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The Honourable Wayne Easter

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● (1530)

[*English*]

The Chair (Hon. Wayne Easter (Malpeque, Lib.)): I call the meeting to order.

Today is really our first meeting with external witnesses on pre-budget consultations in advance of the 2018 budgets.

In the first hour and a half, we have six witnesses.

Welcome folks. I know that most of you have sent us briefs, and we certainly appreciate having received those briefs. We do know that a few things have changed since August.

We'll start with Mr. Beauregard, vice-president of regulatory affairs at the Aerospace Industries Association of Canada.

Mr. Mark Beauregard (Vice-President, Regulatory Affairs, Aerospace Industries Association of Canada): Good afternoon. Thank you for the invitation to join you today.

My name is Mark Beauregard. I'm the vice-president of regulatory affairs at the Aerospace Industries Association of Canada. I'm a professional engineer and business person. I've spent over 30 years in the Canadian aerospace industry.

AIAC member companies manufacture aeronautical and space products, and they engage in aircraft maintenance, repair, and overhaul. We contribute over $28 billion to the economy each year, and help to employ well over 200,000 people. Over 80% of the aerospace industry's goods and services are exported, and much of this is for civil applications.

Our industry complies with a vast regime of safety standards and regulations designed to ensure that air travel remains safe, reliable, and sustainable. Canada has long been a leader in aviation regulations worldwide. Transport Canada's civil aviation branch, TCCA, is known worldwide as one of the big four regulatory bodies, along with the U.S. FAA, Europe's EASA, and Brazil's ANAC.

TCCA's certifications and approvals make it easier for Canadian manufacturers and service providers to do business in foreign jurisdictions, thereby increasing the sector's global competitiveness. A TCCA certification or approval with its worldwide recognition is the final and essential step in the innovation value stream for Canadian civil aviation products and services.

Recognizing the importance of the aerospace industry to the Canadian economy, the federal government, provincial governments, and municipalities have long invested directly and indirectly in the Canadian aerospace sector. The federal government's efforts to support innovation, through programs such as the innovation superclusters initiative, the strategic innovation fund, and the accelerated growth service, are highly welcomed by the industry, and numerous aerospace firms will benefit from these programs. However, these government investments are not optimized unless TCCA's certification and standards departments are adequately funded to provide timely certifications and approvals at the end of the innovation value stream.

Let me give you a few numbers to illustrate the scope of the problem.

Over the past 10 years, Canada's aerospace industry has grown substantially. Our economic impact has increased by approximately 31% in GDP terms. Productivity has increased by 39%, and R and D spending by 64%. Over the same period of time, the budget for Transport Canada's certification and standards branches has not increased at all. In fact in real terms, it has actually been reduced.

This inadequate funding is having a significant negative impact on TCCA's ability to support the industry's export competitiveness and on TCCA's global reputation. It has resulted in delays on certifications and approvals, it has created bottlenecks, and it is impeding the industry's ability to keep up with demand. The international aviation community, which includes foreign aviation authorities, has expressed concerns to us regarding TCCA's ability to maintain its regulatory leadership.

Transport Canada senior management and other Government of Canada departments have recognized the critical role of TCCA in the value stream, and have initiated various temporary measures to address the funding shortfall. That has been an encouraging start, but more needs to be done, and urgently.

Our recommendation to this committee and to the government is that budget 2018 establish additional, predictable, and stable funding for TCCA. We recommend that the budget for TCCA be increased by approximately $30 million over five years. This is indeed a modest amount, only $6 million a year, which will help to ensure that our $28-billion industry continues to bring products to market quickly and competitively. The budget increase should be used to hire much-needed and highly specialized certification staff, to increase focus on effectively negotiating bilateral airworthiness and maintenance agreements, and for the updating and modernization of TCCA's regulatory framework.

● (1535)

In conclusion, we urge you to review the current budget at TCCA, in particular with respect to the certification and standards branches. It would be really tragic if the innovation value stream, that governments fund to a large degree with industry, is dampened by inadequate funding at TCCA.

Thank you for your attention. I'm happy to answer any questions you may have.

The Chair: Thank you very much, Mark.

We'll be turning then to John McKenna of the Air Transport Association of Canada, who is the president and chief executive officer.

Mr. John McKenna (President and Chief Executive Officer, Air Transport Association of Canada): Good afternoon.

ATAC has represented Canada's commercial air transport industry since 1934. We have approximately 190 members engaged in commercial aviation operating in every region of Canada. We welcome the opportunity to comment on three budget issues of great concern to our industry, namely the sale of major Canadian airports, the CATSA financing and business model, and the new carbon tax coming into effect next year.

ATAC strongly opposes the sale of major Canadian airports. We firmly believe that the government's intent to sell off airports in order to raise billions to finance numerous non-aviation infrastructure projects is nearsighted, extremely detrimental to our industry, and will result in significantly increased costs to the airlines and their passengers.

[*Translation*]

Canada's major airports pay over $300 million annually in airport rent to the federal government. Compare that situation to American airports that are heavily subsidized by state and federal governments, and you will understand why our industry is struggling to remain competitive with our neighbours to the south.

[*English*]

Costs for carriers and their passengers will increase by hundreds of millions of dollars because investors would expect a reasonable return on up to $16.6 billion that the C.D. Howe Institute estimates the sale of larger airports would generate. A reasonable return of 5% would be in excess of $800 million annually, more than twice the unreasonable airport rent already being paid to the government. As rent would continue for those airports not sold, the total cost to our industry and its passengers is likely to nearly triple.

Furthermore, airports could see their surpluses simply yield higher returns on investments rather than reinvestments in services and infrastructure. In addition, if the investors are foreign, there's a good chance the profits would simply be expatriated.

To meet their investors appetite for even normal returns, airports would either have to cut services and investments or increase the fees significantly. Recent experiences in such projects, for example in Australia, have resulted in costs per passenger to increase by over 50% in the decade following airport privatization.

● (1540)

[*Translation*]

To add insult to injury, the government would impose a huge new burden on our industry and its passengers, while not reinvesting one penny of the billions generated back into aviation.

[*English*]

ATAC will fight against such a misguided measure in the hopes that the federal government will not jeopardize the long-term viability of the air transport industry for a one-time cash grab.

The funding and governance model of CATSA has always been a serious concern for our industry. For over 10 years, we've been asking the government why it found it acceptable that the air travellers security charge collects over $100 million more per year than is appropriated to CATSA. However, no answer has been forthcoming.

[*Translation*]

While the number of passengers grows every year, CATSA budgets have been lagging behind. With one of the highest air travellers security charges in the world, Canada is also the exception in that the government has shouldered the travelling public with 100% of airport security costs. In other jurisdictions, governments assume the bulk of the cost and only rely on the travelling public for a minor contribution.

[*English*]

The government is studying various business options for CATSA and seems to favour a Nav Canada type of model. The pitfall for applying a user-pay model to a security agency is that the governing body would have no decision-making power on the level of service, as that would remain the government's responsibility. Consequently, the administrators could be shouldered with new security measures overnight and be expected to fund them, with no questions asked.

[*Translation*]

We would support a model which would be a necessary adjustment on the status quo, where the government would work collaboratively with CATSA in policy applications and transform the air travellers security charge into a dedicated fee set by CATSA and adjusted to meet its changing needs.

[*English*]

This is supported by a report on aviation safety in Canada tabled in the House of Commons last May by the House Standing Committee on Transport, Infrastructure and Communities.

The carbon tax announced in the last budget is another blow to the competitiveness of our industry. Air carriers already pay $150 million a year in fuel excise tax on jet fuel. Will the fuel excise tax be replaced by the carbon tax or will this be an additional hit on our industry? The $10 per tonne announced for 2018 translates into 2.74¢ per litre. By 2022, this will have risen to 13.69¢ per litre. In the competitive world of international aviation, this is totally unreasonable.

I thank the committee for its time and I'd be happy to answer any questions.

The Chair: Thank you, John.

We're turning to Mr. Harford, the president of Beer Canada.

Mr. Luke Harford (President, Beer Canada): Mr. Chairman and honourable members of the committee, thank you for the invitation to appear here this afternoon.

The government took one step forward and two back on domestic brewers this past year. Today I will ask the finance committee to recommend that the government point all its policies in a positive, growth-oriented direction aimed at helping brewers be more productive and more competitive.

Beer Canada is a national trade association with 50-plus members that combined operate 78 brewing facilities across 10 provinces and one territory. The supply and demand for beer, according to a 2013 Conference Board of Canada report, indicates that the demand for and supply of beer causes a chain of economic activity that supports more than 163,000 Canadian jobs and generates $5.8 billion in federal, provincial, and municipal tax dollars.

Canada has a real advantage in brewing beer. High-quality malting barley is an essential ingredient in beer, and we grow enough of it in Canada to supply the local brewing industry. We have local malting houses, local bottle shops, can manufacturers, and packaging manufacturers, and we even have five post-secondary institutions offering programs tailored to beer industry jobs. We also have locally grown hops re-emerging as a domestic supply source. Our country has all the agricultural and manufacturing assets needed to make great beer.

Beer has a very large domestic economic footprint. As a result, every dollar spent on beer in Canada generates more than a dollar—$1.12, in fact—in value-added economic activity. This is in addition to beer's tax multiplier effect.

It is in our country's national economic interest to have policies and laws that help domestic brewers compete and grow. The government took a helpful step forward in May of this year when a delegation of Canadian brewers, large and small, met with the Honourable Lawrence MacAulay to learn that the government was committed to modernizing the federal beer standard under the food and drug regulations. The express purpose of this modernization initiative is to ensure that brewers have the tools necessary to innovate and compete in today's marketplace. The Prime Minister set job creation and innovation in the ag sector as overarching goals for the Minister of Agriculture, and Canadian brewers are thankful that the government has taken action to help our industry.

In contrast, budget 2017 took two steps backward. It raised excise rates on beer with no warning and no transition time, and it introduced a mechanism designed to increase federal beer taxes every year with no trigger for review, no end point, and no parliamentary oversight.

Higher excise rates went into effect the day after the budget was tabled and added $12 million in costs to domestic brewers, but the bigger surprise was the mechanism that will automatically increase excise duty rates every year by the rate of inflation. This mechanism is set to kick in with the first annual increase on April 1, 2018. The finance committee can help the domestic brewing industry by recommending that this tax escalator mechanism be repealed before it takes effect.

As tax policy, increasing excise duty automatically every year is unfair to beer drinkers, too rigid to accommodate regional economic differences, and inappropriate given the challenges the beer industry faces today. On average, the tax on a case of beer already makes up 50% or more of the final retail price, depending on the brand. Per capita beer sales declined 10% between 2006 and 2016. Beer's share of the beverage alcohol market dropped 6.4 percentage points in dollar terms over this 10-year period. While Canadian brewers remain strong in their home market, their sales in volume terms have dropped by the equivalent of 8.3 million cases of 24 bottles since 2006.

If domestic brewers gained those sales back, it would generate $298 million in GDP and $117 million in additional tax dollars every year. Automatic annual tax increases are not going to help the domestic brewing industry gain back those sales.

Today, on behalf of the Canadian brewing industry, I'm asking that the committee recommend the repeal of the annual escalator mechanism now baked into the Excise Act as a result of budget 2017. If acted upon, this recommendation would be a positive signal to our industry that the government aims to be consistent in its policies and truly wants to help domestic brewers be more productive and competitive in the years ahead.

Thank you for your time this afternoon. I look forward to your questions.

● (1545)

The Chair: Thank you very much, Luke.

We'll turn to Mr. Gooch, president, Canadian Airports Council.

[*Translation*]

Mr. Daniel-Robert Gooch (President, Canadian Airports Council): Mr. Chair, ladies and gentlemen, thank you for this invitation to appear before you today as part of your pre-budget consultations.

My name is Daniel-Robert Gooch, and I am President of the Canadian Airports Council.

[*English*]

Let me start by thanking you for supporting the CAC's 2017 budget submission. Canada's airports were pleased that progress was made, particularly on infrastructure funding for small national airport system, NAS, airports across Canada.

The Government of Canada's national trade and transportation corridors initiative allows all major airports to apply for funding. For several years, six small NAS airports were barred from applying for these funds. They can now finally access funds to improve safety at their airports. This change is welcome. Over the last 10 years, passenger numbers have grown from 101 million to 141 million at Canadian airports. We are already seeing a 6.3% increase this year.

This growth supports our economy and tourism and trade and 141,000 direct jobs in air transport. The efficient movement of goods and people is essential to the productivity and competitiveness of Canadians and businesses across the country. But the growth also means longer wait times at security screening at a number of airports as well as at our air borders.

[*Translation*]

When we appeared before you last year, we proposed that the Government of Canada undertake an in-depth reform of the country's security screening process, including the establishment of service standards for pre-boarding screening and a financial mechanism to allow a better response to a growing demand.

● (1550)

[*English*]

There are promising signs. Just under a year ago, Transport Minister Marc Garneau committed to looking at the Canadian Air Transport Security Authority governance model to make its funding nimbler to growing demand and accountable to service standards. We understand that changes to CATSA will be considered this fall, and this is a good step. Some airports believe the best approach would be to allow airports a greater role in the delivery of screening at airports, as is the case in many other parts of the globe.

For such a fundamental part of airport operations though, it is important we get this right and that government, CATSA, and airports work together on any structural changes that may be made. Finding a long-term solution is essential for passengers who deserve predictability and value for the air travellers security charge they pay. But in the meantime, CATSA needs to be sufficiently funded next year to support demand and allocating all revenue from the ATAC to CATSA screening is a good place to start.

CATSA's current target to process 85% of passengers in under 15 minutes means that about 10 million travellers are waiting anywhere from 16 minutes to an hour or longer. We do not believe this target is adequate. Moreover, airports tell us it is not even being consistently met today.

Airports are also spending millions of dollars to top up the service that travellers are already paying for. This undermines the goal of reducing the cost of air travel in Canada, as airports have to recover costs from users. Government also should restart its stalled investment in CATSA Plus lanes, which are improving the traveller experience where they have been installed so far.

We are also requesting resources for the Canada Border Services Agency to support growing air service demands and continued innovation. International arriving passengers are our fastest growing segment, with 10% growth so far this year outpacing last year's numbers. Working with CBSA, airports have invested millions of dollars in infrastructure to speed up and improve the traveller experience. The agency is at the forefront of keeping Canada safe in an increasingly complex, fast-changing world. CBSA supports international traffic and trade and has worked tremendously hard with airports this summer to manage a heavy flow of travellers.

Toronto Pearson continues to see record growth, and this summer was particularly challenging for them as CBSA simply did not have the resources to keep up. With customs halls jammed, passengers were routinely held on aircraft or outside customs halls, resulting in passenger delays that we're all working as an industry to avoid. In addition to its security role, of course, CBSA has an important impact on business, trade, and tourism in this country.

We're pleased to say that Canada is going in the right direction on this file. Better technologies and processes are constantly being developed and Canada is, and should continue to be, at the forefront on this. But we also need to reinforce resources for border control officers in the field who do important work.

