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Chair

Mr. Massimo Pacetti

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● (0935)

[*English*]

The Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.)): I'd like to call the meeting to order.

I'm not sure how many members we are going to have, so we will try to rotate, seven minutes on the first round. Perhaps each party can indicate to me who is going to speak for the first round.

I want to thank the witnesses for appearing. I guess you'll have briefs for five or ten minutes, and then we'll have a question period after that.

I want to thank you for making it here early on a Tuesday morning, on such a nice day. It's not that easy.

We'll go in the order I have here. From the Federation of Canadian Municipalities, Ms. MacLean.

Ms. Ann MacLean (President and Mayor of New Glasgow, N. S., Federation of Canadian Municipalities): Thank you very much, Mr. Chairman and members of the finance committee. It is a pleasure to be back in Ottawa and to be here today to talk to you about FCM's 2005 budget submission.

I spoke yesterday to a breakfast group at the National Press Club. Naturally I talked about the new deal for cities and communities. My purpose then was to recast the new deal story, which too often focuses on the financial side, to the detriment of the broader goal of partnership.

Today, however, I want to bring the focus back to finances, of course. It is not an either/or story. We need a new deal that encompasses both a new financial arrangement and a new intergovernmental partnership. Our cities and communities are struggling because they are unable to meet the growing responsibilities with shrinking resources. But we will be the first to tell you that money alone will not solve the problem.

Our society is too complex and the problem too big to be managed by one order of government alone, which is why we need, in addition to a new fiscal arrangement, a new intergovernmental partnership and a new way of doing business.

The need for action has become so pressing that we actually have a national consensus that something has to be done for cities and communities, something beyond business as usual. Canadians want sustainable communities, where quality of life is not a luxury, but they can see from where they live that they are falling short of this ideal. They look to their governments, but too often they see jurisdictional disputes where they should be seeing solutions.

The new deal is about governments working together to serve Canadians better, because that is what Canadians expect of us. Citizens, institutions, and all orders of government agree, we need action, and we can still make a difference if we act now.

We are here today to open discussion that we hope will lead to a long-term partnership and eventually to fundamental change in how we govern ourselves. We are also here as advocates for immediate investment in the areas of most pressing need. Specifically, we are calling on the government to support Canada's cities and communities by including the following in its 2005 budget.

First is intergovernmental partnership. This includes steps to develop intergovernmental strategies to build trust, to build partnership, cooperation, and coordination in many areas. On the fiscal front and for the Department of Finance this could mean formalized pre-budget consultations with the municipal sector. Held on a yearly basis, these would provide timely advice to the Department of Finance on outstanding issues of concern to the municipal sector, while also providing the municipal sector with a better sense of the government's fiscal framework.

Second is revenue sharing. Revenue sharing is about putting municipal finances on the road to sustainability. It is about rolling back the infrastructure deficit that harms our economy and undermines our quality of life.

We urge the government to conclude agreements with the provinces and territories by the end of 2004, to provide municipal governments with net new revenue of $2.5 billion per year. This is equivalent to 5¢ per litre of the federal gasoline tax and 2¢ per litre of the federal diesel fuel tax. This revenue will support investment in municipal infrastructure, primarily transportation and transit, beginning in 2005. Other investments could include water and waste water systems. And because fuel tax revenue does not grow with the economy and may in fact drop, we are also calling for a fuel tax escalator tied to the GDP to ensure proportional growth with the economy and a commitment to explore sharing other taxes that grow with the economy.

Third is targeted multi-year investment in national priority areas. Revenue sharing does not displace the need for ongoing capital investments to cover infrastructure not included in the revenue-sharing agreement. Investment in existing infrastructure programs must continue and new strategies must be developed to address shortfalls. FCM urges the Government of Canada to provide new targeted investment in three priority areas: affordable housing; community social infrastructure; and municipal infrastructure not covered by revenue sharing.

We urge rapid deployment of the $1.5 billion already committed for affordable housing over five years and a commitment to maintain infrastructure program funding at $1.1 billion per year, the average level over the last ten years.

● (0940)

We also urge the government to support investments that will secure environmental benefits, including greenhouse gas reductions and brownfield redevelopment, and improve broadband access for all Canadians. Of note here is a one-time contribution to double the green municipal funds from $250 million to $500 million. The green fund levers a high level of environmental sustainability in municipal operations and has a track record of achievement and accountability.

I want to tell you that our compliance audit was absolutely excellent, and I'm sure the finance committee would be very pleased to see the kind of audit that the green funds did indeed receive.

For community social infrastructure FCM requests in this budget a $30 million set-aside for infrastructure funds to finance community social infrastructure initiatives as a three-year pilot program.

Fourth is capacity building for sustainable community development. Stronger partnership, enhanced collaboration, revenue sharing, and targeted investments are important steps forward, but they are not enough to ensure the sustainability of Canada's communities. Investment in capacity building for sustainable community planning and initiatives will be essential to the success of any new deal. FCM has a number of effective tools that build capacity, including the green municipal funds, the National Research Council/FCMInfraGuide, and the partners for climate protection program. We are calling for a five-year, $5 million commitment to the partners for climate protection initiative under which the government commits to a planning framework targeting local greenhouse gas reductions and a new $29 million investment over five years to support continued work on the National Research Council/FCMInfraGuide and its related initiatives.

In conclusion, Mr. Chairman, FCM looks forward to working with the Government of Canada to secure the new deal for our cities and communities, particularly to discussing the new partnership for federal-provincial-municipal relations.

This concludes my remarks, and I look forward to your questions. Thank you.

The Chair: Thanks, Ms. MacLean.

We'll go to the next witness, Mr. Morrison, for five minutes.

Mr. Jeff Morrison (Executive Director, Road and Infrastructure Program Canada): Thank you, Mr. Chair, and good morning, everyone. Thank you for inviting me to appear before this committee. In particular, I'd like to thank Mr. Layton for taking time out of his busy schedule to appear.

My name is Jeff Morrison. I'm executive director of a group called The Road and Infrastructure Program of Canada, TRIP Canada for short. Just to explain, TRIP is a special committee organization within the Canadian Construction Association. TRIP represents the ten provincial road-building and heavy construction associations across Canada, plus the Ontario Sewer and Watermain Construction Association. Our members build and maintain virtually all forms of core physical infrastructure, from roads, to bridges, to watermains, to subways, and as such our members see for themselves on a daily basis the deterioration of Canada's roads and key infrastructure. So whereas FCM governs our cities, we build them.

Mr. Chair, for the past several years, when groups such as ours have appeared before this committee to discuss issues surrounding urban communities we would tend to spend the bulk of our time addressing questions such as whether there really is a problem with infrastructure in our towns and cities, or whether the federal government even has a role to play in infrastructure issues. And I think it's a sign of progress that there does appear to be broad consensus on these answers to these key fundamental questions. According to all your election platforms, all parties in this Parliament have realized and recognized that Canada's physical infrastructure is under sever stress and that, yes, Ottawa does have a clear leadership role to play in fixing it.

So it seems now that the questions we're left asking are what in fact are the proper fiscal mechanisms to address our infrastructure challenges, and what are the priorities when it comes to infrastructure funding? I'd like to spend a couple of minutes looking at these key questions.

● (0945)

[*Translation*]

Mr. Chairman, clearly, the issue that is attracting all of the attention at present is that of the negotiations underway with the provinces and the municipalities with regard to the sharing of the gas tax aimed at municipal infrastructure, an initiative that we fully support.

But before dealing with the matter of the gas tax, it is important to underscore the fact that the federal government already has several bilateral infrastructure programs in place, as Her Worship MacLean has already mentioned, such as the strategic infrastructure program, the border infrastructure program, the strategic roadway infrastructure program, etc. Several of these programs have already fully or nearly used up their budget allocation. These targeted programs are very important and we ask that the committee recommend the renewal of their funding.

As we have already mentioned, with regard to urban communities, the government is at present concentrating on negotiations pertaining to the gas tax. We wish to congratulate the government for having stated that the success of these negotiations is one of its main priorities. However, as is the case with all good political intentions, the devil is in the details. This is why we wished to bring to the attention of the committee certain key policy principles which to our mind must be respected.

[*English*]

What are some of these principles? First, gas tax money must be used for core infrastructure. That is where the needs are, and that is what will benefit the greatest number of Canadians.

Second, provinces must not be allowed to claw back municipal operating grants, and municipalities must use gas tax money incrementally to their existing capital works budgets.

Third, we believe that all municipalities, large and small, should be eligible for funding and that population be the main principle of allocation.

Fourth, in order to obtain the best value for taxpayers, we believe projects put out for tender using gas tax money should be open to all qualified Canadians, regardless of, for example, region or union or non-union affiliation.

A recent example in Manitoba, where their provincial government stated that only unionized contractors would be able to bid on the $600-million expansion of the Red River Floodway, a project funded with about $150 million of federal money, has raised some concerns in that province over gas tax money—or any federal infrastructure money, for that matter—being used for overtly political purposes.

Let me make one further comment about the money involved. Minister Godfrey—the government—has committed to ramping up gas tax funds to municipalities to 5¢ within five years, but that the amount to be transferred before year five will be somewhat less. With sizable surpluses predicted for several years down the road, we think the federal government could easily reach that 5¢ mark well before the five-year timeframe. A three-year, or perhaps less, ramp-up period is entirely reasonable.

I mentioned earlier that we need a debate in this country about where our priorities lie when it comes to infrastructure funding. Although we are fully supportive of the focus that has been paid to core municipal infrastructure, we cannot forget another piece of the infrastructure puzzle that is just as important for urban and rural communities, our national highway system. Unfortunately, the deteriorating state of our highways has been, for the most part, off the radar screen of the federal government really for decades now.

Let there by no doubt, highways are as important to the well-being and economic survival of our municipalities as any other form of infrastructure. That is especially true for smaller towns. Speaking personally, coming from a small northern Ontario town, I know the importance of our highways, one of the few physical links to the outside world. I'm sure the people of New Glasgow, where Mayor Ann MacLean is from, would feel the same way about their Highway 104.

Just think for a moment about the contributions our highways make to urban development. With road transportation accounting for 80% of all trade, highways are essential to urban economic competitiveness. With 65% of American tourists travelling to Canada by personal vehicle, highways are essential for a community's tourism strategy. With 74% of commuters travelling by road to work every day, highways are a key ingredient in the day-to-day standard of living of millions of ordinary Canadians. I'm sure any of you who have travelled on Highway 401 or Highway 417 coming here, or Highway 1 in Vancouver, for instance, during rush hour, know exactly what I mean.

Our brief, which I believe you have a copy of, demonstrates that adding highway capacity, particularly in core urban areas, has a number of very positive impacts on air quality and greenhouse gas emissions.

We even have a very specific short-term way in which the federal government can address highway funding. As you all know, it was announced earlier this year that Ottawa would be selling its remaining shares in Petro-Canada. What hasn't been discussed, though, is how Ottawa obtained those shares in the first place.

In 1981, under the auspices of the national energy program, the Trudeau government imposed a new 4¢-a-litre tax on all sales of oil and gas. This tax was called the Canadian ownership charge. The money from this charge went into a stand-alone account, called the Canadian ownership account, whose sole purpose was to increase Canadian ownership in the Canadian energy market. It did this by providing grants to Petro-Canada to take over foreign oil companies. The most notable example of this was the Petrofina takeover in 1982. In return, Petro-Canada gave the federal government shares, shares that it continues to hold today.

In short, motorists paid a special ownership tax in the early 1980s that allowed Ottawa to acquire Petro-Canada shares. Now that these shares are being liquidated, it just seems reasonable, basic fairness that dictates that motorists should realize some benefit, and investment in roads and highways is the best way we can think of to do that. So we hope we can count on this committee's support as we push that forward.

● (0950)

[*Translation*]

I would say in conclusion, Mr. Chairman, that as a country we have made true progress in recognizing the infrastructure debt that the various communities of this country are facing. The priority now, and the question this committee must reflect upon, is the way in which to put in place an effective policy for the reduction of this infrastructure deficit. In the context of the discussions and debates that will revolve around these issues, we must ensure that the importance and the need to invest in our highways are not ignored.

[*English*]

Thank you again for inviting TRIP to this forum. We look forward to a productivediscussion.

The Chair: Thank you, Mr. Morrison.

We're going to go to questions. The first round is a seven-minute one.

Mr. Penson, Monsieur Côté, Mr. Bell, and then Mr. Layton.

Mr. Charlie Penson (Peace River, CPC): Thank you, Mr. Chair.

I'd like to welcome here today the representatives of the Federation of Canadian Municipalities, and also of TRIP.

Also I'd like to express my gratitude to all members of the committee for taking time out of their busy schedules to be here today. We have something like five or six committee meetings a week on these prebudget hearings. It's important that we hear everybody.

I think I heard that there's an important relationship here concerning the excise tax on fuel, the 10¢ per litre that is being charged. Ms. MacLean, I think you suggested at the end of your presentation that it is important we have a good relationship between the municipalities, the provincial government, and the federal government in this regard.

It seems to me unless there's some kind of relationship in this program with the province, you're going to run into the kind of problems Mr. Morrison talked about with clawbacks, and therefore the federal government had better conclude a deal with the provinces on how this all plays out.

But I also heard that you want this ramped up in terms of time; you want it sooner, and the timetables increased. Unlike the election campaign proposal, where Mr. Martin seemed to promise it was going to happen right away, now we're finding out the proposal from the Liberals is to do it over a long period of time and with certain exemptions.

You would like a bigger chunk of this pie earlier: is that basically your position?

Ms. Ann MacLean: Yes. The deficit is, as many of you know now—it's widely accepted—$60 billion, growing at a rate of $5.5 million a day in cost. That's the infrastructure deficit in this country, and no one disputes that. The need is so great we're saying we need a larger share up front, and we're suggesting $2.5 billion annually just to meet that great need. That's the “ask” today.

We understand we'll be meeting with Mr. Goodale. We understand that the federal government certainly has to look at its fiscal realities. But we also need to look at the realities that are happening in our communities. That's a general consensus in the country.

● (0955)

Mr. Charlie Penson: In that regard, even if the entire proceeds of the excise tax, which is about $5 billion a year, were spread across all the municipalities in Canada, it would still leave a fairly big void to fill in meeting our infrastructure renewal needs across the country.

Ms. Ann MacLean: What we're saying is, that addresses the deficit and will certainly go a long way to address it, but there is ongoing need. We're also saying we need collaborative government as well. That's where we get to the issue of agreements with the provinces, not only with respect to the fuel tax but also with respect to a number of areas in which the federal and municipal governments intersect.

Mr. Charlie Penson: Would your position be that there shouldn't be any exemptions to this? I understand there are discussions now that tax on diesel fuel and other grades should be exempted. What is your position there?

Ms. Ann MacLean: I'm sorry, I didn't hear you.

Mr. Charlie Penson: It's that the excise tax on diesel fuel would be exempt from this deal. That wasn't part of the original discussions, I don't think, but it seems to be entering into it now.

Ms. Ann MacLean: Our discussion has always been on fuel tax. We've heard about gas tax, but—

Mr. Charlie Penson: It's the excise tax on fuel, which is 10¢ a litre.

