House of Commons
CANADA

Standing Committee on Finance

FINA • NUMBER 014 • 1st SESSION • 38th PARLIAMENT

EVIDENCE

Tuesday, November 16, 2004

Chair

Mr. Massimo Pacetti

Standing Committee on Finance

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● (0930)

[*English*]

The Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.)): Good morning, everybody.

I'd like to begin, if possible, because we have a big group and we only have an hour and a half to get through all the witnesses. I have a list here with the witnesses in order, but I'm not sure if you all have that same order. I'm going to ask that you keep your opening statement or opening remarks to about five minutes so we can have the members asking questions.

If we're ready to begin, I have Mr. Pollard, from the Hotel Association of Canada.

Mr. Anthony Pollard (President, Hotel Association of Canada): Thank you very much, Mr. Chairman.

Ladies and gentlemen, I appreciate the opportunity of once again appearing before this committee.

I'd like to congratulate the members on their election or re-election. I see a lot of old faces, so everyone is not new, but congratulations to all of you.

I always like to say when I appear before this committee that we're the good news industry. I'm with the Hotel Association of Canada, and what I'd like to do this morning—and I'm conscious of the time and the need to be very brief—is point out how we can help you to help us, all to everybody's advantage.

Let me just begin by saying who we are and what we do. The lodging industry in Canada last year generated $11 billion in revenue. The value added or the spinoff from our industry was $9.7 billion. That's more than 90% of what we do. We employ about 227,000 people. We pay out salaries of just over $5 billion annually. Perhaps one of the reasons I say we're the good news industry for the government is that we also pay out about $4.2 billion in taxes, of which $1.8 billion goes to the federal government, so I like to say you people like us.

We have two major issues we want to bring forward to you today. One of them is funding for the Canadian Tourism Commission, or the CTC. It had its budget cut for the current year by $5 million, which lowered it to about $78 million, and this just does not make sense for any of us. What we're recommending—and it's quite simple—is that the Canadian Tourism Commission receive a commitment for stable funding from the Government of Canada in the amount of $175 million annually. By the way, any investment by the government in this area typically provides about a tenfold return on that investment. We propose that through an indexed funding formula for the CTC its base budget be set at 33% of federal GST revenues from the sale of specific tourism commodities to all international visitors. This would not create a drain on the federal Crown. In fact, it would only provide an increase in revenue.

Let me explain briefly how it would work. In 2003 total tourism expenditures in Canada were $52.1 billion, of which expenditures by visitors to Canada were $12.9 billion. The GST yield on that was $516 million, so if we use a formula of 33% for that, we see it would have provided the Canadian Tourism Commission with a budget in 2004 of $170 million. Moving to an indexed formula would provide the consistency for medium- and long-term strategic marketing partnerships, and it would also help very greatly in this increasingly competitive international business environment.

Compared to budgets of similar tourism marketing organizations around the world, the CTC budget is very modest. Some American cities have a larger budget. The equivalent organization in Australia has more than double. Tourism British Columbia, which markets the province of B.C., has just recently increased its budget. It doubled it from $25 million to $50 million annually, and that's just for one province.

The second issue—and I'm conscious of the time—is the issue of the border, Mr. Chairman—the border with the United States, obviously—and the need for infrastructure improvements on this right now. Currently Americans represent 91% of all of our inbound traffic to Canada. For the first nine months of 2004, traffic was down by 8.9% as compared to 2002. Notice I didn't mention 2003, and that's because of SARS in 2002. This represents 1.05 million fewer visitors, and a lot of that is due to the difficulties that are being created at the border. A safe, secure, and efficient border is paramount for all of us, not just for those in travel, tourism, and hospitality but frankly for everyone in our Canadian economy.

I must commend trade minister Jim Peterson for his trip down to Miami yesterday to open up the consulate down there, where he was stressing advocacy by Canadian people to American people as well as by politicians to politicians. I believe this is very important for us.

The Government of Canada, though, must work even more with the United States on the smart border initiative. In fact, it must take the moneys that in many places have already been allocated towards the border to improve border crossings and end congestion. We recommend that the government invest $1 billion annually over the next decade for border crossings and to end congestion. We support the view of the Canada-U.S. Interparliamentary Group in this regard that there is an economic crisis along the border. We have already seen the diminishment ofvisitors to Canada.

As I said, it's not just for travel and tourism but is for all of our economy. As you know, bilateral trade between our two countries has increased 500% in the last decade with NAFTA. However, the infrastructure at our borders has improved by less than 20% in 40 years. Remedying the lack of new roads, customs plazas, etc., is paramount.

I'm getting the nod from the chair. I'd just like to wrap up by saying we need to focus on Windsor and Detroit in particular, where 75% of our goods are.

Finally, you asked the question, what should the government be doing vis-à-vis the broader-based economy and what should and shouldn't be in the budget? For the future, Ottawa could best stimulate economic growth by cutting corporate income taxes, and this will not cut into government coffers.

Minister Goodale has been quoted recently as saying that federal revenue from corporate income tax has jumped a surprising $5.2 billion, or 23.4%, during the last fiscal year to $27 billion, despite a 2% drop in the corporate tax right.

So it's time, ladies and gentlemen, to make the strategic and tactical changes for our benefit and yours.

Thank you very much, Mr. Chairman.

The Chair: Thank you.

Next on my list is Mr. David Flewelling, from the Canadian Automobile Association.

● (0935)

Mr. David Flewelling (President, Canadian Automobile Association): Thank you, Mr. Chair and members of the committee, and good morning to everyone.

CAA represents 4.5 million members across the country and has proven itself as the trusted, premier advocacy organization for road safety in Canada. To this end, earlier this month we held a parliamentary reception and lobby day, in which our community leaders from across Canada met with about seventy of your parliamentary colleagues...including offices represented by MPs on this committee. Our purpose was to stress the urgent need for designing, maintaining, and improving the road and highway infrastructure in Canada.

Mr. Chair, given the current and projected fiscal forecasts of the federal government, CAA believes that adequate resources can and should be directed to our crumbling roads and highways to protect the safety of the travelling public. The federal government collects nearly $5 billion per year in revenues from excise tax on gasoline, yet only 2.4% or about $113 million of this was transferred to the provinces in 2001 for road and highway upkeep and development. In 1998 the national highway system alone needed about $17 billion in improvements to bring it up to standard. That figure has now ballooned to $22 billion in today's dollars.

Certainly we are not calling for this appropriation in one year, but there is a need for immediate funding and then stable incremental year-over-year funding to address this shortfall. The federal government can play a leadership role in fixing this infrastructure deficit.

So the money is there, but how great is the need? According to its most recent comprehensive assessment, completed more than six years ago, the council of ministers responsible for transportation and highway safety concluded that 38% of the national highway system was deficient and substandard and that 22% of the bridges in that system are no longer capable of sustaining the loads for which they were designed.

● (0940)

[*Translation*]

That was in 1998. Last February, the CAA had a national public opinion survey done. We wanted to find out what Canadians thought about their national transportation infrastructure and the funding available for roads and highways. The survey showed that 35% of Canadians thought that highways were in poor shape, while 28% of them found them barely acceptable. All roads and highways do not meet Canadians' needs at all.

[*English*]

Mr. Chair, let us consider the issue of safety. According to federal government statistics, 2,778 road users were killed in traffic collisions in 2001. Almost 17,000 suffered serious injuries that required a hospitalization stay of at least 24 hours. In all, every year almost 224,000 road users, averaging out to about 600 men, women, and children per day, suffer some form of physical injury due to a traffic crash. The health care costs and economic loss associated with vehicle crashes have been projected as being as high as $25 billion per year. It is estimated that improved highway standards and reduced congestion on the national highway system could reduce the number of fatalities by almost 250 and injuries by up to 16,000 per year.

Besides the public health concerns, there are also benefits to road improvements that will be realized in other areas of our society. The reduction in congestion and the general improvement in travel conditions on the national highway system would save motorists up to 97 million hours each year in travel time, 236 million litres of fuel—the cost of which many can relate to in the current energy climate—and $4.4 billion in vehicle maintenance and operating costs. It should be noted that undercapacity roads create congestion and with it pollution from vehicles idling in stop-and-go traffic. Mr. Chair, improvements to our roads and highways will also boost our economy by facilitating trade, encouraging tourist travel, and enhancing productivity.

[*Translation*]

I would like to emphasize to this committee that Canada is one of the few industrialized countries that does not have a national policy on roads and highways. It is almost the only country in its class where the federal government does not provide substantial funding to support the road infrastructure.

[*English*]

Urgent action is needed to ensure that this critical strategic asset does not fall further behind in safety, efficiency, and effectiveness.

In answering the questions the committee posed in our invitation to appear today, we would like to make the following recommendations. One, the federal government should examine funding options, including redirecting federal gasoline excise tax revenues towards Canada's national highway system and establishing sustainable funding for roads and highways.

Two, the federal government must develop a meaningful, long-term national roads and highways policy in consultation with the provinces and territories that will identify short-, medium-, and long-term priorities and develop common technical and safety standards across the country.

Three, the Prime Minister is urged to strike a national consultative committee on road safety to consider ways to include the concept of safer roads and highways as a critical component of Canada's road safety vision 2010 and to develop and implement a multidisciplinary approach to traffic safety, with the health sector playing a more prominent role.

I look forward to answering any questions you may have.

Thank you, Mr. Chair.

The Chair: Thank you.

Mr. Burke, from the Canadian Association of Fire Chiefs.

Mr. Patrick Burke (Fire Chief, Niagara Falls, Canadian Association of Fire Chiefs): Thank you, Mr. Chairman, members of the committee.

While I serve as fire chief of the Niagara Falls fire service, I'm here this morning in my position as vice-chair of the government relations committee of the Canadian Association of Fire Chiefs. The CAFC is a national organization representing Canada's chief fire officers, and representing more than 20 million Canadians across Canada.

Departments in major metropolitan centres are typically comprised exclusively of full-time personnel. Somewhat smaller communities are usually protected by composite fire departments, with a nucleus of full-time firefighters, supplemented by volunteers. Fortunate smaller communities are served by volunteer fire departments, while less fortunate communities remain unprotected by their own departments and must rely on fire services from other locations.

I have no hesitation in telling you that the contents of our pre-budget submission reflect the views of our membership. At its annual conference, the CAFC devotes many hours to considering policy resolutions. Most of the recommendations contained in this submission were ratified as a result of that process.

In preparation for this brief, the CAFC also surveyed its membership on a range of issues. The 180 fire chiefs who responded to that survey are collectively responsible for protecting the lives and property of more than 16 million Canadians.

The CAFC's pre-budget submission was filed in mid-September, and is entitled “Protecting our Citizens”. That title flowed from a sentence in the throne speech of February 2004, stating, and I quote, “there is no rolemore fundamental for government than the protection of its citizens”. Discussing that fundamental role of government is the essential theme of our submission.

When the CAFC was invited to appear today, we received a list of eight questions, which the standing committee stated that we and all others appearing during these consultations should attempt to respond to. Unfortunately, we were unable to get the translation done in time, so you don't have those filed as yet. I have some English copies available here, but we will be filing those electronically with the clerk. My understanding is that they will be translated and distributed to the members of the committee.

Since I'm assuming that the members of the standing committee have already had an opportunity to consider the contents of our pre-budget submission, I'll spend the remainder of my time summarizing our responses to the questions that apply within a fire service context.

We were asked, what should be the program spending priorities of the next budget? Our response reiterates that there is no more fundamental role for the government than the protection of its citizens. We then set out specific steps to address that fundamental role. Those steps include: one, to ensure that federal funding for fire services training actually ends up in the hands of the fire services and not in those of provincial agencies; two, to provide additional funding for the purpose of CBRN equipment, CBRN meaning chemical, biological, radiological, and nuclear equipment; three, to contribute to the cost of ensuring that the entire first responder community nationwide is equipped with hand-held communication devices; four, to financially support the Partnerships Toward Safer Communities initiative of the Canadian Association of Fire Chiefs; and five, to use the tax system to encourage the installation of automatic sprinkler systems in both residential and non-residential structures.

A further question asked us to estimate the costs of our proposals and then to indicate how these costs should be financed. The CAFC doesn't believe we should be the ones required to respond directly to that question. We submit that all of our proposals are fully justifiable from the perspective of enhancing public safety.

In response to the question concerning further tax reductions, we have urged that the standby charge be eliminated for all municipally and privately owned vehicles used to fulfill fire services responsibilities. This would be particularly beneficial to the volunteer fire services.

We have further recommended that the current stipulation that fire officers' vehicles must be clearly marked for the taxable personal benefit to be waived should, for severity and security reasons, no longer be required.

We were asked to comment on the relationship between the federal, provincial, and territorial governments. Appendix B to our pre-budget submission describes the jurisdictional blockages that frustrate Canadian fire services in their efforts to protect the lives and property of Canadians. In our submission, this appendix should be required reading for all members of the standing committee. We have distributed additional bound copies of our pre-budget submission and have deposited them with the clerk for the very purpose of giving the committee members an opportunity to read appendix B.

● (0945)

Your attention to my remarks is appreciated. I look forward to discussing them with you in more detail during the course of this morning's session.

Thank you very much.

The Chair: Good job. The best one so far, right on five minutes.

For anybody who's not aware, if your submissions are ready beforehand, the clerk will provide the translation services. This is so members have it available in both languages.

