some measures relating to veterans and veterans' benefits. They would ensure the non-taxability of the new caregiver recognition benefit, which replaces the previously non-taxable family caregiver relief benefit.

These amendments ensure that the new benefit has the same tax exempt character as the previous one. These substantive amendments are contained in the bill in division 12 of part 4. These are in the bill in clauses 2, 6, and 29.

Also, as a result of the tax expenditure review, it eliminates the investment tax credit for child care spaces. This is a 25% non-refundable tax credit for employers, with a maximum of up to $10,000 per eligible child care space created. This would be eliminated with regard to expenditures incurred after March 21, 2017. However, transitional relief is provided so that expenditures incurred under an agreement that was entered into before budget day would have until 2020 to conclude the work and obtain the credit. That can be found in clauses 3, 4, and 23 of the bill.

Next is the elimination of the deduction for eligible home relocation loans. Again, this is a part of the tax expenditure review. When an employee obtains a loan at below market interest rates, the difference between the market rate and what they pay is a taxable benefit. This deduction offsets that benefit for qualified employees up to a notional $25,000 loan.

Next is the elimination of the tax exemption for non-accountable allowances for members of legislative assemblies and certain municipal officers. To reiterate, that eliminates the non-accountable tax exemption for them. Of course, as with every employee, reimbursements that are accounted for would remain tax exempt. So if you have a taxi ride from an airport to the hotel on a business trip and you submit that and you get a reimbursement for it, that would, of course, be non-taxable. The non-taxability is being eliminated on the non-accountable allowances.

Next, again as part of the tax expenditure review, is the elimination of the tax exemption for insurers of farming and fishing property. This tax exemption is based on the premium income that qualifying insurance companies earn from insuring farming and fishing properties. That would be eliminated for the taxation years beginning after 2018—so, starting in 2019. That is in clauses 7, 24, and 33 of the bill.

Next is the elimination, again as part of the tax expenditure review, of the additional deduction available for corporations with regard to gifts of eligible medicines to a qualifying donee charity. This deduction is available in addition to the existing charitable tax credit or charitable deduction that's available with regard to gifts of medicine, which would apply to the fair market value of the medicine donated. That is in clauses 9, 25, and 32 of the bill.

Next is a simplification measure, again, in the context of the tax expenditure review. It replaces the existing caregiver credit, infirm dependant credit, and family caregiver tax credit with a new Canada caregiver credit. It's available for the 2017 and subsequent taxation years, and it can be found in clauses 11, 12, and 14 of the bill.

Next, as part of the tax expenditure review, is the elimination of the transit pass tax credit. It would eliminate the tax credit for public transit use, with regard to transit use after June, 2017—so, starting July 1, 2017. That is in clauses 13 and 23 of the bill.

● (1540)

Next is an amendment to the medical expense tax credit. It ensures that certain costs relating to the use of reproductive technologies to conceive a child are eligible for the medical expense tax credit, even though the underlying cause for the treatment is not related to an underlying medical condition. An example of that would be for same-sex couples needing this treatment to conceive a child. That can be found in clause 15 of the bill.

The next amendment relates to the disability tax credit. In order to qualify for the disability tax credit, a disability must be certified by a qualifying professional—for instance, doctors or certain enumerated specialists. This would extend the list of medical practitioners who can certify eligibility for the tax credit to include nurse practitioners, who, for many Canadians, are a significant point of contact in the health care system. That can be found in clauses 16 and 17 of the bill.

Next we have amendments to the tuition tax credit. These fill a gap in the currently existing tuition tax credit rules as they relate to fees paid for skills training courses. Currently, post-secondary courses taken out of post-secondary education are eligible for the tax credit. Job skills courses taken out of a qualifying educational institution, second-language skills, and things like that are also eligible for the tuition tax credit, but if you take one of those job skills courses at a post-secondary educational institution, like a university, there is a gap in the rules and you couldn't get a credit, even though one would expect it to be available. This amendment would fill that hole for the 2017 and subsequent taxation year. Those can be found in clauses 18 and 19 of the bill.

The next measure would extend for one year the mineral exploration tax credit in respect of certain grassroots mineral explorations. This extends the credit to be available in respect of so-called flow through share agreements entered into on or before March 31, 2018. This would support exploration for these qualifying minerals to the end of 2019. That is in clause 23 of the bill.

Next is the elimination of the tobacco manufacturers' surtax. This amendment to the Income Tax Act would eliminate the surtax that applies to Canadian producers. It's made in conjunction with amendments to the excise duty rates in part 3 of the bill, which are intended to maintain the intended tax burden on tobacco products.

Next are amendments permitting employers to distribute T4 slips to their employees without first having to obtain consent from the employee. That sets a new default for the distribution of T4s, subject to some important safeguards. First of all, appropriate privacy safeguards have to be in place. Second, it must be reasonable to expect that the employee would be able to have access to these T4 slips, and third, if the employees say they want paper slips they have to get paper slips. That is in clauses 28 and 31 of the bill.

Lastly is extension for one year of the repeal of the national child benefit supplement. That is found in the calculation of the Canada child benefit, even though it does not affect the calculation of the Canada child benefit. A number of provincial programs refer to the former national child benefit supplement for their calculation, and specifically to the variable in the Canada child benefit that contains the NCBS, so it was left in and scheduled to be repealed effective July 1, 2017. This repeal is being moved back to July 1, 2018 to give provinces additional time to update their rules.

● (1545)

That's the end of part 1.

The Chair: Mr. LeBlanc or Mr. Greene, do you have anything else to add on part 1?

We now go to part 2, Mr. Mercille. Do you want to give us what your position is, Pierre, please?

[*Translation*]

Mr. Pierre Mercille (Senior Legislative Chief, Sales Tax Division, Tax Policy Branch, Department of Finance): Good afternoon. My name is Pierre Mercille. I am the Senior Legislative Chief in the sales tax division of the Department of Finance.

Part 2 of the bill implements measures involving the goods and services tax, as well as the harmonized sales tax.

There are three different GST and HST measures in part 2 of the bill.

[*English*]

The first GST/HST measures restore the GST/HST-free treatment of the drug naloxone when it is supplied without a prescription for emergency use to treat opioid overdose outside hospital settings. This amendment generally comes into effect on March 22, 2016.

The second measure amends the definition of “taxi business”. Under the GST/HST, all taxi operators or independent drivers are required to register for the GST/HST and charge tax on their fares, irrespective of the level of their sales. These rules have been put in place since the inception of the GST and ensure that all taxi operators are treated the same way.

Commercial ride-sharing services facilitated by web applications provide passenger transportation services that are similar to taxi services. However, such ride-sharing services may not be subject to the same GST/HST rules as taxi businesses because they may not fall under the current definition of “taxi business”. To ensure that the GST/HST rules apply consistently to taxi services and ride-sharing services, the definition of “taxi business” in the GST/HST legislation is amended to require the providers of ride-sharing services—we're talking here about independent drivers—to register for the GST/HST and charge tax on their fares in the same manner as taxi operators. The amendment will be effective as of July 1, 2017.

The last measure in part 2 of the bill repeals the GST/HST rebate available to non-resident individuals and tour operators for the GST/HST that is payable in respect of the Canadian accommodation portion of eligible tour packages. This rebate is complex, it's costly to administer, and it benefits only a narrow segment of the tourism industry. Therefore, it was considered an inefficient tax measure.

The repeal will generally apply in respect of supply of tour packages or accommodation made after March 22, 2017, which is the date of the budget. There is also a transitional measure, in that the rebate will continue to be available in respect of supply of tour packages and accommodation made after March 22, 2017 but before January 1, 2018, if all of the consideration for the supply of the tour package is paid before January 1, 2018.

[*Translation*]

That concludes the description of the measures in part 2 of the bill.

[*English*]

The Chair: Turning to part 3, “Amendments to the...Excise Act, 2001 and the Economic Action Plan 2014 Act, No. 1”, we welcome Mr. Coulombe, who is chief in the sales tax division of the tax policy branch. Welcome, sir. The floor is yours.

● (1550)

[*Translation*]

Mr. Gervais Coulombe (Acting Chief, Excise Policy, Sales Tax Division, Department of Finance): Thank you, Mr. Chair.

[*English*]

I'm here today to discuss the two proposed excise measures that were included in budget 2017 regarding tobacco and alcohol taxation, which are included in part 3 of the bill in front of you.

[*Translation*]

The first measure deals with tobacco taxation. You will find it in the following clauses: clauses 45 to 48, clause 51,clause 54, clauses 58 to 63 and clause 66.

[*English*]

In order to maintain the intended total tax burden on tobacco products, and in conjunction with the repeal of the tobacco manufacturers' surtax, the first excise measure proposes to adjust the rate of tobacco excise duty to ensure that the peak level of revenues collected under the surtax in the early 2000s will be collected under the excise duty framework. For example, the excise duty rate on cigarettes will increase by 53¢ per carton of 200 cigarettes, rising from about $21.03 per carton to $21.56 per carton.

To ensure that the increase is applied in a consistent manner to all cigarettes at different trade levels, an equivalent inventory tax will also apply to inventories of more than 30,000 cigarettes held by manufacturers, importers, wholesalers, and retailers as of the end of the budget date.

[*Translation*]

All these measures generally apply as of March 23, 2017.

The proposed change to tobacco taxation should generate an additional $55 million in revenue in the 2017-2018 year.

The second measure that I am responsible for and that you are studying today is the federal excise duty on alcohol. You will find it in clauses 42 to 44, 49, 50, 52, 53, 55 to 57, 64 and 65.

[*English*]

It is proposed to increase the excise duty rates on alcohol products by 2% and to automatically adjust these rates to account for inflation on April 1 of every year, starting in 2018. The government generally applies an excise duty on alcohol products such as beer, wine, and spirits that enter into the Canadian duty-paid market. Alcohol excise duty rates were effectively last adjusted in the mid-eighties, so therefore, their effectiveness in real value has eroded over time.

In 2017 the proposed measure represents an increase in excise duty of 5¢ per case of 24 bottles of beer, less than 1¢ per bottle of wine, and about 7¢ for a typical bottle of spirits. The proposal is expected to generate about $30 million in additional revenue in 2017-18.

[*Translation*]

This measure also goes into effect generally on March 23, 2017, the day after the budget was tabled.

That completes my summary of part 3.

Thank you.

[*English*]

The Chair: Thanks to all of you. We will go to questions.

Usually in this process we don't go to the normal rounds. We can go back and forth if you feel you have a question after you've heard another answer. We welcome going back to you. We're not under any specific time frame on this session.

First we have Mr. Grewal, then Mr. Liepert. Then we'll go to Mr. Dusseault and Mr. Deltell.

Mr. Grewal.

Mr. Raj Grewal (Brampton East, Lib.): Thank you, Mr. Chair.

Thank you to the departmental officials for coming today.

I was really happy with the government's decision to change the definition of “taxi driver”. I'm the proud son of a taxi driver. A lot of my family was in the taxi business. As you know, the industry has been changing, and with the ride-sharing companies such as Uber, they've been put in a very difficult position. They know their business model and they work very hard at it, but then obviously we have a innovative economy and this new app comes out and totally changes the traditional taxi model.

One of the biggest complaints they had was that they work hard and pay their taxes, but Uber has an advantage when it's not charged HST. We've changed the definition. I just want to ask you guys, how is this going to work in practice? Will Uber be collecting the HST/GST portion through their app? Or will each individual driver be collecting it and remitting it to the government?

● (1555)

Mr. Pierre Mercille: I'm not sure that at this point we have this information.

What we understand of the business model of those ride-sharing providers is that there has been no exchange of money between the driver in the application that facilitates the matching of the driver with the passenger. The rule here does enforce that a particular system be put in place. If Uber decides to collect the money, they will remit the money to the taxi driver. If they collect the tax, they would remit it through the taxi drivers, and the taxi drivers would have to remit the tax themselves. If the web operator doesn't collect it, then the taxi drivers will have to do it themselves.

Mr. Raj Grewal: In practice, it would probably be the web operator who has to collect it, because the payment form for ride-sharing is seamless. You register your credit card, you open up the app, you click “I'm going here”, a car shows up, and there's never any exchange of funds between you and the driver.

I wouldn't see in what scenario the driver would be able to collect it, because everything is operated centrally.

Mr. Pierre Mercille: I cannot answer in the name of those companies. These are often companies that are not located in Canada, so it's very difficult to force a business model on them. I guess they will let their drivers know what they intend to do.

Mr. Raj Grewal: You mentioned that a lot of these companies aren't based in Canada, but because they operate a business in Canada, they are obligated to pay Canadian taxes such as HST.

Mr. Pierre Mercille: Well, they're actually not located in Canada, and they argue that they're not making any supplies in Canada.

Mr. Raj Grewal: What they argue and what the reality is are two different things, right?

