HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Finance

FINA • NUMBER 155 • 1st SESSION • 42nd PARLIAMENT

EVIDENCE

Wednesday, May 9, 2018

Chair

The Honourable Wayne Easter

Standing Committee on Finance

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● (1550)

[*English*]

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

As everyone knows by now, per the order of reference of Monday, April 23, we are dealing with Bill C-74, the budget implementation bill for the February 27 budget of this year.

We have quite a number of witnesses this afternoon. We're starting a little late and have a hard stop tonight at 5:30. Sometimes we can go a little beyond the time, but we can't tonight. We will ask the witnesses to try to hold their remarks to five minutes, and we'll shorten the question times for members as well so we can get as much done as possible.

We'll start with Ms. Annie MacEachern, as an individual, a colleague of mine from Prince Edward Island. Welcome, Annie.

Ms. Annie MacEachern (As an Individual): Thank you.

Good afternoon, Mr. Chairman and committee members. Thank you very much for having me here today to discuss the amendments to the excise tax, specifically around medical cannabis. I am here today because I fear for my rights as a medical cannabis patient and for all patients who choose cannabis.

I have been actively involved in following the progress of Bill C-45 and Bill C-46 to ensure that the rights of medical cannabis patients aren't being forgotten. I have watched hours of committee meetings on ParlVu and CPAC. I have hosted public discussions in Prince Edward Island. I have written letters to members of Parliament and senators, and I've met with local MLAs, MPs, and senators and, of course, patients. Despite my best efforts I am still here fighting for safe and fair access to a treatment that I have been prescribed by my doctor.

My goal in speaking with you today is to fill in some of the gaps in the general understanding of medical cannabis, to inform you of the obstacles medical cannabis patients face, and of how the additional excise tax will only further its inaccessibility.

The myth that non-medical users will seek a licence to access medical cannabis to save one dollar a gram is simply false. The ACMPR program is not a more convenient or a less expensive way to access cannabis, especially when retail stores will be a legal option. Patients are required to order their prescribed cannabis online, as it is not available in storefronts. The shipping costs vary by licensed producers, but they range from $10 to $20 per shipment. Logically, it would make sense for patients to fill their prescription in one order to avoid multiple shipping costs per month, but many patients are living on one income or with financial assistance and have families to support.

According to CFAMM, one in five patients can't afford to fill their full prescription, let alone pay all of their prescription in one pay cycle. These statistics align with the anecdotal research that I have done through my advocacy work with patients across Canada. I'd like to take a moment to break down the costs associated with medical cannabis for you. A gram of cannabis can vary from $4 a gram to $17 a gram when it comes in dry herb form. A typical prescription is three grams a day. On average, patients pay $10 a gram.

Many people forget that patients then have to consume their cannabis. Many doctors recommend that patients use vaporizers to eliminate certain health risks associated with combustion. A quality vaporizer will cost a patient no less than $75. The only alternative to inhaling cannabis currently available to patients is sublingual oils, which are, on average, $100 per bottle.

Simply put, healthier options for medical cannabis patients are cost prohibitive. Medical cannabis is the only prescribed medicine subject to HST and GST. In addition to that, it is not covered by the generic drug plan, and only one insurance provider will be offering limited coverage for specific diagnoses like cancer, HIV, and rheumatoid arthritis. This is a great start, but it's not enough.

With the opioid epidemic rife in our country I would be remiss not to mention the recent studies that have shown a decrease in opioid prescriptions in regions that have legalized non-medical cannabis. This in turn has resulted in fewer deaths from opioid overdose.

I would like to quickly share a story with you. A friend of mine, a young woman in her 30s, struggled with an addiction to opioids and benzos for 10 years of her life. She was diagnosed with MS two years ago. With the help of cannabis she has been able to stay away from opioids, despite living every day in chronic pain. At a recent visit to the hospital for day surgery, she was offered opioids for the pain. She declined, explaining her past to the nurses. Not everyone in that situation would have been strong enough to say no.

I believe that the current costs of medical cannabis and the costs associated with it, in addition to the excise tax, will not only drive medical cannabis patients out of the ACMPR program, but also drive them back to the black market, or potentially to opioids.

● (1555)

Despite the benefits of purchasing cannabis from a medical producer, cost is the bottom line for many Canadians. Rather than taxing medical patients, I urge the government to please explore a different approach to taxing recreational users. We should be supporting those who have made the choice to use cannabis as a treatment as much as the patients who choose to use pharmaceuticals to medicate.

Thank you very much for your time.

The Chair: Thank you, Annie.

We're turning, then, to Beer Canada. Luke Harford is the President. Welcome, Luke.

Mr. Luke Harford (President, Beer Canada): Thank you, Mr. Chairman, and members of the committee, for the opportunity to appear here today.

My name is Luke Harford. I am the President of Beer Canada, the national voice for beer. I appreciate being able to come here to explain the beer industry's concerns about part 3 of Bill C-74.

Beer Canada has 50-plus Canadian beer companies as members. Some are large. Some are medium in size. Many are small. Together, they account for 90% of the beer manufactured in Canada and cover all 10 provinces and one territory.

Part 3 of Bill C-74, the budget implementation act, proposes to amend the Excise Act of 2001 to introduce an excise duty framework on cannabis products. The federal government has structured the excise duty framework on cannabis to coordinate with the provinces and keep taxes on cannabis products low. The government aims to keep the tax on cannabis low to keep prices low and encourage sales through legal market channels.

Bill C-74 proposes a flat 25¢ excise duty per gram of cannabis product as the federal portion, with plans to later introduce a 75¢ per gram portion that will go to the province or territory.

Beer Canada views this tax proposal as low, in the context of current taxation policy and given the evidence in the United States. Evidence from the U.S. indicates that the price of cannabis will fall as larger volume cannabis producers come on stream and get up to capacity, while industry analysis of the recreational market in Canada also shows that cannabis prices will drop by half with legalization.

In Colorado, recreational marijuana excise tax revenues have grown by 540% since 2014, with the state having increased its marijuana sales tax from 10% to 15% in July 2017. In Washington state, where recreational marijuana is subject to a 37% state excise tax, sales grew by over $1 billion in the last two years, with state excise revenues increasing from $65 million in 2015 to $314 million in 2017.

Canadian marijuana taxation levels should not be driven solely by an exaggerated concern about pricing too it high to cannibalize the illegal marijuana market. Convenience, product knowledge, quality assurance, and personal safety will drive sales through the legal channel, even at higher tax loads.

What is especially noteworthy for us about the U.S. experience is that their marijuana taxes are much higher than their beer taxes. Colorado, Washington, and Oregon have all implemented marijuana tax rates that are double and triple the rates they apply to beer.

In Canada, the potential for legal marijuana to cannibalize beer is much more significant compared to the U.S. because of our higher beer taxes and higher prices. The tax on a case of beer in Canada is five times higher than it is in the U.S.. Marijuana taxation rates need to be informed by basic principles of fairness and potential economic impacts, in addition to black market activity.

Since 2010, there have been 45 tax increases on beer in Canada. The taxes on a case of beer now make up, on average, 47% of the price a Canadian pays for a case of beer. Last year, the federal government increased the excise duty on beer by 2%. It was increased by another 1.5% this past April, and it's set to increase every year because of the federal government's new automatic beer escalator tax.

Canadians are upset over high beer taxes. Fifty thousand Canadians have signed on to our Axe the Beer Tax campaign. They have demonstrated a desire to be engaged in the issue. The frustration with high beer taxes also came through in sentiments Canadians expressed on social media over the recent April 19 Supreme Court ruling in the Comeau case.

Domestic brewers are concerned about legal recreational marijuana. It is going to have a negative impact on beer sales, which have already declined by 10% in the last 10 years on a per capita basis.

The implication is clear. Low cannabis taxes will increase cannabis sales, while high beer taxes will decrease beer sales, leaving the government with less revenue, on balance. We are left asking ourselves, is it worth investing in the Canadian brewing industry today?

In the United States, not only are taxes on cannabis higher than beer taxes, but the U.S. government recently rolled back federal excise taxes on beer to help American brewers grow and compete. The 2017 U.S. Tax Cuts and Jobs Act lowers beer taxes, while Canada is moving in the exact opposite direction. From the beginning of 2017 to the end of 2019, Canada will add $63 million in higher excise duty costs on beer while the U.S. lowers its federal excise burden by $280 million. At the beginning of 2017, a brewer producing one million hectolitres of beer in Canada paid an excise duty rate 60% higher than an American brewer with the same production volume. By April 2019, the difference will be 93% at today's exchange rates.

● (1600)

Canadians know that they pay more for beer compared to their neighbours to the south. They know that because they visit the U.S. and come back talking about how expensive beer is here. Beer Canada aims to explain that this is because Canadians pay $20 in tax for a case of beer, on average, while Americans pay just $4 in tax, and to explain how the federal and provincial governments are layering one beer tax on top of another, hoping that Canadians don't notice.

Beer Canada believes that the low-tax approach to cannabis proposed in Bill C-74 is unreasonable in the context of the higher beer taxes paid by Canadian consumers. It is not fair to Canadian beer drinkers. It is not reasonable for the government to set marijuana taxation at such a low level while increasing one of the world's highest beer tax rates year after year.