Another area of concern for Minister Garneau is reducing the cost of air travel. Our submission includes two recommendations on cost. On the revenue side, the introduction of duty-free stores upon arrival from an international flight would provide an additional service to travellers and additional funds for airports to offset aeronautical charges to airlines. It's a service that's already in place in many other parts of the world.

On the cost side, airports last year paid $344 million in rent to the federal government, as my colleague described. As a tax on gross revenue, this rent impacts the way airports evaluate business opportunities with low-margin financial returns. We propose rent be eliminated for all airports with fewer than three million passengers and at least capped for larger airports to stop the upward trajectory.

In conclusion, I would like to thank you again for your support of the CAC's budget submission last year. Our recommendations this year will enable Canada's airports to improve the competitiveness and productivity of business in the country. They will also improve the traveller experience.

I'm pleased to answer any questions you may have.

The Chair: Thank you, Daniel.

I will turn to Mr. Brakel, the chief economist for the Canadian Chamber of Commerce.

[*Translation*]

Mr. Hendrik Brakel (Chief Economist, Canadian Chamber of Commerce): Thank you, Mr. Chair.

[*English*]

The Canadian Chamber of Commerce provided a pre-budget submission with recommendations on productivity. However, the critical issue, really the only issue our members are worried about for budget 2018, is the finance department's proposed tax changes.

The Canadian Chamber of Commerce has been around for many years and we have never seen a reaction like this from our membership. On an almost daily basis we get phone calls and emails from members saying, "Why isn't the chamber doing more to oppose the tax change?" and "Why haven't you condemned the proposals more forcefully?" We think it's because the changes are so broad, so far-reaching, and with so many unintended consequences.

Ladies and gentlemen, there is not a restaurant or a farm in the country that does not have family members working there, and every single business in Canada has passive income, unless the business is on the brink of bankruptcy and has no cash whatsoever. It is as though the finance department crafted tax measures that would affect the maximum number of businesses in the most complicated manner, only to collect a modest amount of revenue.

Here is what we are really worried about. Small business owners generally invest their life savings in the business. They don't often have a separate retirement account. They accumulate the surplus of funds that can be used to get them through economic downturns or for capital investment. As one owner told us, "I keep most of the earnings in the company, because we're trying to grow, and in construction we go through tough cycles when business dries up".

If the government hits investment income with a 73% effective tax rate, business owners won't have any incentive to keep surplus assets in the business. In fact, most will be better off taking their money out of the business. For us, this means fewer jobs, less investment, less of a cushion to make it through a downturn, and less productivity.

The Bank of Canada has a study from a couple of years ago called "Productivity in Canada: Does Firm Size Matter?" It indicated that half the productivity gap between manufacturing companies in the United States and Canada is because companies in Canada are smaller, and smaller companies invest less in capital and skills. A tax on passive income would lessen the amount of money they have to invest and would cause an even greater gap.

Next, imagine a venture capitalist who specializes in green technologies. That capitalist takes equity positions in risky start-up companies that are trying to commercialize environmental technologies, but some of those investments—in fact, many of those investments—could be considered passive income according to the definition, so the capitalist could be hit with a 60% or 70% tax on some of those investments.

Finally, imagine trying to explain all of this to a foreign investor. I would refer the committee to page 53 of the finance submission that talks about the apportionment method of taxing passive income where we allocate income into three pools, plus a pool for shareholder contributions in order to attribute varying after-tax rates. This is the simplest method, according to the document. The complexity is mind-boggling, and we're concerned that investors would go to the United States before they would get to the fourth paragraph.

● (1555)

The challenge we have is fewer jobs, less investment, less of a cushion to get us through an economic downturn, less venture capital, and less foreign investment. When business owners and the accounting firms point this out, the government says, "Oh no, that's not the intention; this is really targeted at high-income earners", and we hear that. Whatever the intention may be, it has real consequences for small business and the Canadian economy. We would urge you to ask any accountant in the country.

Ladies and gentlemen, the Canadian Chamber of Commerce, as I said, has been around for many years and we have heard some ideas that are problematic, but we think this one is a doozy.

Thank you very much. I'll be happy to answer any questions.

The Chair: Thank you. We don't hear that "doozy" word around here very often. We hear it lots in P.E.I.

From the Canadian Vintners Association we have Mr. Paszkowski, president and CEO.

Mr. Dan Paszkowski (President and Chief Executive Officer, Canadian Vintners Association): Thank you, Mr. Chair.

The Canadian Vintners Association, better known as the CVA, represents all-sized wineries operating in Canada and our members are responsible for more than 90% of the wine produced across this country. Over the past 30 years, industry leadership has elevated grape and wine quality to ensure survival in a highly competitive global marketplace. It has not been an easy road, and since the signing of the Canada-U.S. Free Trade Agreement, our wine sales market share has, in fact, dropped, from 49% to 32%. Despite this loss, we have grown and today we contribute $9 billion to the Canadian economy, support 37,000 jobs, contribute $1.7 billion in taxes, and attract four million tourist visits every year.

Canada is the second fastest growing wine market in the world, with wine consumption growing three times faster than the global average. Not only has per capita wine consumption in Canada grown by 27% over the past decade, but our sector has invested in 300 new grape wineries over the same period, growing VQA wine sales by 17.5 million litres, the value of which today contributes an additional $1.97 billion to the Canadian economy every year. These same premium wines have an economic impact of $90 per bottle, compared to $15.50 for every imported bottle of wine sold in Canada. The differential provides a real economic opportunity, especially given that the past decade has seen imports capture 70% of Canada's total wine sales growth.

Like other wine-producing countries, we know that the Canadian wine industry can make a larger contribution to the national economy, but we must first overcome challenges such as the removal of interprovincial barriers to trade, and the competitive forces of some of the largest wine producers in the world, which have benefited, and will benefit, from CETA, NAFTA, and possibly the TPP. These three agreements alone represent 90% of total wine volume imported into Canada, valued at over $2 billion—import, not retail value—representing approximately 400 million litres. It's important to clarify that these foreign imports are heavily supported by their governments. For example, the European Union's 2017 national wine envelope program funding is $1.83 billion. Further, the *Journal of Wine Economics* recently published that total EU wine sector support averaged $3.4 billion annually over the period 2007-12.

Budget 2017 sets a target of increasing agrifood exports to $75 billion annually by 2025. As such, it is timely for the federal government to support the Canadian wine industry's growth to take advantage of rapidly expanding sales opportunities, both across Canada and beyond our borders. Trade is not one-sided, and like our competition, the Canadian wine industry must be in a position to take full advantage of the opportunities that trade agreements, such as CETA, NAFTA, and possibly the TPP offer.

Our 2018 pre-budget submission puts forth three recommendations. First, it is important to reiterate that the recently legislated annual inflation indexation of the wine excise duty will negatively impact Canada's wine value chain. Recent CVA economic analysis has concluded that over the next five years excise duty indexation will, on average, raise an additional $8.45 million in annual excise revenues from affected Canadian wines. This will increase consumer price and reduce demand, resulting in an average annual national economic impact loss of $87 million through the value chain. The cumulative negative effect will climb as high as $110 million in 2023. To reverse this negative impact, the CVA recommends that the government review the excise duty structure on wine sold in Canada, including the legislated annual excise duty increase, with the goal of growing the Canadian wine industry and stimulating tax revenue.

Second, there is a real need to spur investment and innovation to facilitate the growth and expansion of Canadian wine businesses.

Mr. Chair, last December, this committee recommended that the federal government support innovation in the Canadian wine sector through improved operational and infrastructure investments. We agree with this recommendation and also support the government's recent introduction of the strategic innovation fund, which is now available to Canada's six highest growth sectors, including agrifood, providing the opportunity to deliver the growth potential offered by our wine industry innovation program recommendation, better known as WIIP.

● (1600)

Like the strategic innovation fund, WIIP has been designed to support growth, productivity, and competitiveness through improved operational and infrastructure investments. Our five-year WIIP proposal would benefit every winery in Canada and is estimated to provide a 38-fold return on the federal government's investment while supporting an additional $7-billion contribution to our sector's national economic impact.

Our final recommendation is focused on the application of the small business deduction. The problem facing many wineries is that the qualifying taxable capital test restricts access to the lower tax rate to the first $500,000 of eligible income, penalizing capital-intensive wineries with holdings of high-cost farmland, processing facilities, retail stores, restaurants, etc. Wineries with taxable capital valued below $10 million have access to the full benefit from this tax measure, while those with in excess of $15 million are ineligible.

While the costs to these typically small and medium-sized family businesses have increased annually, profit margins remain low and the taxable capital threshold levels have not been adjusted to inflation for 23 years, since the measure was introduced in July 1994. CVA recommends that the federal government exempt the qualifying taxable capital thresholds for agriculture and agrifood sectors, providing full access to this tax benefit. Any loss to the treasury would be used by industry to stimulate investment and help achieve the ambitious target of increasing agrifood exports to $75 billion annually by 2025.

Thank you.

The Chair: Thank you all for your presentations and for sticking pretty closely to the timelines.

Before we turn to the first questioner, I want to welcome Joël Lightbound to the finance committee. He is the newly appointed parliamentary secretary to the minister of finance, and he certainly comes in when there are no hot issues, so his timing is excellent.

Welcome, Joël.

● (1605)

Mr. Joël Lightbound (Louis-Hébert, Lib.): Thank you, Mr. Chair.

The Chair: We now turn to questions.

For seven minutes, go ahead, Mr. Grewal.

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

Thank you to the witnesses for coming today. We really appreciate it.

To the Canadian Chamber of Commerce, I have no doubt you will get a lot of questions today, so I'm going to focus my questions on the aerospace industry. My apologies; I'm not ignoring you, I just think that you'll be kept busy throughout the question period.

Pearson International Airport is right beside my riding. A lot of people in my riding work at Pearson International Airport. I really appreciated Mr. McKenna's comment that the government shouldn't be privatizing the airports, because cost per passenger will increase. My own personal research on the issue says that where airports in the world have been privatized, indeed, the cost per passenger has increased.

I want to get feedback from you, Daniel, as president of the Canadian Airports Council. You didn't bring this up, and I thought that was kind of unique.

Mr. Daniel-Robert Gooch: There's a reason for that. Our airports have a variety of views on the file, so at the moment, we're not taking a position. Nothing concrete has been put forward, so there isn't anything to react to and that's why I didn't address it. Our airports have a variety of views and they are expressing those individually, which is absolutely appropriate.

Mr. Raj Grewal: That's a really interesting position to take as an individual who represents all the airports.

Mr. McKenna, you mentioned in your submission that in Australia when an airport was privatized, the cost per passenger increased by 50% over a decade. Do you have other examples in the world where airports have been privatized and the cost per passenger has increased?

Mr. John McKenna: It was not a question of one airport; that was part of the privatization of many airports in Australia and that was the average it went up, 50%. We're actually studying that right now across the world. That one is the prime example, because that was done not too many years ago. We are addressing that, and I will be happy to supply you with that information later on.

Mr. Raj Grewal: I would really appreciate it if you could send the committee that report. More importantly, also in your study—which is not to recommend that you should take this or not take this—are the corresponding labour issues around the airports. Pearson indirectly and directly employs, I think, 40,000 people in and around that area. It would be really interesting to know the impact of privatization on the employees of the airport who are directly or indirectly impacted by the economic corridor that's represented by specifically major airports like Pearson.

Both you gentlemen mentioned CATSA. CATSA funding is extremely important, especially for people who travel all the time. Every Monday morning when we go to Pearson Airport—and most of the people on this committee are probably NEXUS holders, so they're probably still in another line—we see the frustration because of how slow it is to get through security in Canada.

The recommendation is always about money, and money is a big part of it. Don't get me wrong—the more people you have, the faster they'll get through. Have you seen any other recommendations in terms of procedural changes that could make it more efficient?

Mr. Daniel-Robert Gooch: Well, we have. CATSA Plus employs technology, but it's also procedural changes. There is some capital investment required, and CATSA has a plan to roll that out at the highest volume airports. Unfortunately, budget 2017 has stalled that, so it's only partially implemented in Toronto, Montreal, Calgary, and Vancouver, I believe, at the moment. For example, you're probably not seeing it at Toronto Pearson. I know they have it at the transborder connecting to the U.S. It's dramatically improving the traveller experience, and that's why it's one of the recommendations we have, that investment be restarted.

In a volume-based business, though—6.3% this year alone, a 10% increase in international travellers—efficiency and technology are going to do a lot, but you still need the bodies on the ground as well. It's a volume-based business; there's no way around it. We're innovating to do more with less, but the resources do need to keep up.

Mr. John McKenna: Also, if I may add, the service levels, the level of sensitivity, are not determined by CATSA. It gets its marching orders from the government, from Transport Canada, and it has to apply them. We go to other countries where, of course, how long they look at each piece of luggage is a lot shorter because they don't have the same standards. That also has an effect—it's not just a question of efficiency of operations but a level-of-service issue also. How much are we looking at each piece of luggage?

● (1610)

Mr. Raj Grewal: Not that I'm telling you guys how to do your jobs, but something that I've seen, as a passenger, is the frustration that passengers aren't well informed of what can go through security and what cannot go through security, and that makes things a lot slower. In the NEXUS line, for example, having to tell passengers to take their laptop out of their carry-on. They should know that before they even get their NEXUS pass. People should be able to do a test on something like that. Why would they be given a NEXUS pass if they don't know the basics of trying to get through security in the first place? In international airports I've seen all over the airport virtual 3-D individuals saying things like “This is what you have to do before you go through security” before people even get into the security line, whereas we don't have that. Even while we're waiting in the lines in security, nobody's challenging passengers to take away their liquids, make sure they don't have anything over 100 millilitres, make sure their laptop's in a different bin, make sure to take off their shoes, etc. That would actually make it more efficient once people got to the line, as opposed to going to the line and having the person walk through the metal detector three times.

Mr. Daniel-Robert Gooch: Correct. We did spend a lot of time working with CATSA on some of that stuff in terms of education, trying to improve processes, and that sort of thing. It's one of the reasons why CATSA Plus helps because, in terms of the process, you actually have four parallel stations, so four individuals are going up and putting their bins in; if you have one passenger who's slow, he or she is not slowing down the others. That's one of the reasons why it works so much better. Absolutely, travellers are at different sophistication levels, and that's a reality of life.

Mr. Raj Grewal: Thank you.

The Chair: Mr. Albas, you have seven minutes.

Mr. Dan Albas (Central Okanagan—Similkameen—Nicola, CPC): Thank you, Mr. Chair.

I appreciate everyone being here today.

I'm going to start with the Canadian Chamber of Commerce. Simply put, you've said your number once concern is the tax changes proposed by the government in relation to Canadian-controlled private corporations. You've mainly talked about the challenge. What I've seen from speaking to many of your members is that many of them do not know what to do and have stopped all investment. They've stopped hiring because they're concerned because they don't know the rules. I also know many of them are angry. They're angered by the fact that they're told that they're somehow tax cheats, that they're exploiting loopholes, rather than utilizing a system that's been set up so that it encourages people to keep investment and savings within their corporation. Now we've had a system of integration, where taxpayers can defer certain taxes if they hold it within the corporation, but eventually they will pay the same rate, if not more. Have you been hearing from your members the same kind of things?