I'm saying that we've changed the definition of taxi business here, and now, to you as a member of the Department of Finance, the simple question is that after July 1, I would expect all Canadians who drive for Uber to be collecting HST.

Mr. Pierre Mercille: You can mention Uber, but there are many more companies. There's Lyft, and Facedrive, and all sorts of new companies that are coming on the market.

Some may be located in Canada, and some are not. For those that are not located in Canada, normally the way the system works is that if a driver receives a service from a foreign company of that nature, which is an intangible service, they would have to self-assess the tax and claim input tax credit, if they're allowed to do it.

By being registered, the taxi business would receive a service from the foreign company of providing a match from the driver to the passenger. This amendment doesn't force a foreign company to collect tax. It's legally very difficult to force a foreign company to collect tax, because you have no enforcement mechanism on them. They're not located in Canada.

Mr. Raj Grewal: Practically speaking, then, let's talk about this hypothetical situation.

On July 1, Uber, the headquarters company, decides not to implement HST on its fares. Are you saying that the interpretation of this provision puts the onus on the individual driver to collect it?

Mr. Pierre Mercille: They will have to collect from the passenger, if Uber or other companies have not collected for them.

Mr. Raj Grewal: If the driver does not have the ability to change the fare on the app, is the driver supposed to say, “Well, pull out your 14 cents per my calculator here, and give that to me in cash”?

Is that the interpretation of this law?

Mr. Pierre Mercille: The fare that is put on the app by Uber, in terms of legislation, is called the consideration for the supply. It's the price. The tax always applies, in addition to the consideration for the supply. So if only the consideration has been collected from the passenger, the driver will have to collect the tax.

In practice, I suspect it is highly improbable that the app operator will collect, because they will not want an exchange of money between the driver and passenger and because some clients may not do business with them if they cannot have the simplified payment mode.

However, this is a decision for the app operator to make.

● (1600)

Mr. Raj Grewal: Your previous statement was that the app operator may not be a business located in Canada, so they may decide to totally ignore the government's position on this.

Mr. Pierre Mercille: The amendment here is a law in Canada that applies to people in Canada, and, in this case, it applies mainly to the drivers.

As I said, with those app operators located in Netherlands or Barbados or places like that, it's very difficult to enforce any tax on them. However, the market pressure may be enough to obtain the result that you want.

Mr. Raj Grewal: I guess we'll both eagerly wait and see.

Mr. Pierre Mercille: Yes.

Mr. Raj Grewal: Thank you so much.

That was really interesting. I didn't know that's how it was going to be interpreted, so I appreciate that.

How much time do I have left, Chair?

The Chair: Well, if that is it for the taxi questions, we'll come back to you in another round.

Mr. Mercille, I'm wondering whether discussions have begun yet with Uber and others on the implementation of the HST.

Mr. Pierre Mercille: I understand that there have been discussions, but I don't think the companies have expressed how they're going to do business. I was not present at any discussion.

The Chair: Thank you. I assume you want on the list again, Raj.

Mr. Liepert.

Mr. Ron Liepert (Calgary Signal Hill, CPC): Thank you.

I want to preface my question with a little history lesson.

I come from Alberta. I know we have a few of our friends across the aisle here who weren't in elected office at the time we had a thriving Canadian economy based on a strong oil and gas sector.

An hon. member: Hear, hear!

Mr. Ron Liepert: All of the country benefited. We had a huge trade surplus. Manufacturers in central Canada were doing record business in the oil patch. Then, of course, as we all know, the world price of oil collapsed. During that collapse, we had probably three-quarters to maybe even 80% to 90% of the rigs idle because nobody was spending any money.

Now that the price has started to climb back up and companies have started to engage drilling companies to go out and explore for conventional oil. In this particular budget, the government has slapped the oil industry by proposing to reduce the petroleum drilling incentive. What justification would that have from Finance officials, or is it purely political?

The Chair: Mr. Greene.

Mr. James Greene (Director, Business Income Tax Division, Tax Policy Branch, Department of Finance): Thank you, Mr. Chairman.

Just so that you understand, the measure that the honourable member is referring to is not contained in this bill. I would appreciate your view on whether that should be a topic for—

Mr. Ron Liepert: I heard Mr. McGowan mention the reduced drilling incentive tax credit earlier.

Mr. Trevor McGowan: I did mention the one-year extension for the exploration tax credit relating to grassroots mining expenditures.

Mr. Ron Liepert: So the decision to do away with a good chunk of the drilling incentive is not in this?

Mr. Trevor McGowan: The amendments relating to oil and gas and certain expenses, such as exploration expenses or development expenses announced as part of the budget, are not in this bill.

Mr. Ron Liepert: Where are they?

Mr. Trevor McGowan: It's common for the tax amendments announced as part of a budget process to be split into two tranches: one to be introduced in a spring bill, the first budget implementation act; and others that, for one reason or another, such as their legislative complexity, the desire to hear more stakeholder input, and the necessity of the measures being enacted by a particular date, can often be deferred. They could be included in a summer release, perhaps with revisions based on stakeholder feedback, and then be included in the second budget implementation act tabled in the fall.

The measures I believe you're referring to were not included in this. They could be tabled in the fall, the second budget implementation act for 2017.

● (1605)

The Chair: Mr. Liepert, that question is probably more appropriate for the minister, because it was mentioned in the budget statement. Correct? But it isn't in this particular budget implementation act.

Mr. James Greene: That's correct, Mr. Chair.

The Chair: As far as your question is concerned, Mr. Liepert, I think it can be directed the minister when he is before us, because relates to something he said, but that item is not in this particular bill, Bill C-44.

Mr. Ron Liepert: Could I just ask, is there any reason specific for this? You mentioned it's not atypical, and you gave some general reasons why this happens. Is there any specific reason why it's not in this particular bill? Is there going to be some kind of consultation with industry, or what?

Mr. Trevor McGowan: Unfortunately, I can't.... The decision on which measures are included in the first bill versus the second bill, of course, is a decision made by the Minister of Finance,, or above us at the political level. Unfortunately, I don't believe I can provide our advice as to why one thing or another ought to be put in one bill or another, nor can I speak for the minister as to why one way was decided rather than the other. I did provide the three general types of considerations, namely the necessity of something being enacted by a particular date, the relative legislative complexity, and the desire to receive feedback and engage with stakeholders on the—

Mr. Ron Liepert: Mr. Chairman, I'll leave it at that. It's no wonder Canadians can't understand how government works when the Minister says something in the budget address and then it sort of disappears.

The Chair: As I understand it—because we've had this discussion on bill-based accounting as well—it's stated in the budget along the lines that Mr. McGowan suggested: to give a heads up, to give notice that this is being considered, and to provide for consultations and feedback. That's how I understand it, and things may or may not change over the summer.

Mr. Greene, you wanted to add something?

Mr. James Greene: Yes, Mr. Chairman. I just want to add to my colleague's remarks.

Without making any guarantees about how things will proceed this year, it has been the practice in recent years that tax measures contained in the second budget implementation act, as Mr. McGowan alluded to, are released by the government in draft form, particularly given the complexity involved in these types of measures, to give affected parties—stakeholders, industries, and so on—the opportunity to comment on the proposed legislation before it is introduced in Parliament.

Thanks.

Mr. Ron Liepert: That's all I have for now. Thank you.

The Chair: We'll come back later in any event, if needed.

Mr. Dusseault.

[*Translation*]

Mr. Pierre-Luc Dusseault (Sherbrooke, NDP): Thank you, Mr. Chair.

My thanks to the witnesses for joining us today.

I have a number of questions.

This bill is not so voluminous as the ones introduced by the Conservatives when they were in power. They introduced bills of that kind several times a year. Perhaps I will come back to that in a future round.

First I would like to talk about property underwriters serving agriculture and fisheries.

Correct me if I am wrong, but, at the moment, property underwriters working with agriculture and fisheries have a tax advantage over the others, in that their clients are almost exclusively fishing and agriculture companies. Am I wrong to make that statement?

● (1610)

[*English*]

Mr. James Greene: No, that's correct.

The measure in question is the tax exemption that applies to insurers who insure farming or fishing property. They have to have at least 20% of their premium income from those policy segments.

[*Translation*]

Mr. Pierre-Luc Dusseault: The bill intends to eliminate that tax advantage for insurers working with agriculture and the fisheries. Is that correct?

[*English*]

Mr. James Greene: That's correct.

[*Translation*]

Mr. Pierre-Luc Dusseault: Can you tell us more about the reason why that tax advantage is being eliminated for those insurers, who say that it provides them with a profit? In their opinion, this is a measure that allows them to insure farmers or fishers who are sometimes located in remote regions where a full range of insurance services is not available.

[*English*]

Mr. James Greene: This tax exemption, which is a somewhat unusual measure, in the sense that it's an exemption for insurance companies who provide a particular line of insurance, was introduced in 1954 in an effort to encourage the provision of insurance in what was seen to be an under-serviced market, that for farming and fishing property and businesses.

The government examined this measure as part of its review of tax expenditures and came to the view that it was difficult to say that this measure is effective and appropriate in today's economy, which has changed very significantly over the past 60 years.

A provision that insurance companies don't have to pay tax on a particular line of business is unusual in today's economy. Certainly the view is that the insurance market is now well developed and mature, and that with the sophistication of the Canadian financial sector, a broad range of both share companies and mutual companies is well placed to effectively write policies in the farm and fishing business.

The provision was seen to raise fairness issues with respect to other sectors, so the budget proposes to eliminate the measure.

[*Translation*]

Mr. Pierre-Luc Dusseault: Do we know about how many insurance companies might be affected? How many insurance companies currently using this tax benefit will not be able to use it after the bill is passed? Has the impact of this measure been evaluated?

[*English*]

Mr. James Greene: Mr. Chairman, in the past five years the exemption has benefited on average about 40 insurance companies each year.

[*Translation*]

Mr. Pierre-Luc Dusseault: I gather that this is going to generate $10 million, according to your figures. Is that correct?

[*English*]

Mr. James Greene: That's correct, Mr. Chairman.

It's estimated to raise about $10 million per year.

[*Translation*]

Mr. Pierre-Luc Dusseault: Mr. Chair, that is all I had to say about point (e) of the summary of part 1.

I may speak about other parts later.

[*English*]

The Chair: Okay. We'll come back to you.

We'll turn to Mr. Ouellette and Mr. Dusseault.

[*Translation*]

Mr. Robert-Falcon Ouellette (Winnipeg Centre, Lib.): Thank you very much. *Tapwe*.

It is good of you to be here so that you can tell us more about the budget.

I want to talk about clause 23, in part 1. It deals with tax credits for daycare spaces. In the old scheme, the credit was 25% up to a maximum of $10,000. If I am not mistaken, that means that one space for one child can cost $40,000. Is that correct?

● (1615)

[*English*]

Mr. James Greene: Yes, that's correct. It was a 25% tax credit. The maximum credit per space is $10,000. In other words, $40,000 was the maximum amount of eligible expenses.

[*Translation*]

Mr. Robert-Falcon Ouellette: That is a lot for each child. It is comparable to the costs of a private school. It's incredible.

[*English*]

Mr. James Greene: But I would just note that it covers a range of expenses. It covers capital costs—the cost of the building and furniture, equipment, materials—as well as—

[*Translation*]

Mr. Robert-Falcon Ouellette: Yes, that is it, for sure. That is extremely expensive.

We recently announced other investments in daycare spaces. Can you tell us a little more about them?

[*English*]

Mr. James Greene: Mr. Chairman, I guess I could say that the budget proposes significant new investment. The budget announced that an additional $7 billion will be invested over 10 years, starting in 2018-19, to support and create more quality, affordable child care spaces across the country.

The aim will be to increase the number of spaces for low- and modest-income families by supporting up to 40,000 new subsidized child care spaces and to help make it more affordable for parents to return to work. This builds on the initial $500 million that was announced in budget 2016.

[*Translation*]

Mr. Robert-Falcon Ouellette: That is excellent, thank you very much.

The next subject that I would like to bring up is about the additional deduction for gifts of medicines. That is the purpose of clause 9 of the bill, which rescinds section 110.1(1)(a.1) of the Income Tax Act.

How much exactly is the government saving with this measure?

We know that there are already similar measures, called stock options. People can make donations of medicines and then they are entitled to a larger deduction.

However, it may be that the medicines have expired when they arrive. In addition, these measures can cost a lot to enforce.

Are there other ways of encouraging pharmaceutical companies in Canada to donate medicines overseas, thereby allowing them to contribute to people's health around the world?

[*English*]

Mr. James Greene: Mr. Chairman, I would just note that the budget, as the honourable member has indicated, proposes to eliminate an additional deduction for gifts of medicines made by companies out of their inventory of medicine. It's important to note that companies will continue to have access to the general charitable deduction that's available to all companies that make charitable gifts. It's only this additional incentive, which was specifically targeted at gifts of medicines, that is proposed to be eliminated.