Beer Canada urges the finance committee to consider the implication of low marijuana taxes on beer sales and government revenues. Higher taxes on beer are not going to help domestic brewers invest in their facilities and their people, or reverse declining beer sales. Canada needs a more balanced approach to tax policy that is fair for beer drinkers and brewers alike. We request that future increases to the federal beer excise tax be eliminated and that the government consider a higher tax rate for marijuana products that is more consistent with its approach to competitive products.

Thank you, Mr. Chairman.

● (1605)

The Chair: Thank you very much, Luke.

We go now to Brian Kingston, the Vice-President of Policy, Business Council of Canada.

Welcome, Brian.

Mr. Brian Kingston (Vice-President, Policy, International and Fiscal Issues, Business Council of Canada): Thank you, Mr. Chair.

Committee members, thank you for the invitation to take part in your consultations on Bill C-74.

The Business Council represents chief executives and entrepreneurs of 150 leading Canadian companies in all sectors and regions of the country.

In the council's pre-budget submission we asked the government to introduce a strategy to promote economic growth, encourage private investment, and strengthen competitiveness. Among other recommendations we called on the government to undertake a comprehensive review of Canada's tax system with the goal of strengthening the incentives for both investment and growth. Since we submitted that to the government, the need for a comprehensive review has only been intensified by the controversy over the government's passive investment proposals, and then more recently by the U.S. Tax Cuts and Jobs Act.

While we do welcome the changes made to the passive investment proposals in budget 2018, we believe the government could have done more to address the root of the problem. Rather than lowering the small business tax rate even further and restricting access to the deduction, the government should have eliminated the small business deduction altogether as part of a broader tax reform simplification effort.

Regarding U.S. tax reform, we're disappointed that budget 2018 did not address Canada's serious competitiveness challenges. The U. S. now enjoys a marginal effective tax rate on new investment of 18.8%. That's down from 34.6% and below Canada's existing METR of 20.3%. The relative tax advantage that Canada has enjoyed over the United States for more than a decade was eliminated overnight.

In a recent survey of 90 business council members, nearly two-thirds indicated the U.S. tax reform will either definitely or probably influence their company's future investment plans. Three-quarters of those surveyed are concerned or very concerned about the competitiveness of Canada's business environment. We find this to be a very alarming finding at a time when direct investment in Canada has fallen to an eight-year low.

Now is the time to act on the advice of the federal Advisory Council on Economic Growth, which in its final report called for a review of the tax system by an independent panel of experts. In the advisory council's own words, such a panel should “consider changes to corporate and personal tax rates, the balance between types of taxes, and the use of tax instruments designed to support investment.”

Before I conclude, I would like to make one comment on the fiscal outlook. We remain very concerned about the government's failure to set a clear path to balance over the medium term. Between 2017 and 2023 the government expects to add nearly $100 billion to the federal debt, bringing it to almost three-quarters of a trillion dollars. Over the same period the interest on public debt is expected to grow by 36%. That's more than double the growth rate of direct program spending.

While we share the government's view that targeted investments in infrastructure and innovation create the foundation for long-term economic growth, we also know from experience that rising public deficits and debt only serve to undermine consumer and business confidence with negative consequences for business growth and job creation.

I look forward to questions. Thank you.

The Chair: Thank you very much, Brian.

From the Canadian Bankers Association, we have Ms. Mason and Mr. Hannah.

Ms. Angelina Mason (General Counsel and Vice-President, Canadian Bankers Association): I'd like to thank the committee for inviting us here today to discuss Bill C-74. The CBA always welcomes the opportunity to share our perspectives on legislation before Parliament.

The CBA is the voice of more than 60 domestic and foreign banks that helps drive Canada's economic growth and prosperity. The CBA advocates for public policies that contribute to a sound, thriving banking system to ensure Canadians can succeed in their financial goals.

This afternoon, we will focus our comments on part 6, division 16, which contains amendments to the Bank Act.

Given the dynamic nature of today's financial services market, updates to the legislative framework are critical to ensure that the framework is responsive to the evolving needs and expectations of consumers. The amendments in part 6, division 16, are a result of the consultation process that the government undertook as part of the regular review of the federal financial sector framework.

We are pleased to take your questions on the Bank Act amendments and other clauses of the legislation that pertain to the banking industry, including cybersecurity.

Over the last several years, consumer demand has produced a dramatic shift in the financial services landscape. Today, consumers expect safe and convenient access to banking services 24 hours a day, in real time, from anywhere in the world. In response, banks in Canada continue to innovate and develop new technologies to provide better products and services to their customers.

The Internet brought online banking into homes and offices, and mobile is now eclipsing that technology. Everyone with a smart phone has a bank in their pocket. Banks have mobile apps, which are constantly updated with new features. A thumb scan can now verify your identity. An e-transfer is a quick and simple way to send money to a friend, and a cheque can be deposited by snapping a photo. Over a few short years, the number of Canadians using mobile banking has grown dramatically, with 44% of Canadians using it in 2016, up from a mere 5% in 2010. In fact, more than two-thirds, 68% of Canadians, now do most of their banking digitally, using online and mobile banking.

Clearly, Canadians are embracing technology in banking, and we believe that the legislative framework that supports financial services must be modernized to reflect this reality.

Banks are strong proponents of an open, competitive, and innovative financial services sector. There is already an impressive number of fintech start-ups in Canada that have brought expanded competition and customer choice in areas such as payments, investing, and budgeting.

Currently, there are barriers in the Bank Act that restrict certain types of relationships among banks and fintech companies. These include lengthy regulatory approval processes and restrictions on the type of investments banks can make in fintech. For example, if a fintech company has a small line of business in something other than financial services—say, a food delivery service—bank investment is restricted because that company offers a non-banking service. The regulatory approval process can take months—an eternity for fintech companies. This can deny fintech companies access to brands, customer reach, and partnerships that banks can offer. It can also push innovative Canadian fintech companies to other countries.

Many of these current barriers to collaborations between banks and fintech companies were imposed at a time when fintechs were not even conceived of, and when technology was not as fundamental to banking products and services as it is today. These barriers are outdated in a world where technology is integral to financial services, and they inhibit innovation.

If passed, Bill C-74 will ease many of the existing barriers in the Bank Act, and will allow for greater collaboration between banks and fintech companies.

In addition, the Bank Act framework needs greater clarity regarding the nature of fintech activities in which banks may engage in-house. Even more fundamental is the need to update references to the types of relevant technology in the Bank Act, such as “sites”, “platforms”, and “portals”, since the current language in the statute is quite outdated.

Canadian consumers will benefit by having new channels of distribution as well as new applications, products, and services. Fintech companies will have access to banks for capital, funding, distribution, and advisory needs.

These provisions will also bring Canada more in line with other jurisdictions around the world that are actively encouraging growth of their fintech sectors.

● (1610)

In conclusion, the proposed amendments in division 16 will encourage greater collaboration between fintechs and banks. If passed, Bill C-74 will foster innovation in financial services, promote competition, and ensure consumers have access to better products and services.

We look forward to your questions.

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

Canadians for Fair Access to Medical Marijuana, Mr. O'Hara, President and CEO, and Mr. Zaid, Founder and Adviser, the floor is yours.

Mr. James O'Hara (President and Chief Executive Officer, Canadians for Fair Access to Medical Marijuana): Mr. Zaid will start first.

Mr. Jonathan Zaid (Founder and Advisor, Canadians for Fair Access to Medical Marijuana): Thank you, Chair, and to the standing committee, for the invitation to appear here today.

My name is Jonathan Zaid. I'm the Founder of Canadians for Fair Access to Medical Marijuana, commonly known as CFAMM. I'm a medical cannabis patient myself.

I will introduce CFAMM briefly, and then pass it off to James, the president and CEO.

CFAMM is a national non-profit organization that has successfully represented medical cannabis patients since 2014. With a membership of over 20,000 Canadians, the organization has emerged as the thoughtful grassroots voice for medical cannabis in the non-profit advocacy space.

We are joined by a coalition of non-profit organizations, who are also recommending the elimination of tax on medical cannabis. The coalition includes the Arthritis Society, the Canadian AIDS Society, the Canadian Arthritis Patient Alliance, the Canadian Hospice Palliative Care Association, the Canadian Nurses Association, the Canadian Pharmacists Association, the Canadian Spondylitis Association, the Cardiac Health Foundation of Canada, the GI Society, the Huntington Society of Canada, and the Multiple Sclerosis Society of Canada.

Affordability of medical cannabis remains an urgent crisis for the majority of patients. Insurers rarely cover the costs of medical cannabis, meaning the majority of expenses are paid out of pocket.

The reason we are before you today is to discuss Bill C-74's proposed application of sin taxes on medical cannabis, which, if passed, will be detrimental to the 269,000 Canadians using cannabis for medical purposes. We are calling on you to support the rights of sick Canadians and drop the proposed excise tax on medical cannabis.

Now I'll pass it off to James.

● (1615)

Mr. James O'Hara: Thank you, Jonathan.

Hi, my name is James O'Hara, and I'm the President and CEO of Canadians for Fair Access to Medical Marijuana. I'm also a former bank vice-president who is now a medical cannabis patient. I have a number of conditions which I successfully treat using medical cannabis: focal seizures, osteoarthritis, and asthma.