Mr. Hendrik Brakel: Yes, I think our members have expressed themselves very forcefully on that. They object to the language that speaks of loopholes. Passive income is not a loophole; it's the way corporate tax has worked since 1973. Income splitting is paying family members. We get emails that are very passionate, saying, “My business wouldn't have succeeded if I didn't have my son working 12 hours a day”. And what is involved in reasonableness tests? How do you assess the value of a worker? We've had very, very aggressive emails and calls for—

Mr. Dan Albas: You have cases where CRA may be overwhelmed with something that will eventually be thrown onto Tax Court. I think this is the complexity of them. I have many chartered accountants who are quite confused as to how the government will do it, but I guess they will do what they do.

I don't want to talk about just loopholes. I totally agree it's a feature of the system, not a loophole, when we talk about passive versus active investment. If I choose, as a corporation owner, to put money into a bond, or if there is a new IPO or issuance of stock for a company, if I don't have plans for that money, I will put it in the hands of someone so that they can produce and create in the economy. Is that correct?

Mr. Hendrik Brakel: You're exactly right. A lot of business owners invest in inside businesses and in businesses that their employees may start. It seems like a dividend or portfolio income, but it really is the type of venture capital and the type of productive investment that we absolutely want to see and encourage in Canada. That's how small businesses get their start.

● (1615)

Mr. Dan Albas: Well, again, many people will hold assets passively, just in case there is catastrophic failure in equipment, plans, or whatnot. If they are lucky enough to sell their company, many times they just end up selling the assets. What remains is often what their retirement is.

Of course, you mentioned income splitting. We allow income splitting for seniors with pension income. I just want to point out that is not available to entrepreneurs when they retire. That's something that these changes will make less fair. Many entrepreneurs do not have a pension. People might say they could invest in CPP, but then they would be paying twice. Again, they wouldn't be able to put that money into a vehicle where they could quickly draw upon it if there was a catastrophic failure of a mill or a certain piece of equipment.

I certainly appreciate your contribution.

I'd like to go to the Canadian Vintners Association. Obviously, estate planning is very important for estate wineries. You've said that you are quite concerned about how these rules would impact small family wineries. Is that correct?

Mr. Dan Paszkowski: Yes.

Mr. Dan Albas: Along with some of the changes this government has already put in place by adding excise to wine.... You have the big wineries that do pay excise, and they are complaining that consumers are going to actually consume less because of a higher price. You also have smaller wineries that do not have the same scalability, that have those extra costs to be able to market their product. They are also going to be disincentivized because of property values and these changes. This does not paint a very good picture for your industry if these changes go ahead.

Mr. Dan Paszkowski: That's absolutely correct. As I mentioned, the excise impact alone is $87 million to the economy, and our analysis shows that it's going to raise an extra $500,000 per year for the federal government. You put excise on top of carbon tax on top of the challenges that we will have competing—not that we're opposed to free trade—with monsters like the United States and European countries. Then the small business tax proposals on our small and medium-sized enterprises is definitely going to have an impact. It creates a lot of uncertainty in the industry and in the ability to invest at a time when we have to be investing to be able to compete with the rest of the world.

Mr. Dan Albas: Mr. Harford, you have also mentioned that with higher prices there will be less consumption. We've already seen some of the trends in your industry, at least in Canada. Canadian consumption seems to be down. Again, raising prices means less consumption. That means you are worried. Is that correct?

Mr. Luke Harford: That's correct. The affordability of beer is becoming an issue for the industry. It has been an emerging issue for some time. Certainly, the automatic nature of the escalator that was brought in under budget 2017 is just going to make the problem worse because it's going to increase the excise rate, which is a production tax. Then on top of that there are provincial markups, and HST on top of those. By the time the product hits the consumer, we're talking about a much bigger increase that is not going to help sales.

The Chair: We'll cut it there. I'm sure this won't be the first time I remind panels and committee members, but the small business tax proposal is going through consultations that end on October 2. I would remind people to get their input into the Department of Finance as well.

I think it's been a good discussion, though. I'm not criticizing the discussion in any way.

Mr. Dan Albas: Yes, okay.

The Chair: It could impact competitiveness and productivity, which we're looking at.

Mr. Dusseault.

[*Translation*]

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

My thanks to all the witnesses for participating in this meeting.

My question is about airports, or more specifically, the price of airline tickets.

One of the briefs submitted—I think it was the one from the Canadian Airports Council—mentions that our airport infrastructures are considered among the best in the world, but that the cost of airline tickets is among the highest in the world.

Mr. McKenna and Mr. Gooch, can you suggest a solution to the problem? If we wanted to bring down the cost of airline tickets, do we have to look at the screening points that passengers have to go through or at the regulations? What do we have to do to reduce the cost of airline tickets, as well as the rent? You said that rents are high. Why do airline tickets cost so much?

● (1620)

Mr. John McKenna: Here is the problem. Our industry, which once belonged in large part to the government, was privatized, but the government continues to receive money. Our industry subsidizes the government to the tune of about $1 billion per year, while our neighbours to the south do not have to give their government any money. That includes passenger insurance fees, the excise tax I was talking about, and rent for the airports. Those three items come to more than $1 billion annually. That makes our industry less competitive, right off the bat.

The airports are not subsidized by governments in any way. Passengers pay for the entire infrastructure. The value of all the airports that were transferred in the mid-1990s has been assessed at $1.5 billion. Mr. Gooch will be able to tell you how many millions of dollars have been invested in the airports since then. It is likely billions of dollars, all paid for by passengers. That is why it is very expensive to fly in Canada.

Mr. Daniel-Robert Gooch: Thank you for the question.

The subject is quite complex. But the cost of air tickets really is a problem, especially for airports close to the border.

[*English*]

On that, on the revenue side, as I've said, we've put forward a couple of recommendations allowing airports to be a little more creative and inventive in terms of how they develop their businesses. The formula for rent is charged on gross revenue, which means that if there's a business line with fairly thin margins, they may have to pay as much as 12% in rent on any revenue they earn, while another organization across the street that's not an airport authority would not have to pay it. They have to weigh that.

Certainly, looking at the airport rent formula there would be very helpful. We've said to eliminate it for airports. At the very least, eliminate airport rents for airports with fewer than three million passengers. That would be all of them but the large eight. I think it would only affect about $20 million, but it would greatly benefit those airports.

For the larger airports, where we're seeing such strong growth, the bigger concern, honestly, is around investment and services. The money is coming out of the industry, and what we're saying is let's make sure that gets back into supporting the services travellers need. The cost of travel is a big priority for the government, but so is the traveller experience. We're having the right conversations on CATSA, for example. That's good, but it needs to come to fruition. CATSA needs to be adequately funded next year.

The CBSA is working very well with airports to mitigate the problems that we saw in Montreal in particular last year, but Toronto is still having some serious problems, and I have a report here. Over a two-week period in August, 73 aircraft were held at the gate with travellers kept on board because the customs hall was too full. It's the kind of tarmac delay that, in other areas, we're trying to mitigate.

Certainly, for the largest airports, it's less about reducing the costs and more about making sure the services are adequately funded so we can manage that growth.

[*Translation*]

Mr. Pierre-Luc Dusseault: Thank you for providing us with possible solutions.

I very much support airports in their efforts in areas such as competitiveness and productivity.

Now I would like to talk about wine.

I was surprised to learn that Canadian wine accounts for only 33% of sales in Canada. Compared to other countries, that figure is very low. Wine consumption is increasing, and that is not the case for beer. The increase provides great possibilities for growth in the sector, and that is positive for you.

The Minister of International Trade said today that it is a great day for Canada because the comprehensive economic and trade agreement between Canada and the European Union has gone into effect.

Given the competition that will enter the Canadian market from the European wine industry, would you say that this is the greatest day of your lives?

● (1625)

[*English*]

Mr. Dan Paszkowski: I wouldn't say it's the best day for Canada, but we have been supportive of CETA since it started being negotiated in 2009, the fundamental reason being that it opens up access to millions of consumers for our products and it eliminates import tariffs immediately, significantly higher import tariffs than are available on European wines entering Canada.

The challenge we have is that we own, as you mentioned, only 32% of our domestic market. Of that, 10% is our premium wines. That 10% is what we're looking at for the export market, not the value wines we sell within the domestic market only. When we aren't able to sell our wines across interprovincial borders, that does not allow us to grow our domestic marketplace. When we own only 32% of our market, we have to grow our domestic market, as every other wine-producing country does, to then enter into the export market. We can't turn our back on a domestic market and only export.

To do that, we are looking at measures such as changes to the excise duties to ensure that we're competitive, elimination of interprovincial borders, and introduction of a wine industry innovation program to help us invest in measures that will allow us to become more competitive, grow market share in Canada, and take advantage of the opportunities that these trade agreements have put in place.

We've always said we support trade agreements, but as with other countries, our government has to help us take advantage of what those trade agreements have to offer. If not, Europe owns 50% of this market; they will enter into this market duty-free starting tomorrow and continue to capture more and more market share.

We're looking for support, as is provided to any other wine-producing country, to be able to grow our domestic marketplace and contribute more to the economy.

As I mentioned, what we're proposing in terms of WIIP, the wine industry innovation program, will cost very little for the federal government and contribute $7 billion over five years to the national economy.

The Chair: Thank you both.

Before I turn to Mr. Sorbara, I have a question for you.

We had that big discussion on inflationary excise taxes in the last pre-budget consultations. In your brief, I don't know the page number, but you basically leave the impression or you're saying that the excise duty indexation will, on average, raise an additional $8.45 million in annual excise revenues. It will increase consumer price, and so on, but it will mean an average annual loss to the economy of $87 million.

Are you suggesting that if the amount of money the federal government is getting out of increased excise taxes was lowered, the government would have more revenues? I don't follow your line of thought in this submission.

Mr. Dan Paszkowski: When the excise escalator was put into place in the budget, the question was asked to finance officials whether or not they had done any analysis on this introduction. The response was no, they had not.

We did engage an economist, based upon the economic model that we released in March of this year, to see what the impact was. Based upon price elasticities of consumers purchasing wine, if the excise increased by 2% every year and the industry passed that on to the consumer, given that the wines that are affected are value brands, the consumer is very price conscious, so they would move away. They would demand something else and the industry would lose out.

As we modelled that through our economic model and seeing what the impact would be on the total economy, the results that came out were that the increased excise on these Canadian-produced wines would result in additional revenue of roughly $8.5 million per year over the five-year period that we studied, that federal taxes would go down by about $7.9 million based upon a decrease in demand, and provincial taxes would go down by about $7 million. The end result would be a gain to the federal government, in terms of taxation, of roughly $500,000 per year on average over the five-year period.

However, the decrease in demand, the impact on the total economy as we are a $9-billion industry, as you work through to the liquor boards, to the restaurants, to the truck drivers, everything else, the direct, indirect and induced impact of the excise escalator over that five-year period would be a loss to the economy of $87 million.

● (1630)

The Chair: Okay. That clarifies it for me. Thank you very much.

Is it possible for you to forward that study to the clerk, that economic analysis?

Mr. Dan Paszkowski: Absolutely.

The Chair: Thank you.

Mr. Sorbara, five minutes.

[*Translation*]

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

Welcome to you all and thank you for your presentations.

[*English*]

I'll take a step back in terms of my comments this afternoon.

The OECD just raised our growth forecast for this year. I think it's 3.2%, so we'll be leading the G7 for a second quarter, and I'm going to use the term “which rocked”—I'll go back to my teenage years—a 4.5% annualized growth rate. The Canadian economy has generated nearly 400,000 new jobs, the majority of which are full-time. Our unemployment rate has fallen to a historical low and our participation rate has actually ticked up.

There are some really goods signs going on within our economy and it's great to report that, but we can never rest on our laurels. We always must work harder and we must work harder with our stakeholders.

I would like to say to the Canadian Chamber of Commerce that your members' message is loud, it's clear and we are listening. There is a consultation period. Many constituents and stakeholders in my riding, and the area I live in is York region, are entrepreneurs. I was once an entrepreneur in the sense that I was awarded an entrepreneurial award by the Honourable Grace McCarthy, a social credit cabinet minister in the late 1980s or the 1990s, so I hear you.

At the same time, tax fairness is something that we need to look at and issues of income sprinkling, not splitting but income sprinkling, and conversion of dividends to capital gains need to be looked at. We also need to ensure that there are no unintended consequences on things like capital formation and that small businesses continue to thrive, much like they're thriving today. I'll leave it at that.

Amazon—that's the airport guys—has stated that they will put a second headquarters somewhere in North America, but they will need a proper and sufficient sized airport where they can move goods, services, and people. I can think of no better place than the Toronto area where myself and my colleague, Mr. Grewal, sit. What can we do to improve our airport services to ensure that we can attract investment such as the potential Amazon second site?

Thank you.

Mr. Daniel-Robert Gooch: When large organizations are considering communities to locate themselves in, access to efficient airports with a lot of air service is one of the criteria they will often look at.

We've made recommendations today in terms of CBSA and CATSA. If executives can't get through the airport and have a reasonable experience along the way, they're not happy about that. Certainly, CBSA is not only supporting travellers going through airports, it also handles goods coming through Canada as well.

As I said, the agency is doing a very good job dealing with the strong demand which is, in part, related to the strong demand in our economy, the strong growth in our economy. We need to make sure that it continues to be armed with the tools to manage that growth, look ahead and innovate, and be at the forefront of what countries around the world are doing with similar rates of growth.

Mr. Francesco Sorbara: Thank you.

Can I turn it over to Mr. McKenna quickly, please?

Mr. John McKenna: I support what Mr. Gooch has said.

Obviously the proximity of an airport is key today, with just-in-time management. The cost of doing business there is crucial also; that's an element that people will look at. They'll go somewhere else if flying out of there or doing business there is just too expensive. They will look at it for services but also for costs of services.

● (1635)

Mr. Francesco Sorbara: For Dan from the Vintners Association, as you well know, I have a major winery with headquarters in my riding. They're great employers. They employ a lot of people, both in my riding and down in Niagara.

On WIIP, the program that you and your organization have spoken about, I believe that it does have some merit and some multiplier effects. If you could reiterate, how quickly could the vintners or wineries—at whatever level of integration you want to speak about within the process—benefit from this program? What would be the economic impact, or the lag, or the forward dating on that? How quickly could they respond?

Mr. Dan Paszkowski: I would say that we would be able to respond immediately. This is the type of program that would benefit every single winery in this country to whatever level they want to invest in.

We have put a cap on the amount of investment based upon the size of winery, but 77% of all the benefits would go to small and medium-sized wineries. They could turn it over extremely quickly, especially in light of CETA coming into play. The competition today is fierce, and it's going to get fiercer. The opportunities are there to become more innovative and to produce a better quality of product and take advantage of those opportunities in Canada and abroad.

I would say that it would be implemented immediately if the government were to provide that 30% share of every dollar of investment.