Again, the basic rationale for this proposal is that the measure has not been very effective in its intended purpose. Between 2011 and 2015, an annual average of around 10 corporations claimed this additional deduction, and the average annual cost has been less than $250,000, which, when you consider the size of the companies involved and the pharmaceutical industry, is not really even a material amount.

Mr. Robert-Falcon Ouellette: I guess the pharmaceutical companies weren't very generous.

Mr. James Greene: Well, I can't say—

Mr. Robert-Falcon Ouellette: Hopefully in the future, maybe after hearing this, they will be.

Mr. James Greene: This data only applies to the additional deduction. It's possible that companies may have been making the donations, and not claiming the—

Mr. Robert-Falcon Ouellette: I only have a few more minutes left, maybe a minute and a half. Could we talk about the elimination of the tobacco manufacturers' surtax?

● (1620)

[*Translation*]

Will that make cigarettes less expensive?

Mr. Gervais Coulombe: The intent of the measure is to recover today the sums we were obtaining through the surtax at the beginning of this century.

I must tell you that there are companies that were still paying the surtax until recently, because they were still active in Canada. If those companies stop paying the surtax, but if the excise duty is increased, they could see their products sold for about the same price as in the current market.

That said, with some tobacco or cigarette importers that were not paying the surtax because their production activities were located outside the country, we could expect a potential increase in the price of their products. Thereafter, the decision to pass that increase onto their customers is a decision for each company.

As I said in my presentation, the increase of the excise duty is 53¢ per 200 cigarettes.

Mr. Robert-Falcon Ouellette: Okay, thank you very much.

To finish, I would like to discuss T4 slips.

I know that people really like to use electronic ways of doing things. However, I think that a lot of people still do not have access to them. Even the army, at one point, assumed that all soldiers had access. I remember once when I was in the field, my employer assumed that I had access to a computer, but that was not so. Sometimes, I did not even have access to the orderly room on the base, the administration offices, that is, from which I could have made the proper requests.

Sometimes, the electronics are fine, but I still prefer the paper version because it is something concrete. It also reminds me that I have to do my tax return. We must not forget that. I hope that this measure will not have the long-term effect of increasing the number of people who do not fill in tax returns, especially those who more easily forget to do so.

That is just a comment about the T4s. The matter deserves a lot of attention.

[*English*]

Mr. Trevor McGowan: Very briefly, the good news on that front is that any employee who wants a paper copy has a right to get a paper copy. After they request it, the employer has to provide it in paper format. In addition, there are protections built into the rules, so that if an employer cannot reasonably expect that their employees have access to them, two specific examples were included in the bill: one, if they're on extended leave, or two, if they are former employees. If you can't reasonably expect that they'd have access to a computer, then you can't provide it electronically. It has to be in paper format. So there are these protections built into the provisions to ensure that people don't miss out on their T4s.

The Chair: Thank you, Mr. Ouellette.

Mr. Deltell. and then Ms. O'Connell.

Mr. Gérard Deltell (Louis-Saint-Laurent, CPC): Thank you so much, Mr. Chair.

Gentlemen, welcome to the House of Commons.

[*Translation*]

As a Quebecer, I am clearly proud to see that four of the six officials from the Department of Finance here today are francophones. That's something to write home about, as they say.

Mr. Chair, I would now like to have a conversation with Mr. Coulombe. In my little segment, we are going to talk about the excise duty on alcohol and tobacco.

Let's talk first about the tax on alcohol.

According to the notes at our disposal, the increase proposed in the 2017 federal budget should increase government revenue by $30 million in the first year, $60 million in the following year, then $95 million, $125 million and $160 million in subsequent years.

First of all, it must be said that this is very technical. I would like Mr. Coulombe to explain to us how the government revenue can increase so exponentially.

Mr. Gervais Coulombe: Thank you for the question.

In the first year, 2017-2018, the $30 million increase in revenue is the result of the immediate 2% increase in the excise duty.

In subsequent years, for the excise duty to keep pace with inflation, the forecast is to increase it on April 1 in each of the following years. Let us assume that inflation is at 2% next year. On April 1, 2018, therefore, there will be an increase, a readjustment of 2%. That is what explains the growth in additional revenue forecast for subsequent years.

If we compare that to what we are collecting at the moment, we see that, in the public accounts for the financial years that ended last March 31, the federal government took in about $1.6 billion dollars in excise duty.

● (1625)

Mr. Gérard Deltell: That is exactly the problem, and my thanks to our senior official for explaining it. That is what the late Jacques Parizeau used to call an escalating tax, which operates much like a staircase. In other words, it goes up but it never goes down. It always goes up. It means an additional burden on taxpayers, the customers, but also on the companies with employees, like restaurants or licensed premises.

That is why the association that represents the manufacturers of alcoholic beverages was really unhappy following this announcement. Here is what its CEO said in a media release:

[*English*]

> We are absolutely shocked and dismayed that the federal government has decided to saddle Canadian Spirits manufacturers with higher taxes at this time...

[*Translation*]

A little further into the release, he gets directly to the heart of the problem:

[*English*]

> The budget proposal to automatically adjust federal excise duties to CPI is a return to the failed policies of the past. Between 1981 and 1986, annual automatic adjustments to alcohol excise duties resulted in massive job losses, and plant closures across the country.

[*Translation*]

I understand that we are not in a partisan arena. So I will ask a technical question in the hope of getting a technical answer. Has the Department of Finance evaluated the consequences this might have on manufacturers of alcoholic beverages and the businesses that sell them, like licenced premises and restaurants?

Mr. Gervais Coulombe: With the revenues projected for future years, given the very small increases proposed, there was no adjustment factor based on a drop in consumption of alcoholic products in Canada.

Mr. Gérard Deltell: The question was not so much about a drop in consumption as about the consequences this could have on the manufacturers and licensed vendors.

Mr. Gervais Coulombe: There are a number of parts to your question.

In terms of imported alcohol, excise duties generally apply in their entirety. What I mean by that is that a bottle of wine imported from France is going to be hit with excise duty at customs. For a 750 ml bottle, the customs duty will be about 47¢. By contrast, the same product made in Canada with 100% Canadian agricultural products is hit with no excise duty. So many of the products covered under the federal excise scheme are already exempt from excise duty in Canada.

In terms of beer, another product subject to excise duty, small producers pay less duty. Without going into details, I can tell you that, depending on the production volume in hectolitres, microbrewers find themselves paying greatly reduced rates of duty. Those rates will be subject to the future increases. That said, the exemption, or rather the reduced rate structure—I don't like using the word "exemption"—is maintained in the government's proposal.

Another part of your question touched on retail sales. In Canada, and most provinces, except Alberta, a monopoly exists; that is to say that the liquor control boards or corporations take care of the revenues. They play a major role in the way in which final prices for products are established. The impact of the measure will therefore depend on the way those organizations adjust to it all.

● (1630)

Mr. Gérard Deltell: In all sincerity, I really appreciate the quality of our guest's reply. We really have gotten into a lot of the fine details.

However, it is a concern for manufacturers. Their profit margin has gone down over the years. Once it was 8.4%, now it is 4.3%. Competition plays a role, but the associated taxes, which are now actually becoming escalator taxes, also play a major role.

That is why the restaurateurs association said the following:

[*English*]

> This inflationary approach to beverage alcohol taxes was tried unsuccessfully in the 80s and resulted in sales declines and job losses.... [O]ur future is at risk as is our ability to create jobs and spur economic growth.

[*Translation*]

When you create an escalator tax, as they are called, it has a direct effect not only on the people on the front lines, but also on the entire industry.

I quote the wine and spirit manufacturers association once more:

[*English*]

> Higher excise taxes will reduce industry investments in our plants and brands, force a scaling back of innovation, depress sales, reduce our grains' purchases from Canadian farms, and lower our new export market development.

[*Translation*]

My sincere thanks to the witnesses who are here to give us precise explanations. But, in reality, this escalator tax, invented, created and imposed by the Liberal government, is going to have a negative effect on the Canadian economy.

Thank you.

[*English*]

The Chair: Thank you, Mr. Deltell.

Mr. Coulombe, go ahead.

[*Translation*]

Mr. Gervais Coulombe: Thank you, Mr. Chair.

I would like to add one tiny little technical detail.

Mr. Deltell, you mentioned a comparison with a particular adjustment mechanism for the previous excise duties that existed at the beginning of the 1980s. I would like to add a clarification. The automatic inflation mechanism that is being put in place by the government here is based on the general consumer price index. The one at the beginning of the 1980s applied only to alcoholic products. So, as a result, there was a kind of escalating, spiralling effect, so to speak.

That is not what is on the table here. The use of the consumer price index, as proposed in the bill, matches the model currently being used for tobacco products. It is also used in income tax matters to make sure that a number of minimum thresholds are maintained.

The particular feature of using fixed excise duty rates is that they are expressed in current dollars per litre. If you do not adjust them to take into account inflation over time, there is an actual reduction. Often, that reality is not seen in provinces with monopolies, with organizations like liquor corporations, because their profit margins are expressed in percentages.

Thank you.

[*English*]

The Chair: Just before we turn to Ms. O'Connell, I do have a couple of questions on this area.

You said there is a real drop in the value of these taxes, but that's the minister's decision in any budget. If there is a real drop based on what departmental officials are coming forward with to the minister, the minister can—is it not correct?—impose or bring in a budget with a stated value of excises taxes to cover that.

We don't need the inflationary adjustment in order to accommodate that drop in value. The minister can make that decision at any time he so decides in a budget, can he not?

Mr. Gervais Coulombe: You're right in the sense that these are all political decisions, as the minister has the ability to propose to Parliament an automatic mechanism that makes those adjustments occur in the future. These are ultimately all political decisions.

● (1635)

The Chair: I come from maybe a time that makes me think the ministers need to make these decisions and accept responsibility for them at the time.

The other question I have is this. We know that provinces in Canada certainly put this adjustment factor or inflation factor in the escalator. Can you name us some countries that do this, that have escalator clauses in their tax regimes for wine, beer, and alcohol as a regular or standard procedure, rather than their minister making the decision annually or whatever? Do any other countries do this?

[*Translation*]

Mr. Gervais Coulombe: I would like to check that information.

But what I can tell you is that there is probably nowhere in the world where there is federal taxation and a provincial distribution monopoly. That is very unique to Canada. I would be very cautious before making any generalization at all on federal excise duty in terms of any taxation rules used in unitary states.

Currently, in the United States and in a number of European countries, there are no automatic adjustment rules. Is that a good thing or a bad thing? Those are political decisions.

In the case of tobacco, for example, in recent years, all international organizations have recommended the establishment of mechanisms that allow for periodic revisions of excise duties.

As I was telling you earlier, writing that into the legislation so that it is done automatically, or using informal mechanisms are decisions made at a higher level than mine.

Thank you.

[*English*]

The Chair: You can get back to us on that.

The other point I would raise on the escalator is whether or not there has there been any kind of analysis done by anyone on the implications for the Canadian grape industry of potential trade remedy actions that we might face when we handle imports differently than 100% Canadian wines. Has there been any analysis done in that area in terms of the escalator specifically?

Mr. Gervais Coulombe: To my knowledge, there has been no specific analysis done based on the presence of the escalator specifically. All the analysis was done as part of the overall proposed measure. As mentioned earlier in my presentation, a 2% increase that effectively resulted in about ¾ of a cent of additional excise revenues on a bottle of wine has not been deemed to potentially reduce any type of consumption or production patterns in Canada.

In respect to the grape industry, for instance, Canadian wine produced from 100% Canadian grapes continues to be fully capable of claiming the exemption, and there is no federal excise duty currently charged on this type of wine.

The Chair: That's why I raised the question of trade remedies. I do think you need to look at that.

Ms. O'Connell.

Ms. Jennifer O'Connell (Pickering—Uxbridge, Lib.): Thank you, Mr. Chair.

Some of my questions have already been asked but I'm going to start by following up where you left off. In terms of the excise tax on alcohol and the escalator, you mentioned that for foreign imports, for example, approximately 46¢ would be charged for a 750-millilitre bottle. This is an escalator that will apply, arguably, forever. Are imports also subject to an escalator? I ask because if not, there will come a day when we would be paying a higher tax on alcohol here than on foreign imports. If there's an escalator only on one and not the other, at some point it would catch up.

● (1640)

Mr. Gervais Coulombe: The proposed excise duty rates apply equally to imports and domestic products subject to taxation. For instance, you do have some wine that is blended in Canada. These types of wine are blended from foreign and domestic products, meaning grapes. These wines are also subject to the increased excise duty according to the proposed measures. So there are no discrepancies in respect of these products over time.