The use of medical cannabis in my life has been utterly life changing, and I truly mean life changing. I've been able to reduce the number of seizures I have by about 80% to 90%, and my overall quality of life has increased dramatically. I'm far from alone in my experience. Today, over a quarter of a million Canadian medical cannabis patients get relief from symptoms from various conditions and illnesses, including chronic pain disorders, arthritis, insomnia, MS, Crohn's disease, and epilepsy, just to name a few.

However, fully 60% of these patients cannot afford their full dose; it's already out of reach for them. What we've heard from patients are some very important points about their making very difficult life choices. Many say they will source from the black market; they feel they have no choice. Even if there's an element of product safety risk, they will still do so. Some have dipped into their savings or used their credit lines to pay for medicine. Others say they will go without, or go back to using opiates which are covered by insurance to get some relief from their pain. Keep in mind that this is a medicine with cost that is already significantly burdened by HST, and it shouldn't be.

Other medicines in Canada are zero rated and not subject to any tax. These patients are already struggling to finance the cost of their medicine, or even putting themselves and their families in financial jeopardy. Frankly, in a country like Canada, this is completely unacceptable.

However today, the government is considering adding another tax for medical cannabis patients, an excise duty, or what is commonly described as a “sin tax”. Let's understand and just remind ourselves for a minute what a sin tax is designed to do. A sin tax is imposed on items whose use is deemed harmful to society, such as alcohol and tobacco. It's primarily designed to disincentivize use.

For medical cannabis patients, cannabis is harm reducing and symptom reducing, not harm creating, and it does not fall into these categories whatsoever. Moreover, sin taxes are designed and used to discourage consumption, something a medical cannabis patient has absolutely no choice over whatsoever.

Think about this for a minute. A sin tax on medical cannabis patients is imposed to deter use. That's effectively discouraging sick Canadians from using their medicine, and that makes no sense. To go back to what I said earlier, medical cannabis patients are already significantly burdened and are struggling to pay for their medicine, and that makes no sense. This proposal puts their medicine out of reach even further.

Struggling patients can't understand why, when they're doing their very best to take care of themselves, the government would propose to tax their medicine and treat it like alcohol, tobacco, or gasoline. To disincentivize the responsible management of someone's medical needs makes absolutely no sense, and applying a sin tax to medicine is completely out of line with our collective moral beliefs and principles as Canadians.

This is the reason why every jurisdiction in the United States that has both medical and recreational cannabis systems either partially or fully exempts medical cannabis from taxes. Germany takes it a step further and mandates that insurers cover the costs for patients.

It's also very important to highlight that the 269,000 patients utilizing Health Canada's ACMPR medical cannabis program today are people using health care provider authorized medical cannabis products, which are not considered to be prescription medicines and therefore would not be exempt from excise tax. This means that these Canadians will potentially face unfathomable and increased costs post-legalization due to the new taxes being placed on their medicine. Although the government has made one small step in exempting low THC products such as CBD oil, the government missed a key point, in that THC is proven to be an effective medicine for chronic pain, MS spasticity, chemotherapy-induced nausea and vomiting, as well as other conditions.

In response to the government's plan to apply a sin tax on medical cannabis, CFAMM launched a campaign called “Dont Tax Medicine”. To date, over 20,000 Canadians have written letters to their MPs calling for the elimination of tax on medical cannabis. A dozen leading national health charities joined our coalition calling for the same. We conducted a public opinion poll that found only two out of 10 Canadians support applying a sin tax on medical cannabis.

Needless to say, both the general public and the health care communities overwhelmingly support eliminating tax on medical cannabis. It's time for the Canadian government to step up and treat medical cannabis as a medicine. That means no tax, and especially no tax for medical cannabis patients.

We're asking the committee to amend Bill C-74 by exempting medical cannabis from the excise tax. By amending the bill in such a way, the government will help ensure medical cannabis patients are treated more fairly and won't have to pay an unjustified and misguided sin tax on the medicine they need.

● (1620)

The bottom line here is that this is a question of fair and equitable tax treatment when it comes to medical cannabis, and the only answer to that question is, “Don't tax medicine.”

I thank the committee for your time. I'm happy to take your questions.

The Chair: Thanks to both of you.

We are turning to Cannabis Canada, with Mr. Rewak, Executive Director.

Mr. Allan Rewak (Executive Director, Cannabis Canada): Good afternoon.

Thank you very much for the opportunity to be here today. As mentioned, my name is Allan Rewak, and I am the executive director of Cannabis Canada, the national trade association for licensed producers of medical cannabis under the ACMPR.

Our group has recently undergone a very profound and positive transition. At our recent annual general meeting just three weeks ago, the members of the Cannabis Canada Association, the Canadian Medical Cannabis Council, and Canopy Growth Corporation agreed to unify to create one central stakeholder voice for our sector, which we will operate on a go-forward basis as the Cannabis Canada Council, or C3.

I'm very pleased to say that our strengthened and large organization can now confidently say that we represent the vast majority of licensed producers in this country, including the large-scale major producers, mid-scale producers, and emerging licensed producers. We believe this common and inclusive framework will be a significant asset to policy-makers such as you as you look towards the further regulation and design of our growing industry.

We are collectively committed to investing heavily in Canada and building up great jobs in the long term in the communities we operate in. This is something that we anticipate will escalate significantly once Bill C-45 comes into force and is fully implemented.

As part of this commitment to building up Canada, we are not opposed to the application of tax on adult consumer use of cannabis, despite the challenges a new taxation regime imposes on a nascent regime. We're proud to play our part.

That being said, our members, both large and small, are deeply concerned with the application of excise tax to medical cannabis as a sin tax. While we recognize and appreciate the very positive efforts of the federal government in seeking to exclude high-CBD, low-THC products from taxation, we believe the ratios offered in this budget are overly prescriptive and will work against our common interest of providing fair access to medicine for Canadians.

Instead, considering the fiscal risk of harm for legitimate medical patients—some of whom are here today—that the proposed taxation regime would entail, we propose that we instead adopt a collaborative and iterative approach to this issue. Specifically, C3 would recommend that all taxation on medical cannabis be deferred for a minimum of one year.

During that time, we would further propose that this committee recommend that Health Canada and aligned ministries create a working group to study appropriate age-gating and other gating mechanisms to the medical cannabis system to ensure that this system is free of abuse and to develop a more comprehensive evidence-based matrix of cannabis as treatment for specific medical disorders. We hope this new matrix will confidently and reasonably define a legitimate health care regime that ultimately will be tax free, just like other medicines.

We believe this approach will give us the information we need to get the medical system right while preserving and respecting the needs of medical patients.

In closing, I'd like to thank the committee again for the opportunity to be here. I'd be pleased to answer questions within a scope of information when available.

The Chair: Thank you very much.

I'm turning now to Hydropothecary, with Mr. Killeen, vice-president.

[*Translation*]

Mr. Pierre Killeen (Vice-President, Government Relations, Hydropothecary): Thank you, Mr. Chair.

My name is Pierre Killeen. I am Vice-President of Government Relations with Hydropothecary, an authorized medical use cannabis producer located in Gatineau, Quebec. We were the first authorized producer in Quebec and we are now the only authorized producer that can sell cannabis for medical purposes. On April 11, we announced that we would be the preferred supplier to the Quebec market following an agreement concluded with the Société des alcools du Québec.

It is an honour for our enterprise and for me to appear before the Standing Committee on Finance to discuss issues related to Bill C-74. We want to thank the members of the committee for this opportunity to introduce ourselves, and we would also like to thank the hundreds of thousands of Canadians who asked for the right to consume cannabis for medical purposes in Canada. Without their efforts, there would be no legal cannabis industry in Canada.

Today, I will limit my remarks to Part 3 of the bill concerning the excise tax on cannabis products for medical and recreational purposes, and on the economic impact of these measures on our industry.

The economic opportunities for the cannabis industry amount to close to $10 billion in Canada. As for economic opportunities worldwide, the forecasts often surpass $50 billion.

Our industry will create thousands of jobs in Canada and hundreds of millions of dollars in tax revenue for our governments. With that in mind, let's focus on the political signals sent by Part 3 of the bill regarding the excise tax on cannabis.

● (1625)

[*English*]

With the cannabis industry's economic opportunities in mind, let's turn our focus to the policy signals that are being sent by Bill C-74.

When it comes to adult-use recreational cannabis, the excise tax duty that will be imposed on cannabis will be the greater of a dollar per gram or 10% of the price of the product. This price should allow legal, adult recreational cannabis to compete with illicit black market cannabis, which operates a very sophisticated market that sells and delivers cannabis online to Canadians with the tap of a mobile phone.

Bill C-74's approach to recreational cannabis sends positive public policy signals to Canadians and to Canada's industry. It says that we are committed to ending the illicit black market. We commend the government for setting the initial excise tax at this rate.

When it comes to cannabis for medical purposes, Bill C-74's decision to impose an excise tax on cannabis consumed for therapeutic purposes sends the wrong policy signals. The committee has heard from patient groups and others about the real-life consequences of this decision on Canadians. Let's focus our comments on the consequences of this decision for Canada's cannabis industry.

Medical cannabis, as we've said before, is going to be a multi-billion dollar industry on a global level. Recent estimates have pegged this at $55 billion a year by 2025. The therapeutic benefits of medical cannabis for chronic pain relief, cancer, arthritis, and other conditions are really just starting to be understood. Interest in the therapeutic properties of cannabis is driving investment and research by cannabis companies, by the pharmaceutical industry, and by wellness industries in Canada and the world over.