The next one on my list is Mr. Charlebois, from the Association of Canadian Travel Agencies.

● (0950)

Mr. Marc-André Charlebois (President, Association of Canadian Travel Agencies): Mr. Chairman, members of this committee, my name is Marc-André Charlebois, and I'm president and CEO of the Association of Canadian Travel Agencies. ACTA represents approximately 3,500 travel agencies across the country and more than 18,000 travel agents.

We're pleased to have this opportunity to present our comments to this committee. The purpose of this brief is to put forward for the government's consideration solutions designed to eliminate barriers and ensure the optimal development of the Canadian travel and tourism industry. It's an industry that employs 600,000 Canadians, generates over $52 billion in sales annually, and pays over $19 billion in taxes. For some reason, it always falls below the radar scope in budgets.

ACTA represents and defends the interests of retail travel professionals as well as those of travel consumers. Our members, Canadian travel agencies, are in the trenches, acting as intermediaries between buyers and sellers of travel products and services.

Mr. Chairman, we have a nine-pager on file with your committee, and I urge the members to take the time that's required to read it. I think it makes for interesting reading. I'm just going to give you an overview of what we're presenting to this committee and to the government.

Canadian travel and tourism industries experienced difficult times in recent years. Retail travel professionals whose interests ACTA represents play a crucial role in this industry. They, together with other value chain members, are rethinking their way of doing business in the face of external market pressures and relentlessly evolving client needs. At the same time, we have all these externalities and crises that compound our problems. The technology bubble burst, international terrorism, wars, threats from pandemics and other major health risks—all these externalities compound the problems faced by this industry.

With this in mind, we feel that the federal budget may provide opportunities to adopt measures designed to remove any unwarranted fiscal or other monetary burdens on this ailing industry. Key budgetary measures could also pave the way for proper consumer protection against travel supplier failure.

Finally, budgetary measures should be introduced to support the development of required infrastructure to ensure the competitiveness of the Canadian travel and tourism industry.

Mr. Chairman, our proposal is three-pronged. The first prong is to reduce or eliminate undue fees, taxes, and other burdens on the travel industry. Here I'm talking about specifically the elimination of the air travellers security charge. Those charges are being paid by travellers, those on the plane, and we feel that those security measures help not only those people on the plane but also people on the ground, and the whole economy of Canada. We feel that those charges should come from general revenue.

The second item under this point is for the government to consider a substantial reduction in the rents paid by airports to the federal government. I think the Minister of Transport has referred to the possibility of looking into this. I think it's grand time we do this, because those rents are ultimately paid by passengers, and it's an impediment to travel.

The third area of fee elimination has to do with the aircraft fuel excise tax. May I remind the members that this fuel excise tax was instituted in the 1980s as a special deficit reduction measure. With the surplus in the budget, we cannot understand why this kind of money is still taken from airlines, $70 million to $90 million a year, in special fuel excise taxes. We recommend the elimination of those impediments.

The second prong of our proposal has to do with adopting Canada-wide measures to allow consumers to protect themselves from travel supplier failure. Simply put, the airlines situation is precarious. It's not just Air Canada but all airlines. They're at the whim of international movements, such as the rise in fuel costs. A failure from any airline would be dramatic for consumers, because they all pay ahead for the trips they make. Airlines take their money now for a trip in three months, and they finance their operations the next day. We say it's time for the federal government to assist—not to fund, but to assist—the implementation of an insurance program, which would provide travellers with the possibility of insuring themselves against airline failure, that would cost a few dollars a ticket.

● (0955)

Our third prong has to do with the creation of a piece of infrastructure—not brick and mortar, but a business-to-business, web-enabled travel exchange, a Canadian travel exchange. What is that? In a few words, it would allow travel agents across the country, 24,000 of them, to become soldiers to sell Canada. Right now they contribute to the tourism deficit in large measures, and this exchange would allow them to package and sell Canadian destinations together with 165,000 small- and medium-sized tourism operators across the country. Again, we're looking for the government not to finance this but to provide loan guarantees so that this piece of infrastructure can be introduced at a cost of between $4 million and $5 million.

Mr. Chairman, those are our proposals. The details appear in our presentation. I urge you and your members to take a look at them.

Thank you for your time.

The Chair: Thank you.

Mr. Atkinson, from the Canadian Construction Association.

Mr. Michael Atkinson (President, Canadian Construction Association): Thank you, Mr. Chairman.

I'm the president of the Canadian Construction Association. We represent the non-residential sector of the construction industry. Our sister association from the Canadian Home Builders' Association here today represents the residential sector.

Representing the non-residential sector, we in fact are the people who build the border infrastructure and the highway and road infrastructure that my colleague spoke to previously. Certainly our governments at all levels partner in delivering the infrastructure that is so key and important to the Canadian economy, our social well-being, our prosperity, etc.

We have tendered a written submission, so I don't intend to go into all the details there. What I'd like to stress in the few moments I have today are three items: debt reduction; tax and employment insurance reform; and a bit about the need for sustained long-term infrastructure investment.

On the debt reduction side, while we certainly do recognize and salute the strides the federal government has made in lowering Canada's debt burden, with over $500 billion and a debt service cost that still demands 20¢ out of every federal revenue dollar, we feel those strides must be reinforced by a resolve to reduce debt even in less than good fiscal times. Current debt reduction measures, while commendable, are contingent upon healthy budget surpluses. The federal government must commit to achieving its debt-to-GDP target not just when the contingency reserve is available; it must be prepared, when necessary, to curb budgeted spending in order to meet debt repayment plans and targets.

In the area of tax and EI reform, Mr. Chairman, our main tax-related preoccupation has been with regard to the employment insurance program. The specific reforms we seek are outlined in detail in the written submission, and although we welcome the consultation on the EI rate-setting process that the Department of Finance launched in 2003 and the current review being undertaken by the subcommittee on employment insurance funds, frankly, we are extremely disappointed with the pace of any significant reforms, particularly with respect to the rate-setting process. This is despite the fact that both the House committee on human resources and this committee have in the past endorsed many of the recommendations regarding EI reform that are outlined in our submission.

One tax matter I would like to raise is the continuing unfairness with regard to the tax treatment of employer-provided vehicles, particularly where employees are using those vehicles solely for employment or work purposes and are required to store the vehicle overnight at their place of residence for security or practical reasons. The current law or administrative practice is to automatically treat any driving between one's residence and one's place of work as a personal benefit and thus taxable. This treatment assumes that company vehicles must and should be stored at a central locale or office and that all employees must find their own means of transportation to that locale or office.

It is not practical for construction employers in today's day and age to provide a central yard where its service or supervisory vehicles are stored. Often employees are required to store those vehicles at home at night for security reasons due to the expensive and highly sensitive nature of the employer's tools and the equipment stored in those vehicles. In other cases, it's simply more cost-effective and practical for the employee to drive directly to the construction sites they visit, usually remote and nowhere near any sort of company office.

In addition, many construction supervisory and maintenance employees use the vehicles as their mobile office, travelling to more than one site or customer location, and do not use the vehicles for personal driving. They are, in fact, prohibited from using the vehicles for personal driving by their employers.

Second, there's normally no facility at the construction sites they visit to allow for the storage of such vehicles overnight. In fact, the Tax Court of Canada has recognized in two cases that in those circumstances there was no personal benefit and there should be no taxable benefit incurred by the employee in those circumstances. Because, however, these two cases have gone under the informal procedures portion of the Tax Court process, both Canada Revenue Agency and Finance Canada do not feel these have binding impact upon their rulings or upon their administrative practice, and as a result will not change their practice unless the law is changed.

We obviously are here to say, change the law.

● (1000)

With respect to infrastructure investment, surely it is no longer necessary to convince any of you of the dire need for our nation to immediately implement long-term strategies to refinance and reinvest in our key essential physical infrastructure. Certainly the movement with respect to municipal infrastructure renewal is to be applauded. However, taking some five years to ramp up to the target amount of $2 billion annually fails to appreciate the urgency of this situation and does not allow for any substantive take-up in the short term. Needless to say, municipalities as well will find it very difficult to do any long-term planning of any prudent nature when the federal government's funding is going to ramp up over a five-year period and be available only in dribs and drabs in those first five years.

We strongly recommend that the phase-in be reduced to no more than three years.

We also are concerned that the federal government as the major contributor under that program needs to ensure that the funds are actually expended on core infrastructure or incremental municipal infrastructure spending and publicly tendered in an open and transparent way.

Finally, Mr. Chairman, I'd like to comment on the fact that as you heard today from my colleagues, while the municipal infrastructure program is indeed a good first step, there are other very important infrastructure projects that we must continue to finance in a long-term, sustained way, including our national highway system, which has been sadly neglected, and our border infrastructure as well. Those programs must continue.

Thank you very much.

The Chair: Thank you.

Mr. Beauchamp, from the Canadian Real Estate Association.

[*Translation*]

Mr. Pierre Beauchamp (Chief Executive Officer, Canadian Real Estate Association): Than you, Mr. Chairman.

First of all, I would like to join my colleagues in congratulating you on your election as a member of Parliament.

[*English*]

Mr. Chair, as CEO of the Canadian Real Estate Association I represent the 75,000 realtors who are members of our association in Canada. As you know, realtors in Canada own the MLS trademark, operate MLS systems, and also own and run the mls.ca website.

First I would like to remind you that realtors in Canada continue, as they have done for a decade now, to provide significant funding for the parliamentary internship program.

I'm also happy to inform the committee that the Canadian association will be taking a lead role in working with the Government of Canada in the preparation of the recently announced United Nations conference on human settlements, or World Urban Forum III, which will be held in Vancouver, British Columbia, in June of 2006. This very important global event will bring worldwide attention to problems associated with housing, urbanization, slums, homelessness, property rights, and basic services. Our national association is delighted to help place Canada on the world stage during the thirtieth anniversary assembly of the first conference, also held in Vancouver in 1976.

In our short time available, Mr. Chair, I would like to draw your attention to three different elements of our submission, which has been circulated: first of all, the proposed amendments to the Income Tax Act; second, housing affordability issues; and third, fiscal policy.

Mr. Chair, we have significant concerns with the Department of Finance's draft proposals regarding the deductibility of interest and other expenses as they relate to real estate investments. We believe these proposals go far beyond simply closing the loopholes created by three recent Supreme Court decisions. Our industry is of the view that these proposals will have far-reaching and negative effects on the Canadian real estate market and should not proceed in their present form.

We're extremely concerned that the definition of profit specifically excludes capital gains, which as you know are often the principal source of revenue derived from real estate investments. The department has stated that the proposals would continue to allow for the deduction of interest on money borrowed for the purchase of common shares. No such commitments were made with respect to real estate investments, and we therefore ask, why favour one kind of investment over another?

As presently drafted, the draft proposals do not allow for the carry-over of denied losses to past or future years; nor is there any grandfathering permitted for investments that are made in good faith. Realtors view this as very difficult and indeed unacceptable. We've spent considerable time and money doing an analysis of this issue. In so doing we've retained Jack Miller, who is a leading Canadian expert in this area of tax law, to assist us with this file. He was instrumental in helping us prepare a detailed brief, which we submitted to the Department of Finance in the month of August.

This report concludes that these proposals are so negative to investing in real estate that they should be abandoned. In particular, they would have a decidedly negative impact on rental housing, 85% of which is owned and managed by the private sector. Mr. Chairman, we believe the consequences of proceeding are critical and we urge members to oppose these amendments.

The main theme of our submission this year on affordability of housing is that the government has a unique opportunity to introduce a new multi-dimensional national strategy. We have suggested four broad priorities.

First, we recommend policies to improve the use of existing housing stock. To do this, our submission supports the RRAP program and proposes better use be made of secondary suites and income subsidies.

As a second priority, we advocate new options to improve access to home ownership. We acknowledge the government already does a lot to encourage home ownership, but we think it's time to focus on the population segments that still can not benefit from existing programs. Our submission focuses on help for low income earners and a new approach to first nations housing.

Our third priority is tax and regulatory changes to expand affordable housing stock. Four years ago ministers of housing announced a review of taxation and of regulatory barriers to the affordability of housing. Since that time nothing has been forthcoming. We therefore recommend that the federal government use its influence to expedite the completion and publication of the work the ministers undertook to produce at that time.

● (1005)

The fourth priority, the problem of the homelessness, has been getting worse, not better. Support for resolving the problem of homelessness must be everybody's priority. Neither the problem nor the solution is simple. We don't agree that by only increasing spending on subsidized new housing units we will resolve the homeless problem. This is where the multi-dimensional approach is going to be absolutely essential. We need all of the tools in the tool kit to prevent homelessness and help those who are homeless become more self-sufficient.

We commend the government for including fiscal discipline in the Speech from the Throne as one of its seven guiding commitments. The speech correctly noted that an unwavering application of fiscal discipline is the foundation for much of Canada's recent economic success. We fully support the undertaking to stay out of deficit and to pay down the debt. Our submission advocates reducing the debt-to-GDP ratio through the explicit repayment of debt principal in the calculation of total expenditures in the annual budget. We advocate annual allocations for paying down debt principal as well as interest and we think it's too important to rely on economic growth to produce extra revenues.

Mr. Chair, thank you for this opportunity today. JIm Brennan and I are prepared to answer your questions and comments.

The Chair: Thank you.

Next is Ms. Lawson, from the Canadian Home Builders' Association.