Ms. Jennifer O'Connell: Okay. Then I guess I'm confused about your earlier testimony talking about the 46¢ being charged on foreign imports, for example, a 750-millilitre bottle. If you are saying about the escalator that it there is a foreign blend, they would be subject to this tax, what then were you talking about earlier on the 46¢ foreign import tax? Is that in addition to....?

Could you clarify your testimony?

Mr. Gervais Coulombe: Basically, this is how it works. You have an excise duty. This excise duty is imposed under the Excise Act, 2001, in respect of wine produced and packaged in Canada. An equivalent duty is imposed under the customs tariff when the wine is imported at the border. This application of the duty applies only once. So, you could have bottled wine imported from Spain or Australia that arrives here in big containers, and because they are delivered to certain entities that further manufacture that product, the duty is suspended and will be imposed only at the time the bottle is packaged and remitted. It is very technical. There is one main agent. You have hundreds of people administering that at Canada Revenue Agency and Canada Border Services Agency for us, who are trying to spend it as we can take it.

Ms. Jennifer O'Connell: That makes sense. Thank you.

I want to move on to the medical practitioners for persons with disabilities. This is a very good thing. Could someone please explain, through the chair, how many people they think this would allow to be certified now? What research was done? Do we anticipate there being a higher uptake for persons with disabilities, for example, in more rural or remote communities?

I know that Atlantic Canada, for example, was specifically concerned about this. I'd like to hear the rationale and how many people you think will now be able to access these benefits.

Mr. Pierre LeBlanc (Director, Personal Income Tax Division, Tax Policy Branch, Department of Finance): Thank you for the question.

What we could say is that the policy objective is to make it easier for individuals with severe disabilities to be assessed for purposes of the disability tax credit. As you mentioned, in many outlying rural regions, the nurse practitioner is often the first point of contact. We don't have a specific estimate of what the uptick or increase will be in eligibility for the disability tax credit.

We'll see how it plays out. Our sense is that for a good number of individuals, it might apply to them now, but they have to jump through more hoops and find a medical practitioner who is farther from them to get certified. That, in many cases, will make it easier for people, too. It's that reduction in time, and possibly costs, that will be of benefit to Canadians with disabilities.

Ms. Jennifer O'Connell: Thank you.

I want to make sure I understand the tuition tax credit correctly. Previously, tax credits were applicable to post-secondary institutions, but this is now somewhat expanded to ensure that tuition fees for occupational skills courses are eligible. Am I understanding that difference correctly?

● (1645)

Mr. Pierre LeBlanc: That's right. As Trevor explained, right now a lot of the tuition tax credit is claimed for post-secondary courses at post-secondary institutions. You also have occupational skills courses. Trevor gave the example of a second-language course—English as a second language is a good example—at an institution certified by Employment and Social Development Canada. Now the thing is, we don't certify post-secondary education institutions. They are mainly in the business of providing post-secondary education, but in some cases they also offer these other courses—say, a course in English as a second language for immigrants—and they don't go through the certification process. There is a little gap right now. They are not eligible for the credit, so we are adding them.

Ms. Jennifer O'Connell: Thank you for that clarification.

I have two more questions, Mr. Chair.

One is on the tobacco excise tax. Can you explain the cigarette inventory tax? Maybe we'll start by clarifying how the rationale is changing, and how this will impact this tax. My colleague asked whether this change will actually have the cost going down, but I don't know how that's the case. I read in the report about the cigarette inventory tax, and some questions around that. Could you perhaps explain that difference? While you're doing that, I'll find that part.

Mr. Gervais Coulombe: The cigarette inventory tax is a technical, additional measure to the main measure to adjust the excise duty. In the Excise Act, 2001, we've had that specific mechanism for many years now. It is used when the excise duty is being adjusted. For instance, I think the last time it was as part of budget 2014. Basically, this is how it works. We ask that people with inventories of more than 30,000 cigarettes—because the tax applies only to cigarettes, not cigars or other manufactured tobacco—file a return with the CRA. The rate of the tax is equivalent to the rate increase per carton of cigarettes. I don't have the technical details in front of me, but it's 0.02 cents per cigarette, or something like that. This is part of the budget documentation. Basically, this measure is aimed at trying to equalize the treatment of the people who would have produced tobacco products the day before the increase kicked in and the people who are distributing those products after that date.

Ms. Jennifer O'Connell: The rationale for this is to be able to tax those who have that massive quantity and the distributors in a fairer way. That's what I understand.

Mr. Gervais Coulombe: That's fair to say.

Ms. Jennifer O'Connell: Thank you.

The last question I have is about the public transit tax credit. We heard a lot about this in the House. Can somebody please explain the original rationale for the tax credit, whether or not it worked, and why it is being removed?

Mr. Pierre LeBlanc: Mr. Chair, the credit was introduced in 2006. The goal of the credit was to increase public transit use and, through that use, have a positive effect on greenhouse gas emissions and traffic congestion. A number of research studies have shown that it hasn't had that effect. The effect on public transit use has been very limited, and, by extension, the effective cost of reducing greenhouse gas emissions extremely high. That's the primary rationale for eliminating the credit.

● (1650)

Ms. Jennifer O'Connell: Thank you.

Mr. Chair, if I can, I will just ask a follow-up question.

You referred to some studies that back that up. Do you have anything that could be shared with the clerk and this committee to back up that rationale?

Mr. Pierre LeBlanc: Sure, we can follow up on that.

Ms. Jennifer O'Connell: Thank you.

The Chair: Could you provide that?

Mr. Zimmer, the floor is yours.

Mr. Bob Zimmer (Prince George—Peace River—Northern Rockies, CPC): Thank you, Mr. Chair. It's good to see you again. I know we saw each other once in a while on the agriculture committee, but it's good to be here.

I just want to tie into the question of my colleague Mr. Liepert about the carbon tax. We have a letter from a premier of a province in this country, which was released today. It relates to transfer payments being connected to carbon tax. His letter references a document from the finance department and it talks about one of the issues. This is from the finance department's document dated October 14, 2016, and this is how it's relevant to today's discussion of the current budget. I presume the discussion would have been around the time of the budget discussion.

This is in your document:

> One of the issues being looked in the discussion ahead of the 2019 renewal of the Equalization program is a change to the treatment of carbon revenues within the program.

That's the transfer payment program.

The premier of Saskatchewan is concerned that this is being tied together in some shape or form. I, along with many other Canadians, am concerned with carbon tax, period, let alone with its being tied to the equalization program. I'll quote the letter from Premier Wall:

> I am writing to seek your assurance that there will be no linkage by the federal government between the provincial carbon tax policies and the federal transfer payments or any other type of federal payments to provinces, such as infrastructure funding. Any such linkage would be a serious attack on federal-provincial relations in Canada.

My question to you is this: Has there been any discussion about this particular topic within the discussion of the current budget, considering the time?

Anyone can feel free to answer.

The Chair: Does this have any relation to Bill C-44?

Mr. Bob Zimmer: Mr. Chair, I'm bringing this up because of the time and the date. October 14 was right around the budget discussions. Certainly it's related. I guess I would just ask for your indulgence. I don't see the officials very often.

Would you mind answering the question? The letter from the premier of Saskatchewan is dated today, May 8, 2017. The letter has just come out today to ask this particular question of Finance. Are you able to answer that question?

The Chair: If any of the officials wants to answer it, that's their choice—or, Bob, we can hand it over to the finance minister when he comes in.

The floor is yours, folks, if somebody wants to take it on.

Mr. Gervais Coulombe: I will very briefly. First of all, this is not part of the bill that is before us for study. In addition, questions with respect to equalization, equalization formulae and territorial financing formulae are not usually dealt with by me and my colleagues from the tax policy branch. This is, unfortunately, beyond our area of expertise.

Mr. Bob Zimmer: Okay, well thanks for trying. It was worth a shot.

I have another question.

I'm a vice-chair of the human resources committee. One thing we hear about from Minister Duclos when he comes to speak to us and also from Liberal members of our particular committee is discussion around a basic income guarantee. We just did a poverty reduction strategy and there has been further talk about it. As Mr. Liepert said, it's been talked about as part of the budget discussion. Has a basic income guarantee been costed by Finance, and what would that cost Canadians to fully implement?

The Chair: Mr. LeBlanc.

Mr. Pierre LeBlanc: We don't, as the Department of Finance, have a cost estimate for a basic income.

● (1655)

Mr. Bob Zimmer: There's going to be a test period for the basic income guarantee to be rolled out in some test communities in Ontario. Do you have a costing for the test communities?

Mr. Pierre LeBlanc: No, we don't. The announcement was pretty sparse on details, so, it's unclear exactly who would qualify. Because of that, we're not in a position to provide a cost estimate. We don't know who will get it.

Mr. Bob Zimmer: I just want to clarify the cost. If a basic income guarantee program is implemented across Canada, that has not been costed to date by the department?

Mr. Pierre LeBlanc: No, to the best of my knowledge, not by our department.

The Chair: Okay, we have Mr. Sorbara, then Mr. Dusseault, and then we'll take a five-minute break.

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): Thank you, Mr. Chair.

Welcome everyone. It's great to see everyone again.

I have a couple of questions on the Canada caregiver credit and the consolidation of the three tax credits into one. What is the estimated fiscal impact of that consolidation?

Mr. Pierre LeBlanc: We estimate that the consolidation of these measures into the Canada caregiver credit will be a net reduction of federal taxes by about $310 million over the fiscal planning period, that is, from 2016-17 through 2021-22.

Mr. Francesco Sorbara: So, it's approximately $50 million a year, if my math is right—or a little bit more than that, actually.

Mr. Pierre LeBlanc: The first full year will be $50 million, and then it will be $65 million a year by the end, in 2021-22.

Mr. Francesco Sorbara: So, it's effectively a tax reduction for a number of families in Canada that really need it, if I can use those political words. You can use Finance's words, if you wish.

Mr. Pierre LeBlanc: Yes, I think it is a net tax reduction. One of the main groups that will benefit right now from three different caregiver credits—and these are phased out depending on the dependant's net income.... The group where it's phased out more quickly is those looking after an infirm family member who doesn't live with them, let's say a grandmother living down the street or across town. It's going to be the one-income level where it's phased out, and for that group, in particular, since it will be phased out at a higher income level, more can benefit.

Mr. Francesco Sorbara: Okay.

My second question is in relation to the tuition tax credit and student eligibility. Do you have any estimates on what the uptake will be or broadening of the base as a result of the changes to that tax credit?

Mr. Pierre LeBlanc: We don't think it will be very large, so we don't have a specific number in our costing in the budget. We think that in those cases—a relatively small number of cases—it will make a difference. The purpose of the measure is to ensure there is consistency across different types of study, and to make sure those people aren't left out.

Mr. Francesco Sorbara: Of course.

I want to ask, and I think the Chair touched on this as well, about the excise taxes. I have a quote here from 1755 on what excise taxes were about, and I was going to repeat what it said, but I don't want to quote Samuel Johnson, the gentleman's name, on excise taxes. Most times, excise taxes are put in place at the time of production, not at the time of sale, from my understanding. Effectively, excise taxes, when you put [*Inaudible—Editor*] in our country, you put the HST on it, so you're basically taxing a tax.

Are there any other goods that are subject to excise taxation in Canada? We tax grape production, which is turned into wine, for example. Is there any other product that's grown that is subject to an excise tax?

Mr. Gervais Coulombe: The list is relatively short. You have alcohol products. I mention beer, spirits, and wine. You have, of course, all tobacco products that are subject to excise duties, including cigarettes, roll-your-own tobacco, tobacco sticks, and cigars. Motor fuels are also subject to excise taxes under the Excise Tax Act. I'm talking here about gasoline, diesel fuel, and aviation fuels. There are also a couple of other products that may be subject to excise taxes, such as fuel inefficient vehicles, the so-called green levy, and there is also a tax on AC units that are sold—

● (1700)

Mr. Francesco Sorbara: But effectively, the only agricultural product that's subject to an excise tax, in addition to say grape production, would be tobacco, right?

Mr. Gervais Coulombe: Grape production per se is not subject to an excise tax. This is the production of wine and, technically, tobacco is somehow derived from an agricultural product as well, but these are historically for revenue raising reasons and also for health related reasons. These two categories of products have been subject to excise taxation.

Mr. Francesco Sorbara: Sorting through this scenario, for someone investing in a beer manufacturing facility here in Canada, or wanting to invest abroad, did you make any sort of relative comparisons of excise taxes between jurisdictions?

Mr. Gervais Coulombe: In the Canadian context, the bulk of monies collected by governments in respect of alcohol are from provincial governments. The latest numbers I saw is that they collect more than four times we do. From a purely excise policy standpoint, such an analysis is just not needed—not with a 2% increase on our rate. There might be other studies done by the federal government or Agriculture Canada, but I don't know.