At the present time, Canada's cannabis companies are at the forefront of this industry. The prohibitions facing cannabis companies in the United States provide us with a first-mover advantage opportunity to create leading companies on a global level. It should also be noted that Canada's approach to medical cannabis is far different from that in the U.S. and that many experts are of the opinion that our push to medical cannabis will be the one most likely to be emulated in other parts of the world.

The world is watching what we're doing. At this stage, the policy signals we need to send to medical cannabis companies, to investors, and to the world is that Canada supports medical cannabis. Building a world-leading medical cannabis industry means a number of things across a number of public policy domains. When it comes to the fiscal domain, it means incentivizing people to stay in the medical cannabis stream and not discouraging them from doing so.

A healthy domestic market is needed in order to drive a healthy export market. It's tough to find successful exporters and businesses with weak domestic demand. The challenges facing our clean tech sector are evidence of this challenge.

In conclusion, we would recommend that part 3 of Bill C-74 be amended to remove the excise tax on cannabis purchased for medical purposes.

We welcome the opportunity to respond to your questions.

● (1630)

The Chair: Thank you all for being as short and concise as you could be.

I think we'll drop back to six-minute rounds and see where we are after the first four.

Mr. Grewal.

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

Thank you to the witnesses for coming today. It is very much appreciated.

Mr. Harford, you were saying that, depending on the price of marijuana, there will be a reduction in beer consumption. Is there empirical data to back that up, or is that just an assumption?

Mr. Luke Harford: The evidence out of the United States is starting to come in. We've seen a decline in beer sales in the state of Colorado of 4.4% since recreational marijuana came on. In February there were news reports in Aspen, Colorado that recreational marijuana sales have now surpassed alcohol beverage sales. I think it's becoming more and more conclusive that there is a direct competitive aspect to this. There was a CIBC report referred to in *The Globe and Mail* this morning saying that recreational marijuana sales in Canada will surpass spirit and wine sales within the next two years. Certainly, from the brewers' perspective—

Mr. Raj Grewal: People aren't making a choice necessarily between buying marijuana and buying beer. In my humble opinion, that's an assumption you're making. The report in *The Globe and Mail*, which I read as well, is projecting growth of the legalized market, a market that doesn't currently exist. People smoke marijuana, but when it becomes legalized, you'll be able to count how many people smoke marijuana, and there will be a number to that market.

The decline in the consumption of beer is similar in the United States, because, even in the United States, there was a 1.8% decrease in the consumption of beer last year, so why are there more brewers coming up? There's been a 20% increase from 2015 to 2016 in the number of people brewing beer, even though there's a corresponding decrease in the consumption of beer. Why are people putting money into a shrinking market?

Mr. Luke Harford: It's a great question, and there's a variety of reasons for it. One of them is that governments have recognized that the model is broken and they've tried to structure it so they can provide incentives for people to bring capital into the brewing sector, but they have different levels. You have small brewers that have a tax advantage versus the larger brewers, so you see a lot of companies coming into the sector and investing, and that's great. It's great for the category, but none of them are saying their tax rates are low and need to be increased. They're all saying that they're suffering from too much tax, and it's going to hurt their investment going forward.

Mr. Raj Grewal: Nobody ever says they're suffering from too little tax, but point well noted.

Does anybody from the cannabis industry have any data or evidence to suggest that with the legalization of cannabis, there is a corresponding decrease in cannabis users buying beer?

Mr. Allan Rewak: No data is available that indicates that to my knowledge. At the end of the day this is a very different product category. Consumers will choose to use it. There is a lower incidence of harm, a lower rate of addiction, a lower risk of car accidents, etc. Respectfully, the comparison to the beer industry is a little different, because you guys will have greater advertising flexibility to control more elements of the supply chain, such as the Ontario Beer Store brewers retail distribution.

These avenues won't be available to us. We are selling to crown agencies that will retain a majority of the profit. That profit will be invested in schools and hospitals at a provincial level, and this is a choice consumers will make.

Mr. Raj Grewal: My next question is for the Canadian Bankers Association. Thank you for coming.

When it comes to fintech, how many of the companies are now looking at digital currencies and cryptocurrencies? That's got to be a big place in the fintech world. How are Canadian banks and your member organizations adapting to it?

Mr. Darren Hannah (Vice-President, Finance, Risk and Prudential Policy, Canadian Bankers Association): I can't speak to the degree to which fintechs are looking at cryptocurrencies. They're not members of the CBA, but clearly it's an emerging issue. Increasingly, you're seeing some usage around the world. It's an emerging area, though. There's no regulatory space around it right now, so it's something of an unknown, but it's something everybody's studying.

● (1635)

Mr. Raj Grewal: Mr. Kingston, welcome back to our committee. It's always good to see you.

You spoke about competitiveness, and obviously there's been a lot of chatter around the uncertainty with NAFTA, the uncertainty with the administration down south and the recent corporate tax changes there. I don't think anybody's going to disagree with you that people on Bay Street are very concerned about Canadian competitiveness. However, the numbers don't suggest that. There was still strong GDP growth and strong job growth numbers last year and this year in the first quarter.

Obviously, if NAFTA settles well, do you think there'll be a reflux of capital coming into Canada?

Mr. Brian Kingston: On the numbers point, you're absolutely right that 2017 was a very strong year for the Canadian economy, both in terms of GDP and unemployment numbers, but we're concerned about the outlook going forward.

Right now you see that GDP growth will moderate to around 2.1%, and according to the Advisory Council on Economic Growth chaired by Dominic Barton, our long-term GDP potential is around 1.5% a year. We think we're coming off a bit of a high from last year. We're also worried about some of the more recent data on FDI in Canada, which for 2017 showed that we're at an eight-year low. We think there's a worrying trend. I mentioned some of the forward-looking survey data, which shows that a majority of our members see U.S. tax reform as probably or definitely having an impact on their investments in Canada. We're quite worried, looking at the forward-looking survey data.

You're absolutely right, though, that NAFTA plays a huge role in that. It's hard to decipher between the effects of U.S. tax reform and NAFTA, and only time will tell. I hope that if NAFTA is resolved, that will restore some certainty. For example, if you're a company thinking about investing in Ontario and your intention is to exports goods to the U.S., I think right now you'd be thinking twice about that until NAFTA is resolved. Hopefully, if it's resolved shortly, that will help some of this, but we still think competitiveness is a serious issue, and tax reform needs to be addressed.

The Chair: Thank you.

Thank you, all.

Now we're turning to Mr. Albas.

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

Thank you to all our witnesses for being here today. I'm going to continue along the same line of questioning as Mr. Grewal.

First, I believe it was either Marshall or Keynes who said that in economics you'll often have two different forces coming together, in this case one being NAFTA and the other being tax reform. It cuts like a scissor. It really doesn't matter which blade hits first or the hardest; it eventually cuts.

Would you say that right now tax reform and the lack of competitiveness may be the worse of the two, or should we be advocating that the government look at things like the capital cost allowance as a way forward until we can see more investments, because I think these are at an eight-year low?

Mr. Brian Kingston: Yes, tax reform is definitely having the most immediate impact because it was passed, it's in force, and companies right now are staring at marginal effective tax rates that are significantly different between Canada and the U.S.

NAFTA, going forward, creates more uncertainty, but we know from speaking with member companies that tax reform in the States is having an immediate impact on investment decisions in Canada.

Mr. Dan Albas: Mr. Grewal also raised job numbers. The PBO said that since last October, when they came out with their quarterly report, 60% of the jobs that were created were actually in the public sector and that the reduction in the unemployment rate actually had to do with more people leaving the work force, the labour market.

Are those things concerning to you?

Mr. Brian Kingston: Absolutely. We want to see a vibrant private sector in Canada, and we want to see policies put in place that support that and support the growth of companies into global champions.

Mr. Dan Albas: Mr. Harford, my understanding is that when you add a higher price to anything, whether it be taxes or input, that means there will be fewer people purchasing it at a given price. So, if your industry is on a permanent escalator tax, and you see the excise tax going up while competitors such as the United States are actually reducing theirs, that means there will be less consumption of your product right off the bat—and that's not even to say whether there's a legal market for it or not.

Mr. Luke Harford: As I mentioned in my remarks, we've had 45 tax increases across the country on beer. Taxes on beer since 2010 have increased at twice the rate of inflation. We've seen a 10% decline in per capita beer sales over the course of the last decade, and that has implications for government revenue in the long term.

Mr. Dan Albas: What do you hear with regard to your industry? Are they bullish, or are they more bearish, in terms of big investments?

● (1640)

Mr. Luke Harford: Right now, their number one concern is what they are going to get hit with next by way of tax.

Mr. Dan Albas: Again, are some of your members considering investments south of the border versus here in Canada?

Mr. Luke Harford: It's definitely in the mix for our larger members, the ones with a footprint crossing into the United States. They're doing a deep dive to see how attractive Canada remains with the result of both the roll-back in beer excise tax in the United States that U.S. brewers are going to enjoy, that U.S. facilities are going to enjoy, and the tax reform.