Ms. Ann MacLean: That's the total.

Maybe I'll let Jim...

Mr. Charlie Penson: I'd like to give my colleague an opportunity as well.

Mr. Richard Harris (Cariboo—Prince George, CPC): Good morning. I have a couple of questions.

It was my understanding, listening to the Prime Minister prior to the last election, that the fuel tax money was going to be somewhat of an unencumbered rebate to the municipalities. As a matter of fact, I recall many mayors jumping with glee about this windfall they were about to receive, or could receive, that was going to allow them to do some long-term planning. They would have historical numbers to work with.

Then the mood changed as there appeared to be more and more strings attached to that rebate. It wasn't going to be simply a cash rebate based on the fuel taxes paid within those different municipal areas; rather, there was talk about its being a sort of shared infrastructure thing, “but this is how much you're going to get out of the fuel taxes”.

What is the view of the FCM? Do you want to receive the 5¢-per-litre fuel tax unencumbered, as a fulfillment of the original thoughts when this whole conversation first started? Is that still your position?

Ms. Ann MacLean: We certainly believe the dollars need to flow to the communities. That's number one. We are certainly prepared to work with the government. If there are certain frameworks, certain priorities we can address together, we certainly will want to do that. But the understanding is it was not to be by application; it was indeed to be that the dollars were to flow to the communities.

Mr. Richard Harris: Right. What I'm trying to determine is the difference between what was envisioned in the initial announcements about an unencumbered rebate of a portion of fuel taxes going back and what we commonly know as cost-sharing infrastructure programs.

If that's indeed the way the money's going to come back, it brings me to the question I've had and have been asked about a number of times. I've lived in a fairly rural area of B.C. A lot of the smaller communities simply don't have the tax base to take advantage of infrastructure cost-sharing programs, and so they were quite ecstatic about the chance that they might get some cash to fit into their infrastructure plans for the future.

Ms. Ann MacLean: Yes, and I think they should, given the indication that these dollars would flow to the communities. Yes, they had every reason to believe that was what was going to happen. Certainly, as time moves on and as more players get into the discussion, there tend to be a lot of other suggestions; however, the initial understanding was that the dollars would go to the communities without that kind of need for application. We certainly are going to have to be creative to ensure that all communities, large and small, urban and rural, can participate in this. This was the commitment, and that is certainly FCM's position as well.

● (1000)

Mr. Richard Harris: Okay. You're going to continue to fight for these unencumbered, non-application funds to come back. Thank you.

Ms. Ann MacLean: Absolutely.

The Chair: Monsieur Côté.

[*Translation*]

Mr. Guy Côté (Portneuf—Jacques-Cartier, BQ): Good morning and welcome. Thank you for your presentations.

I would like to begin by saying that up until June 28, I worked for a computer engineering firm whose mission it was to evaluate the optimal lifespan and ideal replacement cycle for municipal infrastructure: sewers, water supply, roads. This is therefore an area I am very familiar with.

Earlier, Ms. MacLean mentioned the importance of collaboration between orders of government. Clearly there can be different visions of what collaboration entails. You will not be surprised to learn that for me effective collaboration is a sharing out of work between people without intruding on others. Things work much better this way.

In our view, a transfer of a portion of the gas tax to municipalities would not intrude directly upon the jurisdiction of Quebec and of the provinces. Do you not believe that if this money were transferred directly to the provinces, thus alleviating the financial pressures confronting them in other important sectors, provinces would be better able to fulfil their obligations towards municipalities because they would not feel obligated to invest virtually all of their resources in education and health and would therefore have room to manoeuvre, among other things vis-à-vis municipalities?

[*English*]

Ms. Ann MacLean: First of all, there is a national consensus. There was a COMPAS poll done by FCM just prior to the last federal election in which the vast majority of Canadians, 80% of Canadians, said that municipal governments need to invest in the services they should have. More than three-quarters of Canadians across the country believe they should have access to resources; that they shouldn't be raising property taxes but should have access to the revenues that are already leaving their communities. So first of all, that's a national consensus.

In terms of jurisdiction, FCM's position is indeed to respect provincial jurisdiction, and that is why we are asking the federal government to be the catalyst to bring all orders of government together to address this important need.

The issue of jurisdiction, however, does not prevent collaborative lateral discussion. This is about collaboration; it's not about jurisdiction. Jurisdiction can create silos in which it's business as usual. We need to be able to work together as governments and respect jurisdiction, absolutely, but we don't need to deal with that with respect to collaboration. We need to work laterally with respect to these kinds of challenges facing all communities as well as all orders of government, which share common goals. There are opportunities here to have the national agenda addressed and the provincial and territorial issues addressed, as well as those of the communities.

[*Translation*]

Mr. Jeff Morrison: I would simply like to add that it is important to recognize that successive Quebec governments over the course of the last ten years have signed agreements with Ottawa and the municipalities with regard to various infrastructure programs. The first program, established in 1993, served as a very good model for the way in which Ottawa, the provinces and municipalities can tackle together municipal infrastructure issues. It is the governments of Mr. Bourassa, Mr. Parizeau, Mr. Bouchard who signed these agreements.

What Ms. MacLean is saying is true. The issue of jurisdiction is important. I believe that the federal government does respect the fact that municipalities are creatures of the province. There are however precedents: governments of Quebec and of all of the other provinces have signed agreements that have benefited Canadians and Quebeckers.

● (1005)

Mr. Guy Côté: My impression was that these dollars would be paid directly to the municipalities by the federal government, without necessarily going through the provinces. It was perhaps not perfectly clear for me.

It has been mentioned that municipalities face various problems in the area of physical infrastructure. Major cities also have very specific problems, among others in the area of immigration. They do not perhaps possess all of the resources necessary to manage these situations. What type of solution could you envisage? Might you consider a rebalancing of their taxation power, or must this issue continue to be resolved through fiscal policies and transfers from provinces to municipalities?

[*English*]

Ms. Ann MacLean: I was trying to figure out if you were talking about communities or the provinces.

[*Translation*]

Mr. Guy Côté: Communities.

[*English*]

Ms. Ann MacLean: First of all, the FCM is asking the federal government to encourage the agreements with the provinces with respect to these dollars. As a matter of fact, a number of provinces have come forward asking to be proactive in establishing these agreements with the provinces right away, so that those dollars will be able to flow in 2005.

With respect to the issue of immigration, for example, we know the communities play a major role, and different communities have different challenges. Larger cities have challenges of being able to service immigrants, and smaller communities have the challenge of attracting and maintaining new Canadians. This is an area that crosses all jurisdictions, affecting all governments. It's an area in which a collaborative approach is needed. The quality of life in the communities will not only attract, but will maintain and determine the success of our new Canadians in our cities and communities. This collaborative approach is extremely important if we are going to succeed in this initiative.

Mr. Jeff Morrison: This is perhaps one of the areas where ourselves and FCM may differ a bit. We do completely agree with the notion of a collaborative approach. We do feel it is the cornerstone of the new deal for cities, that it needs to be pursued aggressively, and that in areas such as social housing and immigrant training, etc., it is the type of approach that will allow cities to really grow, develop, and to work collaboratively with other orders of government. However, when it comes to the question strictly and specifically of the gas tax, we do feel that money should be used for core infrastructure, as mentioned in our comments.

Mr. Penson asked the question of whether it should be an application process or simply a rebate, whereby municipalities could use the money as they see fit. We do see this as an application process, which is perhaps a strong word, but we don't see this as simply a cheque to municipalities they could use for whatever they see fit. We do see it as having some strings attached, whereby money is to be used for infrastructure.

The other areas you mentioned, social housing and immigration services, etc., can be dealt with in other fora.

The Chair: Thank you.

Mr. Bell.

Mr. Don Bell (North Vancouver, Lib.): I had a couple of questions. As you're aware... [*Inaudible—Editor]*...

One of the questions I had was what percentage of communities does FCM now represent?

● (1010)

Ms. Ann MacLean: More than 80%.

Mr. Don Bell: That's not correct; that's by population.

Ms. Ann MacLean: I'm sorry, there are more than 1,100 communities.

Mr. Don Bell: Okay.

Have you had discussions with Mike Harcourt on some of the work he is doing? I presume you have.

In your brief you talk about there being a 37% cut from federal and provincial governments during the nineties. Do you know what the federal government represented of that 37%?

Mr. James Knight (Chief Executive Officer, Federation of Canadian Municipalities): A very small part.

Mr. Don Bell: A small part.

Yes, in the experience in British Columbia, it was primarily provincial cuts that hurt the municipalities, not the federal....

On item number two, revenue sharing, my recollection at those meetings—and Mr. Layton is now gone, but he may recall as well—was that we never talked about the gas tax money going for anything but transportation. The initial discussions weren't for municipal infrastructure, they weren't for immigration, they weren't even for major infrastructure; they were for transportation and roads. It sort of evolved, I gather, as the talks went along, into the broader need. I just wanted to put the original request that came from municipalities —not from provinces, which have always wanted to get their hands on municipal money....

As a former municipal mayor for 14 years, we don't want the provinces involved; we didn't, and I didn't up until a month ago, when I resigned as mayor. We very definitely wanted to have money over which the municipalities would have the control, because the provinces have used it for their own purposes and have used it to claw back.... That was the problem we experienced. I recognize that it has changed.

I'm curious about your fuel-tax escalator, where we've talked about sources of revenue relevant to the economy. In the province of B.C. we had a provincial government that tied it in based on the wealth of the province. I see you saying you'd like to see that, but you want a protection in there, so that if the economy goes down and the fuel tax from sales.... Isn't there a danger of this just becoming another infrastructure source of funds?

Mr. James Knight: Thanks very much for those questions. There were two or three.

On the targeting of the funds from the fuel tax, we say primarily transportation and transit, but we can't ignore the relationship between underground infrastructure and roads. Some of our cities have very serious problems with the water supply and sewer lines. If you tell them that they can only do the roads, well, the reality is they have to dig up and do substantial repairs on what lies beneath the roads. So we say our words are primarily transportation, but the funds could be used for water and waste water.

We're fairly targeted, and I want to make sure Mr. Morrison notes that. There are other areas of infrastructure, but the commitment on the fuel tax is that it's net new and that existing programs covering other areas will continue. So when we talk about targeted investments, we're talking about other types of infrastructure.

Finally, on the escalator, I suppose I'd have to say if we were to choose any of the federal taxes, this one would be at the bottom of the list because it doesn't grow. Fuel tax is not growing. It's pretty stable from year to year. So if we're going to truly meet the infrastructure needs over the next 15 years, which is our target, we can't have a tax that's fixed at current levels forever. There needs to be a ramping up.

In various agreements, there are escalators. There is an escalator, for example, in the current health care agreement. So we think that would be a reasonable enhancement, given the fact that fuel tax does not grow at all from year to year.

Mr. Don Bell: Okay.

Mr. Layton, you weren't here, but I had the question. The gas tax was never going to be for anything but transportation needs, in the original discussions we had at FCM that I sat in on. But in response to Mr. Côté's question and Mr. Harris' question on the smaller communities, in fact I recognize that smaller communities have different needs.

UBCM and the provincial government in B.C. have come to an arrangement that basically sees three categories of major urban, medium urban-rural, and small rural. On the relationship for B.C., for example, I think it was 80:20, 80 transportation, 20 infrastructure, in the major areas, about 50:50 for the medium, and 20:80 reversed in the smaller areas in British Columbia. So the smaller communities could have up to 80% for infrastructure and 20% for transportation. That's by agreement between the municipalities and the province.

The other question I had, quickly, was on the ramp-up timetable. Everything I heard during the election was that it was a five-year program, and it talked about rear-end loading. As a former municipal person, on the committees I'm sitting on, I'm pushing very hard to invert that position, where the front-end money starts quickly, so we can start addressing this infrastructure need. But I have to say, the full $60 billion is not only going to be addressed by the gas tax, but clearly the provinces also have a role to play to live up to their responsibility to municipalities.

I guess the other question is on the formula. I was curious about the kind of approach that B.C. and the UBCM have taken. Are you supportive of that? It seems to recognize at least three different categories of relationships.

● (1015)

Mr. James Knight: It's really not our role to describe to provinces and their municipal governments what they should do. I think there'll be a great variety across the country. There'll be 13 federal-provincial-territorial agreements, and all of them will have some unique aspects.

What we can say is there has been a lot of thought in British Columbia. British Columbia is first out of the gate in reflecting on how this opportunity can be used. It has achieved a high level of consensus within the province, which is of great value. There seems to be an accommodation among all municipalities. They're looking in the same direction and have adopted a common plan, and that's extremely positive.

Ms. Ann MacLean: With respect to the escalator as well, Mr. Bell, the dollars that municipalities invest in the infrastructure development certainly make the economy grow and have a significant impact on that. What the escalator demonstrates is the return on that investment, because, as you know, as a former mayor, very few dollars go back to municipalities and actually make the economy grow.

This is a recognition and an opportunity, where the citizens themselves across this country have said that kind of investment should have some return back into the communities.

Mr. Don Bell: I have one comment I'd like to make. As a former FCM member, I really appreciate the work that you do on behalf of municipalities and the efforts that you've made to work with the federal government on issues for municipalities. Thank you.

The Chair: Thank you.

Mr. Layton.Then we'll have Mr. Penson and Mrs. Minna.

[*Translation*]

Mr. Jack Layton (Toronto—Danforth, NDP): Thank you, Mr. Chairman.

I would like to congratulate these organizations for the presentations they have made this morning. I would also like to thank Ms. Wasylycia-Leis who has allowed me to sit on this committee here today.

● (1020)

[*English*]

I was, once upon a time, in that chair as the president of FCM. It's exciting for me to be here to be on the receiving end of your advice.

In fact, I remember the first presentation I made to the finance committee was to suggest that perhaps the federal government should stop raising money from municipalities through the GST and that the remainder should be given back. I know it's being described as a grant to municipalities, but I do have to put on the record that in fact this was a fund-raising scheme by the federal government to raise moneys from municipalities, and property tax had to, in a sense, flow therefore from municipalities to the federal government.

We're glad this form of pick-pocketing has ended. Of course, it can be wrapped up in various packages, as the Prime Minister and I have debated back and forth. And it does amount to a significant amount of money over ten years. I think it's $7 billion. I don't know why it isn't described in terms of the revenue over a thousand years or ten thousand years, just so the number would be a little higher. In any event, this is the political world we're in.

“Infrastructure” is an FCM word. It used to belong to the engineers, but it was FCM that introduced the notion back in the late 1980s. Now, of course, everybody talks about it. It went from being a word, to a concept, ultimately to a program. It is now regressing back to just a word, if we're not careful.

Our concern is that the gas tax proposal, which has of course been advocated by FCM for some time, may become the replacement for the infrastructure programs of the past.

There was an excellent program advocated, and then promised, and then, I would say, largely delivered in 1993 in the context of both creating jobs and tackling the infrastructure deficit. It's been downhill from there.

Over the years, the amount of money per year going to municipalities under infrastructure has fallen. It would be a tragedy if we saw the gas tax come in at the same time as the infrastructure programs were withdrawn.

I want you, in your comments, to further elaborate on the importance of that.