Mr. Francesco Sorbara: It's because I'm looking at the cost of inputs for production, rather than when you make the product and sell it, which would be subject to a tax.

Mr. Gervais Coulombe: Just as a point of clarification, if a product is manufactured in Canada and then exported, no excise duties are paid.

Mr. Francesco Sorbara: That's assuming a 100% blend.

Mr. Gervais Coulombe: No, it's the other way around. If a Canadian producer of beer, wine, or spirits...And spirits is probably the best example here. All exports of Canadian rye to the United States are exempt from excise duties on all domestic products and goods exported. Of course, you may have an excise duty applicable on imports from a foreign country, for instance, the United States.

Mr. Francesco Sorbara: On this policy measure, the consternation that I've heard is not about the absolute increase. It's about the automatic escalator clause that kicks in year after year on the inflation component. You can read through it in terms of the policy and stuff. That's what I've heard.

I have a wine organization that's headquartered in my riding. It has expressed concern to me, so I'm bringing forward the concern of a stakeholder. They have some concerns because their firm will incur higher costs as a result. I do wish to put that on the table.

The physical impact of the beer measure was $20 million, and the second measure on wine and spirits was $30 million, or did I get those numbers wrong? Please help me on that one.

Mr. Gervais Coulombe: If you look in the tax measures in the supplementary annex, we have a table on page 6. It shows that the alcohol taxation measure all together are expected to generate $13 million in additional revenue this fiscal year. This includes additional revenues from all three product streams.

Mr. Francesco Sorbara: Then you see the impact further downstream in 2021 and 2022, with the inflation component kicking in via the formula, with the net impact reaching $160 million, correct?

● (1705)

Mr. Gervais Coulombe: That's correct, according to the projections based on the CPI in the future. Should there be, for instance, zero inflation in the future, you would not see an increase.

Mr. Francesco Sorbara: Of course. Do you run what we might call algorithms, or any formulas of the coefficient that might result in terms of the consumption of wine or alcohol?

But we'll leave that for another day if I can find a study on that sometime in the future. I'm going to leave my questions there. I think that's my five minutes.

Thank you.

The Chair: If you have more, we can come back to you.

I have Mr. Dusseault, Mr. Grewal, and Mr. Liepert left on my list. I expect there will be a few more.

You're off the list now, okay?

We'll take a five-minute break because we're in a three-hour session here. We'll suspend for five minutes to give people a chance to stretch their legs. We'll suspend until 10 minutes after the hour.

●

(Pause)

●

● (1715)

The Chair: We'll come to order. We're still taking questions on parts 1, 2, and 3 of Bill C-44.

Mr. Dusseault, the floor is yours.

[*Translation*]

Mr. Pierre-Luc Dusseault: Thank you, Mr. Chair.

I am glad to have the floor again.

I would like to go back to point (e) in the summary of part 1 of the bill that I asked a question about earlier. It dealt with property insurers for agriculture and fisheries.

The government consulted the company called BlackRock about establishing the Canada Infrastructure Bank. Before proposing this legislation, did you also consult insurance companies serving agriculture or fisheries?

[*English*]

The Chair: Mr. Greene, go ahead.

Mr. James Greene: Thank you, Mr. Chair.

I would say there is a tradition of budget secrecy, of course, relating to the preparation of budget measures, and that's considered to be most acute with respect to tax measures. The government obviously has to be concerned about speculation concerning potential tax measures, particularly those that would affect companies, financial markets, and so on. That means there are limitations on the extent to which the department can signal to stakeholders potential tax changes.

But I would say that there were representations made by the sector on its own initiative. As a result, the government did hear from the insurance sector about this measure prior to the budget and certainly took those representations into account.

[*Translation*]

Mr. Pierre-Luc Dusseault: I will now turn to another topic: excise duties. Maybe it will be the last time, Mr. Coulombe.

To go back to something mentioned earlier, I would like to point out that one of the main concerns I have been given is the increase in excise rates and the subsequent indexation based on the principle of escalating tax. This relates to the WTO's rules on international trade.

We are told that French wine producers who export their products to Canada—which are also excellent—have tolerated until now that 100% Canadian wines are exempt from excise duty. If excise duty rates increase and there is an escalation indexation, this exemption may not be tolerated by our economic partners in the wine industry.

Have you assessed the risk that the exemption for 100% Canadian wines would be challenged in the WTO as a result of this increase in excise duty rates and their subsequent indexation? Producers of French wines that export their products to Canada will experience this escalation in excise duty rates, while the exemption for Canadian wines will give Canadian wine producers an advantage over time. Have you considered the risk of this being challenged before the WTO?

● (1720)

Mr. Gervais Coulombe: Thank you for the question.

First of all, I must say that I am not a specialist in international trade law. There is another branch in the Department of Finance that deals specifically with these issues. Perhaps they could send a more specific written response to the committee. I do not want to interfere with the trade policy of my country by making a statement on subjects that I am not capable to speak to.

That being said, there is a little technical point that I can raise. The automatic increases to keep inflation under control in future years are inherently the same as the 2% increase proposed in this budget. How would one element be more problematic than the other when it comes to trade policy? That remains a question mark in my mind.

As part of the overall analysis of the measure, the fact that it is relatively small has clearly been taken into account. As I said earlier in my presentation, we are talking about 5¢ per case of 24 bottles of beer, 1¢ per bottle of wine and 7¢ per bottle of 750 millilitres of 40% alcohol spirits. These are relatively insignificant measures, even if inflation were to persist for several years.

I should add that, meanwhile, provinces often seek their money by imposing profit margins expressed as a percentage. They increase automatically, without adjusting to inflation.

Mr. Pierre-Luc Dusseault: We are talking about a few cents, but this is in addition to what is already levied on excise duties.

I have a document from Beer Canada. You pointed out today that excise taxes have not increased since the mid-1980s, at least not substantially. Yet the people from Beer Canada say that, in fact, excise duties increased by 44% in 1991 and by 11.6% in 2006. I imagine they are basing that on something.

Do you want to correct your assertion that there has been no increase since the 1980s?

Mr. Gervais Coulombe: I said that there had been no actual increase—and I hope the word was pronounced properly in English —since the mid-1980s. Of course, because of the introduction of the goods and services tax in 1991 and the first reduction in the tax in 2006, various taxes and duties had to be adjusted.

What I understand about the political decisions of the governments of the day is that, overall, the tax burden on products remained the same. In other words, a tax was removed to add another tax. I don't think we need to go through all of the technical details, because they aren't being studied in this bill. In any event, my previous assertion that actual rates have not been increased since the mid-1980s is still true, notwithstanding certain statements that have not been made to me and that I do not have in front of me.

Mr. Pierre-Luc Dusseault: Perfect. That's a helpful clarification.

With respect to the public transit tax credit, it is estimated that removing it will generate revenues of $225 million a year by 2021-2022. So there is less money in the pockets of Canadians who use public transit. It is estimated that 1.3 million taxpayers had access to this tax credit. Considering these numbers of 1.3 million people and $225 million, we're talking about an average of $154 per public transit user.

You said it wasn't an effective tax credit. To the extent that you estimate that 1.3 million people and $225 million are not sufficient figures, could you tell me what figures would have allowed us to say that this was an effective tax credit?

● (1725)

Mr. Pierre LeBlanc: Thank you for your question.

As I said, the purpose of the measure was to encourage increased public transit use. It must be said that it isn't just public transit users who have taken advantage of this tax credit. All in all, the number of users hasn't changed much during these years.

I talked about more in-depth studies. I'll be able to send our summary of these studies to the committee and the chair.

Mr. Pierre-Luc Dusseault: That was my second question. In any case, it was asked earlier. Now, you referred to independent studies that showed that the measure had a limited effect. Obviously, the committee would be very happy to have access to these studies so it could make an informed decision when it is called upon to come to a decision on this measure.

I would now like to move on to taxis.

Mr. Mercille, you said it was difficult to collect taxes. This applies in practice to the taxation of foreign companies that trade in our territory but have their headquarters in another country.

Can you tell us about the difficulty and the particularities of these companies, be they taxis or carpooling services? Why is it difficult to collect sales taxes, in this case, from foreign companies that trade in Canada?

Mr. Pierre Mercille: I'm not going to talk about taxes. Perhaps my colleagues will want to add a few words on this.

The difficulty with the goods and services tax is that the company is not physically present in this country. The company is, in fact, a website that people have access to. I do not know where this website is hosted. The provision in question refers to any entity that carries out business in Canada. It's ambiguous. It is difficult to determine whether these companies that do business on the Internet actually do business in Canada and, as such, can be considered companies operating in Canada.

Even if we were telling foreign companies that they are providing services to certain people in Canada on the Internet and, therefore, they have to pay taxes to us, but they don't, we would have no mechanism to get that money. We can't force foreign companies to pay Canadian taxes if those companies are not physically present in Canada.

Mr. Pierre-Luc Dusseault: But they're still providing services in Canada, aren't they?

Mr. Pierre Mercille: I couldn't say whether the services are available in Canada or not. People use the Internet to get a service, but the Internet is a tool used all over the world. Servers can be in any country.

The situation may have changed. In any event, it is up to the Canada Revenue Agency to determine whether, in its interpretation of the act, the company is operating in Canada. To do so, it will be based on transaction facts. As for me, I can't really comment on that.

Mr. Pierre-Luc Dusseault: So what you're saying is that, whether we adopt this measure in the bill that we are studying today or not, a person whose business is registered outside Canada could get out of it and not pay taxes on goods and services, even if the business provides services in Canada. I'm afraid that we'll do all this work for nothing, since there is an easy way out of this obligation.

● (1730)

Mr. Pierre Mercille: No. In fact, in the taxi industry and the carpooling industry, people provide services and are present in Canada. These are self-employed drivers who drive their cars and offer a carpooling service. These people are in Canada. We ask them to register, just as we ask conventional taxi drivers to register. As soon as they are registered, they must charge customers the tax.

Mr. Pierre-Luc Dusseault: Drivers must complete the registration form and remit the goods and services taxes annually. The company that oversees everything through its website isn't necessarily who will deal with that. All drivers must register themselves.

Mr. Pierre Mercille: The same model exists for independent taxi drivers.

Mr. Pierre-Luc Dusseault: That seemed to create a definition problem earlier. We can probably talk about it at some length, but it is worrying that even if legislation is passed to force drivers to pay their taxes on goods and services, it seems so simple to avoid that obligation.

I think we've covered the issue for now.

I have another question on excise duties for Mr. Coulombe.

I know it's not part of the short-term economic outlook, according to the experts, but if there were negative inflation, would the excise rates be adjusted downwards as well?

Mr. Gervais Coulombe: Thank you for the question.

As I said earlier, for the adjustment mechanism, we used the model that was applied for tobacco and the income tax system. Negative adjustments are therefore impossible. The inflation mechanism proposed in the bill only allows the implementation of positive adjustments.

[*English*]

The Chair: Thank you, Mr. Dusseault.

Mr. Liepert, and then Mr. Deltell. I think that will wrap it up.

Mr. Liepert.

Mr. Ron Liepert: I just have a couple of brief questions.

I want to follow up on the transit pass. I was glad to see you providing information to the committee in response to Ms. O'Connell's question.

I know you mentioned that the tax credit was brought in for a carbon reason, but it would also seem to me that this tax would be highly applicable to that loveable group the Liberals like to call “middle class and those working hard to join it”.

Now, you in the finance department wouldn't really even have to do a study on it, but could just compile the numbers of those who actually claimed the tax credit versus how much they earned. In a general sense, is it those who are working hard to join the middle class who mostly benefited from the transit tax credit? Is it those in the upper one per cent who file taxes? That wouldn't need a study; that's information you should have.

I would like to know from your information who actually claimed that credit, and what percentage of tax filers were in each category. If you want to find it and get back to us, that would be fine.

Mr. Pierre LeBlanc: We can follow up with exact numbers.

What I can say now is that I think it's fairly evenly distributed across the population, when you think in terms of who takes public transit. That would seem reasonable. There are a good number of individuals with low incomes who claimed the credit but who didn't benefit, because it was a non-refundable credit and they didn't have any tax liability to offset.

I'd make those general points now, and we'll provide specific numbers to the committee.

● (1735)

Mr. Ron Liepert: Those really wouldn't be applicable anyway, because it's not a savings to government. That was a wash.

What I'd like to know is this. Of those who actually paid taxes, what categories did they fit into? I ask because I doubt it's in the upper one per cent that we keep hearing about. I would suggest it's in that other loveable group the government keeps talking about.

Mr. Pierre LeBlanc: We'll follow up with those numbers.

Mr. Ron Liepert: Thank you.

Now I have one other quick question, Mr. Chairman.