The Chair: Thanks to all of you.

Mr. Kelly, you have five minutes.

Mr. Pat Kelly (Calgary Rocky Ridge, CPC): First, quickly, I would like to ask Mr. McKenna about the effect of the carbon tax on the price of flights and what will be passed on to consumers. You mentioned estimates of what you thought it would do to the price of a litre of jet fuel. Can you put that in perspective for the ticket price increases that you suspect would result?

Mr. John McKenna: Well, by 2022, for a typical round trip between two cities in Canada—from here to Winnipeg, say—we're talking about a $3,000 increase in the cost of fuel for a typical 737, based on the consumption. Clearly, that will trickle down to the passengers.

Mr. Pat Kelly: Thank you.

I'd like to move now to you, Mr. Brakel. I heard loud and clear that your only ask around the small business tax increases that are coming is to reconsider or to at least hear the concerns. For your members, either in total or just by anecdote, how many of them have said that they would either shut down or move their operations if that goes through?

Mr. Hendrik Brakel: We haven't surveyed members on the responses to it. The challenge is that the consultation period is so short, so business owners are just finding out. They're going to see their accountants, so they're finding out what this actually means for their business now. That's why I'm still getting emails. It's been in the media for weeks, but business owners don't have time to understand what it means for their business. They're just finding out now.

Mr. Pat Kelly: I ask the question because at the round tables I've attended that was a common theme that was brought up. They said they will shut down their business, or fail to expand their business, or abandon plans to expand, or seek another jurisdiction—particularly medical professionals.

You've mentioned the consultation period. What do you have to say about the adequacy of the 75-day consultation period on the largest change in income tax in 40 plus years?

Mr. Hendrik Brakel: I think that's what troubles our members most. I think that maybe some would agree that there might be some abuses that could be addressed, but there are ways to get at them and to make sure that we're not impacting a whole wide swath of businesses.

Really, 70 days is not enough to understand what the impacts are. That's why we've urged the government to shelve these proposals and have a broader discussion. We'd love to come up with ideas about how to address some of the inadequacies of tax fairness in Canada, but this is not the way to do it—just jamming it through.

Mr. Pat Kelly: Indeed.

Have any of your members whom you've spoken to challenged the notion, as stated by the minister, that those who earn less than $150,000 a year won't be affected?

● (1640)

Mr. Hendrik Brakel: I think what the minister might be getting at is that once you get to $150,000 your RRSPs max out. Lots of businesses that earn $60,000 or $50,000 are paying themselves $50,000 but they're keeping the money in the business. It impacts business owners at all income levels. We think it's not limited to $150,000.

Mr. Pat Kelly: So your members have pointed that out—

Mr. Hendrik Brakel: Very clearly.

Mr. Pat Kelly: —that these changes will affect business owners at all income levels?

Mr. Hendrik Brakel: Yes.

Mr. Pat Kelly: Especially perhaps those who have been in business for quite some time and had planned their family's overall financial plan for retirement and the eventual career cycle of themselves as workers and of their business and that the investment of passive income is—

Mr. Hendrik Brakel: Mr. Kelly, let me give you an example of a couple who have owned a bakery and they've been working there for 30 years. They pay themselves dividends of $50,000 a year, each one. One of them starts slowing down the work that she does because they're aging and they've just reduced their number of hours. Suddenly, that could trigger a higher tax rate because the labour contribution has declined. If the family had invested in a registered retirement income fund, a RRIF, that wouldn't have happened. We understand that's not the intention of these proposals but there are real impacts for businesses.

Mr. Pat Kelly: I can't imagine that your members care one way or another what the intention is. The effect of what is going to happen is what would matter most.

Is there anything else with the few moments we have before my time is up?

Mr. Hendrik Brakel: No.

We would encourage a broader consultation. Our CEO, Perrin Beatty, was in Atlantic Canada talking with the coalition for tax fairness, the unions, and the Centre for Policy Alternatives. The gentlemen said they would welcome a broader discussion on tax fairness in Canada and how to make the system really fair. Perrin asked if they would join him in calling for a broader consultation. I said I guessed so, it made sense. Even the coalition for tax fairness and the unions agree with us that we should have a broader consultation on this. We're pleased to report it's unanimous.

The Chair: Thank you, both.

Ms. O'Connell.

Ms. Jennifer O'Connell (Pickering—Uxbridge, Lib.): Why don't I pick up right where we left off?

Mr. Brakel, you've been here before. You've been to the pre-budget consultation process. You know how this works: we receive the briefs, we hear testimony, we ask questions based on that testimony, and we can make recommendations to the Minister of Finance for the next budget. You mentioned that your members would be interested in going after some of the abuses.

What specifically should we be going after that your members support?

Mr. Hendrik Brakel: You could take an example of dividends. You could have a stock issued for one dollar, it's redeemable, and it's a discretionary dividend. You can redeem that one dollar dividend and you could with discretion send out limitless amounts to a family member or something like that. That's a little extreme and CRA has challenged that in the courts and said this was a bit preposterous. There are extremes.

The thing is, we agree that maybe some of those extremes should be addressed but it's just the way it's written.

Ms. Jennifer O'Connell: Yes, but that's why we're here. This is the point of the testimony.

If we get recommendations then we can put them forward. You also said that you didn't appreciate ramming it through. But there isn't legislation, it's a consultation. Where you're sitting here today, instead of your testimony being on growth, which was the request of the committee—and I get it, that the concern would be that growth could be impeded if your members feel that these are unfair—but the process we're doing here today is recommendations. Nothing is being rammed through. You have the opportunity to put testimony on the table.

In income sprinkling, you used the example of a son working in the business, legitimately so, and how could anyone possibly deal with CRA and legitimize that work? But how can people who aren't incorporated, whether they hire their son or a kid they've known forever, justify the expense of the employee through paying them an income? The Minister of Finance has said that a family member legitimately working in the business can continue to do so. Couldn't they simply justify that as a legitimate employee by paying them just like any other business owner would?

● (1645)

Mr. Hendrik Brakel: I think the challenge is when you look at the definition of “reasonable”. A spouse or a family member in a business doesn't just do one thing. They do a little bit of everything. They do a little bit of marketing. They meet with customers. They clean up. They answer the phone. They help write the reports. It's difficult to say what's the appropriate salary level for that. If you're paying a family member $60,000 and CRA assesses the value of their labour at $30,000, how do you go back and prove it?

We've heard different things from business owners and accountants who say they have been successfully able to prove it under reasonableness tests. But other times, it's really hard. Poor CRA, how are they supposed to enforce this? It's a tough one.

Ms. Jennifer O'Connell: When legislation comes forward then, the recommendation would be to see what that actual definition is and then tell us if you think that's good or not.

In your membership, amongst individuals who are incorporated, if someone was, say, a single mother who has two children who are 13 and 14 versus a single woman who has two kids who are 19 and 20, one can sprinkle income to the 19- and 20-year old but the other individual who is incorporated cannot.

Do your members feel that's fair even amongst entrepreneurs and small business owners?

Mr. Hendrik Brakel: I think the overwhelming majority of restaurants and farms in this country have family businesses where the family member, the spouse and the kids, are really genuinely contributing to it. I think what we're concerned about is if CRA is going to unleash an army of auditors on this. Finance says they're going to raise $250 million by tightening up the rules on income sprinkling. They're going to have to tax $1 billion of salaries. They're going to have to audit hundreds of thousands of businesses.

Ms. Jennifer O'Connell: I appreciate that.

Mr. Hendrik Brakel: Okay.

Ms. Jennifer O'Connell: I have limited time but my question was amongst those two scenarios. I started my first job when I was 16. If I worked for an incorporated individual or if my parents were incorporated and I worked there—they didn't, I don't have that scenario—hypothetically, the 16-year-old can't have income sprinkled to them but an individual can sprinkle income to a 19-year-old.

So amongst your members, do they feel that's fair even amongst entrepreneurs?

The Chair: You're out of that limited time.

Mr. Brakel.

Mr. Hendrik Brakel: I think you have a point. There's a fairness issue there for sure.

Ms. Jennifer O'Connell: Thank you.

The Chair: We'll go to Mr. Albas and then Mr. Picard. That will close up this session.

Mr. Dan Albas: I'm just going to maybe take off from where MP O'Connell had left it.

That's why we have the tax on split income, TOSI, rules as they are. If you actually look at the consultation paper your minister has put out, he actually says we're just not winning enough of these cases. So, again, what's reasonable to the CRA and what's reasonable in someone's case is going to have end up being defined by court, which is a very long and expensive time.

If you remember, the Auditor General recently did a report, I think it was this spring, saying there's a huge amount of time wasted right now as people go slowly through our tax system.

I have to say, Mr. Brakel, I've never heard the word "poor" and CRA in the same sentence. I'm sure there are some officials somewhere who are finally saying, here's someone who understands us.

I'm going to go to Mr. McKenna.

Mr. McKenna, I'm from British Columbia. In British Columbia, we do have a carbon tax but there is no tax on jet fuel. It was specific because they didn't want to see business being moved to other jurisdictions that did not have such a tax, like the United States or Alberta. People would just say let's not buy fuel in B.C. , we'll stop in the United States and fuel up there because it's cheaper.

Now with this federal carbon tax even though the British Columbia carbon tax is exempted, your industry would still have to pay. Is that correct? Or is the federal proposal not to incorporate jet fuel?

Mr. John McKenna: Jet fuel is included.

Mr. Dan Albas: I see.

Mr. John McKenna: Federal tax would apply if the provinces don't have a tax themselves. If they have a carbon tax program, the federal tax is a backstop.

Mr. Dan Albas: So we're in fact going to be pushing business down south then.

Is that correct?

Mr. John McKenna: Yes, we're doing that already in aviation considerably so this would add to it.

Mr. Dan Albas: It's just another thing. So it's not just the rents and whatnot that are making consumers go down to the United States. It's us, we're doing this by these choices.

Is that correct?

Mr. John McKenna: Yes, indeed. If you look at the price of a ticket today, the flight part hasn't changed in 20 years. All the other charges have, including that.

● (1650)

Mr. Dan Albas: Okay. I appreciate that. In British Columbia, we're going to have two carbon taxes then. There's going to be the provincial carbon tax and then there'll be the federal carbon tax to capture jet fuel. Is that correct?

Mr. John McKenna: Well, I think they're going to take it province by province. We asked that very question, and we did not get an answer to that.

Mr. Dan Albas: Okay, so they have no answers. Maybe they haven't thought of it yet.

In relation to privatization, some of these airports were actually, at one point, municipal assets that were paid for out of civic taxpayers' funds and then through an arrangement with the federal government, they were eventually given over and basically held in trust. Kelowna is a case like that. Do you think that there is a possibility that an airport like Kelowna could be sold, despite it being really paid for by municipal taxpayers? That doesn't sound right.

Mr. John McKenna: I can't give you the example of Kelowna. Maybe Daniel could help me there.

Mr. Daniel-Robert Gooch: Kelowna is actually the only one that I'm aware of that's a national system airport that did come from municipal. It is a special case. We know consultations and work have been done on the file. Our understanding is that most of it has concentrated on the eight largest airports, of which Kelowna is not one.

Mr. Dan Albas: Theoretically, that could be a possibility, though, if they are looking to get this asset class off their books and realize it so they can pay down some of their deficits. Maybe that could be in there. I don't know.

Mr. Daniel-Robert Gooch: I really don't know the extent that they've been looking at airports other than what we—

Mr. Dan Albas: I'll do some more homework then; I appreciate that.

I just want to talk with Mr. Beauregard. In regard to what you're saying, we invest—and I mean "we" collectively: government, Parliament, whoever approves and directs—a lot of money into your industry and it all seems to focus on the front end, which is innovation, new creation, and whatnot. But you're saying the final little bit, where we have certification of those planes and different assets, is not being done in a timely basis. Is that what you're saying?

Mr. Mark Beauregard: That's correct. The reality is that any aeronautical product—parts, service, maintenance services—must be approved by Transport Canada or else you simply can't use it on a civil aircraft in Canada and, most importantly, you can't export that product or service. Eighty percent of our industry is exported, so if you don't have timely certification or approvals by Transport Canada civil aviation, you can't do anything with those millions of dollars that are invested. You can't do anything with it. You have to have it approved. More importantly, the point is that Transport Canada's approvals and certifications must be recognized globally; must be recognized by our trading partners—the United States, Europe—so at the agency, Transport Canada civil aviation staff levels must be appropriate to get other agencies, like the FAA and European agencies, to recognize the Transport Canada certifications and approvals.

Mr. Dan Albas: Thank you.

The Chair: Just on that topic, I had a question as well. I was going to bring it up at the end.

We have to look, at committee, as to what is possible and doable. What's the impact on competitiveness and productivity, of not being able to get timely certification? That's what our hearing is, productivity and competitiveness. What do you see as, specifically, the impact there and how does it—

Mr. Mark Beauregard: I can speak, perhaps anecdotally, about some of the issues. If you do not get your Transport Canada certification in a timely manner, you obviously, then, cannot export the product in a timely manner, so you have a time value of money effect immediately there. With regard to some of the international agreements—I call them airworthiness or maintenance bilaterals—if we do not improve those and seek out other international partners, our services and products are either simply not imported into those other countries, or they take a long time to get approved. I cite an example. Transport Canada has been trying to negotiate, since 2012, a maintenance bilateral with Japan. It is still not done yet despite the Prime Minister, prior prime minister, and prior ministers of transport trying to do this; it still isn't done. This has an immediate impact on a number of our members being able to send repaired products to Japan.

● (1655)

The Chair: Thank you very much for that.

Mr. Picard is the last questioner for this panel.

[*Translation*]

Mr. Michel Picard (Montarville, Lib.): Thank you.

Mr. Gooch, I am delighted that you mentioned the great cooperation between airports and customs to solve the problem of line-ups. However, I would like to give you the opportunity to explain the problem more fully and to provide possible solutions. There is actually a recognition that the problem does not just involve airports and customs, but airlines as well.

There is also the fact that time windows are too small, especially during summer vacations. You get the greatest number of aircraft in the shortest amount of time because the time windows are not available. So that creates a huge bottleneck. It comes as no surprise that more people are coming into the airports. You are limited both by extra aircraft and by insufficient kiosks to receive all those people at customs.

Are airlines also part of your discussions to find a solution that will reduce the number of aircraft arriving at the same time?

Mr. Daniel-Robert Gooch: Thank you for the question. I will answer it in English.

[*English*]

Certainly, CBSA has been very successful in the last few years in working with airports. Airports have made a lot of the technological investments in things like kiosks that allow more travellers to be processed without having to see officers.

In the airline industry, we can't tell airlines when to land. It just doesn't work that way. The scheduling of aircraft flights is very complex. Canada is an important part of an international network with a hub-and-spoke system. Our business is to encourage growth. It's good to grow air services. New destinations are connecting Canadian travellers and businesses, and we want to encourage more of that.

At the moment, things are going a lot better than they were, in part because of the innovation that we've seen. Particularly in Montreal and Vancouver, I understand that things are going very well. Toronto is having a challenge.