I have visited your website, which has a very creative feature on it. Every time you visit it will tell you how much the infrastructure deficit has grown since your last visit. I want to congratulate the folks who put that together, because it is quite shocking. Approximately $10 million a day is the rate at which the infrastructure deficit is growing, according to your data. Meanwhile, we have a surplus of about $11 million a day. So there's certainly an interesting matchup there.

I want you to comment on three or four key points. First, perhaps you could comment on the consultation process that's happened, and what you would ideally like to see. It appears to me that the consultation process is remarkably similar to what it was three or four years ago, which is a delegation coming to this committee and making a presentation, and perhaps an occasional meeting with some staff and the occasional minister. Is there anything more that should be happening? I have a feeling there should be more. And I'd like to get your comments on that.

Secondly, perhaps you could comment on, as I mentioned before, the danger that the gas tax could end up replacing other infrastructure programs. What would be the impact of that?

Thirdly, perhaps you could comment on the concept of matching funds. We've heard rumblings that it might be required of municipalities or provinces that they have to come up with matching funds in order to access this gas tax. Given that provinces, in many cases, have deficits as a result of a decade of downloading, this would fairly well nix the program, as we saw in many cases with the housing program.

We've also heard disturbing suggestions that there might be application processes. We might be setting up a gigantic bureaucracy of some sort to deal with the applications from municipalities. We have a real concern about that and we would like to get your perspective on it. Municipal democracies are perfectly capable of determining what their priorities are and reporting in a very comprehensive fashion to the federal government so that there can be a level of accountability. The idea that there would have to be endless paperwork seems to be fairly repugnant.

Also, the last major issue is clawbacks, the idea that if there's money given in one place, it might simply be clawed back in other places, either by provinces or even by the federal government itself. If you could comment on that I would appreciate it.

I do want to salute your recommendation for the green funds. In fact, our original ask for the green funds was $500 million when we sat with the Prime Minister. We did point out that we couldn't use it all if he gave it to us and we suggested that it be phased in, subject to it turning out to be successful. I want to congratulate the entire FCM team on producing a remarkably successful program, so successful that the Prime Minister in fact uses this in question period against me when I try to ask him questions, and frankly it's touché. I am now going to come back to the request for the $500 million so that we have that fully functional revolving fund.

Lastly, also to underline the importance of the partners for climate protection, that program, in a sense, sets the stage for the green funds and other programs to begin to refocus on goals like emission reduction, sprawl control, cleaner water, etc. It would be a shame if we lost that particular catalytic program, which for a very few dollars produces such terrific results, not the least of which is your biannual conference on this topic. I think it's the best conference that happens in the whole country, frankly, because it focuses on best practice exchange.

If you could comment on some of these issues I'd appreciate it.

Again, please convey my congratulations to the team, and similarly to TRIP. I hope you'll excuse me for focusing mostly on my old organization here, but I want to salute the work you've done, because the partnership with the construction sector is absolutely vital, although we will disagree on the issue of union contracts.

The Chair: The time is almost up. I guess that's why they impose a time limit on question period. The fact that it's Mr. Layton's first committee...it's questions and answers.

For the sake of having a good answer, if you can at least give the answer but try to limit your time, please, just for the respect of other members.

Ms. Ann MacLean: I'll try to be brief. I'll ask Jim. Perhaps I'll deal with the consultation and we'll try to split it up and do it quickly.

On the issue of consultation, we aren't just talking about speeches and meetings. We are talking about working together. There are mechanisms and there are programs in place now that can show good collaborative efforts. The problems facing our communities are far too complex for any one government to manage. What we are saying is there are examples such as the urban agreements, the Vancouver downtown eastside challenge that has been met by 16 federal government departments working with just about an equal number of B.C. departments and with municipal government, addressing a number of national, provincial, and municipal priorities together with significant success. That is collaborate government; that is smart government. That is not just having consultations. It's about working together, meeting common priorities, meeting common goals, and having proven mechanisms to have success. We are challenging the government to be the catalyst to bring all orders of the government to meet some of these major issues.

Immigration was another one, and I could go on—and I won't.

● (1025)

Mr. James Knight: The commitment is that the fuel tax revenues are net new and will not displace other programs. There is a danger that this might happen. We will be very vigilant to ensure it doesn't. Clearly, infrastructure programs as they have traditionally unfolded are key, and in our brief we've made a large place for them.

On matching funds, impossible—provinces don't have any, nor do we. This has to be net new again. I believe the commitment is that.

On application processes, there is a framework. I think it would be reasonable that the federal government would expect these investments to be in important, strategic, and sustainable areas, and we should accept that, but not in an application-based fashion. It would be a commitment. We would demonstrate our planning processes, our capital forecast going forward, and we would target investments or those resources, that certain activities... but not in an application-based arrangement.

Absolutely, clawbacks are key, federal and provincial. My own view is that there should be provincial-municipal agreements in each province to protect against clawback at that level. The municipal governments in every province would be the appropriate policing mechanism to ensure provinces neither reduced spending on municipal needs nor transferred responsibilities. Those are both clawbacks.

We will be here in Ottawa keeping a close watch on federal clawbacks.

Ms. Ann MacLean: The green funds have been instrumental in ensuring that the national agenda with respect to greenhouse gas emissions reduction.... It has been the catalyst to our communities to take the extra step, to move from, for example, primary sewage treatment to secondary, to address issues such as landfill gas recoveries, community energy systems. It has moved the agenda. It has been extremely successful, and its audit excels most audits that you would ever see. It's been extremely well managed. It has probably been one of the key initiatives that has helped the national government try to meet its Kyoto commitments. It's a small program, but in terms of dollar for impact it's probably been one of the most successful we've ever seen.

The Chair: Mr. Morrison, quickly, please.

Mr. Jeff Morrison: Quickly, on the existing programs, we in fact couldn't agree more. That's why we recommend in our brief that the existing programs—the strategic infrastructure fund, the voter infrastructure fund, etc.—be replenished, given that a lot of those programs are now near or at the end of their budgetary allocations. Those programs target areas that wouldn't be targeted by gas tax or other funds, so we completely agree.

On the union question, just to clarify, we do not have any problem whatsoever with unions. What we do have a problem with and what we are recommending to this committee and to the government is that a clause be put in these agreements that does not preclude or allow owners of infrastructure, be it municipalities or provinces, to enact preferential procurement policies. That's what happened in Manitoba when the Manitoba government said only union contractors could bid. By the way, in Manitoba, only 5% of contractors who could do the type of work that needed to be done were unionized. Can you imagine the cost implications from a competitive basis of that?

What we're saying is that projects funded by gas tax and paid for by Canadians need to be open to all Canadians who are qualified to do the work.

The Chair: Thank you.

We will go to five-minute rounds. Mr. Harris, Ms. Minna, then John McKay. Then we will start over.

Mr. Richard Harris: Thank you very much.

Thank you, panel, for the insight you are sharing with us. I have a couple of questions.

First, the fuel tax recovery rebate promise is 5¢ a litre for gasoline and 2¢ a litre for diesel fuel. What is the reason for the difference in the taxes between those two types of fuels? As well, are you aware of any consideration that Mr. Goodale may be giving to eliminating that diesel tax rebate from the formula?

● (1030)

Mr. James Knight: The government's proposal is that it be gas tax alone at 5¢ a litre. There is no diesel in their commitment. We have always spoken of diesel as an important element of fuel. Frankly, it's primarily trucks that damage infrastructure, so we think there is fairness there. The excise tax on diesel is only 4¢ a litre. It's 10¢ a litre on gasoline and 4¢ a litre on diesel, and we have asked for half of both, 5¢ a litre on gas and 2¢ a litre on diesel. That's clearly not on the agenda of the government. It amounts to approximately $200 million a year, plus a bit, and gas tax is $2.2 billion a year, more or less.

Mr. Charlie Penson: As a result of the intervention from Mr. Bell, I would like to confirm with our witnesses today that there is a clear understanding that the municipal form of government is a delegated form from the provinces. It's a very important form. I think it's the closest to the people, but it is a delegated form. Therefore, the cooperation of the provinces is necessary.

In that regard, I think the question was asked about there being minimal cutbacks from the federal government to the municipalities. It was partly because the major downloading in the 1995 budget was done to the provinces, and therefore the provinces, in turn, cut back to the municipalities. Is that a fair assessment?

Ms. Ann MacLean: Yes. In my own province, Nova Scotia, I happened to be the president of the Union of Nova Scotia Municipalities that particular year. I remember the premier of the day saying we were in major difficulty, and that the transfers were a major hurt to us. That year, in the province of Nova Scotia, municipalities were downloaded $40 million in one year as a result of the provincial position.

Mr. Charlie Penson: The other thing I want to ask is the last time I was on the finance committee the revenue from the federal excise tax on fuel was $4.5 billion, and now I understand it is over $5 billion. It is running about 10% in that 18 months. At the time, there was only $195 million of the $4.5 billion that was reinvested in highway or infrastructure systems. It was largely going into general revenue, and hardly any of it as a percentage was coming back in the form of reinvestments in infrastructure. Is that true?

Mr. James Knight: Yes, that is very much the case. That's what we're trying to fix here today.

Mr. Charlie Penson: Thank you.

The Chair: Mr. Harris.

Mr. Richard Harris: Thank you, Mr. Chairman. I have one short question, and I think it's relevant.

Considering the shortcomings of the government and the infrastructure deficit and the scarceness of cash, in your vision of how to fix the infrastructure deficit, what role are private-public partnerships playing? Is it significant, or is it minor, or are the opportunities there yet to be really explored?

Ms. Ann MacLean: We certainly have encouraged private-public partnership when that has made sense for the communities, but it is a local decision. It is a decision of the communities as to what makes sense, because our communities are diverse, as you mentioned. They need to be able to take advantage of a number of opportunities. So it really is a local issue, but we certainly have included it in our submissions always.

Mr. Jeff Morrison: We've always said that triple-Ps are a tool in the toolbox, that they don't work all the time, that they are not a panacea, but that they are an option that municipalities and provinces could be looking at to help. At the end of the day, triple-Ps do tend to leverage government funds, and frankly when you have a $60 billion infrastructure debt and there is really only $2 billion we're looking at in gas tax funds, you need to be creative in terms of how you leverage and how you grow that government funding. So it's a tool, but it's not a panacea.

● (1035)

The Chair: Ms. Minna.

Hon. Maria Minna (Beaches—East York, Lib.): Thank you, Mr. Chairman.

Firstly, I want to say thank you for coming. I think there's a lot of stuff here on which we've been in agreement for some time around this table, so I'm glad we're working toward them.

I firstly want to clarify something that my colleague Mr. Layton mentioned earlier when he suggested that there might be a request for matching funds on the fuel tax. I think Mr. Godfrey, the minister responsible, has said clearly that no matching funds will be required from the provinces or municipalities with respect to that arrangement. So that's already been made fairly clear publicly, just to correct that.

While I understand that we are in a situation where we need to move on these issues, I think it's also worth while to know that this government is the first in a long time to work with the FCM and to meet some of the demands. Things have fallen off, but hopefully we'll be picking them up again. I think that's important to note, because for a long, long time I don't think this kind of partnership existed.

The other partnership that I think is critical concerns some of the things that have already happened with B.C. It is something that Mr. Godfrey is now working to establish in Ontario with Toronto, as well, on other areas in addition to what's being discussed in terms of gas tax and/or fuel tax.

I want to ask about a couple of things, which I think are very interesting. The green fund has worked marvellously, as you say. It's working really well. I'm going to give you a few questions. Would you see that model used in any other sector? We're talking about a number of things in addition to the transfer tax, which is part of it.

The other question is on the gas or fuel tax transfer. There has been a great deal of talk of communities versus cities. I know that I have had some discussions with people in my riding. The cities have huge infrastructures, with a lot of demand. I've talked to some people in the Montreal area as well, and it's a major problem. They're saying it was supposed to be a commitment for cities and now we're stretching it to communities. I want to get a sense from you of where this discussion, if it is taking place in your organization, is going and at what level or what size we call it a city.

I've a couple more questions, but I'll give you that first.

Ms. Ann MacLean: Thank you very much for the question.

First of all, with respect to green funds, that model has been discussed with respect to housing, for example, and we are in discussions with Minister Fontana and his department and we are actually developing a working group on this issue. So the collaborative approach is well at work in that particular department. Thank you for that opportunity to discuss that.

On the gas tax with respect to cities, it's always been cities and communities because all communities have infrastructure and have challenges. The cities' challenges are certainly apparent, and they tend to be very focused, and they may be different. We have such a diverse country, but smaller communities also have important challenges and issues that can address sustainability. It may be transit in cities, but it may be district heating and cooling in more rural areas. So the challenges are different, but it has always been cities and communities, and every community in this country, large and small, needs the dollars that will be flowing to them.

Hon. Maria Minna: I will go very quickly to two other things. One is the issue of highways that Mr. Morrison was talking about, and of course the commitment that the primary amount of money would go to transportation.

One question I have, maybe for both of you, is that while I understand that we need good highways and that infrastructure is very important, I have a real bias towards taking the trucks off the highways and strengthening and putting some capital into railway infrastructure. When I drive on the highway, I'll tell you, when I see more than 50% of those huge trucks going between Windsor, Toronto, Ottawa, Montreal, and Quebec City...the wear and tear on our highways is enormous. So I'd like to hear about how you think we could accomplish that.

The other issue is accountability. We've just had a major discussion with the provinces on health, and we're trying to build into that some accountability that in fact the moneys will go to certain objectives and standards that we are collectively discussing.

On the gas transfer, in addition to making sure that the provinces do not claw back—this is fundamental—do you see any other accountability structures built in to ensure that in fact moneys are going to the primary areas that we've all agreed on, as opposed to elsewhere? I think that's important.

● (1040)

Mr. James Knight: On the matter of railways, hallelujah—the cost to cities of truck traffic and the degradation of roads is enormous, not to mention the gridlock, congestion—

Ms. Ann MacLean: Sustainability.

Mr. James Knight: — the fumes, and the relative inefficiency of that mode of transportation.

We have always favoured policies that would transfer truck traffic to railways, and frankly, as the years go by, that focus has to intensify, because we can't carry on. We can't build highways wider and higher forever. We have to stop.

The Chair: Thank you.

Mr. Morrison, just quickly.

Mr. Jeff Morrison: This is one of the areas where we and FCM would disagree, then.

Mr. James Knight: On the accountability question, yes, in fact in one province this framework has been well developed, how the municipal governments would report on their use of the funds.

Frankly, the suggestion from one province to the Government of Canada is that there should be an audit. These programs should be audited on an annual basis to ensure that there is compliance and that the moneys have been used appropriately. We're very open to that.

The Chair: Just quickly, Mr. Morrison.

Mr. Jeff Morrison: On the question of highways, we don't see it as an either/or type of question. The fact is, yes, mass transit and rail are important, especially in a multi-modal transportation strategy, but at the end of the day, in an economy such as ours, with continental just-in-time deliveries, that truck travel on highways will continue to be, for the foreseeable future, an extremely important part of our economy. The fact is that unless you start building rail tracks here, there, and everywhere, you're not going to be able to meet just-in-time shipments that a continental economy requires.