This doesn't really apply to the bill, but we have a GST expert at the table, so I'd like to ask a question to see if he can respond to it.

It has come to our attention that even though the federal government has claimed that it would derive no revenue from the carbon tax—it would all go back to the provinces—it now appears as though, at least in two provinces, Alberta and British Columbia, where there is a carbon tax in effect, that the GST is applied to the carbon tax and therefore becomes revenue for the federal government.

Can you confirm that for me?

Mr. Pierre Mercille: I cannot talk about the commitment you mentioned, but what I can say is that at the inception of the GST, there was a policy decision made that the GST would apply to what is called the "consideration for the supply", that being the the price being paid. In terms of taxes, there would be only three exceptions: the general provincial sales taxes, the land transfer taxes, and taxes imposed in lieu of provincial sales taxes where provincial sales taxes don't apply.

That was the policy adopted at the inception of the GST. That's why there are many situations where the GST is being applied, even if a component of that price includes a provincial fee, a provincial markup, a provincial tax, a provincial levy.

Mr. Ron Liepert: This should be fairly easy to answer, but I will not ask you to answer today. Would you be able to get back to this committee and clarify it? I'll give you an example.

If a homeowner is receiving a heating bill that has—in Alberta's case, there is no PST—a carbon tax applied at the bottom of the heating bill and then the GST is applied, is it appropriate for me to ask you to report back to this committee whether or not that is, in fact, taking place? If it is, what is the projected revenue for the federal government going forward from the GST portion of the carbon tax?

Mr. Pierre Mercille: We can report further on estimates of revenue, if we have it, but right now, the way the law is written the GST would apply on top of it.

Mr. Ron Liepert: Mr. Chair, can this committee ask—

The Chair: We're here to deal with Bill C-44, but if there is an area that the department can provide further clarification on, I don't have a problem with that because they could either be asked for further clarification on it at this committee or via an Order Paper question. If any of the witnesses think they want to take a stab at this, they're open to do it.

Mr. Ron Liepert: I'm not even asking for the answer today. I'm asking whether you could get back to this committee on that, please.

The Chair: Then you can check it.

Mr. Deltell is our last questioner, I think.

Mr. Gérard Deltell: Thank you, Chair.

Gentlemen, it's always a pleasure to talk to you. A few minutes ago or an hour ago, we had the chance to talk about tax on alcohol. I would like to talk about tax on tobacco. I think Mr. Coulombe will be my counterpart.

[*Translation*]

It will be my pleasure to speak with you again, Mr. Coulombe. Thank you very much for the specific details you gave us about alcohol tax.

Now, let's talk about the tobacco tax.

We know that Canada had a sad reputation in 1981: we were the country that consumed the most tobacco per capita. Through vigorous awareness campaigns to alert the public, tobacco consumption in Canada has declined nicely. Our country now ranks among the best. We are not the best, but among the best in terms of use. When I say that we are among the best, it means that the less we use, the better.

Obviously, it is not without raising the anger of some who are sad to see that the current government wants to legalize marijuana, but that's another matter. Let's keep to Bill C-44, in accordance with the chair's most pertinent instructions.

Mr. Coulombe, I assume you have assessed the impact of the increase in the excise tax on tobacco. Is it calculated in the same way as for the excise tax on alcohol, meaning it's calculated based on the rising staircase principle, which can also have consequences on the other industries that depend on that?

I want to say right now, that clearly alcohol does not do harm people's health in the same way as cigarettes. As I mentioned earlier, the impact of alcohol in restaurants and drinking places has nothing to do with the impact of tobacco.

● (1740)

Mr. Gervais Coulombe: Thank you for the question.

To answer your question, I will provide two contextualizations.

The first one concerns the measure being proposed. As my colleague Trevor McGowan explained about Part I of the bill, the old surtax on the profits of tobacco manufacturers in Canada is withdrawn.

In addition, an adjustment is made with respect to the federal excise tax. Given that this adjustment is made on the basis of the revenues that the surtax was seeking at its peak in the early 2000s, there is a little bit of additional revenue coming from it. According to the budget, this adjustment amounts to $55 million, as of March 23, 2017. If we put it in context, the federal government will collect about $3.2 billion a year on taxation on tobacco alone.

Mr. Gérard Deltell: I want to make sure I'm following you. The new taxation system will therefore allow an increase in government revenues. Is that correct?

Mr. Gervais Coulombe: On the adjustment, we will collect revenue at its peak, before some companies move abroad and are no longer subject to the surtax, for example. The goal is to put some balance back into the system. Therefore, an increase of $55 million should be made in the books.

Again, what you don't see in the cost table is what the tax measures are already reporting. With respect to tobacco, if you look at the Canada Revenue Agency and the Canada Border Services Agency tabs on Public Accounts of Canada and you add up the numbers, you will get a total of approximately $3.2 billion for the fiscal year ending March 31, 2016. This context provides evidence that $55 million out of $3.2 billion will have no impact on use.

I can also point out that, in fiscal policy, the government has demonstrated in its budget documents that it intends to continue to implement tobacco taxation that supports the government's goal of reducing tobacco use.

Mr. Gérard Deltell: That's fine, but the tobacco tax is a double-edged sword: an appropriate tax can curb the purchase of tobacco, but too much tax can lead to contraband. I know of what I speak; I am from Quebec, and I was born in 1964. Like anyone, teenagers are tempted to try smoking. Thank goodness René Lévesque had just been elected premier. For the first time in Quebec's history, he introduced massive taxes on tobacco. Clearly, that dampened any enthusiasm I may have had at the time to take up smoking, when I was a student in my teenage years. That said, I realize that isn't a responsibility that falls on you; I just wanted to give you some context.

The surtaxes imposed in the 1990s led to an increase in illegal tobacco. I am from Loretteville. I have some wonderful neighbours, but unfortunately, some of them got involved in illegal activities and were severely punished under the law. I should point out that, when Grand Chief Konrad Sioui was elected in 2008, he took the bull by the horns and curbed the expansion of illegal tobacco activities in Wendake.

Has the Department of Finance determined where the fine line is between an appropriate tax that deters people from smoking and generates acceptable economic spinoff, on one hand, and an excessive tax that tilts the industry towards the wrong side of the law, on the other hand? Has the Government of Canada done the math and come to the clear conclusion that the right amount of taxation can be beneficial, but that too much can be detrimental?

● (1745)

Mr. Gervais Coulombe: I am once again going to make a few general comments.

It is clear that potential schemes involving contraband tobacco are reviewed regularly. They factor into the equation when the government, through its budget, reassesses the effectiveness of its suite of tax measures and their impact, every year. It strives to find a balance between the excise tax and the pressures associated with contraband.

As for the fine line, it's very tough to wade into that territory. As you know, Canada is a huge country. The tax base from tobacco products is divided among the provinces. Each one has its own taxation rates, which can vary significantly from one market to another. One province might be dealing with specific law enforcement challenges that are not at all present in other parts of the country. My colleagues at the RCMP and Public Safety Canada would no doubt be better-positioned to discuss the issue in much more detail. I will say, though, that, in past years, we have seen specific problems involving counterfeit tobacco product imports. They were coming from China and truly looked like legitimate products that had been stamped in Canada. Of course, the illegal manufacture of tobacco products is a problem in parts of the country that are farther away from the major import ports. Given the wide range of factors that come into play, I will refrain from commenting on what that fine line is.

I can tell you, however, that the measure in the bill is intended to maintain the overall tax burden through the taxation policies being implemented. Given the minimal impact on the tobacco taxes collected, overall, I doubt that this increase would have much of an effect on the contraband situation in the country.

[*English*]

The Chair: Thank you for that in-depth answer, because the same thing was going through my mind: you don't know what's in half of legal tobacco either, which is a bigger health issue.

You wanted to speak again, Mr. Dusseault?

[*Translation*]

Mr. Pierre-Luc Dusseault: Yes, but I will keep it short. I just have two questions. I said earlier that I wouldn't ask Mr. Coulombe any more questions, but I would like some additional clarification.

The Canadian Cancer Society would like all tobacco excise taxes to go towards education and awareness campaigns to prevent more people from smoking.

You mentioned a figure of $3.2 billion. Are you able to tell us what percentage of the excise tax the federal government spends on anti-smoking awareness campaigns? Can you give us an approximate number? If not, would you be able to get back to the committee with that information?

Mr. Gervais Coulombe: I don't have that information with me. No doubt, it would be possible to check with the people at Health Canada on that, since they would probably be in a better position to provide exact numbers for that spending.

What provincial governments spend in that area would also have to be taken into account, given that they, too, take in tobacco tax revenue, which—I might add—is well above the $3.2 billion collected by the federal government.

As far as spending in this area goes, that is once again outside my specific area of tax policy expertise. We, on our end, collect the money, and my colleagues here handle the spending or suggest spending measures.

● (1750)

Mr. Pierre-Luc Dusseault: According to the Canadian Cancer Society, the provinces are a lot more active on this front. What the organization is really looking for is a larger contribution from the federal government, which does take in a fair amount of tobacco tax revenue, after all—$3.2 billion.

I would like to pick up on the public transit tax credit.

Mr. LeBlanc, you said that the goal of the credit, when it was introduced in 2006, was to reduce greenhouse gas emissions and increase public transit use, but that the credit had not accomplished either of those things. In light of that finding, and given that the current government is sticking to its objectives of reducing greenhouse gas emissions—at least, I hope it is—and increasing public transit use, have you looked into alternative solutions? It's well and good to conclude that a measure doesn't work and to get rid of it, but have you evaluated other options to achieve these very worthy objectives—perhaps a new tax credit or tax incentive? In a nutshell, have you weighed options to replace the public transit tax credit you deemed ineffective?

Mr. Pierre LeBlanc: Thank you for the question.

I don't think a tax credit is the most effective way for the government to promote public transit.

Budget 2017 did, however, set out major investments in public transit infrastructure. Some of my colleagues could no doubt speak to that in greater detail. I believe the government allocated more than $20 billion over a period of 11 years through agreements with the provinces and territories. The government has, then, earmarked some very significant spending for public transit, direct spending.

Mr. Pierre-Luc Dusseault: That answers my question. Thank you.

[*English*]

The Chair: Thank you very much.

That ends our questioning on parts 1, 2, and 3. Thank you all for coming before the committee and answering questions.

We'll now turn to Mr. Halley and Ms. Bourns to look at part 4, division 1, Special Import Measures Act.

Thank you, folks. I believe there are a couple of things to get back to the committee on about part 3.

We have our witnesses at the table. First, we have Patrick Halley, the director of the international trade policy division, international trade and finance branch; and Laura Bourns, the senior economist, trade rules, international trade and finance branch.

The floor is yours for an opening statement, and then we'll go to questions. We're dealing with part 4, division 1, amendments to the Special Import Measures Act.

The floor is yours.

[*Translation*]

Mr. Patrick Halley (Director, International Trade Policy Division, International Trade and Finance Branch, Department of Finance): Thank you, Mr. Chair.

Division 1 of part 4 pertains to amendments to the Special Import Measures Act. This is the primary legislation governing Canada's trade remedy system, which provides for the application of duties to address situations where dumped or subsidized imports cause injury to domestic producers.

The Minister of Finance is responsible for the legislation and policies relating to Canada's trade remedy system, which is jointly administered by the Canada Border Services Agency and the Canadian International Trade Tribunal.

[*English*]

There are four key legislative amendments being proposed in part 1. The first change relates to the implementation of a World Trade Organization dispute settlement decision, which found that Canada was in breach of its international trade rules. With these changes, Canada's trade remedy system will allow for determination and trade remedy investigation when an individual exporter is found to have an insignificant amount of subsidy or dumping.

The remaining three changes relate to proposals on which public consultations were conducted at this time last year. Two new proceedings will be created related to the enforcement of trade remedy measures.

First, primarily in clauses 87 and 89, there will be new scope proceedings that will provide for binding and appealable rulings as to whether a good is subject to anti-dumping or countervailing duties. These proceedings will enhance transparency and predictability related to the enforcement of trade remedy measures in Canada.

The second set of changes relates to new anti-circumvention investigations. They are primarily in clauses 84 and 89. These new anti-circumvention investigations will provide for the extension of duties to goods from exporters who are modifying their trade patterns specifically to avoid the imposition of duties in Canada. This will provide the Canada Border Services Agency with enhanced tools to address circumvention and more effective enforcement.

Third, CBSA will also be given new powers to respond to situations where market distortions in the country of export make prices unreliable for the purpose of calculating dumping margins, for example, when there are price controls by the government. This will ensure that trade remedy duties are accurately reflecting market conditions in the country under investigation.

Finally, one item that is not in Bill C-44 but was in budget 2017 was the proposal that unions be provided with the right to participate in trade remedy investigations. This change is being implemented in a parallel process, namely regulatory amendments. So it is not in this bill, but was announced in the budget.