It's a matter of getting those travellers through screening. Technology and innovation are a big part of it. We need to continue investing there, but when you have the tremendous growth that we've had, are continuing to have, and will continue to have, you can't forget the bodies on the ground. The border control officers do a very important job, and we need to ensure that resources for that side of the business are reinforced as well.

[*Translation*]

Mr. Michel Picard: The increase in the use of technology at airports to provide primary inspection kiosks before you go through customs is a wise investment, but it is held back by the fact that few people know that it exists. Whether passengers use the automatic machines or not, they still have to go to a customs officer. But with that new technology, they could make their declarations and go through customs much more quickly.

My question comes in two parts.

How are airports going about familiarizing travellers with the technology and directing them to the kiosks where the technology is in place? I feel that it could greatly reduce the number of people at the booths.

Baggage pick-up can also pose a problem for a lot of people and is only rarely talked about. If I show a NEXUS card when I go through customs, things are done really quickly, but I then have to pick up my baggage. That's the last step and it delays everyone.

Realistically, a certain minimum time is needed to unload baggage. Baggage pick-up is part of the overall experience when you get to an airport. But criticism is often just about going through customs, and not about this final stage you have to get through before you can leave the airport.

[*English*]

Mr. Daniel-Robert Gooch: Certainly, a lot of the technology that we have and the kiosks that are in place are new, so some of the familiarity with how to use the systems will come with time. There is an educational component to this. I would say it's an ongoing effort with CBSA. You're seeing kiosks being put further downstream or upstream, in terms of being closer to the gate and further away from the customs hall. That's helping.

We have a tremendously valuable forum with Transport Canada called the air consultative committee, where CBSA, Citizenship and Immigration, and Transport Canada work together. All of these agencies have a role in the process. It's amazingly complex how the responsibilities for this traffic flow really kind of align.

A lot of that work is happening, and the educational work is happening. The way the technology itself works is improving. For the primary inspection kiosks that are in place, there are some issues with the transaction times, so we're working with CBSA on how to make that move a little bit better. That's a work in progress.

Can you remind me of the second part of your question?

● (1700)

Mr. Michel Picard: It was about getting my luggage on time at the belt.

Mr. Daniel-Robert Gooch: Well, airports have been investing significant amounts of money into new baggage systems, in part because the needs in terms of screening of baggage are increasing. That certainly improves the delivery times.

The wait to leave the customs hall is not really related to that. Travellers often will have their baggage and are waiting to leave through the customs hall. That gets back to working with our partners on processes.

If you go to other parts of the world, there's a red door and green door system. If you go through the green door, that means you have nothing to declare. Just by that action you're making a declaration that you have nothing to declare. We don't yet have that in Canada. It's part of the road map for the future, but these are the types of files on which we are all working together.

The Chair: Thank you, and I thank all the panellists for their presentations and the questions and answers.

That concludes the first panel of pre-budget consultations. I hate to tell you, but there are a lot more panels to go.

We'll suspend for five minutes. I know the agenda says 5:30, but all the witnesses have been invited for 5, so we will start in five minutes' time with the second panel.

The meeting is suspended.

● (1700)

(Pause)

● (1710)

The Chair: We'll reconvene.

For the purposes of the record, pursuant to Standing Order 83(1), the committee will further discuss pre-budget consultations in advance of the 2018 budget.

We have a number of witnesses. We want to try and hold presentations to about five minutes, if we could, then we'll go to questions.

We'll start with the Assembly of First Nations, Mr. Wilson.

Go ahead, Mr. Wilson, and welcome.

Mr. Daniel Wilson (Special Advisor, Research and Policy Coordination, Assembly of First Nations): Thank you, Mr. Chair. I thank the committee for the opportunity to appear here today. I'd also thank the Algonquin Nation for allowing us to meet here on their unceded territory.

My message for you today is that investing in first nations, Canada's youngest and fastest growing demographic, makes economic sense for Canada. Many studies have demonstrated how closing the gap in socio-economic outcomes for first nations people would benefit Canada's economy. Most recently, a 2016 report from the National Aboriginal Economic Development Board has estimated that benefit at $27.7 billion per year, or 1.5% of GDP.

We have provided the committee with copies of the AFN's pre-budget submission for 2018 which shows how to help make that gap closure happen. The numbers you see are large and, perhaps, surprising at first, but so are the gaps that we need to close. If eliminating those gaps is an economic benefit and the human cost of maintaining them is clearly unacceptable, then one must react with surprise, not at the numbers in our submission but, rather, at the fact that this gap has yet to be addressed.

Each of the items in our submission is important. The gap in child welfare funding, for example, has been the subject of three orders from the Canadian Human Rights Commission, and I'd be happy to address questions about any of those. However, I want to focus my remaining time on the section that we called “Investing in First Nation Governments”.

Canada tells us that the 2% cap on annual increases to first nation budgets has been lifted, and we are very pleased to hear that. But the areas identified under that heading—band support funding, minor capital, operations and maintenance, and administration of income assistance—have yet to see an annual increase of more than 2% since 1997.

The cumulative loss against inflation and population growth in those areas over 20 years is equal to the $9 billion identified in our submission for 2018-19.

This is what it will take to redress the damage done, to build capacity in first nations governments as the Indigenous and Northern Affairs Committee of the House reported in its default prevention and management study in June of this past summer. Perhaps most importantly, this capacity is needed for effective administration of the programs and services that will help close the socio-economic gap between first nations citizens and other Canadians to give effective use to the significant investments that we have seen in budgets 2016 and 2017.

The AFN is working with the Government of Canada on options for a new fiscal relationship between Canada and first nations governments. At the core of that work is the need to treat first nations governments as governments, so that they can deliver results for their people, so that they can close the socio-economic gap that exists between first nations citizens and the rest of Canada.

In order to support this, we must build the administrative and financial management capacity in first nations governments that has been negatively affected by the underfunding of the past 20 years. Eliminating the socio-economic gap will provide a net economic benefit to Canada and it will save lives.

Overcoming 20 years of neglect will cost $9 billion, and we urge you to recommend that investment.

Wela'lin.

● (1715)

The Chair: Thank you very much, Mr. Wilson. I neglected to mention at the beginning that I thank all your organizations for the submissions you've submitted in early August. I know it's a fairly pressure-cooker task to get it done that fast when we're not holding hearings until fall, but thank you. We needed to go through that process in order to get it translated and other things.

From the Appraisal Institute of Canada, we have Mr. McLean, the president-elect, and Mr. Lancastle, the chief executive officer. Go ahead, please.

Mr. Keith Lancastle (Chief Executive Officer, Appraisal Institute of Canada): Good afternoon, Mr. Chairman and honourable members, ladies and gentlemen. Thank you very much for the opportunity to again appear before this committee. We are very pleased to present our members' concerns and perspectives and recommendations to the Standing Committee on Finance in the context of the 2018 pre-budget consultation process.

The Appraisal Institute of Canada has more than 5,400 members who provide unbiased opinions of value on residential, commercial, and all other types of real property. Our members are university educated and prepare their work in accordance with our "Canadian Uniform Standards of Professional Appraisal Practice". As a self-regulatory body, we have a strong focus on consumer protection. We maintain a robust disciplinary process and offer a mandatory professional liability insurance program to help protect consumers.

To begin with, we would like to respond to the committee's question of what federal measures should be taken to help Canadians be more productive. There are three measures, in fact, in our mind.

The first is the application of OSFI B-20 guidelines to all mortgage-lending institutions.

The second is mandating stronger valuation fundamentals for real estate-based investments offered to retail investors.

The third is enhancing financial literacy amongst Canadians.

Regarding the application of B-20 guidelines to all mortgage-lending institutions, we know that the majority of Canadian mortgage lending is still being done through federally regulated lenders, but the market share of non-federally regulated lenders continues to grow. Recent data from the Department of Finance showed that the market share of unregulated lenders grew from 6.6% in 2007 to 12.5% in 2015. We believe this trend will continue.

The reality is that, despite initiatives to moderate the market, there are still many Canadians who are desperate and determined to enter the housing market. If borrowers are turned away by a federally regulated institution, they will often turn to other lenders to secure funding. Unfortunately, there is limited information on the full scope of who these lenders are or what their mortgage underwriting policies may be. Put another way, there is a growing share of the market that is not necessarily competing on the same basis and for whom the same regulatory oversight may not apply. This scenario, in our opinion, is a potential risk to our financial system.

We do know of non-federally regulated lenders that apply very stringent underwriting approaches, both in terms of borrower qualifications and collateral evaluation. But we are also aware of, and are concerned with, those that do not apply this rigour and extend a mortgage in much higher risk scenarios.

B-20 has established an incredibly sound framework for underwriting that requires not only an assessment of the borrower's capacity and willingness to repay but also a commitment to strong valuation fundamentals. As we have seen in other countries, the absence of this type of balanced and consistent approach can have a significant impact on the consumer and on the real estate market as a whole.

AIC, therefore, recommends the expanded application of B-20 guidelines to any and all organizations providing mortgage financing. We believe this will help level the playing field and will help to further stabilize the market.

Second, AIC is concerned with the recent emergence of a range of real-estate backed investments including syndicated mortgage offerings targeted at retail investors. While these types of investments present themselves as an interesting opportunity for retirees or those nearing retirement, we are concerned that these investors may not truly understand the inherent risk associated with the investment and that the report value of the property securing the investment may be inaccurate. We believe that on-site appraisals carried out by qualified professionals are the most effective way to determine the true market value of a real estate asset securing this or any other type of investment. Investors and regulators should ensure that these investment opportunities are properly vetted and that the necessary due diligence and risk tolerance and collateral valuation has been carried out.

Third, there is a need to enhance financial literacy in the areas of mortgage lending. Although governments proactively educate Canadian consumers on issues relating to financial literacy, there continues to be confusion within the marketplace on the full range of fees associated with mortgage financing and re-financing, as well as the roles of various professionals involved in the transaction. A disclosure of all fees incurred as part of obtaining a loan should be a mandatory requirement for all lending institutions, so that Canadians better understand the financial commitment they are making. This includes both the appraisal management fee and the appraisal fee.

With regard to the committee's second question of what federal measures would help Canadian businesses to be more productive and competitive, for our members the need to access reliable and affordable real estate data is essential to complete their valuations of real property, which so well protect lenders and consumers.

● (1720)

The creation of a framework for federal housing statistics and a national property registry are initiatives that AIC welcomes and supports. While this data will be invaluable to governments as they develop effective housing policies, it will also be of great benefit to the industry.

We therefore recommend that the national property registry be fully accessible to professional appraisers and to all other real estate professionals.

Mr. Chairman, honourable members, we are privileged to have been invited here today to share the perspectives of our members. We would be pleased to respond to any questions or comments you or your colleagues may have.

Thank you.

The Chair: Thank you very much.

Turning to the Canadian Alliance of Student Associations, we have Ms. Gadamsetti.

Ms. Shifrah Gadamsetti (Chair, Board of Directors, Canadian Alliance of Student Associations): Good evening, Mr. Chair, esteemed committee members, fellow witnesses, and members of the gallery.

My name is Shifrah Gadamsetti and I am the president of the student association at Mount Royal University. I am also the board chair of the Canadian Alliance of Student Associations, CASA.

On behalf of CASA's 22 student members, representing over 250,000 students attending post-secondary schools in Canada, I thank you for the opportunity to present our pre-budget priorities today. We know that a productive and competitive economy depends on a highly educated workforce. This is why students must be kept a priority when considering the future of Canada's economy.

To ensure that students maximize their potential during and beyond their studies, we believe the government must provide support through three main pillars: ensuring that students are able to succeed through their education; encouraging student contributions to research and innovation; and facilitating a smooth transition to the workforce.

To begin, student success depends on affordable, yet high-quality textbook options that help them get the most out of their education. Unfortunately, the cost of textbooks remains a significant barrier for many, and it is one that isn't always fully covered through financial aid. In response to this issue, provinces like B.C. and Ontario have invested in new technology called “open educational resources”. OERs include freely accessible learning tools such as textbooks, lesson plans, and videos developed by instructors under an open copyright licence. OERs can also be readapted to meet a variety of student needs. Overall, the results have been incredibly positive for students. OERs have saved 40,000 students over $4 million in the last five years. This is why CASA recommends a pilot grant through the tri-agencies to incentivize students and faculty to develop OERs. After all, no student should be prevented from succeeding in their post-secondary education because they cannot afford textbooks.

Succeeding in post-secondary education also means accessing essential mental health accommodations and supports. We know that mental health issues tend to surface during post-secondary education while students are away from family, friends, and a support networks for the first time. Unfortunately, students also struggle against long wait times and significant costs for on- and off-campus support. This includes the cost to obtain a professional assessment often required for academic accommodation. Left unaddressed, mental health problems and illnesses also have an enormous impact on the overall economy.

We recommend that the Canada student loans program provide funding to support the upfront costs of mental health assessments required for academic accommodations. This would ensure that students get the help they need to succeed throughout their education, while building lifelong resiliency.

We would also like to emphasize supporting student research and innovation. Students were encouraged by the significant increases in overall tri-agency research funding in budget 2016. However, the overall proportion of funding dedicated to graduate students remains lower today than it was in 2011. This is why CASA, in partnership with the Student Union of Quebec, asked for new tri-agency funding specifically designated for graduate students. We would also like to see the proportion of graduate research funding return to its 2011 level.

We strongly encourage the use of Canada's Fundamental Science Review, also referred to as the Naylor report , as a blueprint for long-term support of science and research.

The final pillar is aiding effective transition into the workforce. A key strategy for this is to provide students with program-relevant experiential learning opportunities as part of their education. Research has shown that students who do relevant and paid work during their studies are almost twice as likely to get a job upon graduation as those who do not.

While the Canada summer jobs program offers quality work experience, its focus on the summer is too limited. Expanding it to provide year-round part-time jobs better reflects the dynamic experience of a diverse student population. Upon graduation, students want to focus on successfully transitioning into the workforce. However, precarious youth employment and rising interest rates on student loans make this extremely stressful and challenging.

Students with Canada student loans are told that they have a six-month non-repayment period before they have to start repaying their loan after graduation, but they are accumulating interest throughout those six-months. This unfairly burdens new graduates, especially since finding a job often takes at least five months and the average student loan debt is approximately $26,000.

CASA recommends the six-month non-repayment period be made interest-free. This would provide basic relief for new graduates while allowing them to focus on their most important goal—looking for work that will maximize their potential.

In closing, we believe that a highly educated and skilled population can accomplish great things given the right circumstances.

● (1725)

Thank you very much. I look forward to your questions.

The Chair: Thank you very much.

Next, from the Canadian Home Builders' Association, we have Mr. Kevin Lee, CEO. Welcome, Kevin.

Mr. Kevin Lee (Chief Executive Officer, Canadian Home Builders' Association): Thank you.

With some 21% of skilled workers in residential construction retiring over the next decade, productivity gains need to be an important part of our industry's future. We need to promote young people getting into the skilled trades; we need parity of esteem in Canada for trade paths compared to university paths; and once people are in the trades, we need harmonization of qualifications across Canada to promote labour mobility. All these measures have a federal leadership component.