I should add, too—and please look over the brief—that when you do build additional highway capacity, be it in the form of a ring road or whatever, it doesn't need to be just simply widening an existing highway. In fact, there are substantial sustainable objectives that are met in terms of reducing GHGs and various forms of air quality emissions.

So we do see it as a key component of a strategy, but it shouldn't be seen as either highways or rail. It really needs to be both.

The Chair: Thank you, Mr. Morrison.

Mr. McKay.

Hon. John McKay (Scarborough—Guildwood, Lib.): Thank you, Mr. Chair, and thank you, witnesses.

Ever since I took over this responsibility there's been an endless stream of people in my office extolling the virtues of triple-Ps. Some of them have been from FCM, a lot from highway organizations, a lot from transportation organizations, energy—a lot from wind power and things of that nature. I had a really interesting presentation by the chair of the green infrastructure fund on the number of, and the enthusiasm with which they embraced, public-private partnerships. I was somewhat surprised you didn't put as a centrepiece of both your briefs the absolute necessity of entering into public-private partnerships. There's just no way the infrastructure of this country is going to be addressed without entering into triple-Ps on some basis or another. I agree with you that it is one tool in the toolbox, but it's a rather significant tool in the toolbox.

I want to find out from you whether you just want to bury triple-Ps because they're politically incorrect or whether you think they should be, in fact, a lead principle in all of your negotiations in all areas. I agree with you that they're not the panacea—that's a given—but this is a very important form of financing public infrastructure. So my number one question is, why didn't you address it in your remarks and your paper; and where would you put it as a lead principle?

The second issue has to do with alternate sourcing of funds. I can remember presentations in my office about tolling. Tolling can be very sophisticated: you can toll on the basis of time; you can toll on the basis of weight; you can toll on whatever criteria the individual municipality or province wants to use. Again I didn't see anything in your presentation about the use, and possibly abuse, of tolls.

I'd be interested in both organizations' comments on both of those issues, please.

● (1045)

Mr. Jeff Morrison: First of all, on triple-Ps, as I mentioned, we do feel they can be a valuable tool for municipalities and provinces to use to leverage funds to implement municipal infrastructure.

You asked why we didn't include discussion of them in our brief. I believe Mr. Knight referred to this as well: that at the end of the day the decision as to whether to use triple-Ps or not really is a decision for the municipality or the province, i.e., the owner of the asset. For the federal government to come down and tell municipalities or provinces “you must use a triple-P or we won't give you the funds” may be a bit too heavy-handed. At the end of the day, it really is a local decision to be made. However, as we said, we would encourage their use—absolutely—where they can be used most effectively, and that's not always.

Hon. John McKay: It is a legitimate question on the part of the federal government to ask whether you've done a triple-P analysis on a project.

Mr. Jeff Morrison: Sure, the federal government can ask. Whether it should start dictating, though, is another question, and that's where we would have a problem.

You talked about toll highways, and really what I think you're getting to there is the concept of user pay, which we would support absolutely. We didn't include it in our brief this time, given that this discussion was placing more of a focus on urban communities. But if we were to sit and talk about highways—and we've recommended to the transport committee that they hold hearings on this issue—the use of toll highways is something we would support.

You talked about political correctness, and this may not be politically correct, but we would also support increasing the gas tax by, say, 1¢ to 1.5¢ per litre if we knew the money was to go into a highway trust fund. User pay is another tool that can used to invest. It's not the panacea as well, but it is another tool that needs to be considered.

Mr. James Knight: From our side, you mentioned the green funds, and absolutely, on the energy side public-private partnerships are wonderful: district energy systems, wind turbines, wind farms. There is a tradition here, and it's very effective. Many of our projects have been public-private partnerships through the green funds.

With respect to municipal roads and public-private partnerships, it's not entirely clear how they would work. That's a bit of a challenge, because at present there's no revenue stream, which is a critical element in most public-private partnerships. We don't see quite how we're going to get there on local roads.

There are, of course, some important public-private partnerships with respect to water and waste-water systems. That is an area of some growth, and we have supported that growth. At the end of the day, as my colleague has said, while we offer an analysis, a framework, and encouragement in this area, it is a local decision in the end. There are so many local variables that have to be taken into consideration.

I have to comment that a well-managed public system is an efficient system. There is no profit to be made; borrowing costs are lower; salaries are generally lower at certain levels. A well-managed public system ought not to be discounted as an important element in our country, and most municipal institutions are quite well-managed.

Ms. Ann MacLean: I will add too that in our position with respect to infrastructure we've always said “including private-public partnering opportunities”. It has never been out of the policy position.

Hon. John McKay: I just want to establish the point that in the event the federal government participates in infrastructure projects, it's a legitimate question to ask: has this analysis been done, and if not, why not?

Ms. Ann MacLean: Sure. Why not?

Hon. John McKay: Okay. Thank you.

[*Translation*]

The Chair: Mr. Côté, you have four minutes.

Mr. Guy Côté: Some of my thoughts were very well expressed a little earlier, when the discussion was on clawbacks. One must know why these cuts were made at that time. It was following massive cuts inflicted upon the provinces by the federal government.

If there were a 5¢ transfer, would you not fear that the day the government abolished or changed such a program, following an election or a change of policy, the citizen, who pays taxes to all of the levels of government, would not know who to congratulate or who to blame? I am convinced that several municipalities have found themselves in such situations. Because of a lack of money, certain infrastructures are not maintained and there are men and women who pay the political price for this whereas the provincial government should have been held to account. In the same way, in Quebec, governments have sometimes paid the political price for problems caused directly by federal cuts. Do you not believe that citizens would be better served if these issues were clearly defined or if the federal government decided to grant adequate funding to Quebec and to the provinces in order that they might in turn fund their municipalities adequately? In this way citizens would know who to call upon to deal with problems or who to go to with their words of congratulation or blame.

[*English*]

I'm asking for your opinion, basically.

● (1050)

[*Translation*]

Mr. Jeff Morrison: I believe that most Canadians do not play what in English we call the blame game. I believe that Canadians and Quebeckers do not often ask themselves from which level of government their money comes from to pay for infrastructure. In my view, what the majority of Canadians and Quebeckers want is for the infrastructure to be in good shape. They want to be able to drive on the roads and they want adequate water supply systems. I do not believe that the majority of Canadians stop and ask themselves which order of government they should congratulate or blame.

Mr. Yvan Loubier (Saint-Hyacinthe—Bagot, BQ): Let us leave aside this blame game, as you call it. We have a rule that is the primordial law of the country, and it is called the Constitution. The Constitution sets out the responsibilities of each order of government. Were there to be confusion with regard to these responsibilities and were an order of government to take the place of another or to push the other aside or to shuffle the cards, in the end it is the citizen who would be ill-served.

That was the point of my colleague's question. When there are rules, if everyone follows them it is better for everyone.

These days, there is unending squabbling. There are negotiations that could be dealt with in a day, but because one order of government wants to intrude upon the jurisdiction of another, which flies in the face of the Constitution, we find ourselves in situations where in the end it is the citizen who pays.

Mr. Jeff Morrison: Both our organizations are recommending that these negotiations be trilateral, bringing together the federal government, the provinces and municipalities.

We maintain that municipalities are creatures of the provinces. This is absolutely clear, and we are saying that provincial jurisdiction is well respected. Over the last 10 years there has been tremendous cooperation between the three levels of government with regard to the other types of infrastructure programs and things have worked well.

Mr. Yvan Loubier: It is the provinces that are the foremen. The federal government supplies the money whereas the final decision as well as the very management of the projects belong to the provinces.

M. Jeff Morrisson: Yes. Mr. Godfrey stated very clearly that the provinces must be at the table at the beginning and at the conclusion of these negotiations.

My belief is that the federal government does not want to interfere in areas under provincial jurisdiction. Several provinces were at the table. In the end, however, Canadians do not pay very much attention to these issues of jurisdiction. For them, what counts is the need to invest money in infrastructure. That is Canadians' priority.

[*English*]

The Chair: Thank you, Mr. Morrison.

Since this is the finance committee, we just have a quick question for the federation. You're expecting revenues of $2.25 billion from the gas, and from the diesel a quarter million. That represents about $2.5 billion. What are you recommending that we spend the money on? We're at $1.5 billion in transportation and transit infrastructure. There's housing, there's green. We need details, a breakdown.

I don't know if you received some of our proposed questions, but we need to know where we should be cutting if we're going over the $2.4 billion, $2.5 billion that we're going to be allocating according to your recommendation.

● (1055)

Mr. James Knight: We have a list that we can leave with you on the various areas, but for the most part we're quite consistent with the policy of the government. There is some minor discrepancy on the fuel tax amount, but we're within reasonable distance.

The housing is something that has already been mentioned. We have followed the government's commitment on that.

There is a commitment to continuing infrastructure programs. We've said to take the average of the last ten years, and that's your continuity. It's what you've said.

The other things are relatively minor. So as a general matter, the policy of the government is reflected in what we've said.

The Chair: But we need numbers. You're recommending transferring revenues of between $2.4 billion and $2.5 billion. What are we spending that $2.4 billion or $2.5 billion on, or are you asking us for more than the $2.4 billion or $2.5 billion?

Mr. James Knight: For our specific list, I can go through them if you like.

The Chair: Yes, please.

Mr. James Knight: We're suggesting that a fully ramped-up fuel tax arrangement is $2.5 billion a year. The housing commitment is $300 million a year. Existing infrastructure is $1.1 billion a year. Green funds top-up is $250 million , but it's one time. And partners to these other minor programs total $6 million.

That's the list.

A voice: Over five years.

Mr. James Knight: No, that's per year.

The Chair: Okay, we'll go over the numbers, because I still don't think they balance. We've been trying to crunch numbers.

Mr. James Knight: I'll just leave you with the paper, if you like. It lists them all.

The Chair: Yes, please.

Just quickly, what are your thoughts on what I've been hearing as an urban MP about taking the first 25% and allocating it to public transit? The provinces don't get affected, apparently, but the first 25% of the money coming from the gas revenues can go directly to public transit. We've heard it from the big mayors, like Toronto, Montreal, and one or two of the other mayors.

Ms. Ann MacLean: I will try to respond quickly to that.

A working group of big-city mayors and the executive of FCM has been meeting for the last three weeks and is meeting again this week to address those very types of distribution formulas. We have built a consensus around that, and we actually will be presenting that consensus to the government very shortly.

The Chair: Great.

Thank you for your time. It was much appreciated.

My thanks to the members. We're not going to take much of a break. It will be two minutes or three minutes, so that the new witnesses can come in.

●

(Pause)

●

● (1100)

The Chair: I want to thank everybody for coming.

We don't have a problem, but I really need everybody to cooperate.

[*Translation*]

There are seven groups wishing to appear.

[*English*]

If you can, keep it brief. Stay within five minutes or I'm going to have to cut you off, because we're going to go past the half-hour and then the members are going to want to ask questions.

And I ask the members to stay within the limit. The first round is seven minutes. I am going to be cutting you off. That represents the question and answer within seven minutes.

I have a list of who is going to go first. We'll begin with the Chamber of Maritime Commerce, and Mr. Johnston.

● (1105)

Mr. Raymond Johnston (President, Chamber of Maritime Commerce): Thank you, Mr. Chair.

Thank you to the committee for inviting us here today.

The Chamber of Maritime Commerce represents marine industry stakeholders in Canada. We have approximately 150 corporate members that are either providers of marine transportation services or users of marine transportation services. Those members include shippers, domestic and international carriers, ports, terminals, grain elevators, the St. Lawrence Seaway, and many other suppliers to the industry.

The two priorities I want to talk to you about today are, firstly, improving competitiveness of Canada's trade corridors and, secondly, encouraging innovation and productivity in the marine sector.

In the area of improving competitiveness of trade corridors, I wish to point out that infrastructure requirements for marine are often ignored. This is evidenced by the fact that marine infrastructure demands are currently ignored in all existing infrastructure programs. I also note that in the U.S., Asia, and EU countries, these nations are taking steps to deal with the growth in trade on a global basis.

Marine infrastructure capacity is critical to Canada's economic success. Specifically, we want to call for the continued support of the Great Lakes and seaway study that's underway; take action to improve the competitiveness of Canadian ports—one particular issue is the introduction of changes to the Canada Marine Act; and, finally, to consider the development of short-sea-shipping initiatives, following the line of the EU policy and programs. This would be in an effort to use our marine assets more effectively, to reduce congestion, and to take advantage of the safety and environmental benefits of marine transportation.

Trade corridors are often affected by costs in two areas in particular. In marine security, while we're pleased at the initial round of contributions to fund marine security requirements, we need to point out and to be mindful of the fact that the U.S. has invested over $1 billion so far to secure their ports and waterways. We must remain in step with the U.S. in terms of maritime security investments to remain competitive.

Government fees are another area of concern, such as coast guard fees. As an industry, we have been seeking a long-term agreement to deal with fees. The Standing Committee on Fisheries and Oceans had requested that the coast guard reply to our demand. After two years, we are still waiting to sit down and discuss where the fees are going.

On customs fees, new cost-recovery policies are adding to the cost of marine trade corridors. The Detroit–Windsor truck ferry is an example, as are the Prince Rupert container terminals and the Toronto–Rochester ferry. All of these additional costs are placing Canadian trade corridors at a competitive disadvantage.

In the area of innovation and productivity, I wish to talk to you about our regulatory environment. Currently, we see twenty different departments and agencies interfacing with the marine sector. In the area of marine security alone, there are sixteen different departments involved. Regulations are outdated and often prevent the use of new and modern technology, such as satellite navigation systems and electronic charting. It's ironic to see that our Canadian navy and coast guard are equipped with some of the most sophisticated electronic navigation systems available today, yet our commercial operators are prevented from using and taking full advantage of the same technology.

The framework for regulatory control of this industry requires more interdepartmental coordination to ensure policy consistency, efficient enforcement of regulations, economical delivery of programs, and a sense of respect for the cumulative impact of government charges.

The final area I'll touch on is the area of research and development, again an area in which many departments are involved, often on an uncoordinated basis. Key areas that require research in the marine sector include navigation technology, environment, and intermodal transportation logistics.

● (1110)

We see the need to designate a lead agency to deal with marine technology matters to ensure there is greater industry awareness, perhaps establishing an advisory committee as has been done in many other sectors, and to develop a master plan and ensure adequate program funding.

Thank you for the opportunity to offer the committee our views on these important areas to be addressed in the budget.

The Chair: Good job, Mr. Johnston. It was five minutes bang on.

Next is the Canadian Urban Transit Association. Mr. Roschlau.

[*Translation*]

Mr. Michael Roschlau (President, chief executive officer , Canadian Urban Transit Association): Thank you, Mr. Chairman. Good morning, members of the Standing Committee on Finance.

[*English*]

I'm here this morning on behalf of the Canadian Urban Transit Association, which represents the 100 or more public transit systems from coast to coast and its 300 affiliated agencies, members, and suppliers. CUTA is celebrating its 100th anniversary this year and has really been encouraged by the prominent references made to the new deal for cities and communities in last March's budget and in the government's Speech from the Throne delivered a month ago.