Overall, these changes will strengthen Canada's response to unfair trade, better align Canada with our major trading partners, and ensure that we are abiding by international trade obligations. They provide important new tools for trade remedy investigators in Canada while maintaining the system's balance of interest between domestic producers, downstream users, and consumers.

● (1755)

[*Translation*]

That concludes our presentation.

We would be glad to answer any questions you have.

[*English*]

The Chair: All right. Thank you.

I have Mr. Dusseault. I don't believe there are any questions from the official opposition in this round.

Mr. Dusseault, are there any over here?

[*Translation*]

Mr. Pierre-Luc Dusseault: Yes, thank you.

Would you mind clarifying what the government is trying to achieve with all of these changes?

Right now, certain companies are engaging in trade dumping or illegal trade practices under international trade law but are using these practices in a way that allows them to avoid the measures we impose.

Is that the reason behind these changes?

Mr. Patrick Halley: It's the reason behind the proposed anti-circumvention measures. Some exporters are indeed engaging in certain practices in order to avoid anti-dumping or countervailing duties when their goods arrive in Canada.

Mr. Pierre-Luc Dusseault: Will the changes also apply to the dumping we are seeing in the steel industry?

[*English*]

Ms. Laura Bourns (Senior Economist, International Trade Policy Division, International Trade and Finance Branch, Department of Finance): The majority of Canada's trade remedy measures apply to the steel industry, so I believe around two-thirds of our trade remedy measures relate to steel products, and the majority of those measures would relate to China. Many other Asian countries are also implicated, but China is the main target.

What we sometimes have seen and other countries have encountered is that when a measure is imposed against China, there may be exporters in China that will try to ship goods through other countries, to ship unfinished goods to other countries, and have them completed in that third country and then be shipped onwards to another market. In that case, anti-circumvention investigations would be used to then potentially extend that measure against China to the third country if it were found that the goods from China were still a substantial proportion of the goods that were ultimately shipped on to the domestic market. There will be checks and balances to make sure that these measures are only extended where warranted, but, essentially, it will increase the enforcement of the existing measure by ensuring that circumvention isn't happening.

● (1800)

[*Translation*]

Mr. Pierre-Luc Dusseault: Very good. Thank you.

[*English*]

The Chair: Thank you.

Mr. Sorbara, do you have have a question?

Mr. Francesco Sorbara: Thank you, Mr. Chair.

In your opening statement, you used some words that caught my attention, “modifying their trade patterns”. From speaking to some of the folks in the steel industry, you may see some countries exporting steel through third countries, with that steel production or goods production—we don't have to use steel specifically—then ending up in one of our ports. Would the remedies or legislation here deal with that sort of situation?

Ms. Laura Bourns: Absolutely. That would be one of the key situations that the anti-circumvention legislation is intended to address.

There are two key types of circumvention. The first would be a modification to a product that falls outside the existing scope of a trade remedy measure. This could be a modification that doesn't change the essential characteristics of the product or how it's ultimately used, but it does change it enough that it falls outside the scope of the measure. For example, we've had situations where the chemical composition of a steel product was changed by the addition of boron or of different chemical compounds, and we've also seen situations, for example, where a 4-inch steel pipe is made to be a 4.1-inch pipe such that it falls outside the scope of the measure. These would constitute changes to a product to make that product fall outside the scope of the measure.

The second type would be a change in origin. As I've previously alluded to, if an input good or an unfinished good is shipped to a third country and finished there, that may change the origin of the good such that it's no longer considered to originate in the subject country but deemed to be coming from a third country. Ultimately, the substantial proportion of the manufacturing of that good would still take place in the subject country. In these instances as well, based on certain criteria, if we find that the substantial proportion of the production is taking place in the subject country, we'd still be able to consider that a subject to the measure.

The Chair: Are there any other questions in this round? Basically, I think what you're saying is that these changes will give us a better opportunity to challenge those companies or countries that are violating our trade laws. That's basically the bottom line.

Ms. Laura Bourns: Circumvention practices aren't necessarily a violation of trade law, in the sense that making modifications to a product or to your trade patterns isn't necessarily a violation of any law, but if it can be shown that these practices are being undertaken solely for the purposes of avoiding duties, then we'll be able to extend the duties to those goods. So, essentially, yes.

● (1805)

The Chair: Thank you very much for that clarification.

If there are no further questions from members, then thank you both for appearing before our committee and answering questions.

We will call up those appearing on division 2: Mr. Moreau, Mr. Wu, and Ms. David.

While the witnesses are getting settled, I just have a note for the committee. The Minister of Finance has a very busy week next week, and we're trying to see if we can fit him in. He has agreed to appear before committee from 12 to 1 on May 15. The minister is going to take the time to do that next week, rather than on the 29th, so those who are working with the minister can tell him that we appreciate that very much.

Dealing with part 4, division 2, on public debt, we have Mr. Moreau, who's the director, funds management division, financial sector policy branch; Ms. David, who is the adviser/economist, funds management division, financial sector policy branch; and for Mr. Wu, I don't have his information here. I have your name, but not your position, so you can give that to us when you're speaking.

Please go ahead in explaining part 4, division 2.

Mr. Nicolas Moreau (Director, Funds Management Division, Financial Sector Policy Branch, Department of Finance): Thank you, Mr. Chair.

We're here to present and answer your questions on division 2 of part 4, clause 103 of the budget implementation act, which introduces the proposed borrowing authority act. This act authorizes the Minister of Finance to borrow on behalf of the crown and provides for a maximum amount of borrowing.

In budget 2016, the government restored parliamentary approval of government borrowing, which was last in effect prior to 2007. In budget 2017, the government proposed to implement this framework by introducing legislation seeking parliamentary approval of government borrowing.

Under the proposed borrowing act, Parliament is being asked to approve a borrowing limit. A requirement is also proposed for the government to return to Parliament at least every three years to report on the government's aggregate borrowing relative to the limit and potentially to propose a new limit, if needed.

Relative to the current framework, whereby the Governor in Council approves the flow of government debt only for the current fiscal year, the proposed borrowing authority act adds transparency to Parliament by focusing on the stock of debt—the overall level of debt of the government. The new borrowing authority act also amends the accountability to Parliament by introducing the requirement that the reporting be on government debt as well as the crown corporation debt. Basically, we're not only including the federal debt, but also looking at the crown corporation borrowing.

As presented in clause 103, in proposed section 4 of that borrowing act you can see that the limit currently being asked for this year is one trillion, one hundred and sixty-eight billion dollars. Let me explain to you how we got to this number.

Basically, the first number that we take into consideration is the stock of government debt. As of the end of the last fiscal year, the fiscal year 2016, the stock of the federal debt was $691 billion. To this number, we add the agent crown corporation market debt. This number is $276 billion. To this stock of debt, we add the financial requirements set out in budget 2017 for the next three fiscal years. This number is $103 billion. On top of this, we add the expected crown borrowing over the next three years. This number represents $43 billion.

To this number, we add a contingency margin equal to 5%. The 5% is taken from the highest level of the combined government and crown corporation debt over the next three years. The amount we're adding is $56 billion for the next three years.

Overall, this explains the one trillion, one hundred and sixty-eight billion dollars of borrowing approval that we have included under proposed section 4 in clause 103. It should be noted that in terms of increasing borrowing requirements, we're talking here about an increase of $146 billion over the next three years.

This concludes my summary remarks.

● (1810)

The Chair: Thank you.

We will start with Mr. Deltell, then go to Mr. Sorbara, then Mr. Dusseault, and then Mr. Liepert.

[*Translation*]

Mr. Gérard Deltell: Thank you, Mr. Chair.

Ladies and gentlemen, welcome to your House of Commons.

Mr. Moreau, it isn't a problem if we converse in French, is it?

Mr. Nicolas Moreau: No, it's no problem.

Mr. Gérard Deltell: That's what I thought. Very good. We'll have to be very careful when we refer to you, since the difference between your last name and the minister's is only one letter. We'll have to be mindful of that.

Mr. Moreau, I'd like to start by touching on two issues.

In relation to the debt, you listed a slew of figures that may come as a surprise to some, but not to us. The debt is beyond the billions, if you take into account all the elements.

What kind of strain does an amount like that put on public finances? Keep in mind that, for years, we have repeatedly been hearing that things are going well and that interest rates are low, with the caveat that those rates could eventually rise. What is the risk and danger of having over a trillion dollars in debt? As an aside, I would just point out that the French term for “trillion” is not the same as in English. The right term in French is actually *billion*. The English term “billion”and the French term *billion* are often used incorrectly. Be that as it may, for the purposes of our conversation, let's use the word *trillion* in French.

The debt currently exceeds $1 trillion. According to a Department of Finance study that was sent to the minister on October 10 but not made public until a few hours before Christmas, if the situation remains unchanged, by 2050, Canada's debt will sit at $1.5 trillion, and that doesn't include crown corporation debt.

I'd like you to discuss the risks that such a debt poses to public finances.

Mr. Nicolas Moreau: The thing that has to be taken into account is the government's capacity to make payments. We are talking about just over a trillion dollars of debt—*billion* in French, if we use the correct term. As a share of GDP, that's 50%. From that standpoint, when you compare Canada with other G7 countries, we fare quite well: we have the lowest level of public debt in the G7. Canada also has a higher credit rating, being the only G7 country with positive interest rates and a AAA credit rating. That's a key consideration to keep in mind.

That said, of course, maintaining our ability to repay the national debt is important. However, the debt has to be considered in context, with regard to the big picture.

Mr. Gérard Deltell: Clearly, the excellent standing you are referring to is the fruit of the previous government's labour. Allow me, if you will, to speak on the former government party's behalf, and this has nothing at all to do with you. Thanks to the previous government, led by our party, Canada was the first country to emerge from the financial crisis, and has the best debt-to-GDP ratio and credit rating in the world. Fortunately, we were there to lead the country as the entire planet grappled with the worst financial crisis since the 1920s.

That said, you mentioned something else that came as a bit of a surprise to us, but I want to make sure I understood you correctly. You said that the government would have to return to Parliament every three years to provide an update on the situation. Did I hear that correctly? You are nodding your head. Why is it every three years? Why not every year?

Mr. Nicolas Moreau: I admit that the decision to do it every three years is somewhat an arbitrary one. However, it would be extremely onerous to have to return to Parliament every year to set a new borrowing limit. It's about the same as the current system; all we are doing is examining the debt flow.

It should be pointed out that the budget contains five-year forecasts. The outlook is for the medium term, up to five years ahead. We decided to provide an update every three years, making it possible to better balance tax planning and debt management. The approach offers more flexibility from a management standpoint.

It could prove difficult if the government had to return to Parliament every 12 months to adjust the limit. That's a very tight time frame, especially during an election campaign.

● (1815)

Mr. Gérard Deltell: Your explanation makes sense, but the issue merits further analysis. The debt is, after all, a very high tax burden on public finances. I believe it is now the Canadian government's third largest spending item; we aren't talking about peanuts, here. We could certainly take a closer look at the merits of requiring the government to report to Parliament every year, as opposed to every three years.

You said all budgets reflected five-year forecasts. I have been in Parliament barely a year and a half, so this is only the second budget I have scrutinized. However, at another time, in another legislature, with the benefit of analysis, we realized that no five-year forecasts ever held true the following year. The next year's estimates were never in line with the forecasted figures.

Is that the case for the federal government as well? If so, what is the point of preparing five-year forecasts if they aren't valid the following year?

Mr. Nicolas Moreau: First of all, I'd like to clarify something about the three-year time frame I was talking about.

The government of the day can decide to adjust the borrowing limit every year, if it wishes. Under the proposed measure, the government would have to return to Parliament at least once every three years to have the limit adjusted, but the government has the discretion to do it every year, if it wants to.

The budget also sets out the strategy for managing the debt. By including those numbers in the budget, the government is accountable to Parliament and the public. Every year, a debt management report is also published; it lays out all the costs associated with servicing the debt.

Turning back to the matter of the economic forecasts, I would say it's far from an exact science and particularly challenging right now, mainly because of market uncertainties. We can't control what happens in the world. We have seen numerous shocks in recent years, and that has complicated the business of economic forecasting.

To arrive at our forecasts, we consult about 15 private-sector economists and take the average. We also ask them to list the risks associated with their projections, from both an upward and downward standpoint. That is why our forecasts include a contingency reserve.

It's not an exact science, and Canada isn't the only one adjusting its budget forecasts, either. All industrialized nations do the same. The IMF and OECD revise their forecasts quarterly.

It bears repeating: it's not an exact science. We do our best, but the market uncertainties make our job a lot more complicated.

Mr. Gérard Deltell: I'm not an accountant, but that's what accountants say. Economists are always very good at explaining what happened and assuming responsibility for their predictions. That isn't exactly true, but I won't get into that.