Ms. Mary Lawson (President, Canadian Home Builders' Association): Mr. Chairman, honourable members, I'm very pleased to be here today with my colleague, David Wassmansdorf, first vice-president of our association.

David and I are both builders. Since we submitted our pre-budget document back in September, entitled “Anticipating the Future”, a number of changes have occurred in housing that are causing us some concern.

In particular, the rising Canadian dollar is already having some adverse effects on the manufacturing sector. Lower exports could result in job losses and reduced demand for housing. In addition, Canadian manufacturers may face stiffer competition from U.S. companies.

As you know, during 2004 low interest rates and strong employment growth have driven up new housing sales. Starts are expected to be over 225,000 units this year. This is the highest rate in over 15 years. Turmoil in the stock markets has made home ownership and renovation even more attractive than ever before.

Despite the strong market, our business realities today include some issues: shortages of serviced residential development land; moratoriums and infrastructure limitations on future development; higher prices for some key materials and components; shortages of skilled trades; higher insurance rates and reduced coverage; rising taxes, levies, and charges; a growing underground economy.

In the short time available, I'd like to focus on just a few major federal budget action items.

Much of the affordability gain achieved through lower interest rates is being undercut by increasing municipal taxes, levies, and charges. New homebuyers now face some $30,000 of such charges on a typical new home. For over a decade, the CHBA has called for federal funding for municipal infrastructure. Now programs are in place; more money is promised for the 2005 budget; priorities for the future are being set in federal-provincial negotiations. In our view, these priorities should clearly be clean water, clean air, clean land, and efficient transportation systems.

Federal infrastructure funding should help close the infrastructure gap by applying the following basic principles: reduce municipal dependence on development cost charges that undermine housing affordability and choice; ensure that federal funds yield a net benefit to municipalities and are not clawed back; ensure transparency and accountability for the funds that are spent. Federal funds should also support innovation, such as brownfield redevelopment projects and new infrastructure technologies.

Members of the committee, we are happy that there is now a minister in charge of federal housing matters, the Honourable Joe Fontana. He has spoken out about a national housing strategy, coupled with the housing policy tool box. We welcome this initiative. We also appreciate very much the views on housing policy of other parties represented here. We look forward to working further with them.

A housing policy tool box is made possible by the existence of a national housing agency, the Canada Mortgage and Housing Corporation. CMHC has mortgage loan insurance and housing finance tools, but it also has research policy and information vital for all aspects of a successful housing strategy. It is envied by other countries. Another key agency in supporting the policy tool box approach is the Institute for Research in Construction at the National Research Council of Canada. We are very grateful for the work of both of these agencies.

As part of a revised housing policy tool box, the CHBA proposes a new type of targeted program. This would be called “portable rental assistance” or “housing choice vouchers”. It would take advantage of today's looser rental markets, offering low-income households what they really need: money to bridge the gap between the cost of decent rental accommodation and what they can afford. Such a program would create maximum freedom of choice to low-income households.

● (1010)

In addition to the portable rental assistance, the CHBA supports supply programs for those with special needs, which would include the homeless, to whom shelter and supportive services need to be provided in a package.

Major investments are also required in housing for aboriginal communities and remote northern communities. There, the private market forces do not assure an adequate supply. Operating costs may be so high as to require ongoing subsidies.

● (1015)

Mr. David Wassmansdorf (First Vice-President, Canadian Home Builders' Association): Turning now from federal expenditure policies, we've—

The Chair: You're way over time.

Mr. David Wassmansdorf: Are we? Okay.

We'd like to address changes to tax policy to support housing affordability and choice. We believe the GST rebate threshold should be indexed to inflation. Right now, only homes priced at $350,000 or less are eligible for the full rebate, and for those over $450,000 there is none at all. These price thresholds have remained unchanged since the GST was first introduced in 1991, despite a commitment to adjust the thresholds over time. This policy creates serious inequities for homebuyers in major centres across Canada.

The definition of “substantial renovation” for GST rebates should be expanded. This would greatly simplify federal tax administration, reward investment in the existing stock, expand the supply of affordable rental accommodation in the form of secondary suites, bring more of the underground economy into the open, increase federal tax revenues, and protect consumers better. Currently, rebates are available only for a total reconstruction of a home. Therefore, very few renovation projects qualify. There is strong evidence of a link between introduction of the GST in 1991 and growth in underground residential renovation activity.

We want effective measures to fight the underground economy. We could learn a lot more from the experience of Australia, where they take this issue very seriously.

Also, construction firms and self-employed individuals should be required to register for the GST exemption. Right now, they are below the radar screens of both the Canada Revenue Agency and other provincial agencies.

We are also urging replacement of the contract payment reporting system. It is ineffective in addressing the underground economy and is simply a source of paper burden and cost to legitimate businesses.

To support both consumers and choice in the housing toolbox, we need a better approach to rental housing. New rental construction activity has been very weak in recent years. Higher vacancy rates are certainly not due to improved economics of rental investment. Starts remain at well below CMHC's estimates of future requirements. A reasonable tax regime will bring investors back into new rental housing production. Our written submission makes many specific recommendations in this regard.

The Chair: Thank you.

For the members, the first round will be seven minutes.

Mr. Harris, followed by Monsieur Côté.

Mr. Richard Harris (Cariboo—Prince George, CPC): Thank you, ladies and gentlemen. I see some familiar faces there, and also, after seven years on the pre-budget committees series, I'm hearing some familiar wish lists. We've done our best, hopefully, with this new form of government we have in this Parliament that we may be able to get some positive movement toward some of the concerns you've been expressing for the last seven years that I can remember. I'm sure my colleagues in opposition will continue to fight on your behalf and hopefully will encourage some of the more vocal government members to join that fight as well.

I have a few questions just for some clarity.

Ms. Lawson, you talked about $30,000 in additional charges for the average homeowner. What does that consist of, initial infrastructure and taxes and fees?

Ms. Mary Lawson: It's the combination of development fees and charges levied by most municipalities, which are, of course, more prevalent in the larger centres, but even in a community as small as the one I'm from, Orangeville, Ontario, there is $20,000 in development charges paid when permits are picked up.

Mr. Richard Harris: So this is an upfront cost to the homebuilder, the purchaser by extension—

Ms. Mary Lawson: That's correct.

Mr. Richard Harris: — and then a continuing annual tax payment.

Ms. Mary Lawson: Exactly. So it's paid at the point the permit is picked up, and then, of course, in addition to that, within the price of the home is the GST.

Mr. Richard Harris: Yes. Do you break that down in your written submission?

Ms. Mary Lawson: I believe it's broken down fairly thoroughly.

● (1020)

Mr. Richard Harris: Thank you.

Mr. Beauchamp, on real estate, three years ago I think you or one of your colleagues were here talking about the taxing of investment for real estate investors who bought a property, made a profit, invested their funds in another property, and then increased that profit, perhaps, hopefully, and there was taxation along the way. I think you were looking for some relief for that taxation, as long as the property was not simply sold and not reinvested. How are you making out on that request?

Mr. Pierre Beauchamp: Thank you for your question.

We basically have a four-prong approach now with respect to regulatory and tax impediments to affordable housing. I've outlined some of them in my brief presentation.

We obviously have concerns that commercial landlords and hotel owners are basically allowed a rollover of capital gains, but as you well know, that's prohibited for residential landlords.

Secondly, we are concerned that commercial operators are allowed a full rebate on GST, and again, residential landlords are getting different treatment, because they get 2.5%. Hotel owners and commercial landlords are allowed a higher capital cost allowance.

Lastly, hotel owners and commercial landlords can pool CCA among various properties, unlike residential landlords.

That's basically the focus of what we're saying now, following extensive research and the proposal you're talking about now and measures that we feel the government has to consider on an urgent basis, with respect. That's one of four different approaches that we have taken with respect to affordable housing.

Does that answer your question?

Mr. Richard Harris: Yes. That one I remember quite well, because it seemed fairly discriminatory to the small investor who's investing in residential rental properties. I haven't checked to see whether it has been fixed yet, but I guess it hasn't.

Mr. Burke, I appreciate your coming, sir. I just need some clarity, I guess.

You have requested that the federal government participate in funding for some concerns you have. I understand that fire departments are the jurisdiction of the municipalities or the cities as delegated by the provinces. How do you see any funding from the federal government crossing over into those jurisdictions without some conflict?

Mr. Patrick Burke: Well, post-9/11, I think those jurisdictions have been blurred and there is some responsibility federally to look at what's going on across the country.

On fire departments, the incident profiles that fire departments respond to have changed tremendously over my term in the service, and certainly since 9/11. We have activities regulated by federal government taking place across this country. We have rail lines that go through large and small communities from coast to coast—that's federally regulated. They're carrying dangerous goods, they're carrying all sorts of things, and a lot of fire departments in communities across Canada don't have the training or the capability to respond even initially to events that can occur with a train derailment or anything like that.

The same can be said about the transportation of goods along the highways and across international borders. So I think things have been very blurred.

Quite recently, as recently as November, posted on the Public Safety and Emergency Preparedness Canada website is a Government of Canada position paper on a national strategy for critical infrastructure protection.

If you take a look at appendix B of that position paper, the federal government identifies ten critical sectors for the national critical infrastructure assurance program. Number eight is safety, and in number eight the sample subsectors are chemical, biological, radiological, and nuclear safety. Fire departments respond to those. Other subsectors are hazardous materials—fire departments respond to hazardous materials incidents; search and rescue—fire departments share search and rescue with other levels of emergency services; and emergency services—police, fire, ambulance, and others.

So I think the federal government has already recognized that there's a role they have to play in protecting this critical infrastructure, and part of that protection is ensuring that they're prepared and trained and able to respond to these types of events.

● (1025)

Mr. Richard Harris: So the funding would come from the federal government to the provincial government, and then come down?

Mr. Patrick Burke: Preferably not. Preferably, the funding would be earmarked so it couldn't be drained off at the provincial level.

Mr. Richard Harris: Provinces don't like that, though.

Mr. Patrick Burke: I know they don't like it, but the Senate committee identified that as well. We don't like it either.

Mr. Richard Harris: Okay.

Am I done?

The Chair: Thank you.

Mr. Côté, and Mr. Bell.

[*Translation*]

Mr. Guy Côté (Portneuf—Jacques-Cartier, BQ): Thank you very much for your presentations

Many of the witnesses we have heard have spoken about the need for infrastructure, Mr. Charlebois. I completely agree with you that given the huge surpluses we have at the moment, it is ridiculous that the airports security tax be levied directly on users rather than taken out of the general budget. The same goes for the excise tax on aircraft fuel. Since we are talking here about a temporary measure designed to eliminate the deficit, I do not think there is any reason to continue with this tax,

Minister Lapierre recently suggested that there was an inclination toward open skies or to give American airlines greater freedom. What impact could such a decision have on users and on companies such as Air Canada, which the federal government has strived to save through significant financial investments and other efforts?

Mr. Marc-André Charlebois: There are two aspects to your question. First, with respect to the commercial aspect and the impact of opening up connections around the borders, we would like to say that the idea is to allow American and other airlines to come into Canada and engage in cabotage. Canadian companies are also allowed to do the same thing. There are commercial advantages. In the case of Canadian companies, those who can afford to do so will be able to extend their services into some American cities. Similarly, the American companies will be able to do the same thing.

We think the benefits to consumers are the most attractive feature. The more competition there is, the more choices there are and better the service for consumers. In that regard, our association would certainly be in favour of opening up the borders.

Mr. Guy Côté: As we were saying earlier, Mr. Burke, everyone here agrees that citizens should get the services to which they are entitled. Security is a very important consideration which sooner or later affects all of us.

You mentioned that after September 11, the borders between the various jurisdictions had become rather fuzzy. Do you not think that it is important to redefine these borders clearly? Through its transfers or equalization payments, the federal government could provide adequate funding for the provinces. In turn, provinces could play their role rather than functioning as they have since the federal government reduced these payments, that is by siphoning off budget resources earmarked for health care and education. This would make the role of all parties clearer. There would be more appropriate funding for firefighters and security, for example. These borders which have become fuzzy, would be clear again for everyone.

[*English*]

Mr. Patrick Burke: I think the whole matter has to be opened up for renegotiation. There have to be some definite strings attached to federal dollars being channeled and funded through the provinces to reach municipal fire departments. The fact of the matter is, history has shown that it hasn't been done satisfactorily. The programs that are available right now that run through the federal government, down through the provinces, to municipalities—the JEPP program is one of them—are not providing satisfactory funding; it's not a satisfactory mechanism.

The Senate committee identified that there were blockages there. Without strings attached to the money, some of the provinces were hanging on to the bulk of the money, expanding their emergency management operations at the expense of the response capability of the emergency response agencies on the street.

So I think the federal government has to take a very active and aggressive approach in how that funding is handled, and attach some strings to it. If it's supposed to go directly to the municipal fire services for training to handle CBRN incidents, hazardous materials incidents, or responses at the border, then it should go directly to that fire department, and the provincial government should not have the opportunity to siphon off any of those funds.

● (1030)

The Chair: Monsieur Bell.

Mr. Don Bell (North Vancouver, Lib.): Thank you.

Picking up on that comment to Chief Burke, I specifically noted the issue of provincial blockage. I'm looking at appendix B in your report. Is this widespread, as far as you're concerned, where this money is being used for provincial programs as opposed to flowing through to the municipalities?