Mr. Dan Albas: Those of you who are here regarding the cannabis issue, were all four of you consulted on this excise tax before the government made these changes in budget 2018, and if so, what was the response to the concerns I'm sure you raised?

The Chair: Who wants to start?

Were you consulted, Annie?

Ms. Annie MacEachern: I was, yes. I spoke with both members of Parliament, Sean Casey and Wayne Easter, with regard to the excise tax.

Sean Casey originally declined my invite to speak at an event around the excise tax. He sent forward a statement on behalf of the Liberal party, but he didn't seem to understand. I've continuously brought patients to him to share stories. I think that's the most important thing. There's a really large stigma that is shading many people's view of medical cannabis patients. The more we can humanize them, the more people seem to understand.

The Chair: Are there any others?

Mr. Jonathan Zaid: Yes, we at Canadians for Fair Access to Medical Marijuana were consulted by Finance. We also reached out to members across all parties, to senators, as well as to different bureaucrats in different departments.

With that said, I think the consultation was not as effective as we would like to have seen, in the sense that the submissions that were made overwhelmingly—the vast majority, from our understanding—in support of eliminating tax on medical cannabis.

As I mentioned, a coalition of very large, credible, respectable organizations—including the Arthritis Society, the Canadian Pharmacists Association, and the Canadian Nurses Association—has put forward a submission as part of that consultation process, but we don't feel that the government is adequately listening.

There was a small step to exempt low-THC oils, but that is a tiny percentage of the market. It shows a complete misunderstanding of what patients are using it for, and beyond that, it's not a decision that's based in evidence. The evidence, as James mentioned, is very strong and conclusive for the treatment of chronic pain in adults, MS spasticity, and nausea and vomiting induced by chemotherapy. That's for THC, and that is subject to excise tax.

The Chair: Dan, you have time for one more.

Mr. Dan Albas: That's great.

The Parliamentary Budget Officer released a report on this tax, which notes that the cannabis tax won't raise much revenue, because even a fairly modest tax would enable the black market to continue and the government wouldn't get any of the revenue. Do any of you have any comment on that? It would seem that the government is suggesting that it will raise revenue on the backs of those who are actually struggling to pay for access to medical marijuana, while completely ignoring the fact that it may not raise as much revenue to begin with.

Mr. Jonathan Zaid: I would absolutely agree, in the sense that this excise tax is using patients to build this new legalized program. Patients have already been suffering with the continued application of GST/HST. That situation means that six out of 10 Canadians who use cannabis for medical purposes can't afford their full dose. That number is unfathomable.

This government is considering pharmacare because one in 10 Canadians can't afford prescription medications. Then they go around and apply an excise tax to medical cannabis when six in 10 Canadians can't afford a dose. That makes no sense.

The Chair: Before I turn to Mr. Dusseault, Mr. Harford, on the 10% decline in beer sales, does that include craft breweries?

Mr. Luke Harford: It's the total market.

The Chair: The total market. Okay.

Mr. Luke Harford: Yes. It's on a volume basis.

The Chair: Go ahead, Mr. Dusseault.

[*Translation*]

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

I thank everyone for being here.

My questions and comments will be about cannabis. Thank you for sharing your expertise and for your comments.

I make a clear distinction between the GST and the HST, and excise taxes. In my opinion, those are really two different issues, but they are of course related.

I don't know exactly know to whom I will address my question. Are the GST and HST already being applied?

Mr. Killeen, you must know?

● (1645)

Mr. Pierre Killeen: Yes, they apply and they will apply to sales of cannabis for therapeutic and non-therapeutic uses once the law is adopted.

Mr. Pierre-Luc Dusseault: If I understood correctly, the bill provides a potential GST and HST exemption only for prescription products that have a drug identification number, or DIN.

Do you think it would be realistic to ask for a DIN?

Mr. Pierre Killeen: It would take a long time.

Mr. Pierre-Luc Dusseault: It's also costly. Is it not?

Mr. Pierre Killeen: It's costly and it will take time. At this time, Canadians are asking for access to cannabis for therapeutic purposes.

Mr. Pierre-Luc Dusseault: The fact is that before it can obtain a DIN, any business has to carry out many clinical studies to prove the effectiveness of a medication.

Mr. Pierre Killeen: The industry is heading in that direction, but it's going to take time for us to get organized and do the studies, so that we have what it takes to submit an application to Health Canada for a DIN.

Mr. Pierre-Luc Dusseault: So in the short term, it's not realistic to hope for that exemption, which will exist. However, in practice, no one has a DIN at this time, correct?

Mr. Pierre Killeen: The important thing, Mr. Dusseault, is to know that this industry is really just starting out. Our knowledge regarding cannabis is going to grow quickly, but we need time to get ready to ask for the authorization to offer cannabis as a medication.

Mr. Pierre-Luc Dusseault: Do you already have products whose THC content is lower than 0.3%? Does that exist on the market?

Mr. Pierre Killeen: We already have products that contain less than 0.3% THC. We could offer that type of product to Canadians, but the intensity of pain and suffering varies greatly, and a product containing less than 0.3% THC would not be enough to provide relief to some patients. So the reach of that exemption is going to be limited.

Mr. Pierre-Luc Dusseault: Once again, obtaining a DIN, and the exemption for products with a THC content of less than 0.3% does not seem realistic in the current market. Is that correct?

Mr. Pierre Killeen: For some people, providing products with less than 0.3% THC would be realistic, but not for everyone.

Mr. Pierre-Luc Dusseault: Okay.

Now I'd like us to discuss the excise tax, which is the other important element, and it may be more important than the first point. You will now have to have a permit issued by the Canada Revenue Agency to be a cannabis producer.

In my opinion, the main issue for a producer is to make a clear distinction between recreational cannabis and cannabis for medical purposes.

Do you know any businesses that intend to produce both types of cannabis and will hold two licences from the Canada Revenue Agency, i.e. a licence to produce medicinal cannabis, as you do, and also a licence for recreational cannabis?

Mr. Pierre Killeen: As you probably know, our industry is highly regulated. We are getting ready to obtain a licence in connection with taxes and excise taxes. We are quite willing and ready to meet the legal obligations that are incumbent upon us as a business, and as taxpayers.

Mr. Pierre-Luc Dusseault: Thank you.

I will address this question to Mr. Rewak, but others may wish to answer as well.

Did you assess the price difference for patients between the current cost of medicinal cannabis and the price that will apply under the proposed regime?

[*English*]

Mr. Allan Rewak: Much of this is anecdotal. Unfortunately, we just don't know because we don't have the systems fully in place. Supply agreements are still being formed and adult consumer use sales networks are being finalized.

What I can say in a generalized fashion is that I would anticipate medical cannabis to be slightly more affordable than adult consumer use cannabis. We expect different product categories to sell in the adult consumer use marketplace as opposed to the medical market, but the excise tax in addition to HST and GST will significantly add to the cost, perhaps by 25%, to medical production. We can ship directly to patients through the ACMPR. That gives us some efficiencies to keep costs low.

Ultimately it would be cheaper for us to simply apply excise tax to all products. It's easier from a production standpoint, but ethically it's wrong. We won't do that to patients. We would rather have a more complicated system from our production standpoint because the patients are what made us what we are today. They will continue to support us, and we will not forget them.

● (1650)

[*Translation*]

Mr. Pierre-Luc Dusseault: So for a producer, it would be realistic and possible to produce both types of cannabis. If they made a clear distinction between medicinal cannabis and recreational cannabis, they would not have to pay the excise tax on that second type of product.

Mr. Killeen, can you tell us if you think this is realistic?

Mr. Pierre Killeen: Currently, we offer medicinal cannabis to Canadians online. So we already have a system in place to offer that service to clients who have health issues. Now we have to create a system for the excise tax on the recreational products.

Mr. Pierre-Luc Dusseault: There would be two parallel systems, is that correct?

Mr. Pierre Killeen: As my colleague Mr. Rewak said, it is going to be more costly for us, but we are aware of the obligation we have to Canadians who consume cannabis for therapeutic purposes. Without them, we would not be here today.

[*English*]

The Chair: We'll have to stop it there, Pierre.

Mr. McLeod.

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

Thank you to all the presenters. There's some very good discussion here today. I'm certainly learning a few things.

I represent the Northwest Territories. Regarding freight costs, I wanted to say that we run our alcohol distribution through a liquor commission in the Northwest Territories, and cannabis is going to be run through the same commission. We already have a lot of controversy over subsidizing the price of alcohol. We have alcohol landing in a far north community and it's cheaper there than in the south. We have a lot people raising eyebrows.

I think we're going to have the same problem when it comes to cannabis. I don't have the same concern when it comes to medical marijuana, because I know the benefits of the use of medical marijuana.

I have a couple of questions. First of all, I understand the tax issue. We were looking at not having any sort of tax, no GST, no HST. We'll treat this as a prescription drug rather than an over-the-counter drug. I'm assuming that's where we're going with this. That's my first question, if you could respond to that.

Second, I want your opinion on the conference that was held in Toronto at the end of April, where physicians discussed whether doctors should continue to prescribe marijuana if it becomes legal for all. If they didn't do that, what would some of the fallout be?

There's a number of you that focus on—maybe I could get Annie to respond, and maybe the Canadians for Fair Access and Cannabis Canada could talk about the issues as well.