We believe that no other area of investment has the same potential to benefit so many different aspects of urban living as public transit. Transit speaks to all dimensions of sustainability already outlined by the government and by Minister Godfrey. By that of course I mean environmental, economic, social, and cultural sustainability.

On the environmental front, transit reduces air pollution and greenhouse gas emissions, thus helping to prevent climate change and meet Canada's Kyoto commitments. At least 5,000 deaths occur in Canada's 11 largest cities because of air pollution. Air quality is also a major concern in emergency room visits, particularly during smog season. For example, 64,000 emergency hospital visits take place each year in Ontario alone due to smog.

[*Translation*]

From an economic standpoint, public transit reduces traffic congestion. A single bus replaces 40 cars and a commuter train 15 lanes of traffic. Public transit is economical, given especially the increase in the cost of gas, as well as that of vehicle upkeep and insurance coverage.

Public transit supports rational land use, balancing out high density zones and green spaces.

[*English*]

In terms of urban competitiveness, cities with strong transit systems will also thrive more readily in the face of future fuel shortages or price increases. This gives them a competitive advantage over cities with less balanced, more auto-dependent transportation systems. And in that regard, our cities compete with places like Boston, Denver, and Atlanta, American cities that benefit from the U.S. federal government's investment in public transit to the tune of over $7 billion U.S. per year—regardless of the outcome of today's election.

On the social front, transit provides universal mobility to Canadians, giving access to jobs, to education, to health care, and to recreation. Transit is also one of the safest ways to travel in our cities. Without it Canadians could expect to see at least 150 more fatalities related to transportation each year.

On the cultural front, transit contributes to the vitality and cohesion of our cities by promoting a physically active lifestyle and by fostering creativity. It's interesting how most crucibles of cultural development tend to be in inner-city neighbourhoods, where residences, workplaces, and shopping areas are clustered together, the very areas where public transit works best.

[*Translation*]

In summary, no element of Canada's urban infrastructure is better able to contribute to the sustainability and quality of life of our cities than public transit.

[*English*]

Canada's transit industry is grateful for the investments in projects already announced as part of the infrastructure funds. Those are excellent. They need to continue and be expanded. But in light of the infrastructure backlog and expansionary demands, they're neither sufficient nor predictable. According to the survey I mentioned earlier, the total requirements for renewal and expansion of public transit's capital infrastructure for the period 2004-08 come to $21 billion. For public transit to do its part in maintaining cities as the economic engines of Canada, investment is needed to make urban mobility work.

That's the supply side of the equation. On the demand side a big inequity exists in the tax system, and this is one you've heard about many times before. I would suggest that now is the time to act, encouraging a modal shift by changing the way public transit benefits are taxed. In the U.S., where employers are allowed to provide transit benefits to their employees income tax-free, significant increases in new ridership have occurred.

● (1115)

While benefits such as parking and transit are designated as taxable income, exemptions allow many employers to give their employees free parking, income tax-free. Surveys show that free or subsidized parking is a common benefit provided to about 80% of auto commuters, while employer-provided transit benefits are practically non-existent. One way to compete with free parking is to encourage employers to offer transit benefits, so we're asking the federal government to make employer-provided transit benefits income tax-exempt.

[*Translation*]

As indicated in the poll on infrastructure needs, Canadian municipalities are unable to sustain alone their public transit requirements. Their property tax base being their sole source of income, municipalities depend upon the provincial and federal governments which are able to obtain income from other sources. Municipalities throughout Canada continue to fund on average 80% of their public transit costs.

[*English*]

Let's get back to the gas tax for a moment. We encourage the federal government to look closely at the Ontario example, the recently announced plan to share 2¢ on the litre of the provincial gas tax with transit systems across Ontario. This is the first Canadian example of a universal dedicated tax for municipalities across an entire jurisdiction benefiting communities large and small. It's focused on the results-oriented objective of increasing transit ridership, provides for full municipal accountability, and does not allow for municipal clawback. As such, Ontario is leading the way towards a framework for the new deal for cities and communities.

In conclusion, CUTA is delighted with the prospect of a gas tax transfer to municipalities but urges the government to ensure that (a) the existence of two distinct priorities is recognized, infrastructure renewal or replacement on the one hand and expansion on the other; (b) the new investment is incremental and doesn't simply replace current investment from other partners, i.e. the clawback; and (c) municipalities be held accountable for supporting the investment by changing the way our cities are built, increasing development densities along the transit lines and around the areas where the investment is going.

So in sum, our first recommendation is for the equivalent of 3¢ of the 5¢ of the federal gas tax to be distributed to municipalities, earmarked for public transit for all the sustainable dimensions it represents. This would provide $7.5 billion over five years and would work to meet one-third of the overall transit infrastructure needs I mentioned. Moreover, it's important that this level of investment be ramped up faster than suggested by the government and that it be permanent in order to allow transit systems to carry out the necessary comprehensive and long-term planning for renewal and expansion. To balance this, our second recommendation is to level the playing field among employee benefits by making employer-provided transit benefits tax-exempt. And finally, our last recommendation is to maintain the existing federal infrastructure programs and allocate additional funding to them.

Thank you very much.

The Chair: Thank you, Mr. Roschlau. You didn't make it in the five minutes.

Next is the Shipping Federation. Ms. Legars.

[*Translation*]

Ms. Anne Legars (Director, Policy and Government Affairs, Shipping Federation of Canada): Mr. Chairman, Committee members, thank you for having invited the federation to appear before you this morning.

The Shipping Federation of Canada has for more than 100 years represented those ships that transport Canadian goods destined from international trade to or from ports situated east of the Rockies.

Canada's economy owes its prosperity to a large extent to international trade. The country's prosperity is also dependent upon the capability of its transportation system to deliver goods efficiently from their point of origin to their point of destination. Marine transportation is a key element of this transportation system.

Today I will limit myself to answering the committee's suggested questions 1 to 3, because the Federation does not have the expertise necessary to answer the other questions.

● (1120)

[*English*]

Question one is what should be the program spending, taxation, and other priorities of the federal government in the next budget?

From our industry standpoint, the most important priorities that should be addressed in the next budget are infrastructure and environment, which are necessary to sustain Canada's economic base. We have three recommendations under each of these headings.

On the transportation infrastructure issue, our first recommendation is to develop a national infrastructure plan. The government should develop a comprehensive transportation infrastructure plan that focuses on long-term needs and reflects core values such as fluidity and flexibility within the transportation system.

Intermodal facilitation, environmental responsibility, and sustainability are the concepts of public good as an overall function of a transportation system.

Why is it our first recommendation? Because the national transportation system is in dire need of renewal, expansion, and modernization, and because the Canadian economy depends on the availability and the efficiency of that system. Studies indicate not only that the various modes of transportation are under stress, but that many are reaching their limits of physical capacity.

Because it is expected that current trade volumes will double by the year 2020, placing even greater pressure on the transportation network, the corresponding investment need will be in the hundreds of billions of dollars over the next 20 years. Canada's investment in transportation infrastructure has been minimal when compared with other industrialized nations. Moreover, Canada's approach to transportation investment is still scattered amongst the patchwork of federal infrastructure programs in which transportation infrastructure has to compete with other infrastructure.

Even the programs that have a transportation component, such as the Canadian strategic infrastructure fund, do not cover potential investments in marine infrastructure.

This leads to our second recommendation, which is to include marine infrastructure. The government should amend the investment categories under the Canadian strategic infrastructure fund so that marine infrastructure projects can compete for funding.

This being said, it's also not realistic to assume that all the necessary funding can come from the government alone, given the huge investments that will be required to enable the transportation system to handle the expected doubling of trade volumes over the next few years. So our third recommendation is to develop new infrastructure funding mechanisms.

The government must seriously explore alternative methods and sources of funding for the growing transportation infrastructure deficit, with particular emphasis on encouraging private sector investment, leveraging public investments for contributions from other levels of government and the private sector, and encouraging investment that is sustainable and impacts favourably on the intermodal network.

I now turn to our greening transportation recommendation.

Although transportation is responsible for 25% of total greenhouse gas emissions in Canada, emissions related to the movement of freight by the marine mode account for only 1.25% of that total. Marine transportation is also safer, requires less fuel, and produces less noise than the surface modes. So our fourth recommendation is to prioritize greener projects.

When assessing competing needs for infrastructure financing, the government should give greater weight to the infrastructure project that has the best environmental impact ratio and poses the best results in terms of key criteria such as safety; energy efficiency; societal impact, such as noise, congestion, etc.; and sustainability.

Our fifth recommendation is to encourage short-sea shipping. I will not develop that; my colleague Ray Johnston has already done that. Canada needs to take more concrete action to develop short-sea shipping opportunities.

Last but not least is our sixth recommendation. We strongly recommend that the government create a special fund dedicated exclusively to a green certification program for the marine mode, given the environmental and societal benefits that would flow from a Canadian green-ship incentive program.

Transport Canada has been considering the implementation of a green certification program that recognizes ships and ship operators that exceed environmental standards. Similar programs are currently in place in several major ports and maritime nations.

Shipowners would be ready to participate in such a program, provided they could be assured of recovering at least half of the cost involved in obtaining certification.

● (1125)

[*Translation*]

There is a very brief summary of our submission. A more detailed statement will be sent to you in both official languages within a few days.

Thank you for your attention.

Le président: Thank you, Ms. Legars.

My question was precisely whether or not you had a brief.

[*English*]

Mr. Jones, from the Railway Association of Canada.

Mr. Chris Jones (Director, Government Relations, Railway Association of Canada): Thank you, Mr. Chairman.

I am here on behalf of our 60 freight, passenger, and tourist railway members. The railway industry is entering a new era characterized by huge demand challenges and significant requirements for capital reinvestment in our physical plants and equipment. Surging volumes of containerized imports from Asia coupled with substantial transporter intermodal shipments are the new reality confronting us.

Concerns about record energy prices, the rising value of the Canadian dollar, congestion on our city streets and major highways, and emissions of GHG and harmful pollutants are widespread. Rail can help address these challenges in a fuel-efficient, sustainable, and competitive manner, but it needs some fiscal fixes in the federal policy framework to get this done. There are essentially three of those, and I won't dwell on them for very long.

The first deals with capital cost allowance rates. Rail is virtually alone among Canadian industrial sectors having a CCA that is linked to life expectancy. Our CCA rate is significantly inferior to those that apply to the other modes. It's also significantly inferior to the rate that applies to U.S. railways. It takes us 15 to 20 years to depreciate a locomotive. It takes a U.S. rail company seven to eight years. This is because the U.S. federal government provides a bonus first-year depreciation of between 30% and 50% for rail assets, and this widens the gap between Canada and the U.S. Our proposal under CCA is that the Canadian government move to a CCA rate of 30% for rail assets.

On the fuel tax, which is our second issue, the industry currently pays about $70 million in federal fuel excise taxes on diesel locomotive fuel. It was introduced, as you all know, in 1985 at the rate of 2¢ a litre. It was seen as a temporary tax to help with the elimination of the deficit. Despite elimination of the deficit in 1997, the present fuel excise tax of 4¢ a litre remains. We feel that in view of what's happened in the last few days in the States, where the U.S. government has just enacted into law its American Jobs Creation Act, which includes a provision to repeal the 4.3¢ per gallon fuel tax paid by railways in a phased rollback.... Essentially they'll reduce their fuel tax by 1¢ in January and July of 2005 and the remaining 2.3¢ in January 2007.

Our proposal under fuel taxes would be that the Canadian government immediately move to move the Canadian rate to the comparable or equivalent U.S. rate and match future U.S. rate reductions as per the planned phase-out schedule. In the interim, prior to doing that, while the tax is still in place there should be a more balanced and multimodal distribution of fuel tax revenues so that the highway sector is not the only beneficiary of this—rail pays fuel taxes too.

Our third and final ask relates to what we're calling an intermodal and freight-rail tax incentive or credit. This is a new ask for us. We think that given the importance of intermodalism, which some other witnesses have hinted at this morning, the rail industry should be granted a 25% tax credit for investments in qualifying freight infrastructure and intermodal equipment. The qualifying assets would include track and roadway and intermodal equipment transfer facilities and reloads.

Another nuance on this that we think would be important in the interim may be to exempt from the federal excise fuel tax rail's intermodal line-haul shipments to and from ports. We believe that where we're hauling to or from a port, the portion of the federal excise tax that applies to that haul should be removed, because that is an intermodal movement and it has public interest benefits in terms of reduction of emissions, congestion, road wear, and so on.

In summary, I would say that status quo policies in Canada have led to a situation where we have a significant increase in congestion, port and border delays, pollution, land consumption, and highway accidents and fatalities. There is another way to do this, which is probably to increase the amount of freight that is hauled by rail and intermodal, and we'd ask you to take those proposals into consideration.

Thank you very much.

The Chair: Thank you, Mr. Jones. That was a good job.

From the Canadian Trucking Alliance, Mr. Laskowski.

Mr. Ron Lennox (Vice-President, Regulatory Affairs, Canadian Trucking Alliance): I'm Ron Lennox. I am vice-president of regulatory affairs with the Canadian Trucking Alliance. I am joined by Steve Laskowski, who is associate vice-president with the Canadian Trucking Alliance.

The Chair: You have five minutes for a combination of both.

Mr. Ron Lennox: Thank you. I'll speak.

By way of background, the Canadian Trucking Alliance is a federation of Canada's regional and provincial trucking associations. It was formed to represent the views of the industry on national and international policy issues. Through these provincial associations, we represent somewhere in the order of 4,000 companies in all parts of Canada.

The industry itself is largely Canadian owned. There are somewhere in the order of 260,000 truck drivers in this country, which makes the trucking industry the largest employer of Canadian males in Canada, and somewhere in the order of 400,000 people overall work in the industry.

In 2003 the trucking industry generated in excess of $50 billion in freight revenue, and carries approximately 63% by value of the trade between Canada and the United States.

In terms of the sorts of issues that are concerning us these days, there are always many, but if I were to flag a few they would be compliance with and the cost of border security requirements in the post-9/11 world; the state of highway and border infrastructure—we've already heard from some of the other modes about their concerns, and we share those concerns; a looming driver shortage, which could affect our industry—it's affecting our industry now, and it will more so in the future; and certainly the rise in cost base, and in particular I would highlight costs for fuel, insurance, and security.

In terms of budget priorities, in the limited time we have available today, we'd like to outline for the committee three issues that we believe warrant consideration.

The first issue is economic incentives to speed the introduction of the new generation of cleaner truck engines. Environment Canada has followed the U.S. Environmental Protection Agency's lead and has passed diesel engine and fuel regulations that will virtually eliminate emissions of oxides of nitrogen and particulate matter from truck engines beginning in the 2007 model year. While these engines will be cleaner, they will also be more expensive. Estimates vary, but we could be looking at an additional $10,000 per truck.

What has happened in the past, most recently in 2002 when a new generation of cleaner engines came into the marketplace, is that many carriers pre-buy existing engines or keep existing equipment longer. This slows the penetration into the market and delays the environmental benefits.

In the United States, the General Accounting Office has suggested that some form of economic incentive would dampen the pre-buy phenomenon and allow the benefits of the new technology to be realized quicker. The senior EPA official responsible for air quality has stated publicly that they are on board with the concept of incentives.