Mr. Patrick Burke: I think it is. Based on the response from the fire chiefs across Canada, the vast majority, better than two-thirds, have indicated that they believe any federal funding should come without interference from the provincial government or the opportunity for the provincial or territorial government to siphon off that funding. Based on that, I would say it is widespread.

Mr. Don Bell: As a former municipal politician, I'm very supportive of that, but certainly the provincial programs have benefits that should be supported nationally. In other words, there is a spinoff benefit on a national basis as well, is there not?

Mr. Patrick Burke: I believe there is. At the risk of sounding like a broken record, I think what has happened in emergency planning and preparedness is that there has been a huge imbalance on the scales toward intelligence and preparedness at the expense of response capability.

We can have the best intelligence in the world, and we can have the best plans in the world, but if we don't have an equipped and trained emergency first-responder force capable of meeting the event head-on, then we've failed in all of the money that we've spent on intelligence and all the money that we've spent on preparedness. I think what has happened is a lot of the money that has come from the federal government has been siphoned off into the intelligence-and-preparedness end of that whole spectrum, and very little has been passed down to the first responders, where it's really required.

When you call 911 and you have an emergency developing, you don't get the planners and the intelligence crews responding out on the street to intervene and mitigate that event. You get the first responders. The firefighters, the police officers, and the EMS providers across this country are responding. That's where we need some training, and that's where we need some dollars, if we're going to elevate our level of preparedness.

Mr. Don Bell: Okay. Thank you.

To Mr. Flewelling, from the Canadian Automobile Association, you talked about the indication that we're one of the few major countries that doesn't have a national highway program or a system. In terms of the infrastructure money that is going to go to the gas tax, in many cases this will provide a benefit, because in many cases the major road network through some of the municipalities is part of the national system.

I was under the impression, in fact, that there has been a highway policy, perhaps not as well defined as you'd like to see. Is it your contention that there's a total absence of one?

Mr. David Flewelling: I think there is, perhaps, as you are alluding to, an ad hoc policy, which we see, for example, in the latest communities agenda. But in terms of looking at standards that need to be in place and consistent funding for our national highway system, in that case the policy is absent. That's the distinction we're making with other industrialized countries around the world.

● (1035)

Mr. Don Bell: Okay. Thank you.

To Marc-André Charlebois, first of all, I don't have your brief and the clerk doesn't have it. Could we find it?

Mr. Marc-André Charlebois: It was relayed to the clerk, and it's going to be available.

Mr. Don Bell: Okay. I don't have the benefit of that brief, but the fourth point you made was on the measures needed to protect travellers from supplier failure. There have been programs to protect against, for example, travel agencies when they've gone under. You're not referring to the arrangements that have been made, you're talking about actual carriers, aren't you?

Mr. Marc-André Charlebois: And supplier failure, the carriers. While Air Canada was under bankruptcy protection, if for some reason the restructuring had failed there would have been a lot of people stranded, a lot of people with their money spent on a trip to be taken a few months down the road who would provide relief.

In some provinces where there is provincial legislation, it would have been on the backs of our members, because they provide some funds. There are actually funds being created to protect against agency failure. That was used recently in Ontario to repay moneys owed to travellers on Canada 3000.

This absurdity has now been corrected in the law. In Quebec, they recently adopted legislation that will provide the traveller with the opportunity to buy end-supplier failure insurance when they buy their ticket. It's going to be a couple of dollars per ticket. We would like such a system to be implemented Canada-wide.

Mr. Don Bell: Okay, thank you.

Finally, to both the Canadian Real Estate Association and to the Home Builders' Association, you both made reference to secondary suites as one of the ways of addressing the issues of housing problems. I'm aware that in British Columbia there are a number of municipalities, including my municipality, that have legalized secondary suites. It has been a contentious issue that's gone back over many years.

What you may want to look into is reviewing sort of best practices from those municipalities in which they have been legalized so that you can create a case for going forward. When other municipalities tackle it... Because it's a highly emotional issue in some communities, we've had to address things like the impact of the second suite's occupants in terms of municipal services. There are lots of myths in there and there are some facts.

Based on my experience, I would suggest that you may want to do sort of a best practices analysis and provide that, if you're trying to encourage other municipalities to address that issue.

Mr. David Wassmansdorf: There are best practices programs that have worked over the years. I agree, having built in the small town of Guelph, Ontario, a university town where the issue of secondary suites was always coming up.

I think what we're looking for is a coordinated effort to ensure occupant safety, addressing bylaws properly, that services are looked after properly. It's a coordinated effort to basically legalize those units and ensure that not only bylaws are enforced but that there are occupant health and safety issues taken into account.

Mr. Don Bell: I think you'll find that in most municipalities that have legalized them, that's been the number one underlying concern, the safety. In many cases there are shoddy practices of electrical wiring; it is substandard. Homeowners, where it's not legalized, have wanted to avoid inspection fees and things of that nature, so they have not been up to standard. There has been some innovative stuff done that I am aware of, particularly in B.C., so you may want to pursue that.

The Chair: Thank you, Mr. Bell.

Mr. Penson and Ms. Minna for five minutes, please.

Mr. Charlie Penson (Peace River, CPC): Thank you, Mr. Chair. I thank the panel members for being here today and bringing forward some very important issues.

I haven't been here quite as long as Mr. Harris, but I have listened to submissions for three years. I'm always struck by what kind of balancing act we have to do, and government has to do, between increased spending and tax cuts and debt reduction.

I'm also struck by the fact that there's a lot of talk about a fiscal imbalance with the federal government and the provinces. While I don't hear quite as much from the Liberal side any more about the need to bypass the Ontario government, as I did a few years ago, there are people who come to this committee who I think should be talking to their provincial representatives.

One reason they may not be able to do that, or may not be successful in doing that, is that provincial governments may not be getting enough money out of the total tax pie in order to fund some of the requests that are being made.

I do want to remind panel members that we have a federation. We have a constitution that spells out the areas of jurisdiction on each of the authorities, the provinces and the federal government. In those areas where the provinces have responsibilities, we are seeing more and more requests coming to the federal government to bypass the provinces because they don't like what they're hearing.

I guess my question is, if the provinces could have a bigger share of that tax pie, if it wasn't so lopsided in favour of the federal government in terms of taxation, would that not make your case easier to ask for...?

Mr. Pollard, you're one of them, I think, who says on the one hand we need more money for the Canadian Tourism Association and on the other hand we need corporate tax cuts. Well, the provinces have corporate taxes as well, and some of them are a lot higher than others, as you know. How do we solve that dilemma, Mr. Pollard?

● (1040)

Mr. Anthony Pollard: First of all, I'm very much aware of the delineation between sections 91 and 92, albeit they were written 125 years ago, when the world was a little bit different.

Mr. Charlie Penson: We're still using it, aren't we?

Mr. Anthony Pollard: I think so.

At the end of the day, what I tried to do with my presentation was to show that there would be no added cost to the federal government from the activities or recommendations we've suggested with respect to funding for the Canadian Tourism Commission, which we anticipate would generate probably about a tenfold increase in revenue for the feds. So that one, I think, is pretty much of a non-starter.

The second one is with respect to infrastructure. The fact is that there are budgets out there; and we're seeing what's happening with the gas tax and are encouraged that Minister Godfrey seems to be moving that forward. We have our fingers crossed. So we don't see a discrepancy between the responsibility of the federal government in those areas, which they've identified, and the responsibility of the provincial government.

As for the question with respect to tax cuts, one of the things I personally have been guilty of in coming before this committee for 10, 12, or 15 years now is that I have addressed what our issues are and not addressed your questions. I have figured at this point that I'd better be a good little boy for a change and actually answer what you're asking, as opposed to just being self-serving, if I could put it that way.

Mr. Charlie Penson: That's appreciated, Mr. Pollard.

Mr. Anthony Pollard: Hence, at the end of the day, even though the chair was cutting me off for being too long-winded, I added that in. That is on the record.

Mr. Charlie Penson: I'm sorry, I have to do that as well, because I only have five minutes.

I would like to explore this a little bit further. Surely you would agree, though, that there's more than one way to fund the request you have made for the Canadian Tourism Commission. It could be an industry-driven initiative on its own without any federal government money, if you didn't have to pay as much in taxes. Wouldn't that be a fair assessment?

Mr. Anthony Pollard: Well, completely. At the end of the day, if we're making more money, then we can contribute more for marketing and promotion. There's no doubt about that at all.

Mr. Charlie Penson: The reason I ask that is that we are seeing expenditure increases on the federal government side of 7% to 8% a year, and I'm concerned about where that's going to lead. I'm concerned that's going to get us into the kind of situation we were in during the sixties, seventies, and eighties that put us into this massive debt hole. So when I see requests for increased funding, I'm thinking, "Is that the only way we can do this?" I think you've already pointed out, Mr. Pollard, that when we reduced corporate taxes, the Government of Canada had increased revenues.

Mr. Anthony Pollard: That is correct. I quoted directly from the minister in that respect.

Mr. Charlie Penson: Yes, and this jurisdiction isn't the only one where that's happened. It's happened in many, many jurisdictions, I'm sure you're aware.

I just have one other question, and it has to do with Mr. Atkinson's request for more money for a national highway system. I suspect you're suggesting that it come out of the excise tax on fuel. Is that correct, Mr. Atkinson?

Mr. Michael Atkinson: It's not just me suggesting that. The Transportation Association of Canada, the—

● (1045)

Mr. Charlie Penson: No, but I'm dealing with you.

Mr. Michael Atkinson: I'm echoing what a number of people have suggested, since that is a user tax in the sense that it is on highway users. In 1995, the then minister of finance increased fuel excise taxes by 1.5¢. This is what we've been calling for, a long-term funding arrangement bilaterally with the provinces for the federal portion of a national highway system.

That 1.5¢ was to reduce the deficit. Well, hopefully, the deficit is now behind us, and yet that 1.5¢ is still being collected from highway users.

I think it's important to note that it's not a case of whether or not we reinvest in our essential physical infrastructure; it's a matter of when and how much. Quite frankly, being the constructors of our national highway system, if we were self-interested we'd keep quiet and say nothing. Let the bridges fall down; let the highways crumble.

Mr. Charlie Penson: What I'm interested in, Mr. Atkinson, is how you would do that. You're suggesting a portion of the excise tax on fuel go back—

Mr. Michael Atkinson: That's correct.

Mr. Charlie Penson: To the provinces?

Mr. Michael Atkinson: We're suggesting a bilateral arrangement between provincial governments, or matching funds from the provinces, since highways are a provincial jurisdiction—so fifty-fifty.

There is already a planned national highway system defined by ministers of transportation at both levels of government, who also look to priorities and where those funds should be best invested to ensure the biggest bang for the Canadian economy.

Mr. Charlie Penson: I would like to follow that up a little bit further. In those provinces that have made those investments already, would you suggest that they get a bulk payment and have no money spent on highways?

Mr. Michael Atkinson: Most of the investments in the national highway system, the Trans-Canada basically, have been done ad hoc, as was suggested earlier, under SHIP agreements, for example—that is, the strategic highway investment program. They have always been 50-cent dollars from the provinces.

Mr. Charlie Penson: Some of the provinces have taken the initiative themselves and upgraded their highway system, maybe put a higher priority on spending on that particular item than some other items. How would you suggest they be compensated for already having done that?

Mr. Michael Atkinson: Just so that you will understand, I'm talking about the federal highways. It's interprovincial highways and international highways, and highways that come under the national highway system as defined by the ministers of transportation at both levels of government. Typically, those highways have always been funded on some kind of fifty-fifty arrangement between the federal government and the provinces. What we're saying is that it has been too ad hoc, and it hasn't been enough to address the deficit in the system that ministers have recognized themselves. There has been some done, but it's been done in partnership with both levels of government.

The Chair: Thank you, Mr. Atkinson.

Mr. Charlie Penson: I would like to raise a point for clarification, Mr. Atkinson.

In the case of the ones that have already been updated, let's just say Alberta, for example, would they not get any funds out of this proposed tax relief you are talking about?

Mr. Michael Atkinson: It's not tax relief. It's a situation in which we're saying that the funds gathered from users of the Trans-Canada Highway system who pay fuel taxes should go to fund the federal portion for reinvestment in a national highway system. Where the provinces get those funds is up to those provinces.

Mr. Charlie Penson: I think it was you who was saying the provinces only have 2.4% out of the federal excise taxes.

Mr. Michael Atkinson: No. That's the amount that the federal government has spent on the national highway system coming out of the federal excise taxes.

Mr. Charlie Penson: Thank you.

Hon. Maria Minna (Beaches—East York, Lib.): I was quite pleased to hear some of your comments with respect to housing and innovative ways of trying to get more things on the market.

I wanted to start with a clarification from Mr. Beauchamp. In your report, under the fiscal policy issue, it says here “REALTORS commend the government for maintaining a $3 billion Contingency Reserve and for setting aside $1 billion ineconomic...” and so on. Then you say, “However, the 2003 budget set aside $2 billion foreconomic prudence in 2004-05.” So prudence has actually been trimmed by $1 billion. You then go on to say that you want to reinstate the $2 billion, to restore it to $2 billion. I don't quite understand. It was $3 billion to start with. Are you talking about the contingency or the prudence? Prudence was $1 billion, never $2 billion. I'm not sure what you're restoring to $2 billion.