There are two keys way to look at productivity as it relates to housing. One is how the development of our communities affects the productivity of the entire economy, in all sectors; and the second is how productivity within the housing sector can help its businesses and address housing affordability for Canadians.

An efficient economy relies on the timely provision of quality housing that is affordable, in locations that enable efficient movement of its citizens. The ability of our industry to supply this is largely determined by policies enacted at all three levels of government. We see costs to our economy and to the personal lives of Canadians as they spend hours each day in gridlock as they travel from where they can afford to live to where they have to work.

However, home ownership remains a cornerstone of the middle class. It has led to the financial well-being of the vast majority of Canadians and continues to do so, yet we see more mortgage measures by federal players locking out first-time homebuyers. The problem is that all these measures are demand-side actions, when the big problems and potential solutions are on the supply side.

Here are some alternative solutions. Firstly, the issue of supply needs to be properly documented with statistics, measures, and indicators. To truly understand what is driving up housing prices, we need to have deep-dive data and analysis on the supply side in all urban centres. For example, at current trends, Canada would be 300,000 family-oriented units short over the next decade, and prices for those family-oriented houses that do exist will continue to escalate.

We need to encourage the missing middle: medium-density, low-rise, mixed-income housing in walkable communities with ready access to transit. The government needs to track the type of housing and communities being approved, so that the statistics can be used to change trends.

The federal government also needs to tie its infrastructure investment to transit-oriented development plans, to ensure proper density around transit nodes to promote affordability and maximize ridership. It needs metrics to track these indicators.

To support mobility in lower-income families, a portable housing benefit is required, tied to people rather than social housing units, so people can easily move as new job opportunities arise, rather than being tied to a housing unit they can't leave due to long waiting lists.

The federal government needs to launch or support a "Yes In My Backyard" campaign to counter Nimbyism that so often delays or derails mixed-income projects in or near existing neighbourhoods.

Government regulation and red tape delays need to be addressed. Bringing projects online has gotten much slower over the years, increasing costs and hampering productivity. A return to federal statistical tracking of the indicators related to this in urban centres can lead to improvement.

Regarding codes, Canada already has excellent codes and standards that result in excellent housing. However, there are currently many social, health, and environmental aspects that groups are seeking to incorporate into the codes. Continual improvement is, of course, always desirable; however, this must also be done in ways that are affordable.

While the national code process does support cost-impact analysis to a degree, it is time for a true federal priority to pursue a simple goal: let's build better houses for the same price or less. If there is a need to address a given issue with a code, it needs to be done in a way that doesn't increase costs. If there isn't such a means, then R and D and innovation is needed to find a solution before regulating it.

Given today's affordability challenge, this is a position that should be taken by the federal government at large and with respect to the national building code. It should be supported by federal R and D dollars, leveraged with those of the private sector.

That leads to the federal investment in housing R and D, which has been woefully lagging in recent years, especially compared to investments in other industries that are much smaller components of the economy and employ far fewer than the over one million jobs created by residential construction. This type of federal investment is particularly important in housing because the industry is principally made up of small businesses. Also, most innovation in construction is non-proprietary, so public sector investment in R and D is very appropriate as a federal role.

Of course, speaking of small businesses and productivity, you must address the current proposed corporate tax changes. The residential construction industry is made up of mostly small, family-run businesses. In the industry, 83% of companies have nine employees or fewer. The proposed changes will make it harder for families that devote so much of their collective energy and resources to a small business to succeed, the same entrepreneurs who seek increased productivity inherently every day.

● (1730)

The tax change directly proposes a disincentive to entrepreneurs to take on the risk-reward challenge that starting and owning a business entails. They will likely drive more work into the underground economy, resulting in less, not more, tax revenue, and unfortunately undermining hard work by our association in collaboration with the Canada Revenue Agency to fight the underground economy. We need and surely can find a better approach.

I'll conclude by reinforcing that innovation and productivity certainly matter in residential construction. We have a uniquely Canadian history of industry-government collaboration in this area, and we need to build on this for a successful future.

Thank you.

The Chair: Thank you very much. I was wondering if you were ever going to mention the underground economy, but you did get to it.

From the Chemistry Industry Association of Canada, we have Bob Masterson, president and CEO, and David Podruzny, vice-president, business and economics.

Welcome.

Mr. Bob Masterson (President and Chief Executive Officer, Chemistry Industry Association of Canada): Thank you, Chairman Easter.

This evening we'd like to speak to this committee about the significant opportunities for investment and economic growth within Canada's chemistry sector, along with our thoughts on what budget 2018 can do to help ensure this opportunity is realized in the coming months and years.

Our industry is a vital component of the Canadian economy. We're the third-largest manufacturing sector, with over $53 billion of annual shipments. Nearly 73% of that is exported, and that makes us the second-largest manufacturing exporter. Like many people, I'm sure most of you don't give much thought to the role of chemistry in your lives, but if you look around this room, 95% of everything we touch every day is impacted by the business of chemistry. It's everywhere.

Our industry is also very highly skilled. We employ more than 86,000 Canadians, and 38% of those are university graduates. That places us with the second-highest percentage of university graduates, the first being the IT sector. More importantly, perhaps, for this committee, our sector has a tremendous track record in providing economic and wage growth across the entire business cycle. In its recent report, the House of Commons Standing Committee on Industry, Science and Technology acknowledged this and identified chemistry as one of the strongest performing manufacturers in employment growth since 2010. Globally, the chemistry industry is very large and very fast-growing, with annual growth rates well in excess of global GDP in each of the last 10 years. Moreover, with growing populations in Asia, demands for middle-class lifestyles, and demands worldwide for more sustainable outcomes, the chemistry industry is poised to triple its volume of shipments in the next 20 years.

Much of that production growth has taken place in Asia, but in the United States, chemistry is also the fastest-growing manufacturing sector. In the last five years, there have been over 300 global-scale investments in the chemistry business in the United States, totalling over $250 billion U.S. The National Association of Manufacturers says that's the single, largest, fastest-growing sector of the manufacturing economy and is responsible for over half of the investment.

Our concern is that we share many of the same benefits that the American chemistry industry does, and if you look at our historical track record over the last 40 years, we should have expected to see 10% of that investment. We should have seen 25 to 30 projects worth $25 billion to $30 billion of new investment. Unfortunately, however, we've lagged well behind our historical share. We've seen more like 1%, or $2.5 billion to $3 billion of investment. In our view, this should be a concern to this committee.

Though we have missed out on the past wave of investments, the global growth I've talked about is continuing, and we do think that Canada is better poised to capture part of the next wave. The reason I say that is that the governments of Ontario and Alberta have prioritized investment growth in the chemistry sector. There are currently three major projects, accounting for nearly $12 billion, under active consideration in those jurisdictions, and those are only the projects that are publicly announced.

Over much of the last year, we have urged the federal government to heed the investment opportunity in our sector and take note of those provinces' determination to capture this new investment. We continue to stress the importance of ensuring that Ottawa's economic priority sectors align with those of the important provinces of Ontario and Alberta—and British Columbia and Quebec—so that all our oars are pulling in tandem in the same direction.

Budget 2017 did provide some important signals that the government was listening. We were pleased to see the launch of the strategic innovation fund and its broadening to include high-growth, advanced manufacturing sectors, including chemistry. While welcome, the strategic innovation fund alone will not be sufficient to attract sustained investment growth as seen south of the border. To that end, we've submitted to this committee our recommendations, i.e., the four factors we believe are necessary to help secure investments, both those awaiting final decision and also future opportunities under consideration. These recommendations relate specifically to the second objective of your study. I'll mention them briefly, and then we'll look forward to your questions to elaborate further.

First, we do believe the strategic innovation fund is important. We're asking for increased investment by the Government of Canada to ensure that this fund is capable of matching funding from the provinces' own strategic funding initiatives.

Second, we're requesting that the 10-year extension of the accelerated capital cost allowance currently in place be made permanent for manufacturing and processing, and moreover, that it be broadened to include additional eligible activities, at least to match what's available to our sector south of the border.

● (1735)

Third, in part to attract that additional foreign investment that Minister Morneau and his Barton advisory council have called for, we are recommending that a 100% accelerated capital cost allowance be introduced for a minimum of one full business cycle of seven years, to specifically apply to resource and manufacturing upgrading.

Last, we recommend implementing a special manufacturing and processing tax rate in the form of a two-point M and P reduction.

I'll stop there. Thank you very much for your interest. We look forward to elaborating on and providing some justification for our recommendations.

● (1740)

The Chair: Thank you.

We welcome Charlotte Bell, president and CEO of the Tourism Industry Association of Canada.

Welcome. The floor is yours.

Ms. Charlotte Bell (President and Chief Executive Officer, Tourism Industry Association of Canada): Thank you.

Good evening, Mr. Chair and honourable members of the committee.

On behalf of the Tourism Industry Association of Canada, I'd like to thank you for the opportunity to speak to you today about how the government and our industry can work together to enhance the competitiveness of Canadian tourism and increase opportunities for businesses and Canadians working in the tourism sector.

Our pre-budget submission includes recommendations that we believe will lead to a stronger and more competitive tourism industry, one that will be able to fulfill the new tourism vision's goals for the industry that were set out by the Minister of Small Business and Tourism, a vision that we applaud the minister for putting forward, and that includes working towards our common goal of re-entering the top 10 most visited countries in the world.

In order to get there, we feel that more has to be done to enhance Canada's competitiveness within the global tourism marketplace. We've provided recommendations in areas ranging from immigration reform and cost competitiveness to continued support for tourism marketing.

Today, I'll first address issues raised by the committee.

People are the cornerstone of the tourism industry. Tourism employs 1.7 million Canadians, most under the age of 35. While tourism is a large provider of jobs for Canadians, and for Canadian youth in particular, many businesses and communities that rely on tourism are struggling to attract and retain employees. While this is a significant issue in resort and remote communities, even urban areas like Niagara Falls report that, despite high regional unemployment rates, significant labour shortages exist in those regions. We're making every effort to attract more tourists. Let's ensure we have the resources to serve them well.

There are steps the government can take to bridge this gap. Foremost is legitimizing tourism and service sector jobs by removing “high-skilled” and “low-skilled” categorizations for businesses and job seekers trying to access federal programs. There's a perception that tourism jobs are low quality and low paying. This is simply not the case. The reality is that hourly wages are frequently higher than minimum wages, with additional benefits such as housing included in many offers, and there are myriad examples of top executives in this sector who started in entry-level positions and quickly worked their way to very successful careers.

We've been told that Canada has many young unemployed people and that we should just hire those people to fill those vacancies, but mobility and housing shortages in certain areas are real barriers, in addition to negative perceptions about those jobs. We've been told that places such as Banff are beautiful and that all young Canadians should want to work there and in such beautiful places. That's true enough, but this doesn't drive a significant amount of labour to those areas where housing and mobility continue to be issues.

Studies repeatedly show that relocation is a low priority for Canadians, especially in urban areas, and there are few government incentives to encourage relocation. This is an area where specific programs to address those issues would help. We need to encourage young people to experience Canada and its regions through work programs in sectors experiencing labour shortages.

We had seen some reprieve with allowances for seasonal workers, but these temporary measures have not helped long-term employment issues. It would be advantageous for business owners to be able to access a reliable source of labour, and providing a path to citizenship for experienced foreign workers residing in Canada would also help.

Other than employment, we want to reiterate from our last appearance at the finance committee the importance of cost competitiveness to our business. Canada is a popular destination, but the cost of travel to and within the country remains high. In today's increasingly competitive travel marketplace, taxes, levies, and fees on tourism products inflate the price of tourism goods to international buyers, and Canada competes with the world to attract visitors. According to the World Economic Forum travel competitiveness report, Canada ranks 97th out of 141 countries in terms of cost competitiveness.

Tourism is a top economic driver for the Canadian economy. In addition to proactive policy measures and increased marketing budgets, we've seen Canada's brand and visitation numbers increase substantially over the past couple of years. This said, our favourable currency has also helped to make Canada more attractive to visitors. As the dollar continues to rise, our ability to maintain and grow those numbers will be challenged. As such, we urge the government to take measures to address cost-competitive issues.

● (1745)

We have made several recommendations in our submission that address both the committee's specific question, as well as how to strengthen Canada's overall competitiveness on the international stage.

Thank you for your time and I look forward to your questions.

The Chair: Thank you very much, Ms. Bell.

We'll be turning then to questions. I think we'll drop to five-minute rounds. That way we can get eight questioners on.

Go ahead, Mr. Sorbara.

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

Welcome, everybody, and thank you for your presentations.

I'd just like to start off with the Appraisal Institute. Looking at B-20 and B-21 and extending that to non-federally regulated mortgage lending, would that curtail consumers or individuals from obtaining housing, in any way, and would it slow down housing demand in Canada?

Mr. Keith Lancastle: It's our belief that levelling the playing field is part of having a balanced marketplace. Certainly, what we are seeing now is people pursuing loans through non-federally regulated lenders, often at terms that are certainly not competitive. We're concerned about those potentially higher-risk borrowers coming into the market and having that exacerbate and accelerate demand. We believe that levelling the playing field is in the best, long-term interest of the marketplace.

Mr. Francesco Sorbara: I just want to add that I do agree with the financial literacy component of your brief. I think this applies across the board for all Canadians and not just seniors or new home buyers. I think financial literacy has to be a part of it. I know the Ontario provincial government has mandated it in the education curriculum now for high school students, which I applaud, so I do agree with you.

I'll move on to the Home Builders' Association. Kevin, how are you? Welcome. We've chatted several times.

On the rental side, that's obviously very important for everyone because the home ownership rate in Canada is about 68%. Many folks don't own their home; they rent. On the purpose-built rental, you had two recommendations. How big a bump would we have, in terms of these recommendations you've put in place for rental building?

Mr. Kevin Lee: I'm sorry. I didn't hear the question. How big of a bump...?

Mr. Francesco Sorbara: If these measures were put in place, how much would this assist entrepreneurs or developers in building rental buildings?

Mr. Kevin Lee: We don't have statistical analysis, in terms of how big the bump will be. However, we do know there has been an increase in the desire to build purpose-built rental, but that these measures that aren't in place yet are preventing it. The opportunity to move into the rental market would be greatly enhanced by being able to do that.

Mr. Francesco Sorbara: The final thing is the parity of esteem factor. I often joke around with the residents and the stakeholders I have that, if I weren't in this career, I'd open my own business and become a stonemason or a bricklayer because I could probably do quite well, since there aren't many out there and the ones who are out there are retiring.

I think we've put a lot of money in our budget on the labour side, about $85 million for apprenticeships. Is there anything else we can be doing—and I think it is maybe just changing a mindset on the parity of esteem—to encourage young folks to look at the trades as a career in which one could actually do well financially?

Mr. Kevin Lee: I think that you just expressed exactly the type of messaging we need to get out to all Canadians, especially to young people in schools and parents, in particular, who see university as the only route to success and trades as a secondary option. Obviously, university is a good route to success, but so too is going into the skilled trades with the opportunity to be successful, both in terms of income when one starts out and then later on potentially being successful and owning your own business.