The Chair: Who wants to start? Canadians for Fair Access?

Mr. Jonathan Zaid: Sure.

On the first question of prescription versus over-the-counter cannabis, Bill C-45 proposes that the medical cannabis system as it stands today, as described by Cannabis Canada and Hydropothecary, largely continue as is, moving into legalization. This will mean a medical cannabis system distinct from non-medical cannabis. Patients will still have to go to their health care provider. They will still have to go through that assessment to ensure that they are suitable for the use of medical cannabis and that there are no risks in doing so.

Then they will get their products shipped directly to their homes. This is a distinct medical cannabis program that largely operates in a way that I consider to be similar to that of an online pharmacy, where it's still a prescription-like document that's sent and used for medical purposes only. That will be totally distinct. This is what we're saying should be exempt from taxation. When it's used for medical purposes on the basis of a health care provider's authorization, it should be treated like every other medicine that is based on a doctor's authorization, which are all exempt from tax.

On the second question, I believe that you're referencing the CCIC conference. I was a speaker there. I attended this, as well.

CFAMM has been advocating for a distinct medical cannabis system for the reasons we highlighted today. Patients have unique needs. It's irresponsible, I think, to suggest that patients, some of whom have serious medical conditions, like MS and cancer, go and simply self-medicate through a recreational cannabis store. That makes no sense. That's not a safe way for someone to integrate cannabis into their health plan, especially when they have other medications they're using.

I would also note that over 11,000 or 12,000 Canadian physicians have currently authorized cannabis for medical purposes. The number keeps going up. I haven't seen the latest market data, for the past month, but this is a number that's growing month over month significantly.

I hear the CMA's concerns. That said, patients are very clear. The courts have been very clear. And most other associations that represent different health authorities, such as nurses and pharmacists, have recommended a distinct medical cannabis system.

● (1655)

The Chair: Does anybody else have anything they want to add to that?

Michael, you have time for one more question.

Mr. Michael McLeod: Mr. Chairman, I support the legalization of marijuana, mainly because I want to see it out of the hands of children. In the north, we are seeing too many children getting their hands on marijuana. It's out of control in some places. Now that I know it will decrease opioid use and alcohol use, I am even more in support.

I want to ask those of you who are focused on cannabis about about Beer Canada's point today that legalization of marijuana will cut the prices by half. I haven't heard that before, and I'm just wondering if that's something—

Mr. Allan Rewak: As we scale up, that's a very ambitious target. The United States is not an accurate comparator. Our high regulation of production is a little different from the way they do it. We have added costs.

That said, as we scale up, there will be a reduction in price over time. But to be blunt, that won't be absorbed by the end-consumer. In many cases what it will do is to increase tax revenue for our provincial partners as they sell and distribute. There will ultimately be a rationalization of price, as with any new industry. At that point, we can always look at the taxation system in the future to ensure that our government partners always receive fair revenue.

The Chair: With that, unless Beer Canada has anything to add to that discussion, we'll turn to Mr. Kelly.

Mr. Pat Kelly (Calgary Rocky Ridge, CPC): Mr. Kingston, you said in your opening statement, if I understood correctly, that in the name of tax competitiveness, or general economic competitiveness, you supported a broad independent review of the tax system. Today we're studying today Bill C-74, which, among other things, will implement certain changes to the taxation of private corporations. You didn't comment much on that in your opening statement. I'm not sure you touched on it at all. Is there anything you'd like to say about that?

Mr. Brian Kingston: Yes, absolutely. Thank you for the opportunity.

We're happy with the changes made to the original proposal on passive investments, but our view is that what the government was trying to address there stems from the fact that the small business deduction continues to get used. It's a very expensive tax expenditure, and there's not a huge amount of evidence to support continuing that expenditure in this year. Finance estimates it's going to cost the government $5.5 billion in foregone revenue.

Rather than further complicating the tax system with more changes trying to restrict access to that deduction, why don't we take a broad look at the tax system, broaden the base, lower rates, and get rid of inefficient tax expenditures, such as the small business deduction. We think that's a more reasonable approach to this.

Mr. Pat Kelly: How would you go about establishing this broad-based review? Do you want an independent body to do this?

Mr. Brian Kingston: Exactly. An independent body composed of people from the private sector and tax experts could get together and look at the tax system in its entirety and provide a report to the government and, hopefully, there would be actions on what that committee recommended. That is the best approach at this point.

Mr. Pat Kelly: On the federal budget overall, and the continuation of the deficit you touched on, how much would be added to the deficit over the short term coming off what was indeed, to many, a surprisingly positive year and yet one in which we are no closer to a balanced budget? When ought decisions be undertaken to balance a budget if not during times of relative growth of the economy?

● (1700)

Mr. Brian Kingston: Exactly. We think the government should run a fiscal policy that is essentially counter-cyclical to the economic cycle. In good times you should be posting surpluses and preparing for a potential downturn. Then, when the economy goes into a recession, you have the funds available to support people who end up unemployed, or sectors that are facing challenges, rather than continuing to increase the deficit in a time of prosperity. We don't quite understand the logic behind the latter.

Mr. Pat Kelly: Do you have any specific concerns like the prospect of rising interest rates being above, or even just slightly above, the assumptions the government has made, or corrections in the housing market? Do any of these things concern you about the ability to balance a budget further on?

Mr. Brian Kingston: Absolutely. One thing we've been watching closely is the fact that the U.S. economy is in a 100-month bull market right now. This is a historically long bull market. Inevitably, a recession will occur. You never know what will trigger it. Perhaps it could be rising interest rates. But the fact is we are a very indebted nation, and so when that's triggered the impact could be significant. Putting your fiscal record on the debt-to-GDP ratio is very dangerous when suddenly GDP falls through the floor. We'd like to see a more concrete fiscal anchor such as a return to balance by a particular date.

Mr. Pat Kelly: Do I have any time at all?

The Chair: You have more time if you want it. We can come back to you again.

Mr. Pat Kelly: I have just a quick question then for Beer Canada on the excise escalator. If I heard you correctly, you're rather down on that. Is there any other comment you'd like to make on that? I understand the arguments made by those who say we're just merely tying it to inflation, but ought not a government be compelled to actually make that case in Parliament and vote on it for the record, rather than our just allowing a tax to increase silently in the background every year? This is especially so when you've seen the types of increases that have already happened in your industry.

Mr. Luke Harford: Yes, and thank you for the question. I would say that our expectation is, or was, that if the government were going to increase taxes, they would consult with us and look at the balance of the evidence, and see the state of the industry and look at the competitive marketplace in which the industry has to operate, and then decide on the tax rate. They would do that on an annual basis or whenever they need to do it, but they'd set it in motion so that it's automatic and baked into the legislation.

It's very difficult to accommodate the changes that are happening in the marketplace. The tying to inflation does not reflect what's happening in our category, and it certainly doesn't reflect what's happening to our category within each region of the country.

The Chair: Okay, with that we go to Mr. Sorbara.

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

Welcome, everyone.

Turning first to the Business Council of Canada, to Brian and John, welcome.

I have trumpeted this in the past couple of weeks. The A.T. Kearney report that came out last week showed Canada as the number two preferred location in the world for foreign direct investment, moving up three spots, only slightly behind the United States of America. I think this is a pretty good ranking and indicative of a number of measures we have taken. These include the formation of Invest in Canada; the signing and completion of the CETA trade deal; the CPTPP; our entering into negotiations with Mercosur; and obviously the ongoing NAFTA negotiations, which we well know about; and also the number of other measures we've taken, such as the supercluster agenda, or *supergrappes*, as they say in French.

There are a lot of good things happening. Our debt-to-GDP ratio is also declining, which, according to some economists, is another fiscal anchor that we can look at. We have created 600,000 new jobs and our unemployment rate is at a 40-year low.

Wouldn't you say those are pretty good things?

Mr. Brian Kingston: I'm quite happy you raised the A.T. Kearney report. We've looked into that. We were surprised by the findings, frankly, given what we hear from the members of our association, and there are a couple of serious flaws in that report.

First of all, it was a survey of executives in January 2018, which was before U.S. tax reform was fully understood. We're still trying to wrap our heads around the complexity of U.S. reform. I don't think the report accurately reflected the implications of U.S. reform.

Secondly, it mentioned a few initiatives that the government has announced that aren't actually operational yet. For example, in the report it mentioned that the Invest in Canada hub is attracting investment in 2018. That's not an operational entity, and we don't expect it to be operational until 2019 at best.

● (1705)

Mr. Francesco Sorbara: I'm going to stop you there, because I need to point out two things. I don't think I would criticize A.T. Kearney's report from January to now. Four months have gone by. The fiscal situation in the United States has actually worsened in terms of their balance-of-payments issues. I think our deficit-to-GDP ratio is at 0.4% and theirs is at 5%, if I'm accurate.

Mr. Brian Kingston: They are definitely in a worse fiscal position, but the U.S. also has the global reserve currency, which gives them more—

Mr. Francesco Sorbara: I'm not talking about currencies, remember?

Mr. Brian Kingston: —ability than we do, to point it out.

Mr. Francesco Sorbara: But what I would say to you is our—

The Chair: To be fair, we don't have ample time. Give Mr. Kingston time.

Do you want to complete your answer?

Mr. Brian Kingston: I would just like to note one more thing about the A.T. Kearney report, which I think undermines its credibility.