CTA would suggest that a similar incentive program, perhaps achieved through accelerated capital cost allowance rates, should be considered in Canada and sunsetted after four years, which is the typical timeframe for carriers to turn over their fleet.

Over the past five years, class A vehicle sales have averaged approximately 13,750 in Canada. Depending on how quickly the asset can be depreciated, the cost to the federal government would likely be several million dollars per year for the four-year period.

The second item, increase funding of critical highway and border infrastructure, is a long-standing issue for the Canadian Trucking Alliance. Studies have been done for the Council of Transportation Ministers that clearly point to a large highway infrastructure deficit in this country and the significant safety, environmental, and efficiency gains that could be achieved if this deficit were to be overcome.

By and large, the provinces do a fairly good job at reinvesting fuel tax revenues into the road system, but here the federal government lags behind, where only about one dollar in every ten dollars collected in federal fuel tax is reinvested in the road system.

● (1130)

CTA believes that the federal government should examine the creation of a trust fund derived from highway tax revenues to ensure a greater share of such revenue is reinvested in critical highway and border infrastructure.

The third item is bring Canadian driver meal deductibility rates into line with those of the United States. Truck drivers, as you can appreciate, can spend days or sometimes weeks on the road, and have no other option but to purchase meals. At one time, Canada allowed drivers to deduct 80% of meal expenses in the calculation of taxes. However, in the mid-1990s, this was reduced to 50%, in line with what was then the U.S. practice. The U.S. has since begun to phase in the old 80% limit, but Canada remains stuck at 50%. CTA would contend that Canada should follow the U.S. lead and eliminate the inequity in meal deductibility rates for drivers.

Thank you, Mr. Chairman.

● (1135)

The Chair: Thank you.

We now go to the Canadian Shipowners Association, Mr. Morrison.

Mr. Don Morrison (President, Canadian Shipowners Association): Good morning. Thank you, Mr. Chairman.

The Canadian Shipowners Association welcomes this opportunity to provide input and recommendations to the House of Commons finance committee. The Canadian Shipowners Association—CSA—represents the interests of Canadian flag vessels and shipowners trading on the Great Lakes and St. Lawrence waterway, and the Arctic and the eastern seaboards of Canada and the United States.

The mandate of the association is to promote an economic and competitive Canadian marine transportation industry. Today, Canada's economy is robust and has shown remarkable resiliency to some of the economic challenges that have hampered other industrialized countries. We at the CSA believe that a steady, balanced approach to federal spending and taxation is most likely to maintain this performance. We note that the government has had sufficient revenues in the recent past to invest very substantially in priority areas such as health care and equalization, while implementing a large, multi-tax reduction program and contributing healthy amounts to debt reduction. In our view, this demonstrates sufficient resources on the revenue side, and we see no compelling rationale for any new tax increases.

To the contrary, we believe that the corporate tax cuts have gone a long way to fueling Canada's economic growth. The five-year plan to reduce taxes, including corporate taxes, has met with success. With these results in hand, and with revenues exceeding expectations, we believe the time is right for a new corporate tax reduction schedule.

The CSA believes that much of Canada's recent economic success is driven by a confident business sector, supported by reduced corporate taxation and growing support for innovation and investment. In the transport sector, we strongly believe that the most effective tool for economic growth is the elimination of the cost of doing business. If the federal government does nothing else in this sector, we urge you to recommend cost reduction and the smartening of our regulatory system as it applies to transportation. For Canadian exporters, the issue is cost: the cost of doing business, the competitiveness of Canada's economy relative to the economies of competitors, and we have many competitors south of the border. Transportation is, of course, an element of those costs, so whenever we can drive costs from the transport system, we can make our exporters and our shipments between Canadian ports more cost-competitive.

As we have pointed out before to this committee in the past, CSA members face significant systemic costs, including pilotage fees, Canadian coast guard marine services fees for navigation aids in ice-breaking, dredging, seaway tolls, and port tariffs. The CSA has been urging the government over the past several years, through all available means, to review these costs and the basis for their current levels and application. The National Marine and Industrial Coalition, mentioned by Mr. Johnston earlier this morning, has pressed the Canadian Coast Guard for a long-term agreement on marine services fees to result in the eventual elimination of these fees. Since they're a form of taxation, and since they relate directly to government revenues, this is a legitimate and important area in which the committee should comment.

The CSA, the shipowners, have long been seeking a change in the pilotage regime that would see a pilotage exemption available to Canadian seaway-size vessels operating in Canadian waters and meeting specific equipment and crewing standards. This would immediately eliminate some $12 million in annual systems costs, with no reduction of safety levels and very little, if any, increased cost to the government.

Let me repeat: The single most important budget action the government can take, in our opinion, is to reduce direct business costs it levies on our sector. We have, accordingly, refined our formal recommendations for the committee to just one. That is, that the Government of Canada implement strategic fee reductions and regulatory reform to achieve more competitiveness in the marine transport sector and thereby reduce transportation-related costs for Canadian shippers.

I won't have time to go through the rest of the paper. You'll notice that in our presentation we mentioned security costs. We're concerned. We have cooperated fully with government, with the U.S. governments, to ensure security. We have to be careful that these security costs don't rise beyond what is required. We will make the necessary investments, but to do so and remain competitive means finding resources.

● (1140)

We also talk about the seaway infrastructure. The seaway study was mentioned earlier this morning. We do support the seaway study. We support the government adopting a long-term infra-structure strategy for the seaway, perhaps as part of the other plan that our colleague from the Shipping Federation talked about, ensuring that sufficient funds are earmarked each year to finance the plan. We can't go five or ten years down the road to find that we have to do a lot of replacement and that it's going to fall on industry.

I'll make one last comment on Canada-U.S. trade policy. We believe there are important initiatives the government can undertake that have enormous implications for the state of our economy. None of these is more important than our relations with the U.S. and the functioning of the North American economy.

In conclusion, we would thank committee members for inviting the CSA to this special transport sector panel. We take this as an acknowledgement of the importance of this sector to the economic health of the country. As we have indicated, we believe Canada's economy has shown great resiliency and strength, based largely on greater business confidence generated by tax cuts and investment and innovation. This trend should continue.

The most significant action the Government of Canada can take in support of a stronger, more competitive transportation sector for Canadian business is to remove costs and barriers to business imposed through our cost recovery and regulatory processes.

Thank you for the opportunity this morning.

The Chair: Thank you, Mr. Morrison. Not bad; 20 seconds over.

From the Air Transport Association, Mr. Everson.

Mr. Warren Everson (Vice-President, Policy, Air Transport Association of Canada): Thank you, Mr. Chairman.

My sympathies to the committee, having so many issues laid before you at one time. I'm going to confine myself pretty much to one issue.

The airline industry, as everyone will know, has had a very difficult last few years, with 9/11, SARS, record fuel prices, and terrorism threats. However, after the bankruptcy of our two largest airlines in Canada, what's emerging now is an industry that is extremely and obsessively focused on low costs, low fares, and efficiency.

Our reason for appearing in front of the committee today is to ask you to comment on a federal instrument that's pushing back against that trend, imposing higher costs and less efficiency on industry. That instrument is the federal rent imposed on the airport system as part of the devolution of airports in the 1990s. It's our position that this is not in fact a rental payment. This is in fact a form of tax, and we believe this committee should comment on it.

I know that many members of the committee have experience in law and business. Mr. Bell ran a city. You've seen thousands of leases, but I think you've never seen a lease like the federal airport lease. It's an entirely one-sided document under which the federal government is helping itself to an ever-increasing amount of our money.

In the decade of the 1990s, while privatization was going on, the crown demanded nearly $600 million in rent. In the first four years of this decade, it has received more than $1 billion. In the balance of the decade, running out to 2010, it expects to receive close to another $2 billion on top of that. Some of that payment is going to be deferred under last year's deferment, but it doesn't in any way reduce the overall payable.

We consider this to be a very serious drain on our industry, on travel and tourism, and on business competitiveness in Canada. We're asking this committee to make a strong representation that it should be changed.

Unlike most commercial leases, federal rent increases every year without regard to the value of the asset. When the national airports policy was announced in 1994, the crown itself valued its airport system at about $1.2 billion. So already Ottawa has taken more money out of the system than it said the system was worth when it began the transfer process.

You may ask yourself how the airport system could possibly be as little as $1.2 billion. It's worth remembering that every single airport in Canada, except for Vancouver and Toronto, was losing money, and that all of them were significantly under-capitalized at that time.

The transfer process was also a very disorganized one, with every community trying to strike the best deal it could. As a result, there are wild disparities between the amounts paid. Vancouver is paying about $75 million this year. Montreal, which is slightly smaller in terms of traffic, is paying $15 million. The Vancouver community has already been drained of more than $650 million since the community took over its own airport. Ottawa, which has a little less traffic than Edmonton, is paying $11 million. Edmonton is paying $2 million.

The federal government in these relationships is not a landlord. It makes no contribution to the upkeep of the property, no contribution to the capital works that you've all seen at airports. The billions of dollars that have been going on in capital works in Canada have all been financed by passengers. The federal government accepts no liability for anything that happens on the site. It receives the entire asset back, at the end of the lease, as a vested freehold.

I'd like to stress that airlines and passengers were not part of the negotiation. The planning groups that took over these airports did so under duress. They were explicitly threatened that their airports would be allowed to run down and possibly close if they didn't take them off the federal government's hands. So the people who are actually paying for it, your constituents, had no part in these negotiations.

Federal rent is not linked to any transportation purpose at all. The money disappears into general revenues. We can't find anybody who can defend the system, as a matter of fact, as a question of policy. It's actually a reversal of the crown's stated policy that it wants to drive greater efficiency and lower fares and more competition into the industry.

As the finance committee, it seems to us you should be considering that if it's not really a commercial lease, and if it's clearly not cost recovery, then it must be a form of tax, in which case it should have come in front of Parliament and had the benefit of your deliberations.

In our opinion, the rent exists for one reason: it's a hidden taxation. When people are angry about the cost of air travel, they don't blame the government, they blame the air carriers. It's been a very effective device so far, but it's very poor public policy. It's very bad for transportation policy and it's very bad administration. We would ask you to address this matter very vigorously in your report.

● (1145)

I want to mention that I did hand out a chart showing rental payment, and I gave it to the clerk. I already see that I've added an extra zero to Montreal's rental payment, so I'm going to issue a new one. But I think you'll agree, when you see it, there's a staggering amount of money flowing, under a policy that has never been reviewed by Parliament.

Thank you very much.

The Chair: Thank you.

For the members, we're going to have the first round of seven minutes, that's 28 minutes, and the other three members will have five minutes. That's it, that's all. If there's a minute left, I get it.

Mr. Penson, and then

[*Translation*]

Mr. Loubier or Ms. St-Hilaire.

[*English*]

John, I think you're going to go afterwards.

Go ahead, Mr. Penson.

Mr. Charlie Penson: Thank you, Mr. Chair.

I'd like to also welcome the panel here today. It has been very informative, but it's very strange, because lot of these issues keep coming back to this same committee.

One of the things that I think I heard today is that there are many forms of investing in infrastructure, public infrastructure. Government can help, but there are private infrastructure investments that are being held back because of high costs, whether they be taxes or regulatory costs. It seems to me that's something within our hands here in this committee, and which government can do something about.

One of the questions you were asked to address, if you were given it in time, was the budgetary process that the governments undertake. It seems to me that last year's surplus of $9.1 billion, rather than $1.9 billion, denies a lot of us the debate that needs to take place on what the priorities should be. Should it go to debt reduction? Some people would argue it should. Some people would argue that you should have lower taxes, lower user fees, and so on. But that debate isn't taking place under the current environment.

A number of times today I heard that the federal government could do industry a very big favour by reducing the taxes, and the capital cost allowance was one area that was suggested as a way of doing that. I guess I would have the panel address that. There's a recognition that companies should be allowed to write off their expenses, businesses should be allowed to write off their expenses, but you're arguing that it should be able to be done faster as a recognition of the time it takes to deplete the asset. Is that basically where you're coming from here?

Mr. Ron Lennox: That's certainly where we're coming from, Mr. Penson.

As I said, the specific position we took today was only on these new engines I talked about. We weren't talking across the board. We've certainly made that argument in the past. Like the railways, we feel that we're at a competitive disadvantage with respect to the American trucking industry with respect to CCA rates, but the specific focus was on these new engines that are coming in the year 2007. We tend to think that the government and society at large will derive a benefit if we can find a way to get them into the marketplace faster.

Clearly, there are some self-interests here too, because it would mean that the trucking companies would be able to write the asset off more quickly, and that affects their bottom line. But we think it's a type of win-win situation for both the industry and the government in this particular case.

● (1150)

Mr. Charlie Penson: Thank you, Mr. Lennox.

Mr. Jones, I see you're signalling to answer, but I noticed that you also talked about the need to reduce the fuel tax. Now, we heard arguments on the other side earlier this morning that maybe the excise tax on fuel needs to be increased to give municipalities a source of funding. I heard you say that's a competitive disadvantage to you, even with the current fuel tax that's in place right now.

Could you comment further on that?

Mr. Chris Jones: If I can quickly add, on the CCA issue, it's also linked to environmental emissions. The fact that we are forced to depreciate our assets at such a slow rate means we can't quickly replace them with new environmentally friendly assets in locomotives, which have a lower emissions profile. As you know, Environment Canada and Transport Canada are regulating us and using EPA standards. That's a disadvantage both for us and for people who live adjacent to railway yards and lines.

Mr. Sab Meffe (Assistant Vice-President, Railway Association of Canada): With respect to the fuel tax, I guess our point is that railways build and maintain their own infrastructure, and therefore none of the fuel tax that is paid actually comes back to our industry. We'd be happy with even 10%.

Mr. Charlie Penson: Which route would you prefer? Would you prefer that the excise tax on fuel for your industry be reduced or rebated?

Mr. Sab Meffe: That it be reduced and effectively eliminated, as the Americans have done with respect to the railway sector.

Mr. Charlie Penson: I guess the point is that a number of industries—I think the port association and the shipping association—have made the point that we're in a competitive environment where we're competing against the United States in terms of where this product will enter the country and how it's shipped across the country. I know in the case of Vancouver, there's a tremendous amount of product coming in from China that's being shipped through to Chicago on the modal transport system. It doesn't necessarily have to go through there; it can go through the U.S.

So we're facing a competitive industry here, aren't we?

Mr. Chris Jones: Can I just make a point here quickly?

Throughput of Chinese containers at the moment is forecast to grow about 13% to 16% per annum. As you correctly pointed out, there are other means by which that product can move to Chicago. We feel that if we can provide the lowest cost environment, we will attract...and make, for instance, the Vancouver Port Authority to be the gateway of choice on the west coast of North America. CN and CPR service that gateway. We would like to maintain that as a competitive option for the shipping companies, but we need to get down that federal excise tax on fuel.

Mr. Charlie Penson: There's just one small point that I want to make. Last year there was a private member's bill that went through this place addressing the issue of user fees. I'm wondering if you at the shipping association are taking advantage of that provision where you can ask for a review if they're no longer seen to be just.