Mr. Jim Brennan (Government & External Relations, Canadian Real Estate Association): We're talking about the two separate funds, the contingency reserve and the prudence. The prudence was dropped—

● (1050)

Hon. Maria Minna: The prudence was $1 billion, according to you here. The contingency was $3 billion, and the prudence was $1 billion. How could there be $3 billion to start with?

Mr. Jim Brennan: The prudence was originally at $2 billion, and I believe it was dropped by $1 billion. We're saying to bring it back up again.

Hon. Maria Minna: I understand what you're saying, but I don't think it ever was that amount.

Mr. Pierre Beauchamp: Our focus is designed to suggest that we should have annual allocations that are specific for paying down the debt principal. That's basically what we're suggesting, as opposed to having a “maybe we will, or maybe we won't” approach.

Hon. Maria Minna: All right.

If we were at a point where the budget was tight and it meant bringing down the debt further, or paying out the health care transfer, which one would you choose? Let's be realistic, because at the end of the day there has to be a choice. If we're making a choice... Maybe that's an unfair example, but there are many others. There is housing, roads, security, borders...I could give you many other examples. The reason I say that is because the debt has been coming down, and in terms of ratio to GDP it is lower now than it has been. I know the Prime Minister has made a commitment to 25%. I'm not wedded to that. As the economy grows, I think it will bring it down further. I know I have heard a great deal about bringing down the debt and tax cuts as two recurring themes from business.

Mr. Pierre Beauchamp: We're simply advocating that it should be part of the annual budget, and there should be some clear allocations. Now, that doesn't mean sacrifice health, of course not. Health, child care, and so many urgent priorities of Canadians, as we recently saw in the election, are things that have to be looked after. But there is a way, in conjunction with that, to have planned allocations on an annual basis, as opposed to saying maybe we will, maybe we won't.

Hon. Maria Minna: It was more a clarification on that one point, thank you.

Mr. Pollard, I wanted to mention something that's relevant to some degree. There's been a recurring discussion here this morning on tax cuts and to some degree to sometimes looking at that as the solution to a lot of the problems and/or to transferring tax points to the provinces from the federal government as a solution to a lot of the problems. Some of the studies that were done in 1994-95, when I was involved with the social security review by the Department of Finance at the time, showed that tax cuts didn't necessarily go to improving the situation, as you said when you were referring to the tourism marketing, or into other programs, or into jobs. It basically went into the profit line of the corporations and was not necessarily reinvested in any way, and actually the research showed that.

My question to you is twofold. First, does transferring tax power to the provinces necessarily make the difference? In Ontario, we had huge tax cuts for ten years with Harris and it didn't help the infrastructure of Ontario and the municipalities. In fact, as we all know, it's not in great shape, because the money didn't go to construction, it went to more tax cuts. That didn't help. The reinvestment wasn't done; I don't see it. So are tax cuts and transfers really the only answers to address the issues that we've been discussing this morning, or the key answers? That's what I keep hearing all the time. I don't get that when looking at what's happened in Ontario.

Mr. Anthony Pollard: I think what you need to do is keep the items almost separate and distinct. When I talk about the Canadian Tourism Commission, what I'm talking about is the revenue on GST that's coming in to the federal government from visitors. I'm saying take one-third of that and dedicate it towards the marketing of the Canadian Tourism Commission, which is matched by the private sector. Tourism is an export product. It's been recognized as that by the federal and provincial governments. So I think we can almost take that concept and park it there as a separate issue.

With respect to tax cuts, it was the Minister of Finance himself who said that with the 2% cut the coffers of the federal government have in fact gone up. I'm not an economist, but what I derive from that is the correlation that says that obviously they must be working in some regard to assist the federal government, because one of the questions you and your committee are asking is, as a long-term route, what should you be doing with any surpluses that come along? We're anticipating what Minister Goodale is going to be saying today. We're asking, in fact, what should we be doing with the taxation policy? In that regard, I'm simply quoting what the Minister of Finance and the Department of Finance are saying.

● (1055)

The Chair: Thank you.

I would ask the witnesses to stay at four or five minutes.

I want to give a chance to Ms. Wasylycia-Leis.

Ms. Judy Wasylycia-Leis (Winnipeg North, NDP): Thank you very much, Mr. Chairperson.

I apologize for being in and out during the presentations. John and I had to go off and debate what might come down today with Ralph Goodale's economic statement. I'm sure you're all interested in that as well. It does tie into all the issues we're debating today, because all the proposals are very important and interesting and I think we need to have a clear assessment of the surplus dollars available to be able to respond as a committee.

I want to focus on two areas. First, I think housing is probably one of the major areas that has to be addressed in this budget. I'd say it's in a crisis situation, certainly in inner-city neighbourhoods, and in on-reserve communities.

As I understand it, we have a hodgepodge of programs, as opposed to a national, federal government housing program. I think they announced, was it last year, $1.5 billion over five years for renovations and new housing starts, which, as I understand it, represents the need for one year, as opposed to being spread over five years. I understand that even with that money there are no new housing starts under way and the money is not flowing. I want to know what the problem is.

I understand that the housing and homelessness initiative is really not addressing the true need because of the way it is defined and restricted. It certainly doesn't help neighbourhoods like north Winnipeg, because people aren't living in the streets, but they're living in horrible housing circumstances. This program doesn't seem to be meeting the needs.

My question to both the homebuilders and real estate folks is, talk about the investment side, investing in housing programs. I understand there are tax initiatives to help, but for now talk about what's there and what we need to do to change it.

Ms. Mary Lawson: I think the first comment has to do with what I mentioned about Minister Fontana's direction of housing vouchers, which basically supports the people, as opposed to buildings. Our feeling—very strong, and I think it's clearly shared by Minister Fontana—is that this would assist people to be in housing of an appropriate nature much more quickly, probably keeping them in neighbourhoods or communities they're familiar with. One of the comments we've heard is that the division between homelessness and not is sometimes a month's rent. So there's this whole issue of our working poor that needs to be addressed first and foremost.

Based on CMHC's numbers, we do understand that there is quite a bit more rental housing of various shapes and sizes out there in our municipalities than we were previously aware of.

That's one situation. Partnered with that, we need a tax framework that's more conducive to building new rental housing where it's needed. Then along with that, to deal with the truly homeless and those persons who have disabilities of various kinds is where real housing perhaps needs to be built or improved. And then, of course, there is the issue of the aboriginal need in the far north, where appropriate housing clearly needs to be built and probably subsidized in various ways.

What we're saying is that this is a toolbox approach, and we feel that our thinking is clearly supported by Minister Fontana's thinking and that of CMHC.

Mr. Pierre Beauchamp: Our approach is quite similar, in fact. At the risk of repeating myself, we have a four-pronged approach, which we've outlined in our presentation. We support fully a continuation of better use for existing housing stocks. We support the RRAP program and its continuation and the legalization of secondary suites. And we support CMHC's continuing to identify subsidies that would help economic distortions.

Secondly, we are fully supportive of new options that would improve housing access for different groups, including a new aboriginal housing strategy. We're prepared to help in that area and have already expressed in a recent meeting with Mr. Fontana our willingness to be supportive. We support the national demonstration project of cities—Home$ave, specialized savings accounts—and we believe that could help.

I talked at length earlier about—

● (1100)

Ms. Judy Wasylycia-Leis: I don't want to interrupt—and I did read your brief, so I got most of this—but what I'm wondering is whether the situation is so serious that we need, in fact, to think about moving away from this band-aid, patchwork approach and starting to think about a national housing program, which we once had, where we devote a certain percentage of the budget and then we start to plan on a realistic basis how to meet those needs.

Do you support the idea that many groups have had about 1% of the federal budget going to housing and getting back to the federal government playing in this field and in the game?

The Chair: Okay, Mr. Beauchamp, just 30 seconds, please.

Mr. Pierre Beauchamp: That could be easily put together if you look at the four different approaches we're adopting, which are very similar to CHBA's. And if you want to adopt a position where you would allocate certain parts of the budget to achieve that instead of doing it on a piecemeal basis, that obviously would not be a bad idea.

The Chair: Thank you.

Ms. Judy Wasylycia-Leis: Could David answer one?

The Chair: Not really, no. I'm out of time. Sorry.

I just want to thank everybody.

I have just one item. Again, this is the finance committee. We asked that some of your recommendations be costed out. Some of them are and some are not—I'm not going to go into detail. But if some of you want to make a further submission, just quickly, one or two pages of the costing on some of your recommendations... because there's a lot of information here, and we're not going to be able to calculate some of the recommendations you gave us.

I want to take the time to thank you on behalf of the members and the committee.

The meeting is suspended.

● (1102)

(Pause)

● (1109)

The Chair: Good morning. Let's reconvene the meeting. We have quite a few witnesses.

I want to thank the witnesses for appearing, for taking the time out of your day. We're going to give you guys, the witnesses, the associations, the groups, five-minute opening statements and opening remarks. It's preferable that you keep it to five minutes. I don't like to interrupt, because I know you're trying to make a point, but please do try to keep it to five minutes. I would really appreciate that. Members would like to ask questions.

I'm going to go in the order of the list I have. The first group is the Aerospace Industries Association.

Mr. Boag.

● (1110)

Mr. Peter Boag (President, Aerospace Industries Association of Canada): Thank you very much, Mr. Chairman. It's a pleasure to be here this morning. Thank you very much for the opportunity to appear before the committee.

Aerospace is a pan-Canadian industry. Firms are located from St. John's to Vancouver, and few appreciate that the industry is as important to the Winnipeg and Manitoba economies as it is to those of Montreal and Quebec. Ours is the largest national aerospace industry in the world outside of the U.S. and the European Union, employing some 75,000 highly skilled Canadians, with annual industry revenues of $21 billion, the fourth-largest national aerospace industry in the world. And we're Canada's leading advanced technology exporter. In fact, unlike almost every other important advanced technology sector in Canada, the aerospace industry generates consistent trade surpluses year in and year out.

As we look forward to the coming budget, we see that a future of robust fiscal surpluses, as we've seen over the past few years, cannot be assumed. Notwithstanding the windfall budget surplus of $9.1 billion for the last fiscal year, and the likelihood that the Minister of Finance will today project a larger federal surplus in the current fiscal year ending next March, it's imprudent, in our view, to assume that the federal government's fiscal outlook will continue to enjoy robust revenues and higher surpluses throughout the second half of this decade.

In our view, the huge American budget and trade deficits mean the U.S. economy is likely to slow down in the second half of the decade, lessening demand for Canadian exports. Rising interest rates and high energy prices, rising provincial and municipal taxes, could depress economic growth and increase debt service costs on governments. Hence, we're concerned that the federal government's future fiscal capacity will be constrained after it has already made major new spending commitments through transfers to provinces for health care, equalization payment changes, and a list of other priorities for which we may see further spending commitments made.

The potential confluence of lower revenues and higher expenditures in the second half of the decade poses a threat that, in our view, could take us back to the future of rising deficits and debt. On top of this, we must always be mindful that there is the potential for another major global economic downturn should there be another unfortunate terrorist event like 9/11.

To address this prospect, we recommend that a key focus of the program spending, taxation, and other priorities of the federal government now be on building Canada's fiscal capacity into the future, and that it do this by ensuring Canada is a competitive location for businesses that serve global markets.

Canada's is a medium-sized, open economy in an increasingly globalized world. You know the numbers probably as well as I do: total export income of more than $400 billion a year, representing more than 40% of our GDP; annual trade surpluses in the order of $60 billion; a $90-billion trade surplus annually with the United States.

Canada has done very well over the past few years in building a successful export economy, but the global economy doesn't stand still. We can't be complacent about the business case for continuing to serve global markets from Canada. We need to ensure that Canada is a preferred location for advanced technology manufacturing sectors, and that key industrial clusters like aerospace continue to thrive and grow and become more efficient. Taxation levels are one element of locational competitiveness, but cutting taxes is not the only way in which government can productively work with industry to promote and facilitate global competitiveness.

We see three critical focal points for government investment and for Canadian industrial competitiveness that builds future fiscal capacity.

First, select the investments in new next-generation production platforms that act as anchor tenants in the Canadian economy and as magnets for suppliers. These platforms are key to the growth and competitiveness of leading industrial sectors, such as aerospace, and others, such as automotive. Government can play a pivotal role in levering the private sector investment necessary to create and sustain these vital sectors and cluster catalysts. with a level of public investment calibrated to the return on investment and Canadian value-added.

In this context, we believe it's in the national interest to ensure that Canada remains the decision and operations centre for Bombardier's next commercial aircraft program, with optimal participation by Canadian-based firms in the supply chain. But we also submit that the government should seek to optimize the participation of Canadian-based firms in other international programs, like the new Boeing 7E7 and other European aerospace projects. For example, Boeing currently procures from Canadian sources over $1 billion in advanced technology goods per year, but this will decline as current aircraft models in the Boeing production schedule are retired and if Canadian firms don't get a share of their new 7E7 program. So we need to look to the future, and at how we position Canadian companies here.

● (1115)

The second focal point is investments that promote commercialization of Canadian ideas so they can produce a return on public investment. This is already a priority of the government, and rightfully so. Right now the federal government uses program expenditures and tax expenditures to direct approximately $5 billion a year into research and development. It's done through government research institutes and the granting councils, through tax expenditures, the SR&ED program, in particular, and about $1.3 billion is directed to regional development agencies. As well, there's Technology Partnerships Canada, with annual investments that have averaged about $300 million since its inception.