The report also mentioned the fact that the CETA agreement will be attracting new investment from Europe, and it cited the new investor protection court. We know that is actually not in force yet. CETA is only provisionally enforced. The whole investment chapter remains outside of that deal until all member states sign on. After seeing the methodology, I was quite concerned about the validity of that report. Given the survey data that I've shared with you, we're hearing the opposite from business leaders here.

Mr. Francesco Sorbara: I think that's entirely inaccurate. I think if you look at Toyota's $1.4-billion investment in Canada, announced last week, I think it's a sign of what foreign participants and domestic participants are doing for our job growth—the 600,000 jobs created in the last two and a half years. I think that's pretty darn good. I think if you put that up against any economy in the world, it would do well.

I do want to go quickly to Angelina and the banks.

Part of the BIA, Bill C-74, deals with the banks and fintech and the ability to invest. Has that provided enough flexibility at this point in time for the banks? Fintechs aren't subject to OSFI, to a large extent. They don't have capital requirements. There's a ton of compliance measures they don't operate under. At this moment in time are you content with the way the regulatory structure is going?

Ms. Angelina Mason: We're pleased with the changes. They've provided the clarity and flexibility to support innovation and fintech collaboration. Of course, we're going to continue to watch this space because it continues to evolve, but we are pleased with the changes that have been put before us.

Mr. Francesco Sorbara: Okay.

Thank you, Chair.

The Chair: You still have time.

Mr. Francesco Sorbara: Do I still have time? Okay.

Going back to Angelina, then, within the bank framework, we will have a review. In terms of the separation with regard to the Bank Act, do you see any issues there from your members?

Ms. Angelina Mason: Sorry, I don't understand the question.

Mr. Francesco Sorbara: In terms of the financial framework review, are there any other issues you'd like to raise?

Ms. Angelina Mason: Not at this time. The Bank Act review will be phased. This is phase one—

Mr. Francesco Sorbara: Yes.

Ms. Angelina Mason: —and there will be other ones. We'll need to see what's being proposed before we will be in a position to respond.

Mr. Francesco Sorbara: Of course.

The Chair: Go ahead.

Mr. Francesco Sorbara: Luke, you and I have chatted several times. I know you cited some statistics from Colorado. In a past life I covered all of the global beer joints, including Molson Coors, and I know that for a long time U.S. beer consumption had been declining due to the global financial crisis. Beer volumes have been soft in the United States for several years, first, owing to the impact of the global recession, and second, to the impact of people moving in general to different types of alcohol. I'll call it the "hour glass", meaning you move to the top, or you move to the bottom, and a lot of beer brands were being squeezed in the middle. That's something we need to point out. Yes, you're going to have competition from marijuana. I understand that, but at the same time there are a number of other trends that have been impacting beer volumes, both here in Canada and the United States, over the last decade. Is that correct?

Mr. Luke Harford: Absolutely that's correct. I even say that coffee and tea, with Starbucks and Davids Tea, are in competition for the pocketbooks of Canadians. It is a trend in the United States, and it's a trend here.

Mr. Francesco Sorbara: It's forced the beer industry to innovate.

Mr. Luke Harford: Absolutely. I think the point that I would like to make is that we're ready and willing to compete. It's just the level of taxation, and that going up and increasing every year isn't putting us on any stronger footing than if we had a more balanced approach.

● (1710)

Mr. Francesco Sorbara: Thank you.

The Chair: Thank you all.

Just while Francesco is on the CBA, you mentioned that this bill, under division 16, does renew the sunset provisions for the Bank Act, the Insurance Companies Act, and the Trust and Loan Companies Act to five years after royal assent. That means there won't be really a parliamentary review.

What's your view on that?

Ms. Angelina Mason: At this time, while the formal reviews were conducted over the last two years, there will be continued work in this area. Our understanding is that there will be further revisions, one through the budget implementation act, and supplementary amendments that could be done through that. While the formal review process is not continuing, there still is consultation occurring.

The Chair: I'll admit this because we talked to some people this morning. We're getting some concerns, with the fintech changes, that privacy issues could arise with the exchange of information from banks to others.

Is that a real concern or a non-concern?

Ms. Angelina Mason: That should not be a concern, not with the robust privacy framework that we have with PIPEDA and with the provincial legislation, and also just our approach with engaging with fintechs. The banks take the privacy of our customers very seriously. If we were to have any situation where a consumer is referred to a fintech company, it would done with so clarity about what information is being collected and with full and transparent consent. Also, banks do not take those relationships lightly. We do due diligence to make sure that, if we are referring to a fintech, it is being reasonable at how it manages customer information.

The Chair: Okay, thank you.

Mr. Poilievre.

Hon. Pierre Poilievre (Carleton, CPC): Mr. Kingston, my friend Mr. Sorbara wasn't happy with some of the facts you were sharing with him. At the risk of further displeasing him, I'm going to ask for some more of those facts.

To start with, what are the hard numbers on foreign investment in Canada this year as compared to prior years?

Mr. Brian Kingston: We don't have 2018 data. The most recent data is from the 2017 balance of payments. StatsCan released this in March of this year. FDI in Canada was at $33.8 billion, which is actually an eight-year low for FDI in Canada.

Hon. Pierre Poilievre: Is that in nominal or real terms?

Mr. Brian Kingston: That's in nominal terms.

Hon. Pierre Poilievre: It's in nominal terms, so if you took into account inflation, it would be even worse.

Mr. Brian Kingston: Yes.

Hon. Pierre Poilievre: There's also a massive increase in Canadian investment in the United States. I understand it's up 66%, while American investment in Canada is down 50% over the same time period. So our money is leaving and we know that after money leaves, jobs go with it.

What do you think is the major cause of the decline in investment in Canada?

Mr. Brian Kingston: I think the major cause right now is U.S. tax reform and the serious implication that has for a number of sectors. Secondly, though, I think there's the uncertainty factor, which I discussed a little bit earlier regarding NAFTA. Given that 76% of our exports go to the U.S.—it is our overwhelmingly largest export market—uncertainty around access to that market is definitely trimming investment in Canada.

Hon. Pierre Poilievre: Gluskin Sheff's chief economist David Rosenberg amassed all of the debt of households, businesses, and governments in Canada and found it's three times the size of the entire Canadian economy. It's a ratio that puts us above Greece when you put all that aggregated data together.

Do you worry what will happen to the Canadian economy as rates start to drift up over the next several years?

Mr. Brian Kingston: Absolutely. As rates go up, there will be pressure on Canadian households. There will also be pressure on governments at all levels that have elevated levels of debt. I noted that the growth of direct spending on interest at the federal level is to increase by 36% over the budget horizon. That's using a relatively modest forecast for interest rates.

If interest rates go up at a higher rate than anticipated, which is possible, you could see that growing far faster, which would put the federal government in a very difficult position.

Hon. Pierre Poilievre: Actually, you understated the problem because I think you're using this year as the baseline for the horizon. If you use last year, we're going to go from $24 billion a year in interest payments to $39 billion a year in interest payments within four years, which is an increase of 66%. That's money for which we as Canadians get absolutely nothing. The banks and the lenders will like it, of course. They will be getting more free money from taxpayers, but everyone else is worse off.

I note that RBC, TD, and I think CIBC was the latest, raised their posted rate for five-year mortgages. This will mean higher costs for Canadian homebuyers. Many economists linked that increase to the higher government bond yields. Government bonds are now paying, I think, a seven-year high. Banks and other lenders can get more interest by lending to the government, so they are demanding more interest when they lend to households.

Do you see a connection between higher government debt and higher borrowing costs for Canadian households?

● (1715)

Mr. Brian Kingston: No, I don't. The increases in bank interest rates—and my colleagues from the Canadian Bankers Association may add to this—are largely driven by what the Bank of Canada is doing, and the Bank of Canada is trying to ensure that inflation stays within the target rate. I see that as the main driver of interest rate hikes.

The Chair: Does the Canadian Bankers Association want in?

Mr. Darren Hannah: The main thing I would say is that pricing decisions are done on an individual institutional basis. Borrowing remains very competitive. Canadians remain a very good credit risk. By and large, that's really about all I need to say.

The Chair: If that's all you want to say, that's fine.

Mr. Poilievre, you have time for one more.

Hon. Pierre Poilievre: The level of household debt in Canada is the highest it has been since records have been kept. Do any of the panellists have any information on what the expected increase in interest rates over the next five years will cost an average household?

Mr. Darren Hannah: I don't have an answer to that specific question, but what I can say is the biggest piece of household debt is typically a household mortgage. OSFI has put in place a stress test—borrowers have to pass a stress test to qualify for a mortgage—to deal with exactly that issue, to ensure that people are able to manage their debt in the instance they face an increase in their interest rate.

The Chair: Thank you all.

We will go to Mr. Sorbara, and then we will come back to Mr. Dusseault.

Mr. Francesco Sorbara: I have a couple of comments, and then I will go to the CBA.

First off, the primary reason we have increasing interest rates is not due to an inflation issue. It's actually due to strong economic growth and the economy. If you look at capacity utilization levels, and I can name probably five or six other statistics, they are performing very well economically.

Wouldn't you concur with that? I think the Bank of Canada governor commented on that as well.