Thank you, Mr. Chair.

[*English*]

The Chair: Thank you, Mr. Deltell.

Mr. Sorbara is next, please.

Mr. Francesco Sorbara: The number on the borrowing limit includes all the loan guarantees that are in place. Is that correct?

Mr. Nicolas Moreau: I beg your pardon?

Mr. Francesco Sorbara: Does it include any loan guarantees that are in place for debt issuances?

Mr. Nicolas Moreau: It doesn't, no. No loan guarantees are included in this number.

Mr. Francesco Sorbara: Okay.

Second of all, you mentioned credit ratings for the G-7. Please correct me if I'm wrong, but I understand that Germany also has a AAA credit rating like Canada's. It depends on which agency you look at for the United States: they also still maintain a AAA credit rating with Moody's and Fitch, I believe, but not with S&P if I'm correct.

Mr. Nicolas Moreau: You're totally correct. My statement was that Canada is the only country with a AAA rating from all the rating agencies—

Mr. Francesco Sorbara: I think Germany has a AAA rating too.

Mr. Nicolas Moreau: I'm not done with my statement. I also said “with positive interest rates along the curve”, which is not the case in Germany right now because there are some sections of the interest curve that are still negative in Germany. But you're totally right that Germany also has a AAA rating.

Mr. Francesco Sorbara: Yes, they do. I just wanted to make sure we have that on the record. We don't want to have anything improper there.

That's it, Sir. Thank you.

The Chair: Mr. Dusseault.

[*Translation*]

Mr. Pierre-Luc Dusseault: Thank you, Mr. Chair.

Mr. Moreau, thank you for being here and for giving us that presentation.

You said the government had to return to Parliament at least once every three years to seek parliamentary approval as regards the public debt. You said the requirement provided for accountability and greater transparency on the government's part.

Could you please explain how it is more transparent to inform Canadian taxpayers of the exact amount of borrowing—which stands at more than $1 trillion—when they don't necessarily see all the related details? How does that provide greater transparency?

● (1820)

Mr. Nicolas Moreau: It will be more transparent in the sense that the public can now know the facts, since the facts will be reported at least once every three years.

Under our current system, only the marginal increase in the debt is reviewed each year. It may be slightly more difficult for Canadian taxpayers to understand the data than to review all the government's borrowing requirements over a maximum of three years.

Mr. Pierre-Luc Dusseault: Each year, Parliament is called upon to pass the budget, meaning the government's expense budget. It may be a hypothetical situation, but let's look at the following case. Parliament has passed the expense budget, but after three years, Parliament doesn't approve the bill tabled by the minister.

How can the budget limit be raised? Is it through a bill?

Mr. Nicolas Moreau: The limit would be raised through the borrowing authority. Essentially, it would be a legislative process, so it should be tabled in Parliament.

Mr. Pierre-Luc Dusseault: So, the amount would be increased directly under the legislation.

Mr. Nicolas Moreau: Exactly.

Mr. Pierre-Luc Dusseault: Passing a bill is a complex process. We deal with it on a daily basis. The process takes time and it's left to the whims of the elected officials, who are called upon to vote on the issues.

Let's go back to the hypothetical case I gave you. Parliament passes the expense budget, in the form of appropriations, for one year. Have you considered that the budget proposed in the government's bill may be higher than the authorized limit? Could these types of disparities occur? Through this type of bill, could Parliament pass a budget that exceeds the authorized limit?

Mr. Nicolas Moreau: If the government were to announce new appropriations or new budgetary expenditures that exceed the limit, it would need to request a new budget limit. To do so, it would need to go through the whole process. That's how the system allows for more transparency, as I said. If the government wants to spend more and the limit becomes restrictive, it will need to be transparent and ask Parliament to raise the limit.

Mr. Pierre-Luc Dusseault: In terms of whether the limit is restrictive, I understand the following:

[*English*]

> The proposed new borrowing authority framework would provide the Government with flexibility to meet unforeseen needs and standing authority to refinance outstanding market debt, subject to an annual approval by the Governor in Council.

So the cabinet....

[*Translation*]

So you have some flexibility. If you must quickly raise the authorized budget limit, for unforeseen reasons, you can do so through the Governor in Council, without Parliament's authorization. That's what it seems.

Is that true?

Mr. Nicolas Moreau: That's very true. However, we're talking here about an emergency, an unforeseen economic shock that would require the government to increase its borrowing program. That's completely different from a situation where the limit is raised because the government wants to increase program spending or tax credits.

If there's an economic crisis like the one that occurred in 2007, which forced the government to increase its borrowing program, provisions in the legislation would provide this flexibility. However, to increase program spending, we would need to request, before Parliament, an adjustment in the authorized budget limit.

Mr. Pierre-Luc Dusseault: Okay, but let's get back to my hypothetical case. What will happen if Parliament refuses to raise the budget limit?

Mr. Nicolas Moreau: In this case, it would reject most of the budget implemented. The budget limit is established based on the government's financial needs, which are specified in the budget.

Do you understand what I mean?

Mr. Pierre-Luc Dusseault: No, I'm not sure I understood what you just said.

Could you repeat it?

Mr. Nicolas Moreau: If the budget announced by the government includes, for the next five years, fiscal projections that make the established limit insufficient, the limit must be raised. If the limit can't be raised, it's as if the government can't get the established budget approved.

● (1825)

Mr. Pierre-Luc Dusseault: It would have the same impact as a budget defeated before Parliament. A vote on the budget limit would be considered a vote of confidence.

Mr. Nicolas Moreau: Exactly.

Mr. Pierre-Luc Dusseault: That's all for me, Mr. Chair.

[*English*]

The Chair: You're okay?

All right, then Mr. Liepert.

Mr. Ron Liepert: I have a few brief questions that I need clarification on.

The number was $1.3 trillion?

Mr. Nicolas Moreau: The exact number is $1.1—

Mr. Ron Liepert: Yes, rough numbers.

What's the current debt?

Mr. Nicolas Moreau: The current stock of debt at the federal level is $691 billion.

Mr. Ron Liepert: And the crowns?

Mr. Nicolas Moreau: To that you need to add the crowns—

Mr. Ron Liepert: Yes. What is that?

Mr. Nicolas Moreau: —which is $276 billion.

Mr. Ron Liepert: Do you have a breakdown of the crowns' debts?

Mr. Nicolas Moreau: I don't have it with me, but—

Mr. Ron Liepert: No, but could you supply it?

Mr. Nicolas Moreau: Yes, of course.

Mr. Ron Liepert: I wouldn't mind knowing what that is.

Mr. Nicolas Moreau: Of course, we have that.

Mr. Ron Liepert: What is the interest rate we would be borrowing this money at?

Mr. Nicolas Moreau: I don't have the number for this year, but for 2016, the average rate for our borrowing program was 0.6%, so 60 basis points.

Mr. Ron Liepert: 0.6?

Mr. Nicolas Moreau: Yes, 0.6. The overall interest rate of our total stock of debt at the federal level is around 2% right now, so 200 basis points. The overall cost of our debt, on average is around 2%.

Mr. Ron Liepert: That's 2% of our budget?

Mr. Nicolas Moreau: No, not 2% of our budget. I'm talking about the interest rate cost. As a share of our budget spending, I'll need to check that number, but it's not something I would be....

Mr. Ron Liepert: I needed clarity on those numbers.

I'm fine, Mr. Chair.

The Chair: Sorry for the confusion here. We're doing two things at once.

Are there any further questions to the...?

Mr. Dusseault.

[*Translation*]

Mr. Pierre-Luc Dusseault: I want to take another look at the figures.

We talked about $690 billion for the public debt.

Mr. Nicolas Moreau: It's $691 billion.

Mr. Pierre-Luc Dusseault: Let's add the crown corporations' debt, which amounts to $276 billion.

We're missing some amounts. Are the remaining amounts pension responsibilities?

Mr. Nicolas Moreau: I'm talking here about the Canadian government and crown corporation market debt, which is different from public debt. Public debt includes the government's debt and financial needs for pensions that aren't already fully accounted for by a debt program. Therefore, this figure isn't included here. The figure I'm talking about, in relation to the borrowing limit, includes all the borrowing for the Canadian government and crown corporation market debt.

Mr. Pierre-Luc Dusseault: I calculated $691 billion plus $276 billion.

Mr. Nicolas Moreau: Your calculation is missing the financial needs for the next three years. The federal government has a public deficit and other needs in relation to the debt payments, which amount to $103 billion, in total, over the next three years. We must then add the amount already included in the crown corporations' plans, meaning $43 billion over the next three years, and a contingency reserve of 5%, which is $56 billion. The total equals the amount established.

Mr. Pierre-Luc Dusseault: We're up to $1,168 billion.

Mr. Nicolas Moreau: Exactly.

Mr. Pierre-Luc Dusseault: Thank you.

[*English*]

The Chair: Thank you.

Mr. Liepert wants one quick question.

Mr. Ron Liepert: I just want to follow up on Mr. Sorbara, who mentioned loan guarantees.

How do you factor that in as a liability?

The Chair: Mr. Wu.

Mr. James Wu (Chief, Financial Institutions Analysis, Department of Finance): Thank you, Mr. Chair.

I'm the chief of the debt management section at the Department of Finance. Loan guarantees for accounting treatment are not usually carried directly on the balance sheet. They are a contingent liability.

When we looked at the issue of the borrowing limit, the approach we took was the actual borrowings that the government or the crowns undertake in the markets or from financial institutions. That's how this borrowing authority was scoped.

In essence, it's very similar in scope with the existing borrowing authority approach, or the pre-2007 approach that existed and also had parliamentary approval. The focus or the scope is on the borrowing activities of the government.

I think, as my colleague Mr. Moreau indicated, the additional factor we've added here is the crowns.

● (1830)

Mr. Ron Liepert: Yes, I understand that, but I'm still not sure I understand how loan guarantees are accounted for.

Are they a liability, or how would that work with government?

Mr. James Wu: Yes, they're considered a contingent liability.

I think as Mr. Moreau indicated, on the balance sheet of a government, there are different types of liabilities, not just market borrowings or borrowings from the financial institutions. For a borrowing authority, we scope it to basically reflect the borrowings from the market or from financial institutions, and those other liabilities are not factored in.

Mr. Ron Liepert: I'm sorry, the current debt is $691 billion. That's what we're borrowing.

As of the end of the last fiscal year, what was our debt payment annually?

Mr. Nicolas Moreau: I don't have that number offhand, but it's something I could clarify for you.

Mr. Ron Liepert: Fine.

The Chair: So that I'm clear on this loan business as well, I think you mentioned in your earlier statement contingent liabilities. Does that cover off the loan?

Mr. James Wu: No.

I'll give you some examples of other types of liabilities, like pension liabilities. There are other payables that the government may be liable for at the end of a fiscal year. These are factored into the total liabilities.

To give you a comparison or example, this balance sheet concept of total liabilities actually amounts to $1.088 trillion, but it is a different concept. It's a balance sheet concept, so guarantees vis-à-vis liabilities are captured under this different concept.

The Chair: Okay.

Mr. Liepert, go ahead.

Mr. Ron Liepert: What was that figure again?

Mr. James Wu: It's $1.088 trillion.

Mr. Ron Liepert: So our contingent liabilities are double.... If you added the contingent liabilities to the borrowing, it would more than double?

Mr. James Wu: I would actually express it in two different ways. One concept is the balance sheet concept, and this is where the question of other liabilities comes in, like contingent liabilities. That measure is sort of an accounting concept.

The concept we tried to capture here in the borrowing authority is basically market borrowing.

Mr. Ron Liepert: I understand that. It's not the same thing. I understand.

Would the Bombardier loan be in that $1.088 trillion? Is that the kind of thing that would be in the $1.088 trillion?

Mr. James Wu: Sorry, the $1.168 trillion borrowing authority?

Mr. Ron Liepert: No, not in the borrowing, but in the contingent liability.

Mr. James Wu: Oh, I see. I would have to double-check with our accountants because some of them are carried on explicitly in the balance sheet. Others are in another category that are not reflected in the $1.088 trillion.

Mr. Ron Liepert: I'm just trying to get a sense of what that is. I understand it's not a debt.

The Chair: I think that's it.

Thank you folks for appearing and for those explanations. We are at 6:30.

Because there are votes tomorrow, we're only going to be able to meet for two hours, so we are going to have to try to move.... I'm worried about some of the people who end up coming here, sitting and waiting, and then we don't get them on. We're going to have to get back to some of the people responsible for some of these divisions and give you a heads up, because we're not going to get through them all tomorrow in two hours for sure.

I think we've decided that we will leave division 7 until Thursday, because we're going to hear from the parliamentary budget officers on Wednesday.

Thank you again folks for your presentations.

The meeting is adjourned.