Our position on this one is simple. We submit that any objective analysis will show that the much-maligned TPC program is in fact the least costly and most effective means to encourage the commercialization of R and D in Canada. It's more effective because it levers one public dollar into four or five private dollars, which compares very favourably with 100 cents on the dollar used to finance research grants. By ensuring that the private sector will have some skin in the game, it creates a market test for relevant research with a greater potential for commercialization application and the generation of future income.

The positive impact of TPC investments on the cashflow of private sector partners means it's a more positive influence on the business case for investment in Canada than tax credits that can get lost in multi-country tax pools of multinational companies and that cannot be monetized in the absence of taxable income. TPC helps capture R and D investments by foreign-owned firms, in particular, that could easily go elsewhere. We also submit that an objective analysis will show that the TPC program is a more efficient and effective vehicle for sustainable regional development than are some of the various instruments already employed.

For all of these reasons, we submit it would be sound public policy for the government to increase the funding and role of TPC within the total R and D policy complex financed by reallocation from other program and tax expenditures within the total envelope, not necessarily by new money.

Finally, we see sales financing capacity as an important competitive discriminator in global aerospace markets. This is particularly true for the sale of aircraft, which are unique, big-ticket, low-volume items. The average price of an individual aircraft, depending on the model, can range anywhere from $20 million to $200 million. It's a little different from selling high-volume, low-value products.

The lack of financing capacity shouldn't be a constraining factor that limits Canadian export potential, that unnecessarily drags down Canadian competitiveness in global markets, and negatively impacts the government's fiscal capacity. We need to increase public and private export sales financing capacity to align with the market opportunities for Canadian exporters like the aerospace sector, which again exports more than 80% of its output. Areas where we see the government can act would be to more fully exploit EDC's financing capacity as an instrument of public policy to address capacity gaps in the commercial banking sector, to further develop EDC's portfolio management and risk mitigation practices to expand its aerospace and aircraft financing capacity, and ultimately to work with the banking community to develop new private sector sales financing and lease capacity and to make Canada a global leader in aircraft sales financing.

Promoting sustainable economic growth and building fiscal capacity are our key recommendations.

Thank you again for the opportunity to appear, and I look forward to your questions.

The Chair: Thank you.

Mr. Boucher, Canadian Printing Industries Association.

[*Translation*]

Mr. Pierre Boucher (President, Canadian Printing Industries Association): Thank you, Mr. Chairman.

Ladies and gentlemen, members of the committee, I will begin with a few brief remarks and then turn the floor over to Mr. Kadis, the chair of the Governmental Affairs Committee of the CPIA, who will speak on behalf of our association to outline the issues which affect us directly. Mr. Kadis is the senior vice-president of finance and administration at Browne of Canada, a printing company with a number of offices throughout Canada and its head office in Toronto.

The CPIA agrees that the five-point plan for the economy announced in the Speech from the Throne in October is solid and is an excellent framework to establish priorities. The federal government must reinvest in its citizens and provide a regulatory and tax system that will support economic growth. Moreover, we must strengthen our relationship with our major trading partner to the South and invest in areas that will create opportunities for Canadians to play a leadership role worldwide.

We understand the importance of investing in health care, but we would caution against spending in new areas without consultations across the country. We must avoid all situations where the government would make unilateral announcements about spending in areas that are not broadly supported by Canadians. Moreover, the level of spending on new programs far exceeds the average growth rate in Canada, and this must stop. I will turn the floor over to Mr. Kadis, who will comment on these issues.

● (1120)

[*English*]

Mr. Bob Kadis (Chair, Senior Vice-President of Finance & Administration, CPIA Government Affairs Committee, Canadian Printing Industries Association): Thank you, Pierre, and good morning, Mr. Chairman.

The repeated surpluses generated in recent years certainly imply that federal tax revenues are sufficient.. They also imply a lack of rigour in the budgeting process. There needs to be better prioritization of expenditures on the basis of the national good and essential services.

These surpluses also imply there is room for additional tax cuts. CPIA believes that the government should institute further personal income tax reductions, geared especially to low- and moderate-income Canadians. The federal government should attempt to gain consensus with the provinces on tax reductions to ensure they are consistent with this goal and don't simply eat up the difference, such as Ontario has done with its new health tax.

We also believe that the federal taxes on capital should be eliminated. One area where we believe the government can make a big difference to innovation and productivity is by improving Canada's tax approach to capital investment. We believe it is a given that creating a more competitive environment requires capital investment. Equipment employed by industry must be leading edge. Unfortunately, a significant current impediment to improving productivity in many industries in Canada is found in the capital cost allowance provisions of the Income Tax Act.

Changes to CCA rates for computers in the last budget were a step in the right direction, but fell dramatically short of addressing the reality of computer-driven technologies in the workplace. Just as computers quickly become obsolete, computer-like equipment in the printing industry must be replaced every three years in order to meet customer demand and to remain competitive with printers in the U.S. Unfortunately, the new 45% CCA rate does not extend to such computer-like equipment, including software used in the manufacturing process.

Canada's tax approach to capital investment, in short, remains non competitive. Recent tax incentives in the U.S., including an extension of direct expensing, have simply widened the competitive gap. Canada needs to extend the faster write-offs available for computers to computer-like equipment, including software, and to allow small businesses to immediately expense $40,000 of capital expenditures.

What is the cost of this proposal? Earlier this year, CPIA engaged the tax policy services group of Ernst & Young LLP to analyze the current capital cost provisions relating to assets used in the printing industry and to analyze our proposal. The firm confirmed that it is revenue neutral, and made reference to the Department of Finance estimate that one dollar of tax reduction through the CCA system would increase economic well-being by $1.40.

The Speech from the Throne stated that sound fiscal policies, as well as competitive taxes, are needed to promote economic growth. If the federal government is serious about the fifth pillar of its economic strategy, the promotion of trade and investment, it needs to stop dragging its feet in this area. This committee has endorsed our position in the past. We do not understand why the government is reluctant to change a provision that would have no significant impact on revenue and would only serve to promote growth in Canada.

Mr. Chairman, I would now like to address another area of concern to the printing industry, and that is training. In order for Canada to increase its level of innovation and productivity, the government must raise the priority of training in Canada. There has been a significant vacuum-effect left since the federal government relinquished its role in the area of apprenticeship and training. The responsibility was transferred to the provinces, but not the money. The provinces have not been able to fund the required programs for industry to acquire the skills necessary to maximize performance.

Over the last several years, CPIA has asked the federal government to consider tax incentives to encourage skills upgrading, but to no avail. Two years ago, in a white paper published by HRDC, the government stated that it would “examine with partners possible financial incentives for employers who support essential skills development for their employees”. This recommendation did not get translated into any tangible measures. It is time for this government to invest in areas that will serve us the most in terms of innovation and productivity and that are in our workforce and our equipment.

The last topic we would like to address, Mr. Chairman, is government spending and budget surpluses. At the most, program spending increases should be kept at or below the expected GDP growth rate. Any new spending also needs to be focused on programs that will enhance productivity and provide the highest return in terms of economic growth and quality of life. With respect to surpluses, CPIA would recommend that they be spent as follows: one-third for tax reduction, one-third for debt repayment, and the final one-third for extraordinary assistance in areas that count the most—research, training, and infrastructure.

Thank you, Mr. Chair.

The Chair: Thank you.

Next on the list I have the Cement Association of Canada, and Monsieur Lacroix.

● (1125)

Mr. François Lacroix (President, Cement Association of Canada): Good morning, Mr. Chairman, members of the committee. On behalf of the cement industry, thank you for this opportunity to submit recommendations for the upcoming federal budget.

Recognizing the time limits, Mr. Chairman, I table our submission and request that it be inserted into the record as if read. With that taken care of, I'll take a moment to provide highlights of our recommendations for the benefit of the discussion today.

The Cement Association of Canada represents all Canadian cement manufacturers. Our members include 10 companies with 16 manufacturing facilities and over 45 distribution centres from coast to coast. The cement and concrete industries generated more than $5.7 billion in revenue—that's in 2002—and accounted for approximately 22,0000 Canadian jobs. It's worth noting also that 35% of our production is exported to the United States.

Cement is a critical ingredient in concrete, and concrete is the product you all know, the product that is essential to virtually all construction and is an enabling product for sustainable construction. Whether one is considering transportation, large or small energy projects, housing, industrial or institutional buildings, concrete systems provide the versatility to design the most energy-efficient, durable, and cost-effective solution.

The focus of our 2004 pre-budget submission could be summarized, I think, by saying spending a little money to save a lot. With respect to sustainable municipal infrastructure, the CAC and our members want to work as partners to develop Canadian infrastructure policies that enhance sustainability. We appreciate recent federal infrastructure investments. However, committee members know better than I that communities are still confronted with many infrastructure challenges requiring significant investment. To that end, in this budget we encourage the Government of Canada to implement its commitment to provide $5 billion over five years for the new deal for cities and communities.

It is well documented that over the past two decades our national highway system has deteriorated due to inadequate funding. We therefore recommend that a portion of proceeds from the sale of Petro-Canada, already earmarked for sustainable technologies, be allocated to environmental technologies for highways. Recently the Minister of State for Infrastructure and Communities spoke of building the right kind of road. To address this goal we recommend that additional funding be provided to Transport Canada specifically to enhance capacity related to sustainable surface transportation options, a mode often overlooked in sustainability discussions.

The CAC, our industry, also strongly encourages the federal government to adopt life cycle costs, life cycle analysis, as mandatory practice for infrastructure projects. While short-term solutions may appear cheaper upfront, the long-term costs may be higher and result in economic penalty for governments.

In order to recognize long-term benefits from infrastructure projects, governments must establish a policy framework based on life cycle analysis to enable balanced consideration of upfront price, long-term maintenance, environmental impact, and social benefit. As such, we recommend that the upcoming budget specifically allocate $5 million to Infrastructure Canada to develop this policy.

Finally, based on available information, the Canadian cement industry is very interested in the environment minister's recent proposal to create sectoral sustainability tables. Properly executed, this process could result in enhanced cooperation among stakeholders from the cement and concrete industries' value chain and achieve progress towards implementing sustainability. The Government of Canada will have to provide adequate funding to establish and support this progress.

Thank you very much, and I welcome questions.

The Chair: Merci.

Direct Sellers Association of Canada, Mr. Creber.

Mr. Ross Creber (President, Direct Sellers Association of Canada): Mr. Chairman, honourable members, on behalf of the Direct Sellers Association, I want to thank the committee for providing us with the opportunity to present our recommendations to support and promote the economic growth of the small-business sector of the Canadian economy.

My name is Ross Creber, and I'm president of the Direct Sellers Association. I have with me today Mr. Jack Millar, senior partner of the law firm Millar Kreklewetz and a director of the Direct Sellers Association.

The Direct Sellers Association, founded in 1954, is a national association representing more than 40 direct selling companies and more than one million independent sales contractors—ISCs—across Canada, who in 2003 sold more than $1.6 billion worth of products and services to Canadian consumers. The direct selling companies and the ISCs market and distribute a wide variety of products and services directly to the consumer, usually, but not exclusively, in the consumer's home, rather than through traditional retail establishments. Generally, these products and services are sold through the ISCs in the context of group presentations known as “party plan” or on a personal consultation basis. These independent business persons represent such well-known names as Avon, Mary Kay, Tupperware, PartyLite, Nature's Sunshine, Cutco/Vector, Weekenders, Shaklee, Regal, Nu Skin, Quixtar.

Mr. Chair, the strength of direct selling lies in its tradition of independence, its simplicity, and its commitment to a free market system, providing accessible, low-cost business and career opportunities to people whose entry is not restricted by gender, age, education, or previous experience. It is a significant fact that direct selling is a manageable economic opportunity that can further family income with minimal disruption and minimal investment. Furthermore, it reduces the burden on government assistance programs and provides significant tax revenues through the goods and services tax's direct sellers alternate collection mechanism.

The DSA believes it is important for the government to understand that the direct selling industry is a vital part of the small-business sector in Canada. We have a tremendous capacity to create jobs and economic growth and in the process reduce dependence on social assistance programs, providing accessible earning opportunities with little or no investment to a broad spectrum of Canadians.

The Direct Sellers Association has always shared its experience and knowledge with all levels of government. For example, the DSA has worked closely with Revenue Canada, now the Canadian Revenue Agency, in educating the ISCs to comply with Canada's income tax laws by assisting in the preparation of an income tax guide for independent sales contractors.

The DSA continues to work with Health Canada concerning the regulations of natural health products. Approximately 60% of our DSA member companies provide such products to their customers. Through the industry's direct selling education foundation—DSEF—we continue to support programs that are designed to develop a more informed consumer. An example of this is the DSEF's partnership with the Ontario Ministry of Consumer and Business Services to develop a consumer awareness program for students in grades nine through twelve.

Mr. Chairman and honourable members, the DSA believes that the following recommendations will assist the House of Commons Standing Committee on Finance in preparing this year's pre-budget report.

Number one, DSA recommends that the government continue with tax reductions that will contribute to Canada's economic growth and job creation.

Second, the DSA recommends that the government not proceed with the draft proposals, the so-called reasonable expectation of profit—REOP—regarding the deductibility of interest and other expenses, given that in our view they are not needed, lack certainty, and if legislated could stifle entrepreneurial activity in Canada.