Mr. Brian Kingston: Absolutely. The root cause of inflation is the state of the economy, so yes. I was just noting that the Bank of Canada sets interest rates based on the inflation rate.

Mr. Francesco Sorbara: It is based on inflation and on how the economy is performing as well, I would say.

To the CBA, a number of changes have been made to the housing market. I think most of the changes have been very prudent in terms of CMHC insurance levels, the stress test now being applied to low-ratio and high-ratio mortgages to the entire market, and the quality of the debt we're seeing come on to the market and that people are incurring.

If you look at the FICO scores or the credit scores, generally we have been turning the right way. We are taking the prudential measures, as I would call them, for a housing market and for people to incur debt who can afford it, and who had been stressed.

Isn't that generally a characterization of what we're trying to do with all different agencies?

Mr. Darren Hannah: Arrears rates remain very low. They are historically low, far lower than you see in the U.S. Canadians are historically very creditworthy borrowers, and they remain so.

Mr. Francesco Sorbara: I'm done.

The Chair: Mr. Dusseault.

● (1720)

[*Translation*]

Mr. Pierre-Luc Dusseault: Let's get back to cannabis as such. The Cannabis Canada representatives may be in the best position to answer my question.

Are we taking adequate precautions to ensure that enterprises that ask for a cannabis production licence are not using suspicious funds, whether from abroad or from Canada? The *Journal de Montréal* and other newspapers have done some good investigations on certain businesses that were financed with money channelled here from tax havens.

In your opinion, is the framework sufficient to protect the recreational cannabis industry from the influence of shady foreign interests?

[*English*]

Mr. Allan Rewak: Absolutely, and I'd like to provide some clarification, respectfully, to that investment and those shady investors that are referred to.

The money that was often quoted in *le Journal de Montréal* was related to offshore trusts. These are created for a variety of reasons, generally legal, but that is not what I'm here to talk about and defend. Really, the cannabis industry goes through the most vigorous licensing and dual regulation process of any industry in Canada.

First of all, all of our members have to go through the full ACMPR licensing process. They are investigated. Their family members and anyone associated or with a controlling interest in said company is investigated deeply. They have to first pass that security check by the RCMP.

They go through a dual regulation through the OSC or whatever stock regulator they operate under. Unfortunately—and I think this is an important point that has to be made—we can't be asked to prove that we're above board by breaking the law, and most stock market regulators will require that we do not disclose the names of individual investors in companies. Those are passive investments as well, and they denote no control over the companies themselves. I believe we are adequately protecting Canadians. We have the most vigorous system in the world, and I stand by it.

[*Translation*]

Mr. Pierre-Luc Dusseault: You seem satisfied with it.

I'd now like to discuss another topic: double taxation. I believe it was the representative of Canadians for Fair Access to Medical Marijuana who commented on this, and I am sure the beer producers agree. In the case of beer, the excise tax makes up 47% of the price. And then the sales taxes are added to that.

Do you think that this double taxation is a barrier to accessing medical marijuana?

[*English*]

Mr. Jonathan Zaid: Yes, absolutely. Today, already 60% of medical cannabis patients can't afford their medicine because it's not covered by insurers, but it's also because of a very unfair GST/HST that no other medications that must have authorization by a doctor are subject to.

That said, this new excise tax will be applied at the point of production, so the HST will be compounded. It will be double or compounded taxation of a medicine. I think that's the really key thing. Patients, people who are suffering from extremely difficult situations, a lot of the people whom we represent, are on disability. They have no income and they're already suffering. Going forward and taxing them more is going to make that suffering worse.

The Chair: Ms. MacEachern wants in.

Ms. Annie MacEachern: May I?

[*Translation*]

Mr. Pierre-Luc Dusseault: Ms. MacEachern, I think you also said that the higher the price, the greater the danger that patients will turn to the black market. Is that correct?

Ms. Annie MacEachern: Yes, of course.

Mr. Pierre-Luc Dusseault: Will the taxes that will be added to the excise tax exacerbate the problem?

[*English*]

Ms. Annie MacEachern: As CFAMM mentioned, many of the patients whom I've spoken to directly are underdosing. They're not even meeting their required or their prescribed dosage from their doctors. I don't think you would find anyone underdosing with pharmaceuticals to afford the medication.

I know that many people who experience acute pain, pain that comes in bursts, will choose not to medicate or will medicate with lower dosages in order to make their prescriptions last.

I know for a fact that the cost of my medication will increase approximately $200. That's depending on when I purchase oil or when I purchase dry herb. The CBD versus THC exemption will not help me whatsoever. From my licensed producer, there is not one product that would be exempt from the CBD not being charged.

I wholeheartedly feel that this excise tax will be sending medical patients to the black market.

● (1725)

The Chair: I have two comments. Could I ask, over what period of time is that $200, and is it just the excise tax that you're thinking of?

Ms. Annie MacEachern: One month, and yes, it is just the excise tax.

The Chair: Are there any other questions, or does anybody have anything to add? We're down to the last few minutes.

Mr. Dusseault.

[*Translation*]

Mr. Pierre-Luc Dusseault: I'd like to go back to the matter of insurance and the DIN.

According to your experience and your expertise, for a product to be eligible for reimbursement, must it absolutely be considered to be a medication? I think you mentioned some countries, Belgium and Germany, where insurance covers the purchase of medical cannabis.

In Germany, has any medical-use cannabis been approved as a medication by the central health organization?

[*English*]

Mr. Jonathan Zaid: From my understanding, in Germany it's not an authorized medication through their normal pathways. Medical cannabis is available through pharmacies on the basis of a doctor's prescription, and it is mandated to be covered for those who are on disability or welfare programs, so they do go a step further.

That said, a number of Canadian insurers have moved forward to cover medical cannabis, but it represents around 3% or 4% of the market who have any coverage, and 50% of those 3% or 4% have coverage beyond 50% of their dosage. We're really talking about a tiny fraction of the market with any coverage. Mainly this is attributed to what's known as “health spending accounts” in benefit plans that allow for medical cannabis to be claimed, but are typically capped at about $500 to $2,000 a year. That doesn't even come close to the full dose that someone with a chronic condition would need.

Insurers can cover the cost. There are a number of reasons why they don't, but given that reality, I think it's even more prudent for the government to look at this issue. This is a simple and rational decision that the government can make, to treat medical cannabis like every other medication. Especially in light of the lack of insurance coverage, this makes so much sense.

The Chair: But it is true that, if you're looking at equivalency with the pharmaceutical industry in terms of the DIN, there are a lot of other factors in the research and development, etc., so it's not just as simple as it looks.

What is the percentage of medical marijuana used that would have a DIN number now? Is it very low?

Mr. Jonathan Zaid: It is an extremely low percentage. The 269,000 Canadians who are using cannabis for medical purposes are doing so on the authorization of their health care providers, but that's not prescription of medical cannabis. There are very few products on the market that are considered prescription cannabis products, and those are only indicated for very narrow conditions.

With that said, let me just remind this committee that the courts have been very clear. In the absence of a DIN, the Government of Canada still has to provide reasonable access to cannabis for medical purposes, and we believe this is a reasonable approach to treating cannabis like a medicine—and that extends to taxation.

The Chair: Okay.

A final question, and a short one, to Mr. Albas.

Mr. Dan Albas: Well, hopefully, it will be short, Mr. Chair.

The legislation that we're speaking about here indicates that products derived from cannabis that are approved by Health Canada and have drug identification numbers and can only be acquired with a prescription will be exempt from the excise duty for product offerings.

What limits does this place on products that are available that require medical marijuana? As well, you mentioned the 0.3% THC. I'm assuming this wouldn't be of much assistance to those suffering from chronic pain or illness. Is that the case?

● (1730)

Ms. Annie MacEachern: That is very correct.

I'd like to quickly mention something that I found extremely enlightening. When I held an event for this Don't Tax Medicine campaign to inform patients on Prince Edward Island that this would impact them, a doctor, Dr. Sana-Ara Ahmed, teleconferenced us to tell us that the endo-cannabinoid system has been removed from their curriculum at medical school. They don't learn abut the endo-cannabinoid system in medical school. They learn about the nervous system; they learn about all of the other systems in our body, but this system exists. It's there. It's been there since humans have existed.

The fact that cannabis-derived products are not being recognized simply because they don't have a DIN leads me to believe that it's because cannabis has been very demonized for so long. I don't think we will get a DIN, but we need to trust that this medication is helping thousands of Canadians.

Mr. Dan Albas: Mr. Zaid.

Mr. Jonathan Zaid: Absolutely. We agree. The absence of a DIN is not a legitimate reason to tax patients. We're not just talking about the HST or GST, which is applied to other products like natural health products that don't have a DIN. There are some arguments—not that we would agree with them—that could be made in that regard, but with that said, it's very clear that when it comes to the excise tax or a sin tax, it should not be applied to medicine. This has nothing to do with a DIN.

The government is making a good move to exempt these medicines from a DIN, which is only logical. That same logic should apply to the medical cannabis products patients are accessing through the ACMPR. That's where the majority of patients are. That would make a difference in the lives of Canadians.

The Chair: With that, you've had the last word.

Thank you, all. We covered quite a number of topics, from financial matters to cannabis.

For those who had to come to Ottawa for a second time due to the cancellation of last week's meeting, our apologies.

This meeting is adjourned.