Mr. Raymond Johnston: The bill you referred to is Bill C-212, Roy Cullen's bill, I believe. We very much supported that bill. I guess, in hindsight, had that bill been in place in 1998, the chances are we would not be faced with coast guard user fees at this point in time.

The issue of whether we go back and make the case that the fees are unjust or unreasonable is indeed being considered. The approach we have taken up until now has been more one of trying to negotiate a long-term deal to try to find a balance between paying our fair share and recognizing the competitive challenges that you have pointed out precisely. That really is where we stand now, deciding between can we work out something with the coast guard or must we take a more legalistic and stricter approach in dealing with this?

Mr. Charlie Penson: Thank you.

The Chair: Monsieur Loubier.

[*Translation*]

Mr. Yvan Loubier: Thank you, Mr. Chairman. I will make two comments and then ask a question.

My first comment relates to public transit. Two years ago, we tabled a bill that would have granted redeemable tax credits to public transit users. I believe that we had at the time given the example of California, which successfully used this type of incentive.

Several witnesses who at first blush were not, but not at all, up to snuff on this question, appeared before us stating that this had never worked, but they were unable to document anything whatsoever. We are planning on making new attempts in the future and I can assure you that we will be supporting these types of initiatives that have worked elsewhere.

If you have any other examples, Mr. Roschlau, could you forward them to us or to my colleague, Caroline St-Hilaire, who is the Bloc québécois critic for transport and the member of Parliament for Longueuil? That would be a good idea.

Ms. Legars, we would also like to have documentation on green certification in shipping, if you have any. It would be a good idea for us to have it. Indeed, the Bloc québécois is interested not only in intermodal transportation but also in environmental protection.

I would like to put a question to Mr. Morrison. I agree in part with your submission, for example when you talk about de-icing and dragging fees. Even with relation to the Canadian Coast Guard, we must pay attention to competition, especially for our shipping industry.

However, in your statement with regard to the taxation of shipping companies, you make no mention whatsoever of flags of convenience. As a matter of fact, Canada is one of the few industrialized countries having signed the convention on the prohibition of flags of convenience but not having ratified it. It think I am starting to understand why.

You did not make mention of your members who do international shipping and who benefit from abnormally low taxation rates, such as is the case of the taxation rate for profits in Barbados, for example, which is at the most 2.5%. I am not very happy about that. I would like to hear your comments in this regard.

● (1155)

Mr. Don Morrison: It would be rather difficult me to answer this question because we only represent shippers flying the Canadian flag. All of our members, therefore, are here, in Canada. Their crew is made up of Canadians, the companies are Canadian and we pay taxes here, in Canada. We do not concern ourselves with ships that are foreign.

Mr. Yvan Loubier: Very well, but the problem is that CSL, for example, is one of your members. CSL International has flags of convenience.

Are you in agreement with the maintenance of flags of convenience or would you like to see the federal government ratify this international convention?

Mr. Don Morrison: As I have just stated, we do not represent them and we have no comment to make with regard to the management of ships that travel internationally. We only worry ourselves with our own shipping companies.

Mr. Yvan Loubier: Fine, but would you allow me to speak about this in the House of Commons?

Mr. Don Morrison: Yes.

Mr. Yvan Loubier: There is no problem.

I would now like to put a question to Mr. Everson. You supplied us with an airport rent payment schedule. There are some strange things in this table. For example, in 2004, the cost of our rent at the Montreal airport was 17 million dollars whereas it was 142 million dollars at the Toronto airport. This is normal, because there is more traffic there, it is a larger airport, etc.

However, when we look at your projections up until the year 2010, we see that the numbers are reversed. In 2010, it would be 162 million dollars for Montreal and 17.5 million dollars for Toronto. What has happened? Is there an explanation to this. It is rather strange.

[*English*]

Mr. Warren Everson: It's the first time I've knowingly misled a parliamentary committee; I added an extra zero to the Montreal figures across the bottom part of the chart. Montreal will pay $14 million, not $143 million. I apologize.

I think I mentioned in my remarks that I'm going to provide a new version of the chart.

[*Translation*]

Mr. Yvan Loubier: I feel better. I have no further questions.

[*English*]

Mr. Warren Everson: It's worth remembering, though, that the lease revenues were designed originally around what the federal government said it would receive if it continued to run the airport itself. That argument was used right up to about the year 2000, when it became obvious that as long as God was in his heaven, there was no way the federal bureaucracy was going to start turning surpluses of hundreds of millions of dollars out of a system that had previously lost millions and millions. Now that argument is no longer applied.

[*Translation*]

Mr. Yvan Loubier: I have one final question. You reminded me that a few years ago, we launched a common offensive with regard to the air transport security tax in airports. We worked together on that file.

Did the predictions you made at the time—I believe it was some three years ago—with regard to the difficulties this air transport security tax might bring about for airport managers come to pass, or did you ,despite it all, succeed in managing this new tax?

[*English*]

Mr. Warren Everson: We found the air transport security tax to be the most complicated tax we've ever had to deal with. Routinely, I get phone calls from reservation systems around the world, from air carriers around the world, trying to figure out how it is to be implemented; and I sit there for 45 minutes trying to figure out the tax logic on the application of a particular itinerary.

We're only now just finding out whether or not we got it right, because the auditing process is underway; and in the next few weeks carriers will be meeting to talk about what has been happening to them when Revenue Canada auditors are in.

For the larger picture, of course, the tax was a significant imposition and caused a significant downturn in traffic. Finance acknowledged that and proposed two different changes in budgets.

The big issue for us now, going forward, will be that the mandate of the security agency will expire in about 18 months and Parliament will be asked to design a better mousetrap. We think that having passenger fees paid in as a tax and then voted back out again to a security agency is the most clumsy way to do it, and we will be encouraging some changes to that.

● (1200)

[*Translation*]

Le président: Thank you.

Mr. Roschlau, you have 30 seconds.

M. Michael Roschlau: Thank you.

Allow me to comment on your first point, Mr. Loubier. The American examples that you have just mentioned remain valid today, but there is recent Canadian experience that is just as interesting. It is that of universities which put in place universal passes for students.

For example, in Vancouver, Halifax, St.-Catherine's, in Ontario, and, more recently, in Sherbrooke, universities have put in place universal passes for all students. In Vancouver, we have seen an increase in the order of 50% of the number of students using public transit. In Halifax and St. Catharine's there has been an increase of more than 200%, in other words more than double. In Sherbrooke, it is very recent.

If we were to allow employers to attempt similar experiments with tax exempt benefits, we might see similar results.

Le président: Thank you.

Mr. McKay.

[*English*]

Hon. John McKay: Thank you, Chair, and thank you, witnesses.

I just have a series of small, clarifying questions. I was trying to write and understand what people were saying at the same time.

Mr. Roschlau, I notice in your paper on page 4, paragraph 3, you talk about the GST rebate being worth $70 million annually. I think you mean $700 million annually.

Mr. Michael Roschlau: That could be an error.

Hon. John McKay: It's because in Toronto alone it's worth about $50 million.

Mr. Michael Roschlau: I think the $70 million figure was the amount that would have accrued to the public transit industry within municipalities had it been passed along. I think the problem is that most of it got lost in the budget shuffles in municipalities and ended up being clawed back from the transit agencies.

Hon. John McKay: That brings me to my substantive question, which is the accountability issue here. I asked one of my local municipal councillors what happened to the $50 million we rebated on the GST, and his answer was exceedingly vague, shall we say.

That's the essential problem, that if you do just simply do these forms of tax reduction schemes, the money disappears in some great black hole. Somebody uses it for tax reduction, somebody uses it for transit, some people use it for sewers, and you can never really trace the money. Within a year or two they're back here again saying exactly the same thing, and you just repeat the cycle all over again.

I'd be interested in any comments you might have on how to put accountability into these relationships between the federal government and any municipalities. I think that's a core question.

That was question number one. The second question is for Ms. Legars, and it has to do with your second point. I missed it entirely, so if you wouldn't mind repeating it for me, I'd appreciate it.

My third question is to the Railway Association, and that is about the claim for a 30% depreciation schedule on all rail assets. The example you used was a locomotive, and I just wondered whether, when you said all rail assets, you meant the cars as well.

The fourth question has to do with the shipowners, and that was on the fee reductions. It seemed to me you thought that fee reductions were more important than, say, depreciation schedules or reduced corporate tax. I just want to make sure that's your position.

The fifth question has to do with the airports' representation from Mr. Everson. I too was confused, like Mr. Loubier, on the numbers. I was looking at the Toronto line here and it seemed that in 2004-05 that rent dropped to $3.8 million and $3.9 million, and I just didn't quite understand it, given the thrust of your position. I'm assuming it's the same answer, although again, in 2004 the rent in Toronto appears to be $142 million and in 2007 it's $15.5 million. I'm completely confused by these numbers; if you could, give me some clarification on that point.

Mr. Roschlau first.

● (1205)

The Chair: How many questions are there?

Hon. John McKay: Five or six.

The Chair: We have four minutes, so if you can, just bang them out.

Mr. Michael Roschlau: Thank you very much for the question. It's an excellent one and an absolutely critical one in terms of the effectiveness of the gas tax transfer.

Clearly, in order for this to work for the federal government and for the taxpayers, we need to make sure the money goes where it's intended to go. That's why I cited for you the recent Ontario example, because the Province of Ontario faced the same issues in its gas tax transfer to municipalities. We were very involved in those discussions and made the same point.

Now, what they've done is they've made receipt of the gas tax money in future years dependent upon an auditable proof that the continuing investment of the municipalities in transit is no less than it has been on average for the previous five years. So number one, there's accountability, an auditable measure there that requires existing municipal investments to be maintained, i.e., there's no clawback. Secondly, they have to show proof, again, financially to auditors that the tax transfer that's taken place, the money that's flowed, has in fact been invested in public transit as was intended.

There's an opportunity there for the federal government to put in place similar auditable requirements to make sure the other levels of government are accountable and true to the intent of this and that the money is not diluted or lost in the budget shuffle.

Hon. John McKay: Thank you.

Ms. Anne Legars: To clarify my recommendation 2, I can say it was in relation to the transportation infrastructure funds. I wanted to highlight that it is very troubling that the $4 billion Canadian strategic infrastructure fund does not include the marine mode in its eligibility class areas and that no marine transportation has been a recipient of the 3,000-plus projects funded by the $2 billion for the two main programs that encompass transportation infrastructure. Apparently marine is not included in that, so that's why the recommendation is to amend the investment categories under the Canadian strategic infrastructure fund so marine infrastructure projects can compete for funding.

Hon. John McKay: Thank you.

Mr. Sab Meffe: With respect to what the railways are asking on CCA rates, our proposal is that the CCA rate on both locomotives and rail cars be increased from 15% to 30%. This would align the railway CCA rates with those of the other Canadian transport modes and also with the U.S. tax depreciation regime.

Hon. John McKay: Thank you.

Mr. Warren Everson: I apologize again for the chart, and I will issue correct numbers. This year Toronto pays $142 million in rent, and this will rise to $150 million by 2007.

The policy point this committee should take into consideration is that the crown conceded in Montreal that it would have spent a lot of money on that airport. That's why Montreal's rent remains down at $14 million. It did not concede that it would ever spend any amount of money in Toronto. Therefore, Toronto's entire infrastructure program, the multi-billion-dollar investment, is entirely financed by the passengers. Winnipeg is going to start a new project. The crown never conceded that it would have improved that terminal; therefore, that entire cost is being borne by passengers out of Winnipeg.

This is one of the reasons we think this program requires a vigorous comment from this committee.

Hon. John McKay: There was the shipowners one as well.

Mr. Don Morrison: In regard to your question as to which was more of a priority, the capital cost allowance or any form of accelerated capital cost allowance or the ongoing fees, at this time the priority is more on the fee and the operating cost side than it is on the capital cost allowance side.

All of these other fees, including dredging fees, marine service fees for navigation services and ice breaking, pilotage fees, and seaway tolls, are paid immediately. And they are not just paid by the shipowner. They're passed on through contracts, sometimes as an addendum to contracts, to the shippers. What it means is, those immediate costs affect our business on a daily basis. The capital cost allowance assumes we have the money or we have the depreciation funds or the accounts to buy new equipment, and with that new equipment...it would be more attractive to buy it.

At this time we do not have any wholesale move to replace our old 30- and 35-year-old equipment because we have these other fees we're paying on an ongoing, daily basis, and it affects the bottom line immediately. But it's not just ours; it's not just a cost to the shipowners. It's a cost to the iron ore companies. It's a cost to the steel producers. It's a cost to the grain elevators. It's a cost to everyone we work with and work for.

Therefore, our plea, our request, has been that fees be reduced so we can get on a better footing.

● (1210)

The Chair: Thank you.

Ms. Wasylycia-Leis...Lee...Leash. I'm going to perfect my pronunciation of your name.

Ms. Judy Wasylycia-Leis (Winnipeg North, NDP): You did my name fine.

I have three areas of questioning, and the first is to Michael Roschlau on the issue of urban transit. The idea of amending the Income Tax Act to allow employer-provided transit passes as a tax-deductible item has been around for a while. I think Yvan has mentioned this as well. Given the fact that we're in a minority situation, I don't think it would hurt for you to tell this committee again when this first became a matter before Parliament. Tell us about the private member's bill, how many members supported it, and how long it has been.

Mr. Michael Roschlau: My recollection is that it's been over ten years. There have been two private members' bills that have come before the House, both of which passed with a significant margin. Actually, the first was a motion and the second was a bill. The bill, I think, was introduced by the Bloc Québécois, went to this committee, was studied by this committee, was referred to the finance department, and came back. It was put to rest at that point because, I believe, the finance department felt the return on investment was insufficient, given that there would be benefits that would go to existing transit customers. I think that was one of the major objections, that the cost per new rider would be diluted because of the benefit to those who were already using transit.

I say, so what? The point is, we'd reward people for the right thing they're doing, and the potential is enormous in terms of the increased ridership that could result.

Ms. Judy Wasylycia-Leis: Based on both the bill and the motion that was previously before Parliament, do you have any sense of numbers today in terms of support for the idea?

Mr. Michael Roschlau: By “numbers in terms of support”, do you mean...?

Ms. Judy Wasylycia-Leis: From MPs.

Mr. Michael Roschlau: It's hard for me to judge, given that a third of the House is new MPs since the last election. Certainly, if the experience from recent years can be taken as being valid, I would suspect that there should be large support, especially given that this issue is becoming more and more important as the congestion in our cities increases and as air quality deteriorates. Any measure we can take to complement the investment in infrastructure that we're talking about through the gas tax by incentivizing the use of public transit through these benefits from employers, the more relevant it becomes.

Ms. Judy Wasylycia-Leis: Thanks.

I have a question for Chris Jones, pertaining to a previous commitment by the former prime minister to invest in VIA Rail to the tune of, I understood, $692.5 million that was then not forthcoming in the last budget. What was the reason for that commitment? Is it still necessary? Should we be recommending that it be reinstated?

Mr. Chris Jones: There's a fairly simple answer to that. We believe there should be regular, predictable, and stable financing for intercity passenger rail. I know VIA has modernization plans they've had to put on hold because of the cancellation of those funds. We'd like to see those funds reinstated at the earliest possible moment.