National communications at the federal level help to support that messaging that this is a great option for your future. We just need to communicate that going to a community college or an institute, to get your skilled trade requirements so you can have a good career, is a great opportunity.

Mr. Francesco Sorbara: Mr. Masterson, in the chemical industry, whether it's down in Texas, whether it's centred in ethylene production or polypropylene production.... I covered that industry in New York for years on the corporate finance side, so I remember all the mergers of Union Carbide and Ecocan and Dow Chemical and all that kind of stuff. It was very value added.

How important is the permanence of the accelerated capital cost depreciation? The U.S. has it in place. We don't, but it's in there right now.

● (1750)

Mr. Bob Masterson: It's now at the stage where it is very important, because we've had, I believe, three years. If you think of the types of investments you've talked about in the chemistry sector, you're seven years from thinking about it; there is the final investment decision, building, commissioning, and reaching commercial operation, and if you can't guarantee that this measure is there, you can't build that into your business case. Three years ago we were okay with 10 years. We're now getting near the point where what's remaining of that 10-year window is not enough.

But the second factor is also important, which is looking at the eligibility class. Class 43 right now in Canada is just machinery and equipment. In the United States, it's a much broader coverage. It includes site preparation, roads, curbs, and supporting infrastructure for machinery and equipment. Basically, everything that's invested, except for the permanent buildings on the site, is eligible for the capital cost allowance.

The Vice-Chair (Hon. Pierre Poilievre): Now we turn to Mr. Richards.

Mr. Blake Richards (Banff—Airdrie, CPC): Thank you, Mr. Chair.

Thank you to all of you for being here, and thank you for your presentations. Certainly, I do have some questions.

I'll start with you, Charlotte. Given that tourism is so important in my riding, and it's certainly something that I've worked closely on with your industry, I want to start with you.

I know one of the questions you were asked was about competitiveness for businesses and some of the things that would be considered there. When we look at the proposals we've seen from the Liberal government in terms of the small business tax changes, I have a serious concern about competitiveness for Canadian businesses, our economy in general, and the health of our communities in terms of the contributions that small businesses make, not only to the economy but also to local sports teams and charities. Those need to be considered fully and properly before making such massive and major changes.

I know that for tourism, small businesses play an important role. In fact, about 10% of small and medium-sized businesses in Canada are in the tourism sector, so that's obviously very significant. I wonder if maybe you could comment on what kind of impact you think those tax changes will have on the tourism industry. Do you think there would be a negative impact?

Also, given that these consultations took place over the summer, in the tourism high season, I'm sure many tourism operators haven't had the opportunity yet to really fully digest and consider them. Do you think there's been sufficient time given to consult with the tourism industry on these changes, or should there be an extended period of time for consultation on that?

Ms. Charlotte Bell: There's no doubt we've been looking at these proposals and trying to assess what the impact might be on our membership. We are hearing back from our members. A number of them have questions. Some of them are unsure whether they are impacted by the changes. Others are asking questions about, for instance, how family-run businesses would be taxed when they are passed along to their children. There are questions about the reasonable test and treatment of past income, so generally, on the same types of issues that you're hearing about from other sectors.

We are still working through what these impacts are going to mean for this industry. In fact, the consultation period occurred during the high season, so it is a little bit challenging for our members to focus on these issues at this time. That said, I have been able to reach out and receive feedback from a number of people.

We have reached out to the minister's office and have asked for some clarity on these issues. We're working through all of these issues with the minister's office, and feel that at least we are being heard and hopefully we can get some comfort on some of this.

Mr. Blake Richards: Thanks, Charlotte.

Mr. Lee, I know your organization has certainly been vocal about some of the concerns you have. I would assume there are a lot of smaller businesses in your industry. Those could be family-run businesses and things like that. Could you maybe speak to your concerns or thoughts around these changes, and whether you feel there's been proper consultation.

Mr. Kevin Lee: Yes, I can certainly say that it's the number one issue raising its head in our home builders' associations all across the country. There are a lot of extreme concerns over this, because the nature of the business is that there are small family-run businesses. A lot of the planning is around succession planning for children and transferring a business, and it appears that these changes would make doing that less attractive, and sometimes not really feasible.

Passive investment is a critical part of our industry, because you need money on the side waiting for opportunities, particularly on the land-development side, and even for builders who are looking to, at the right price and the right point, make an investment to buy land and lots to build on.

There are an awful lot of concerns, including those around being able to properly engage other members of the family in the family business, including all the sacrifices that are made by the whole family in getting a company up and running and keeping it going. There's concern that they're being treated as if they were employees, and they're not. They take on all kinds of risk, and it's part of what makes our economy run.

We are hearing it an awful lot, and therefore passing the news on.

● (1755)

Mr. Blake Richards: Good. Thank you.

And maybe Mr. Lancastle, having worked in the real estate industry, I worked with builders but I also worked with appraisers, and I know many of them can be small operations. I don't know if that is so amongst your membership, but it's often father-son. I know in one case, there was a father-daughter operation, so I wonder if this is something you've heard much about from your members and what kinds of concerns you might have about these types of changes.

Mr. Keith Lancastle: Our members work in a wide variety of environments, everything from very large employers, institutional employers, and public sector employers down to small businesses, as you've described. It's an issue our members are aware of. We support the notion of tax fairness but also recognize the need to make sure measures are balanced in such a way that they don't impinge on those small businesses. But I would say it has not been a top priority issue for our membership at this stage.

Mr. Blake Richards: I would assume probably, for some of the smaller operations, they might be a bit more of a concern obviously than for some of the other ones, for sure, right?

Mr. Keith Lancastle: Again, we are an individual member organization. Some of our members are employed, some work for the Government of Canada, some work for provincial governments. For others who do own and operate their own business, it would be a greater degree of focus.

Mr. Blake Richards: Excellent. Thank you very much.

The Vice-Chair (Hon. Pierre Poilievre): Go ahead, Mr. Dusseault.

[*Translation*]

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

My first question goes to Mr. Wilson.

Here in Ottawa or where I live, in Sherbrooke, people take it for granted that they can drink the water. When I turn on a tap, I am not concerned, because I know that the water is good and that I can drink it. But that is not the case everywhere in Canada.

The Prime Minister promised to eliminate all the boil water advisories on First Nations reserves. Has he kept his promise? Has the situation improved since the Prime Minister took office?

[*English*]

Mr. Daniel Wilson: It's actually difficult to measure. That is, in fact, the correct answer. What happens is that, while some have been alleviated, new ones have arisen. What we see in many cases is a periodic solution that is temporary. The spring's high water flooding situation was problematic in a number of communities. That creates a clean water issue. There are others that are very long-standing and have yet to be addressed. So, although the statistics that I have seen from the government, the measure of their progress, would show a small diminution of the totality, at this stage, it is difficult to imagine a full elimination of all of the boil water advisories across the first nations communities in Canada within the timeline that was envisioned. There are a number of steps that can be taken to address that.

In part, we have spoken to that in our submission with regard to the investments in operations maintenance. One of the largest cost areas for water treatment plants is, in fact, not the construction—although that is a significant capital outlay—but the operations and maintenance.

Secondary to that, the education and training of people locally who might take those positions and continue that work, which has, of course, a relationship to the underfunding in education and jobs and skills training. There are specific investments that can help to create a more stable foundational structure for the eventual elimination of the boil water advisories. We are not specifically tackling one at a time the individual problems that have arisen, or necessarily by constructing a water treatment plant in those areas where one is needed. We have to actually get underneath that, understand what the larger cost drivers are in addressing the problem, and invest there. We have identified the largest one as being operations and maintenance.

● (1800)

[*Translation*]

Mr. Pierre-Luc Dusseault: Thank you.

I have just enough time left to ask Ms. Gadamsetti a question about student loans.

Here is a simple but eloquent example. As we know, Bombardier received an interest-free loan of $350 million. However, we still have difficulty convincing the government to make interest-free loans to students.

In your opinion, do all students in Canada also deserve interest-free loans, like some Canadian companies receive?

[*English*]

Ms. Shifrah Gadamsetti: Currently, we are trying to help students in terms of loans and grants. I'm focusing on those who need them most. At this point, we've seen really encouraging models come forward in Ontario and New Brunswick, and I'm under the impression that Alberta as well is putting on trial the idea of targeting financial aid in the form of non-repayable grants based on a sliding income model. At this point, we're not really looking at equity necessarily, but we're looking at equality, because the need is so great. If we were to consider options like that without first addressing the backlog of barriers, especially financial, for students to enter the post-secondary, I think we would be backtracking a little bit and having to reconsider those options eventually. At this point, we're really very focused on making sure that access is equitable across all communities.

The Chair: Thank you all.

Ms. O'Connell.

Ms. Jennifer O'Connell: Thank you, Mr. Chair.

Following up with Ms. Gadamsetti, you spoke about mental health assessments in that recommendation. Since the objective of this study is focused on recommendations that we can make to the minister around growth and the impediments to it, certainly if someone can't complete their education that could be an impediment to growth. I'm curious to know if you're aware of jurisdictions that have done this and if there are any measurables in terms of success rates. If you have the mental health assessments and services up front, do you have any measurables of the ability of a person to then complete their studies and go on and be successful?

Ms. Shifrah Gadamsetti: Absolutely. I am a registered nurse myself, as well as a student returning back to post-secondary, so I've seen the impact this can have first-hand.

Speaking specifically within the post-secondary realm, currently we're asking the federal government for help because, across the country, access to such support is not equitable and we think this is a shared responsibility. While some provinces might be able to better offer support, others aren't. Just as students, for example, are able to access financial aid in terms of grants for physical disabilities, and any sort of assessments associated with that, or aids associated with that, we want to make sure that mental health is prioritized just as much as physical health.

We've seen incredible success in terms of students accessing those granting programs through the Canada student grants program, and we would like to see that expanded to include mental health as well.

● (1805)

Ms. Jennifer O'Connell: Thank you.

Mr. Masterson, your third recommendation for the 100% ACCA minimum of one full business cycle. Can you maybe explain this a little bit further? I'm not in manufacturing, so what is the kind of investment that would be typical? I know you spoke about this somewhat with my colleague, Mr. Sorbara. I think this is quite interesting. What are some of the costs and what I'll call the rewards on the other side, and how that measures in productivity?

Mr. Bob Masterson: The opportunity and the reward, as I talked about, is getting our historic and, perhaps, even greater share of an immense quantity of investment into Canada. We've heard Minister Morneau and the advisory council on economic growth talk about Canada basically falling woefully short on where we should be with foreign direct investment, so we're providing some advice on what levers can be pulled. What's the reward? We're talking about an individual project anywhere between $6 billion to $10 billion Canadian of new investment, thousands of jobs during manufacturing, and hundreds of jobs for 40 years thereafter.

Turning to the specifics of 100% ACCA and the cost and benefit back to government, I'll turn it over to Mr. Podruzny, our tax expert.

Mr. David Podruzny (Vice-President, Business and Economics, Chemistry Industry Association of Canada): We have a study on file that's listed in our submission. What happens— and I'll pick a smaller one. Bob's picked some big ones—is a $4-billion investment that's under active consideration will take about five years to construct.

In the meantime, all that capital, all the investment, is inactive, but if the companies could recover some of that in rapid writeoff against other expenses, it would allow them to borrow in that particular case, per billion dollars, about $220 million less right up front. That cash flow allows you to make that much more investment. It's just a good way to incent the industry, yet get all the taxes back within the next year.

Ms. Jennifer O'Connell: That was my question. So it's not a full writeoff, it's just deferring payment, essentially.

Mr. David Podruzny: Precisely.

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

Mr. Lancastle, I'm curious. It might not be in your purview or part of what your organization is looking at but in appraisals, I have a concern that, in some of the hot markets, the appraisals then lead to assessment values and property values. Is your organization involved in making recommendations at the provincial level? I think in your testimony you spoke about ensuring that they're accurate appraisals and not just reactions to specific hot markets. Are you doing any work in advocacy at the provincial level to make sure this is being reflected so property taxes, for example, are not also just being tied to hot market bubbles?

Mr. Keith Lancastle: A significant portion of our membership works in the assessment community for provincial and municipal assessment authorities across the country.

One of the elements in our professional standards is a new standard for mass appraisal, which is the methodology that is applied to arrive at assessed values. Obviously our organization is working very closely with provincial and municipal governments across the country to help make sure that those assessments are as accurate as can possibly be accommodated within a mass appraisal environment. You're never going to get a value that is going to be as accurate as an individual assessment and appraisal of a property at a point in time. However, the application of a strong methodology for mass appraisal can help to make sure that there is a higher degree of accuracy.

It's always really important to recognize, as well, that any appraisal, whether it be an individual appraisal or a mass appraisal, is a point-in-time valuation and markets can fluctuate, as you've noted. It then falls to municipalities and provincial assessment authorities to respond to changing realities within their marketplace. Our organization works actively with all of them as required to help support that process.

● (1810)

Ms. Jennifer O'Connell: Thank you.

The Chair: Mr. Albas.

Mr. Dan Albas: Thank you to all our witnesses for your testimony here today.

Mr. Lee, you've mentioned the need for governments to start getting serious about supply: the federal government, GST, HST depending on which province. Could we not just incentivize by raising the rebate you get for housing?

Mr. Kevin Lee: Yes, certainly. When it was introduced many years ago, in the early 1990s I believe, it was supposed to be with the intent that it would get adjusted as prices went up; so would that rebate. Of course, prices have clearly gone up as we were talking about, and it has never changed. We've advocated for it for a couple of decades.

Mr. Dan Albas: As more housing gets built, then that means also we'll get more GST revenue. That's one way the government could easily incentivize it. Again, that would make affordable housing, regardless whether it's for social housing or just new housing stock at market price. That would be a good solution.

You've also mentioned the impact of the proposed changes Mr. Morneau is contemplating and doing a consultation on. I've been speaking to people in my riding, and some developers have said, much as you have said, that it takes three years sometimes for them to be able to bring a project to completion. Three years of finding the property, getting the right designs, doing the public process, all that stuff, everything you've talked about that slows everything up. Then you finally can build.

During that time, most of the money that was used as the down payment or financing is in a passive instrument to make sure you don't have churn by inflation. They'll hold everything from money market funds to bonds to stocks, depending on whatever the selection process is.

I've been told by certain financial institutions that they will factor in tax liabilities and basically lend less. If you have a million dollars set aside for a new project, they will say that if you have tax liability you have to factor that in. I think there are a lot of hidden costs we have toward your industry specifically.

In Kelowna, a lot of jobs come straight from construction. When someone says that the way developers and construction companies hold cash or the way they hold passive assets is going to discourage them from doing that, does that worry you about overall construction going down as well?

Mr. Kevin Lee: Yes, absolutely. It's a critical part of how the organizations operate. Frankly, three years in some jurisdictions would be enviable, because in some places it takes longer than three years to get product online. It can be almost as much as a decade in some of the more complicated and complex areas.