Third, the DSA recommends that the food and beverage zero-rating provisions in the goods and services tax legislation be clarified to expressly zero-rate dietary supplements and natural health products, given their increasing importance to maintaining the health of Canadians.

The DSA recommends that existing social programs be revised to allow for greater transitional relief to all individuals moving from a position of dependence to a position of independence in operating their own small businesses.

The DSA recommends that legislative action be taken to extend the direct sellers mechanism so that it will be equally available to direct sellers and independent sales contractors who operate on a sales agent basis. Currently, only direct sellers and independent sales contractors who operate on a buy-and-sell basis may use this mechanism. The DSA believes that our specific recommendations have little or no cost to the government.

● (1130)

Mr. Chairman and honourable members, the Direct Sellers Association appreciates the opportunity to appear before the committee and believes its recommendations are consistent with the committee's objective to present a pre-budget report that addresses the needs of Canadians. As always, the DSA is prepared to provide its support to the government to help achieve these goals.

We and all its members thank the Standing Committee on Finance for inviting us to participate in the pre-budget consultation process, and we look forward to participating in the discussion and answering any questions the committee may have.

Thank you.

● (1135)

The Chair: Thank you.

I liked the non-cost bit.

We have the Canadian Vehicle Manufacturers' Association. Mr. Nantais.

Mr. Mark Nantais (President, Canadian Vehicle Manufacturers' Association): Thank you, Mr. Chairman.

Good morning, members of the committee. On behalf of the members of the Canadian Vehicle Manufacturers' Association, I want to thank you for this opportunity to appear before you today and provide our comments on the 2005 pre-budget consultations.

I will begin by saying that our industry has a major manufacturing footprint in Ontario and has a wide-reaching impact in most parts of the Canadian economy and in almost every region of Canada through our retail, distribution, and supplier base. In fact, one in seven jobs is related to the automotive industry in Canada, and both direct and indirect jobs total some 530,000 across the country.

I've provided the committee with a much more comprehensive outline of some statistical economic data I think you might find useful as it relates to the industry.

I'll go on to say that with unprecedented competition, excess capacity, and the elimination of most of the key policy tools that had been available through the early 1990s to encourage automotive manufacturing investment, the future of much of Canada's industry is not guaranteed. However, to ensure that Canada remains a competitive location for automotive production and investment by the members of our organization, I've been working with the federal government, the provinces of Ontario and Quebec, labour, academia, and other associations through the Canadian Automotive Partnership Council to create and implement a strategic automotive policy for our future.

The CAPC's mandate has been to develop a new policy framework that will create an environment that facilitates the strengthening and growth of our industry in Canada. On October 26 the CAPC released a report called “A Call for Action”. I believe this report has been mailed to every member of Parliament. This document outlines a detailed strategy for the Canadian automotive sector, including recommendations and targets for both industry and government.

For the purpose of these consultations today, I'd like to highlight only a few of the recommendations, which we believe will help sustain the hundreds of thousands of jobs and literally billions of dollars of government revenue that depend on a vibrant and competitive auto industry in terms of both helping consumers adopt newer, greener technology and creating a competitive business environment to help drive investment.

First are alternative and advanced technology vehicle incentives. Cleaner, more fuel-efficient advanced technology vehicles have a role to play in our achieving Canada's air quality goals and will contribute to reducing vehicle-related greenhouse gas emissions. The magnitude and speed at which these technologies may contribute to these goals is really dependent upon the acceptance of the technologies by consumers and their integration into the on-road fleet. To date, advanced technology vehicles have not been significantly adopted within the Canadian marketplace.

Due to the nature of the technology incorporated in these vehicles, the cost to manufacturers is many thousands of dollars higher than for a comparable conventional vehicle. This premium is significant because for every $100 increase in the cost of a new vehicle, it is estimated there is a corresponding 0.8% reduction in demand. Surveys show that customers indeed want greener, cleaner products, including cars, but their enthusiasm quickly dissipates when it is evident they may have to pay more to obtain such products or when the return on their investment, so to speak, only starts after a two- to three-year timeline.

To assist consumers by offsetting the price premium associated with these advanced technology vehicles—particularly for those we call the early adopters of these technologies, who are helping to develop the Canadian marketplace—the government, we believe, should provide meaningful incentives for consumers to purchase them. Creative options could include direct consumer rebates, sales tax rebates, or perhaps income tax credits that would allow consumers to effectively offset the higher costs. Incentive programs should not, however, pick technology winners or losers, but rather they should provide consumers with the impetus to purchase vehicles with cleaner, more fuel-efficient technologies that meet their needs. The level of the incentive should reflect the cost premium and the level of environmental benefit afforded by the vehicle. It is a technology-neutral approach.

Second are personal income taxes and personal disposable income. Although the federal government in the late 1990s implemented a wide-ranging tax reduction plan that included personal income tax reductions, income taxes and personal disposable income remain uncompetitive in Canada as compared to the United States. The automotive industry, as with many other industries across Canada, requires highly skilled and highly trained individuals, such as engineers, for our continued success and growth. This is particularly true in high-value areas such as research and development and vehicle engineering and design. However, because these individuals are in fact in high demand globally, they are very difficult to attract and keep in Canada. In order to help us with this challenge, we must have a competitive tax structure, especially vis-à-vis the United States.

● (1140)

And while Canada has reduced personal income taxes over the past couple of years, major reductions in U.S. tax levels have occurred as well, thus maintaining an overall imbalance in both tax rates and personal disposal income.

There is another dimension to this challenge, and it is that PDI in Canada remains significantly lower than that of consumers in the United States. In fact, despite vehicle prices remaining practically unchanged for a decade, today the cost of a new vehicle accounts for over 135% of an average Canadian's disposable income, whereas in the United States it sits at 93%. This has a significant impact on the ability of Canadian consumers to buy new vehicles and adopt new technology. We would therefore recommend that the federal government give consideration, as part of a renewed short-term tax strategy that builds on the expired five-year plan, to scheduling personal income tax reductions to be implemented over the next several years to help ensure a more competitive tax environment.

Number three is fiscal investment policy. As we're all aware, multiple factors drive investment decisions by corporations, including market access, part of which consists of a predictable, reliable, efficient border; labour and other costs of production; political stability; and after-tax return on investment. Within the NAFTA, the United States has the advantage of market size to encourage investment, while Mexico on the other hand has labour cost advantages.

One clear way for Canada to create an investment advantage and become a more attractive location for foreign direct investment is by creating a hemispheric competitive tax policy that improves the after-tax return on investment. By leveraging the corporate tax system to encourage capital investment, Canada can maintain and create a large volume of highly skilled, high-wage, and high-tax-bracket jobs. Recent studies have indicated that Canada is faring well in international competitiveness with respect to corporate tax rates.

The competition, however, has not remained stagnant; it is in fact improving its position, and Canada must also do that. With the federal government's five-year tax strategy ending in 2004, a new medium-range tax strategy through to the end of the decade should be implemented to allow for improved business investment and planning.

Number four and lastly, as a highly integrated industry across North America, the automotive industry relies on a seamless transportation system between Canada and the United States to ensure that our facilities operate efficiently. As a result of our production and level of industry integration, our sector alone accounts for roughly 25%, or over $140 billion worth, of the two-way trade between Canada and the United States. The majority of these shipments are production parts that feed assembly plants on both sides of the border, requiring a streamlined, efficient, and predictable border to accommodate the just-in-time delivery systems.

As a result, the auto industry has long advocated for strategic infrastructure investments for us to effectively process existing trade volumes between Canada and the United States and also to accommodate future trade growth as our economies become further entwined. However, border delays and trade corridor congestion continue to worsen, and this congestion costs Canadian businesses billions of dollars annually both in terms of lost productivity... and it's nearly impossible in fact to measure the amount of lost opportunity in jobs due to redirected investment decisions, and those decisions are being redirected in certain cases.

The money already announced to date by the federal government was a very good start, but little of that announced money has been spent—

The Chair: Can you just wrap it up, please?

Mr. Mark Nantais: I have two sentences, if that's all right.

Little of the announced money has been spent on infrastructure improvements to date. In addition, this funding appears to be insufficient to meet current, let alone future, demands. This budget should focus on providing that adequate funding, and the federal government should work in partnership with the Ontario government to implement a new border crossing. It needs to work in partnership with the Ontario government to create uninterrupted access from Highway 401 through to the U.S. interstate system and to work with provincial governments to improve critical trade corridors such as the 400 series highways through Ontario.

These are our concerns, and I'd certainly welcome your questions and comments.

The Chair: Thank you.

We have BIOTECanada. Ms. Lambert.

Mrs. Janet Lambert (President, BIOTECanada): Thank you.

Thank you, Mr. Chair and honourable committee members, for the opportunity to appear in front of you today and contribute to your pre-budget consultations.

I'm Janet Lambert, president of BIOTECanada. I'm here with John Mendlein, from Affinium Pharmaceuticals.

[*Translation*]

We are pleased to be with you today.

[*English*]

BIOTECanada is the national biotechnology industry association, representing Canadian health care, agriculture, food, research, academic, and other organizations that work toward improving the lives of Canadians through biotechnology. Two-thirds of them are not making revenues, and 75% are small and medium enterprises that are averaging five years to go before having a product on the market.

Our country is facing a serious R and D disconnect. A growing gap is occurring between the rhetoric of words like “innovation”, “commercialization”, and “enabling technologies” and the reality of our fiscal and regulatory policies. We're here because the decisions you make today will decide whether Canada continues to be a leader in biotechnology or gently declines into being a mere service provider to the United States, Asia, and Europe.

Our dedicated scientists, researchers, and entrepreneurs have sacrificed much to be where we are today. We can't afford to let them down, and time is running out. If we don't take action now, we lose things like plants that identify the location of land mines; vaccines that prevent HIV, cancer, and diabetes; and more accessible and more affordable pharmaceuticals, just to name some examples.

We've only just begun to see the benefits that exist with this technology. In fact, we have no idea of the total benefit of biotechnology and what is to come down the pipe. It takes about twelve years from bright idea to available product. Imagine what Canada can do if we act now with the excellent research foundation we've built so far. There's no reason Canada cannot have three, four, or half a dozen Canadian biotech multinationals. Canadians have developed a stake in this technological revolution, but to achieve the prospect of true 21st century knowledge-based economy leadership, you as elected officials must put words into action, actions that will catalyze a competitive industry.

Critics argue that we can't compete with economic Goliaths like the U.S. and the emerging economies in Asia. However, with innovative companies like QLT, based in Vancouver; Neurochem from Montreal; SemBioSys from Calgary; and Affinium from Toronto, we're proving them wrong. Canada must enforce the building blocks of innovation through flexible capital markets, effective regulations, and a business environment that rewards risk. This can be achieved by, first, strengthening the SR&ED tax credits to include collaborative research so the incentive is there for true innovation; second, investing in the accurate and comprehensive recommendations of the External Advisory Committee on Smart Regulation; third, not scrapping but reforming Technology Partnerships Canada so it is better aligned with the needs of the 21st century economy; and fourth, developing incentives to stimulate investment in Canadian biotechnology throughout its long life cycle.

Thank you very much. Merci beaucoup.

Now I'd like to turn over the remainder of our time to Dr. John Mendlein, the chairman and CEO of Affinium Pharmaceuticals.

● (1145)

Mr. John Mendlein (Chairman and CEO, Affinium Pharmaceuticals, BIOTECanada): Thank you very much for the invitation to speak about the promise and the jeopardy of the biotech community in Canada. And yes, I said “jeopardy”. I apologize that I'm from California and its biotech community, but the promise of biotech convinced me to come here four years ago. I now run a company that's emerged from public funding and research institutes, and I see some of the challenges here after four years.

My first request is please do not shoot the messenger, even though I am an American here.

So why did I leave a beach house in California to come here? There's tremendous opportunity within the community here. Our company is working on the first new class of antibiotics in 40 years. That's a huge development in drug discovery. But we may lose all of this in the next two or three years because of lack of funding in the Canadian biotech market.

A great venture capitalist once said you build a biotech company with a mix of ideas, people, and money. My observation in the last four years since I've been here is that Canada has the industry for the ideas and the people, but not the money. Idea rich, investment poor is very ironic. Canada is a very wealthy country based on past historic successes, so where will the next industries come from?

Canada has contributed enormously to the research base of the world. Everyone in this room is part of that. We're all stewards of this innovation. Yet how many world-class biotech companies do we have in Canada? We have BioChem Pharma in Quebec. We have QLT in B.C. Are these really enough to help create an industry? How do we accelerate the expansion of new businesses in biotech?

First, think big. To launch great businesses we must change our mindset in both public and private sector investing. We must change our attitudes towards success and failure and we need immediate socially and fiscally responsible actions by Canada. For instance, make it a national goal for Canada to become the leader globally by 2011 in biotech. Measure this not by the number of companies, but by how many companies rank in the top ten in the world in biotech and pharma. Currently no Canadian company enjoys that, even though Canadian inventions are in some of those companies. Sweden is there, Switzerland, small countries are there, but we are not, even though we have a great research base.

So how do we get there, realistically? This is going to be a touchy point, so I apologize for my candour. The current pattern is small public and private investments. And yes, public and private investments must change to avoid a disaster in the biotech community in Canada. Too many small companies have been made in the last four years. This idea of spreading the money around is not a good idea for biotech. A broad, thin funding paradigm is fundamentally flawed for biotech. From 2004 to 2008 these newly created companies will be out of cash unless we change the funding paradigm, because it takes so much cash to take a drug to market.