Ms. Judy Wasylycia-Leis: Thanks for that clarification.

You've touched on this in your report, but, if you could, just zero in on the issue of high-speed rail through the Quebec-Windsor corridor.

● (1215)

Mr. Chris Jones: And the acquiescence of the airline sector?

High-speed rail is a viable mechanism in Canada in that particular corridor, and, I might add, also between Calgary and Edmonton. The densities and population numbers are there. As you know, it does entail a significant capital expenditure to lay the infrastructure. We thought in the last go-round that, through some collaboration with a proposal from Bombardier, we had gotten those costs down. I guess they were still deemed to be fairly high.

But we think the future of passenger rail in Canada, as has been demonstrated elsewhere, is in higher-speed rail.

Ms. Judy Wasylycia-Leis: If I could now go to the air industry, you can comment on Chris's proposition if you want. As well, if you could, talk a bit about your paper, which clearly makes a plea for government to resume its responsibilities in terms of regulation and active legislation in the area of the air industry.

It seems to me that we're really feeling the impact of an open skies, deregulation agenda. Certainly in Winnipeg, it seems to me that we're suffering because of this whole approach. I'd like you to comment a bit on that as well.

Mr. Warren Everson: I think I'll leave the VIA issue in the ashbin, where it belongs, and move on.

We're basically quite happy with the crown policy that said the federal department does not need to run the transportation sector. There wasn't ever any need for a federal bureaucracy of 4,000 people to actually run our airports, as airport managers in every city across the country are demonstrating now—and they do a very good job. Similarly, NavCanada, which has been privatized as a user-owned corporation, provides excellent service and maintains quite a bit of transparency as to its rates and charges. So we're quite pleased with that.

In the case of the airports, it's an odd construct. The airports were being devolved at the same time when NavCanada was privatized. NavCanada was sold and the users were given a critical say in its management. The airports were devolved under these lease arrangements, but users don't have much of a say. Of course, neither do consumers.

Having the entire air infrastructure financed by users has not been a bad thing, but having additional hundreds of millions of dollars flowing out in gravy to the federal government has been the thing we are particularly upset by and would like to have some support on. I think the transport committee strongly supports our position. There's no transportation reason to impose rent on passengers going through airports as an input to their costs.

We've had two recommendations from the committee that this be addressed as a transport issue, but it's not a transport issue. This has nothing to do with transportation. This is a finance issue and this is a business extraction. There's an extraction of money from our business, so we look to the finance committee to say something has to be done to bring this into line and make it more coherent.

The Chair: Thank you, Mr. Everson.

Ms. Minna, and then Mr. Bell.

Hon. Maria Minna: Thank you.

I'm just going to pick up from where Ms. Wasylycia-Leis was with respect to the airports. Maybe I'm a bit slow today, but could you explain a little for me what a specific regulatory mechanism to improve the governance and accountability of airports would look like exactly?

Mr. Warren Everson: We've asked the minister to consider legislation to deal with airports. We think the airports are actually extremely well run. The 26 national airports are run by non-profit corporations. They were set up and designed by the crown and approved and they represent their communities. They draw their directors from the community.

Unfortunately, they don't draw their directors from our industry at all, so we protest that, and we've asked that the minister bring in legislation to give users a greater say in how the airport is run and to make sure principles are observed as to charging.

It's startling to realize that airports are today unregulated monopoly corporations. There's no appeal to their decisions, not to the minister, not to the Governor in Council, not even effectively to the court. We've said that's an aberration, and accountability should be brought into it.

But we don't want to throw the baby out with the bathwater. By and large, airports are being run extremely professionally, and we don't think the crown has justification to reverse its policy, just to tailor it a little differently.

Hon. Maria Minna: When you talk about accountability, you're talking about accountability to the users and customers and stakeholders as well as to the government. You're not just talking about one—

● (1220)

Mr. Warren Everson: Yes. I think the government is well represented, insofar as under the leases they have they're entitled to a great deal of information. They have residual powers in the minister for certain things. What we don't have is a commitment in law that users will always have rights.

Hon. Maria Minna: Thank you.

My next question has to do with the railway, and to some degree the shipowners or marine sector. The reason I'm going to the two is that I have a fairly strong commitment to the view that we need to go more into intermodal transportation—increase the railway transport, take the trucks off the road—and I think our seaway shipping industry needs.... I'm not sure whether it's a capacity question or whether it should be strengthened, but it used to be in this country that it was the primary way of transporting goods.

If we're looking at green transportation, which is one of the reasons I'm asking this, then we need to be looking at how we can improve and beef up both the shipping and use of our waterways, as well as the railway systems.

My questions to both of you are these.

First, to the railway industry, you're talking about the 4¢ excise tax —I understand the issue—and the other issue is about the railways paying excise tax but receiving no roadway benefits, as truckers do for their fuel tax. I guess you're talking about the fact that we are building roads; or is there any other benefit you do not receive, in addition to that? And are there any discussions between the railway and the shipping industry?

Turning to the shipping industry, I understand the comments you made with respect to the additional costs, but my other question to you would be, what are the recommendations you would make to government at this point, if we were looking at an intermodal, integrated transportation policy that would work toward increasing the efficiency of both the waterways and the railways? Have there been any cross-pillar discussions, as we say sometimes in this place? I think one of my main interests is to see that increase.

Mr. Chris Jones: The intermodal issue is a complex and involved situation, inasmuch as we've recently had to suspend some intermodal services, one from Toronto to Detroit. Part of that involves a complex situation involving the manner in which the provinces finance and charge for the use of highway infrastructure.

One of our responses at the federal level to that has been to say that for any future dollars the federal government gives to the provinces for the purposes of highway construction, they ought to insist there be full cost accounting and user-pay on those systems. As a minimum precondition, put down full-cost accounting and user-pay; we will then have the market decide, once there's a more accurate apportioning or imputing of costs to the different modes—including rail intermodal services where, I might add, we make very limited margins at the moment because we have to compete with a subsidized road system.

Overall, in terms of the roadway benefit—and again, this is more a provincial issue—we pay for, build, finance, maintain, and police our right of way. The only service we essentially get occasionally is emergency services. We do our own snow removal and various other maintenance of the right of way, so we feel we need to get some equity back into that situation.

Hon. Maria Minna: So the railways are—

Mr. Chris Jones: It's a self-financing situation.

Hon. Maria Minna: —with no support or subsidies?

Mr. Chris Jones: Negligible amounts.

Ms. Anne Legars: The railways want to have an equitable situation with the trucks. The ships want to have an equitable situation with rail and with trucks. On the shipping side, we are very involved in intermodal transportation, because usually you need truck or rail to bring your cargo to a ship, and vice versa. We have a keen interest in that.

I would say we look at it in a network perspective. You have to have a balanced network, because if you have a bottleneck somewhere, everything will be stuck there. Your containers will be stuck in the pool. That's what we want to avoid. We already have had problems in past years with our friends the railways.

So really, I think we have to focus on a network approach to be sure movement can remain fluid throughout the network. It's a kind of trade corridor approach, as underlined by my colleague Ray Johnston. You have to think about the volume that has to be handled and how to have different types of channels to unload that freight and be sure there is no bottleneck in the middle, because if there were, everything would remain stuck.

When you have to compete for public funds to build all this infrastructure and rolling stock and so on, all the modes should be on the same page, on a level playing field. What the railways say talking about road traffic is what we say talking about rail and truck.

● (1225)

The Chair: Okay, thank you.

Mr. Bell.

Mr. Don Bell: I have two quick questions. One is to Chris Jones. Chris, you talked about hauling to and from a port and thought they should be free of the federal excise fuel tax, I think it was.

Mr. Chris Jones: Definitely.

Mr. Don Bell: My question is, would that end up being passed on to the shippers, or would it just increase the rail profitability?

Mr. Chris Jones: I think I can safely say, on behalf of our railways, that given our capital infrastructure needs at the moment we would put it back into our infrastructure, which would in turn lead to improved service and lower rates for the shippers. That's the intent. We have no desire to put Canadian shippers, many of whom are far from tidal water, at a disadvantage in terms of the rates, because they're competing with Argentinians and Brazilians and Australians. We would definitely want to keep our system competitive and rates down.

Mr. Don Bell: Okay.

The other question is for Ron, from the Canadian Trucking Alliance. I didn't get your last name; I'm sorry.

Mr. Ron Lennox: Lennox.

Mr. Don Bell: Ron Lennox. Thank you.

How does the pre-buy slow the entry of new engines into the system? I didn't fully understand that.

Mr. Ron Lennox: I'll leave that to Mr. Laskowski.

Mr. Stephen Laskowski (Associate Vice-President, Canadian Trucking Alliance): What happens, and what has happened in 2002, is this. You have a typical management of fleet plan showing how much you're going to turn over each year on each basis. Based on the cost of these new engines, and also their maintenance and their lack of fuel efficiency, we've lost between 3% and 5%.

What the fleets have done is react slowly. Instead of their typical cycle, they've delayed it—pushed it out two to three years. So you've increased your maintenance costs of older trucking equipment, but the fuel efficiency gains you normally would get from a newer vehicle, you don't get with the newer smog-reducing vehicles; therefore it's a negligible cost. What you're getting out there, in both the Canadian and the U.S. market, is older trucks on the highway. The average fleet is aging.

If the Canadian government wants cleaner air faster, we're the only mode regulated for smog emissions, and with the associated health benefits Environment Canada has stated, we would say using the tax system would be a significant advantage in introducing these trucks faster. The trucking industry, like any other business, is a business, and they will react accordingly.

Mr. Don Bell: It was the pre-buy question I wondered about. You're talking of a period out to 2007; is that it?

Mr. Stephen Laskowski: Correct. That's when the new regulations come into place. But what the industry will do, as they did in 2002, is adjust their buying practices according to the introduction of the regulation. What we're saying is, if there are tax incentives, you may dampen that effect.

Mr. Don Bell: Okay, thank you.

The Chair: Thank you, Mr. Bell.

Mr. Penson.

Mr. Charlie Penson: Mr. Chair, I wanted to take advantage of having Mr. Morrison here from the Shipowners' Association and Mr. Johnston from the Maritime Chamber. They will both have noted, I'm sure, the article by Peter Morton in the *National Post* about Great Lakes shipper fees in the last few days. I see the Maritime Chamber is concerned about retaliation for the preferential treatment of Canadian Great Lakes ships, such as the Canadian Great Lakes lines shipping into the St. Lawrence Seaway system, or the inner system, having preferential treatment over U.S. ships. Somebody has been quoted from the Maritime Chamber of Commerce talking about possible retaliation against Canadian ships in U.S. ports.

Mr. Johnston, how did this change come about that we had preferential treatment given to Canadian ships in the last few years?

Mr. Raymond Johnston: That's a complicated story to deal with in one minute.

The fee structure originally did not contemplate American ships operating in the trades that they currently do now, so it really is a new situation that has evolved over the past few years. The net result is that there is differentiation in the fees, and the Americans have taken the view that this is an anti-competitive move and are seeking to correct the situation and are going through diplomatic channels to do so. There are retaliatory measures that are available to them.

● (1230)

Mr. Charlie Penson: How seriously do you consider this threat from the Americans for retaliation?

Mr. Raymond Johnston: We're hopeful this is something that can be worked out. It's a situation that was never intended to be. Under closer examination and with the correct facts presented to everybody, we would hope that a businesslike resolution would be available.

Mr. Charlie Penson: Mr. Morrison, I guess there are a couple of Canadian companies that are benefiting from this. The CSL division is one of them. How do you see this affecting them?

Mr. Don Morrison: The question has absolutely nothing to do with the CSL or with Canadian ships. Mr. Johnston and I were both involved in 1995, 1996, and 1997 in negotiating with the government what the rates would be for Canadian ships to carry goods between Canadian ports and from Canadian ports to U.S. ports. The initial proposal was that we do it on a gross registered tonne or delivered tonne basis. When we looked at it that became very complicated to do, and we came forward with the proposal to do this on a tonne-mile basis. We ended up doing it on a tonne-mile for all Canadian ships—all Canadian ships, all Canadian companies.

The Americans weren't there because they weren't in that business at that time. Since 1996-97, they have started to come into Canadian ports and would now have to start to pay this. My colleague, my counterpart from the Lake Carriers' Association in the States, has simply, on a fairly quiet basis, approached the Canadian government through official channels, as he should have, and I believe is trying to professionally resolve the situation. From what we hear, he is not unhappy with the reception he has been given by both the Canadian Coast Guard and the Department of Fisheries and Oceans.

Mr. Charlie Penson: Mr. Morrison, how do you think it should be resolved?

Mr. Don Morrison: I won't comment on that, but I will say—

Mr. Charlie Penson: Why not?

Mr. Don Morrison: —we have operated on an equitable basis. The Americans have been very forthcoming with us in terms of dealing with security fees and the approach to security. As shippers, we're not looking for any unfair advantage.

Mr. Charlie Penson: Except, Mr. Morrison, you just told us that you were part of the move in the discussions to put this in place to begin with, so you must surely have an opinion on how it should be resolved.

Mr. Don Morrison: We didn't discuss the U.S. at that time because it wasn't in the business. If it had been in the business, it's my opinion and only my opinion, they would have been treated the same way we were initially.

Mr. Charlie Penson: But they are now, so how do you suggest we resolve it?

Mr. Don Morrison: I would see a level playing field.

Mr. Charlie Penson: Thank you.

The Chair: Thank you, Mr. Penson.

I want to thank the witnesses for appearing.

I know we've gone five minutes over time, but I have one question, and it's directed to everybody. Is anyone here asking for an increase in taxes if the taxes were directly related to what they were doing? I guess it's sort of what Mr. Everson was saying. Would you be okay with the revenues you took in at the airports if they were directly redistributed to the airports? I am asking the question to everybody. Does anybody want to try it in 30 seconds?

Mr. Warren Everson: The crown should have a policy of keeping the inputs to business as low as possible in Canada so as to increase our competitiveness. There's no logic in taxing the inputs that businesses use. Transportation is a critical input to the success of Canadians, both domestically and abroad, and we should drive costs down.

We pay for all of our own infrastructure, so we see no reason for the crown to take money and then channel it back and pay for infrastructure. We would prefer to see these taxes lifted so that the industry could be more competitive.

Mr. Sab Meffe: For the railway sector in respect of those comments, we pay about $800 million a year in federal and provincial taxes. It's very difficult for us to see anything coming back to us in respect to that spending. We realize there is a need for general funds, but we don't see too much coming back to us.

The Chair: Thank you.

Monsieur Roschlau.

Mr. Michael Roschlau: My comment to that would be regarding the long-term view on the whole fuel tax issue or gas tax, as was discussed earlier this morning. The gas tax and the transfer of the gas tax to municipalities for infrastructure is something that is probably going to be stable, if not potentially declining in terms of value if the amount of gas sold were to decline as prices go up and so forth. At some point down the road, the government may need to look at the potential for increasing the federal excise tax on gasoline in order to make sure that revenue keeps pace with inflation.

● (1235)

The Chair: I want to thank everybody again. It's a tough panel when you're seven, so I want to thank you again for limiting your statements to about five minutes. The ones who cooperated better, congratulations.

Have a good day.

The meeting is adjourned.

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