Mr. Dan Albas: If more money is going toward paying taxes and less toward actually building buildings, that means fewer jobs. Do you think there's a direct correlation there between someone's ability to save to invest in a new development and the ability to put people to work?

Mr. Kevin Lee: We do. We think there's a direct correlation to fewer jobs, fewer small businesses, fewer local businesses. It's a big risk.

Mr. Dan Albas: You're speaking specifically on these new proposals regarding passive investment. They will have a direct and real impact, not just on the owners of these companies but on their employees.

Mr. Kevin Lee: That's correct.

Mr. Dan Albas: Thank you.

I'd also like to talk to Ms. Gadamsetti.

Thank you very much for your work here. I've actually taken some courses recently. One was a macroeconomics course, one was a micro. The micro actually had an open-source textbook that had many Canadian examples in it, because professors across Canada decided to work and put that in. The macro was an e-book that was paid for. I found that if something were available in between...where there was a little more professionalism in the open-source, but there was a lot of Canadian context. I certainly appreciate your suggestion to see more investments for basic.

It's my understanding that professors and most colleges and universities have very stringent rules that say you have to buy textbooks in U.K. English and not American English.

Have you heard that?

Ms. Shifrah Gadamsetti: I cannot confirm that.

Mr. Dan Albas: Some publishers have actually said that makes it more difficult for them because they then have to reprocess and republish a similar textbook to that made in the United States. Words like “labor” or whatnot have a slightly different spelling here in Canada. That might be something you might want to talk to the provinces about as well.

● (1815)

Ms. Shifrah Gadamsetti: Absolutely.

The Chair: Go ahead, Mr. McLeod.

Mr. Michael McLeod (Northwest Territories, Lib.): Thank you, Mr. Chair.

Thank you to all the presenters here today. These are very interesting discussions.

My first question is to Mr. Wilson. I'm looking at the presentation you made and the rather significant investment that is going to be required as per your organization's calculations. There is probably a lot more that could be added to this.

I represent the Northwest Territories, and I also work with the other regions. The aboriginal people in the Yukon are probably about 35% to 40%. In Northwest Territories, half of my constituents are indigenous. In Nunavut we're probably 80%. The AFN does not represent.... In these numbers, you're only talking on-reserve, right? Are you talking about all the indigenous peoples across the country or just the on-reserve?

Mr. Daniel Wilson: Our calculations are based on nations, including those in the Yukon and the Northwest Territories. As the organization represents the views of the chiefs of all 634 first nations across the country, our calculations are based to include those in your riding as well.

Mr. Michael McLeod: Okay, so you're looking at new programs that will allow for off-reserve access to these dollars, because right now you can't get most of the programs in the north. The $8 billion that was announced does not apply to the Northwest Territories or any northern jurisdictions.

Mr. Daniel Wilson: The on- and off-reserve distinction I quite well understand in the Northwest Territories does not apply, but we have first nations governments in the Northwest Territories. Our estimates are based on what the governments tell us is necessary and what's actually transferred to them for their people, regardless of where they reside.

Mr. Michael McLeod: That's really good to hear.

I want to focus a little bit more on the housing issue because housing is probably the number one issue in my riding at every meeting. Regardless of what the focus is on in the discussion, housing will come to the surface. Fifty per cent of my population is indigenous, and a lot of what we have in terms of social issues can be attributed to the housing conditions. Studies have shown that if we could fix the housing problem, 50% of our social issues would go away. I was really glad to see what you had captured in your presentation the need for a national housing strategy. I think that's a good move. We're really trying to engage.

I find that we really have to do a lot more to try to focus on affordable housing. I think that's an issue right across Canada. We have many communities situated close to major projects. For us, the best program for aboriginal people is a good job, but we still have systems that are clogged because our public communities, our aboriginal communities, are designed for a social system and the social system doesn't work well for people who have jobs. For example, in one of the communities I just visited, which is almost all aboriginal, there are 200 people working at the mine and they're still all in social housing, and it's clogging up the system.

I'm hoping that we're going to try to find a mechanism in the national housing strategy that will work for us in the north and work for the aboriginal communities.

I'm curious at to why—and maybe it's because you don't have the members—you don't have an indigenous plank or focus, not a mention at all. I think there's going to be a need for a strategy for indigenous housing throughout all organizations that deal with aboriginal people, but including yours as a national organization.

Mr. Kevin Lee: Yes, and I think that especially when it comes to the north there are huge opportunities, particularly on the modular housing side of things. We just created a new council focusing on modular housing and panelized construction, which would be particularly applicable for moving into remote communities with short construction seasons and that sort of thing, and making sure that technologies are appropriate.

As you also mentioned, there's a huge need for affordable solutions. By that I don't mean social housing at all, but things that are cheaper to build and construct and get up there. I think as part of the national housing strategy, as part of the federal approach, we really need to focus on this. We have housing affordability issues in every part of Canada. Nowhere is it more extreme than in the north, so we really need to focus on research and innovation putting Canada back to being a leader in this area, as it was, frankly, through the eighties and nineties, when Canada led the world in cold climate building science for residential construction. We've fallen behind. We've underinvested at a time when now we have affordability crunches. We know the challenges of the first nations people. It is an opportunity to take a federal leadership role, reinvest, and help find the solutions. Industry has always had a great relationship with the federal government in all of these R and D programs, and we look forward to continuing that.

● (1820)

The Chair: Thank you, both.

We've time for two more questioners.

Before we get there, Ms. Gadamsetti, you had mentioned a pilot grant to develop the open educational resources. I will admit I don't know what open educational resources are. How would you see that being done, and how would you see the federal government involved?

Ms. Shifrah Gadamsetti: Maybe I'll take a quick 30 seconds to explain open education resources a little better.

Traditionally, we look at learning materials as textbooks. Textbooks come from publishers. They have authors. Those authors are compensated for their work. In an academic setting, whether it's a college, a polytechnic, or a university, wherever those materials are used, they often become outdated in five to seven years. Even if there are minor changes in materials, students are forced to buy a newer edition because of a variety of competing interests: the publisher, the professor, and the university itself. We are now seeing a trend whereby students are choosing whether or not to purchase educational materials, and that is completely dependent on how successful they are in the course.

When we talk about the piloting grant and the reason we're asking for a federal strategy, larger provinces, with perhaps a higher density of post-secondary educational institutions—Alberta, B.C., and Ontario—have an appetite, but also the manpower and the resources to dedicate small operating grants to begin projects like this: we have eCampusOntario and BCcampus, and eCampus Alberta existed for a time. This allows a sort of seed funding for professors to be incentivized, to be compensated for their work, and to put it out under open copyright. This work then doesn't have to exist under copyright laws; it's not legislated in the same way. Professors are able to take it and adapt it specifically to a course if they need to do that. Some professors will undertake an updating of resources and then republish them to the main campus website, where other peers review them.

The material is quality and it is scholarly, and students do get quality for the access to this resource. For provinces that don't necessarily have the ability to invest, we hope that with a federal strategy students in those provinces are able to access these resources as well.

The Chair: Thank you very much.

Mr. Richards, we could go to about four minutes.

Mr. Blake Richards: Thanks, Mr. Chair. Maybe I'll return to where I left off at my last opportunity.

Mr. Lee, you mentioned some of your concerns about the small business tax changes. I wonder if you could elaborate a bit for me on that, particularly in terms of the smaller builders, the family-run builders where you have several or at least a couple of generations involved in the business.

Maybe you could describe for me the kinds of impacts that you would think they would see in terms of the jobs that might be lost and the impacts that might be created for many of your members, who are the smaller builders. Could you describe that a bit better for me?

Mr. Kevin Lee: It's pretty typical for members of our organization—builders and renovators—to have family-operated businesses with different members of the family participating, such as husband and wife. It's very common for one spouse to be the on-site person and the other person to be doing the books.

Family members are participating in different ways in trying to grow the business and also, in terms of the future, looking at protecting against downturns, since we know housing is very cyclical. They're looking at the ability to put away investment for a rainy day. They tend to be not eligible for unemployment insurance or anything like that in those instances, and most entrepreneurs, even if they set up their business to magically be in that position, don't want to be. They're not that kind of people. They want to be self-sufficient. They're also looking at their retirement savings and the different vehicles they can use for that. Again, they're not on pensions, and RRSPs only go so far. All of this is part of it.

Also, then, you're typically building a family business that you want to get your children involved in—if they actually want to work with you—and then pass on to them at one point. Any changes in taxation that are going to make that less desirable or even less feasible all run into this, which really begs the question: are we still going to be encouraging people to get into this type of entrepreneurial position of running the family business? Or maybe they're going to say, “You know what, forget it, I'll just get a regular job.” Then do we lose the entrepreneurial spirit?

● (1825)

Mr. Blake Richards: Would it be fair to say that you see these changes as potentially harming the ability of someone to pass their business down to the next generation of their family? As you're saying, these changes could result in discouraging the attraction of actually starting a business and employing people. Would that be something that we would be discouraging with those kinds of changes? Is that what you're saying?

Mr. Kevin Lee: Yes. From what we're seeing, this has the potential to do all of that, so an ongoing consultation, a way.... If we want to look at the tax system, let's look at it in its entirety and make sure we address the right issues and don't have unintended consequences, if you will, for small businesses in Canada.

Mr. Blake Richards: Thank you.

The Chair: Mr. Picard.

Mr. Michel Picard: Thank you.

Mr. Lee, since you are going through it, previous experiences or a previous life brought me to meet the darker side of the construction business. Since you mentioned the magic words “underground economy”, which is income not declared or declared incorrectly, do you think if we had a change of culture or behaviour what we would gain by cleaning up the market would more than sufficiently compensate for what you are looking for in terms of new money?

Mr. Kevin Lee: The simple answer is yes, in many ways.

Mr. Michel Picard: Thank you.

Mr. Kevin Lee: For example, we've been big proponents of coming back with some form of home renovation tax credit targeted around key policy objectives. It could be energy efficiency. It could be aging in place as was put in. It could be to help first-time homebuyers with their renovation jobs when they buy a fixer-upper because that's all they could afford and they want to fix it up.

We've done assessments based on the transition and change of culture. When you do a tax credit program, you are forcing people to get a receipt so that they can then get their tax credit. Just based on that, you would bring enough on board in terms of additional tax revenue so that if you got that cultural change, it would almost be a tax-neutral program.

We do a lot of work with the Canada Revenue Agency on the “Get it in Writing!” program to really combat the underground economy. The biggest thing that we see driving the underground economy is a sense from Canadians that they're being unfairly taxed. In places where we see increases even in the HST, we automatically see increases in the underground economy. I think it's really important—

Mr. Michel Picard: I'm cutting you off. I apologize. Are you saying that people are tempted to go to the underground economy because they feel they are being overtaxed?

Mr. Kevin Lee: Absolutely.

Mr. Michel Picard: And that's because they have the usual tax that everyone is paying, the GST or whatever, and income tax, and at all of the rates we know. Even though the income tax is not that high in Canada, they still feel that they pay too much tax and therefore they have to go to the underground economy?

Mr. Kevin Lee: Yes, our experience with Canadians is that when they feel they're being overly taxed, they look to do cash jobs. One of the biggest problems we have in terms of the underground economy is that people are willing to pay cash. It's not just the people who are accepting cash; it's Canadians who are willing to pay cash because they think they're getting a deal. The typical deal is that a contractor, in lots of businesses and not just residential construction, will say, “I'll give you 15% off” or whatever the combined federal and provincial tax is. Meanwhile, they're probably saving about 40% on all their taxes, and homeowners are happy to pay that because they think they pay too much tax.

● (1830)

Mr. Michel Picard: Have you evaluated the potential size of the market if all this unknown revenue were to be declared and what kind of revenue we could get from that? As well, from your perspective, have you established what is a reasonable taxation level if you are apparently overtaxed?

Mr. Kevin Lee: I'm just passing on what Canadians feel in terms of what drives the underground economy. In terms of the size of the underground economy—

Mr. Michel Picard: Especially from the market, from the construction business—

The Chair: Hold on. Mr. Lee can quickly answer one short question, then we have Mr. Dusseault, and then we'll have to pack it in.

Mr. Lee.

Mr. Kevin Lee: The underground economy in Canada is estimated to be around $20 billion at least. The opportunity to bring it above board is very much a function of how we change cultural norms, because that's really what it comes down to.

The Chair: Mr. Dusseault.

[*Translation*]

Mr. Pierre-Luc Dusseault: Mr. Lee, I am surprised that no one has yet talked about a program like ecoENERGY, which operates very well in a province like Quebec. The program requires entrepreneurs to declare what they are doing and to be members of the Association des professionnels de la construction et de l’habitation du Québec (APCHQ), or of another construction association. It also requires customers to have receipts and to submit them to the government in order to prove that they have in fact made the purchases that allow them to obtain a credit under the ecoENERGY program.

Your notes make no mention of demanding the return of the federal ecoENERGY program. Is that intentional, and if so, why?

[*English*]

Mr. Kevin Lee: Yes, we have. We were big supporters of the ecoENERGY retrofit program, and that's why we recommend the return of a renovation tax credit that would be aimed at energy efficiency, for example. It would be similar to the Energuide rating system, which is very good. Getting labels on houses really helps people appreciate the value of energy efficiency.

Rather than a grant program, our recommendation is to do it as a tax credit program instead, simply because of the enforceability and because Canadians are much less likely to want to defraud Revenue Canada as opposed to getting a grant. The Revenue Canada approach has a lot of incentives in that sense, and it's easier to enforce because if you defraud you've committed tax fraud, which is different from saying, “Well, I got a grant, but I might not have given you the entire truth.”

In terms of its success in the underground economy and combatting it, it's been excellent, so we'd be very supportive of the return of that type of thing.

The Chair: It's the very last question, because we were five minutes late to start. Keep it very short please, Mr. Poilievre.

Hon. Pierre Poilievre (Carleton, CPC): Mr. Lee, you mentioned that higher taxes generally lead to a bigger black market in home renos and construction. Do you believe these latest proposed tax increases on small business owners may have that effect as well?

Mr. Kevin Lee: Absolutely, unfortunately. We hear about it. We have a major campaign in our association to help our members fight against their competitors who deal in the black market. But there's no question, and we see it all the time. As I said, when taxes go up in the different provinces, there's an immediate reaction in terms of the underground economy going up.

The Chair: Okay, I just want make a point on the underground economy. If members want to test out that it's there, I'd suggest all you need to do—I've had it happen to me—is put out an offer that you want to fix your roof or paint your house, and go to three contractors or individuals. I imagine you'll be made an offer. It is something we need to address.

Just to inform panellists: we got into the small business tax as expected, but I want to remind people that consultations are ongoing. They go on until October 2. Make sure you get your information in to the Department of Finance, and we as a committee are going to hold hearings on this next week in addition to the pre-budget consultations. There will be a button on our website for you to put whatever information and concerns you have to the finance committee, as well, and that will also be transferred to the Department of Finance. We will not make recommendations, but we will submit what people submit to us.

With that, thank you very much for your presentations and your brief before that, and I thank the members for their questions.

The meeting is adjourned.