So what will happen in the future is all the investments we've made both on the business side and the research side are likely to be acquired by companies in the United States. Friends who I used to work with in California in the next 12 to 36 months can get the rewards of that innovation. Big focus actions are required to overcome the risk of biotech for spectacular rewards. We need to focus on building more powerful businesses.

What can we gain by this? A single company can generate $75 billion in market cap, $8 billion in revenue, and it can be built in less than 25 years. And it's happened a couple of times in California. It has a positive impact on health, jobs, and it can save our lives and the lives of our loved ones. We all want to live longer, we all want to love longer, we all want to enjoy our lifestyles, and the biotech industry can provide that. Simply, biotechnology is an opportunity to create health and wealth in a single industry through big, focused actions in Canada.

I strongly recommend that we take some of Janet's recommendations forward. Also, in your handout that we provided, I have a one-page proposal on a no-capital-gains-tax rule on equity investments. In Q and A, if you'd like to follow up on that, I'd be happy to address that.

● (1150)

The Chair: Thank you.

We'll have rounds of seven minutes.

Mr. Penson.

Mr. Charlie Penson: Thank you, Mr. Chairman, and thanks to the panel for coming today and making presentations.

We've heard in our pre-budget consultations a number of groups coming before us to talk about the size of government surpluses and the fact that they may not be there in the future because of the things Mr. Boag was talking about, where we've made some substantial investments in equalization to the provinces and health care. We've also heard a number of groups come—and I heard it again today, I think from Mr. Kadis and Mr. Nantais—about the need to have another revitalized tax-cut package to be able to compete with our biggest competitor, the United States.

What I'm trying to square here is how that's going to work in the future if we need to reduce our corporate tax rates again, which I think we do, and make capital tax reductions in order to make the investments we need during this time, and how to reconcile those needs with demands for increased spending. One of the things we have asked for, if people have proposals for government spending on their industry, is that we get some kind of cost estimate.

I would start with Mr. Boag and the aerospace industry and would ask this. Mr. Boag, in connection with the proposals you've put forward today I'm a little perplexed. On one hand it seemed to me you were saying we can hardly afford to go much further, because we're getting close to the line on whether we're going to be having surpluses or deficits. I understand you're still suggesting we make significant investments in the aerospace industries. How do these square?

Mr. Peter Boag: I think you've raised some very valid points. Our view is that yes, we need to be aware of the future, and our concern as I articulated it is about the future fiscal outlook for the government with the number of potential threats in the global economy. What we're talking about is being very selective in making very selective strategic investments, and for the most part looking at how you do that through a reallocation of existing resources and not necessarily jumping in with a whole pile of new spending using new money.

● (1155)

Mr. Charlie Penson: When you're talking about making investments in Bombardier's new-generation wide-bodied jet, what are you talking about specifically?

Mr. Peter Boag: I think Bombardier has been quite clear in their discussion on that item: in terms of looking for a government role; in terms of risk-sharing investment to launch that new program here in Canada, as opposed to launching it elsewhere. Certainly we see the long-term payoff for government in the economic growth that will create jobs and ultimately fiscal capacity for the government. It's not what we would view necessarily as an expenditure or a subsidy. It's really an investment, working with Canadian industry to make sure this remains a competitive environment.

Mr. Charlie Penson: Mr. Boag, I'd like to explore that investment side of things a little. You talked about the need to increase the technology partnerships grants. My understanding is that in the last ten years or so the federal government's return on investment there has been about 2%. Is that correct?

Mr. Peter Boag: Certainly the direct repayment stream has not been large at this point. I think you need to look at that from a number of—

Mr. Charlie Penson: Could I ask you why not?

Mr. Peter Boag: Yes, I was just going to say, look at that from a number of perspectives. One is that the kinds of investments—and I can talk only about the aerospace component of it, I cannot talk with any degree of knowledge on the enabling and environmental technology side of the program—that TPC has made in aerospace are extremely long-term investments, where repayment streams are based on when the product ultimately achieves commercial success and the revenue stream starts coming into the company as well as coming back to the government.

A number of those larger investments have only been made in the last five or six years—TPC was only established in 1996—so the commercial success of those programs, given that the investment out-cycle in the development of a new aerospace program is often three, four, or five years, is only now beginning to occur. Repayment is now actually starting on many of those investments. It's ramping up on a regular basis. I think the expectation on an aerospace project that we would see repayment start to ramp up at a very high rate within three or four years is unrealistic, and that you will start to see it at seven, eight, or nine years. And that has in fact been the track record.

Mr. Charlie Penson: Mr. Boag, I've been on the industry committee for some time, as well as on the international trade side. We've been hearing this argument for quite some time, that pretty soon we're going to see some return on investment here. Even in your example it has been eight years. Now we're being asked to invest in a new generation. That means that the existing technology, I guess, must be starting not to be that saleable, because one of the companies asking to move to the new generation, or the new wide body, in order to meet the need out there....

Hasn't the Government of Canada taken significant risk in this whole sector? When I talk to my constituents, they ask me why we should be investing in the aerospace sector. Why don't they do it themselves? Why don't they go out there and finance themselves, and if it's a competitive industry, go ahead with it; we wish you luck with your investments. They argue: I shouldn't as a taxpayer be asked to give my hard-earned tax money; I would choose to keep it and make my own investments.

How would you argue against that?

Mr. Peter Boag: Certainly those are valid comments, and I'll try to address those.

This is an industry that is global, and it's highly political. It's an industry that has a huge relevance to national security in most countries, with the exception of Canada, so there's a very significant level of government investment in the aerospace industry. As a result, if we want to keep those investments happening in Canada, there's a role for government partnership.

We come back to the risk and the reward side of it, and the old technology and the issue of a new program for Bombardier. Let's go back to the late 1980s and early 1990s, when the government partnered with Bombardier on their first-generation regional jet, the CRJ program. Government investment initially at that time was a $45 million risk-sharing investment, a repayable investment. By the time Bombardier completed their repayment obligations in the royalty stream, based on the success and commercialization of the program, Bombardier had returned in direct repayments to the government over $90 million. So a government in 10 years saw a two-to-one return.

● (1200)

Mr. Charlie Penson: But you recall, Mr. Boag, that Canadair was spun off, was sold to Bombardier for $187 million, even though the Government of Canada had made over $2 billion in investment in that new jet to start with. So I would argue that's a pretty poor return on investment. I'm sure we have a number of people coming to the committee who could make the same argument: the shipbuilders.... There are all kinds of sectors that would love to have government investment on their side, but is that the role of government? That's my question.

I just want to move on and ask, because I'm running out of time here—

The Chair: I'm sorry, we have no more time. You're over—way over. Sorry.

Monsieur Côté.

[*Translation*]

Mr. Guy Côté: Thank you for your presentations.

As you probably know, Mr. Lacroix, there is a cement company in my riding. However, you may not know that there is also a computer engineering firm specialized in building software that will determine how long municipal infrastructure will last and the optimum time to replace it. So you can understand why I am so interested in your presentation.

You mentioned earlier that it might be advisable to adopt a mandatory policy for analyzing the life cycle of infrastructure. I would like you to provide us with more details on this matter.

Mr. François Lacroix: Of course, Mr. Côté.

We suggested before investments are made in infrastructure—buildings, sewers, aqueducts and roads—an analysis should be done of the length of time this infrastructure lasts. It often happens that the initial cost does not reflect the whole picture. Consideration should be given to the use and energy and maintenance savings. All the factors must be taken into account. That is what we are suggesting.

Let me give you the example of highways. Frequently, depending on the traffic, the cost of concrete roads may be slightly higher initially. However, in the long term, the savings on maintenance fully justify the initial investment. In addition, studies by the National Research Council of Canada have proven that heavy vehicles travelling on concrete roads used less fuel. The other surfaces are softer, which makes things more difficult.

Basically, we are suggesting that this analysis take into account both the operating, maintenance and construction costs, as well as the environmental and social costs related to investments in infrastructure.

Mr. Yvan Loubier (Saint-Hyacinthe—Bagot, BQ): I would like to ask Mr. Boag a question similar to the last one asked by Mr. Penson, which Mr. Boag did not have an opportunity to answer.

Can you explain for us the real spin-offs for the aerospace and aeronautical industries in Canada? What does this provide in terms of taxes for the federal government when your product is marketed following a minimal investment by the federal government? How many jobs are created, and so on? Could you also explain for us how the governments of other countries support industries so fundamental to the economy as the aeronautics and aerospace industries?

[*English*]

Mr. Peter Boag: Thank you. I'd be pleased to answer that question.

Certainly government's investments in projects of companies, whether it's Bombardier or other large aerospace companies, spin off to a broad spectrum of supplier companies throughout Canada. The jobs created are not only the jobs in the large companies that are direct recipients of investments like TPC, but they also spin off into other companies across the country, whether they're in Nova Scotia, whether they're in British Columbia. And, Mr. Penson, there are some aerospace companies in Alberta as well. So the spinoffs are significant.

I think you also need to look beyond the direct spinoffs to the role that technology's developed in the aerospace sector, and how they spin off more broadly into the community through issues like advanced materials, through imaging technologies, through satellite technologies that are used in broadcasting, in weather forecasting, in the agriculture business through the global proximity system type of work. There is a broad spinoff of aerospace technologies that go beyond the individual applications in an individual specific program. There are economic and technology spinoffs that are significant, as well as those that have an impact directly on our national security interests in terms of the kinds of technologies that ultimately are used, whether they're by the Canadian Forces or the forces of our allied countries around the world.

● (1205)

[*Translation*]

Mr. Yvan Loubier: Thank you, Mr. Boag.

Mr. Mendlein or Ms. Lambert, earlier you mentioned the importance of investing more in research on biotechnology. I am particularly interested in this, because a few years ago, we created the "*Cité des biotechnologies*" in Saint-Hyacinthe, Quebec. This is an industry of the future. We are investing a great deal in it, and we are in the agri-food capital. What do you think of the fact that at the moment, $7.7 billion is lying dormant in foundations and not being used for research, particularly when some of it could be used rather more constructively in the area of biotechnology?

[*English*]

Mr. John Mendlein: Thanks very much for pointing that out.

I think there's been very good investment both in Quebec and other provinces in biotech, so there's this very strong base. We need to have a time horizon of probably 10 or 15 years. We need to make multiple funding strategies for these companies over that time horizon. What we're proposing is that… The traditional base here is like a stool; the traditional base is very strong in research and education. Continue to support that. There's another part of this that holds up that stool, which is related to investments by the Canadian government and different provinces into the types of successful ventures you're talking about. Then the third piece is to create a business environment that incentivizes the private sector to make investments, not just in biotech companies but also in all technology companies, because these are the growth engines of the country in the future.

One way to do that is through a change in capital taxation. The capital gains tax would not apply to equity increases based on technology-based companies.

[*Translation*]

Mr. Yvan Loubier: Mr. Mendlein, do you think the $7.7 billion in the foundations is being properly used or do you think there would be some way of stepping up investments in industries of the future, such as biotechnology?

Mrs. Janet Lambert: This money is being used very well, because Canada and Quebec are doing a great deal of research that is well known and well respected. So this is a very cost-effective investment.

Mr. Yvan Loubier: I see. To which foundations are you referring? Give us an example of a foundation that is investing its money well.

Mme Janet Lambert: Genome Canada.

Mr. Yvan Loubier: That is clearly the case of Genome Canada, but what about the rest of the foundations? For example, there is over $3 billion in the Millennium Scholarship Foundation. Would this money not be better used if it were invested in industries that would produce significant spin-offs?

Mrs. Janet Lambert: Biotechnology is a rather special industry, because it takes at least 10 or 15 years before there are any returns on the investment. So the framework must be somewhat different. I am thinking about the scientific research and experimental development tax credit. In that case, the credit expires after four years. Then companies purchase a company that has not yet done any marketing. That will take at least five or six more years. It is therefore very important for the life cycle of biotechnology that there be good policies in place in Canada.

The Chair: Thank you, Ms. Lambert.

[*English*]

Mr. McKay.

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

I have a number of small clarifying questions. My first one is to the Canadian Printing Association. On page two of your submission you talk about the availability of faster write-offs for computer and peripheral equipment. I think actually that's a good point, well taken. But what I don't understand is "...but should also makeavailable to small businesses the ability to expense an amount of $40,000 (or higher) ofinvestment in general—and specific–data processing equipment and peripherals." I don't understand what "ability to expense an amount of $40,000" means. What's the significance of that?

Mr. Bob Kadis: The significance is that we're competing again to a great extent with printers in the United States. Their capital cost allowance equivalent, their system there, aside from having faster write-off rates, allows a 100% write-off rate to businesses up to $100,000. This was a temporary measure. Last month it was just extended for another two years. So what's temporary and what's permanent? It's really a question that we're looking for a faster rate for smaller businesses and for those investments—-

● (1210)

Hon. John McKay: So is the $40,000 a ceiling, then?

Mr. Bob Kadis: Yes, that would be a ceiling we've suggested.

It's not as big as the ceiling in the States. As I say, they had a $25,000 ceiling, temporarily extended to $100,000. We are saying the Canadian equivalent of that $25,000 at the time we wrote this might have been closer to $40,000.

Hon. John McKay: Okay, thanks. That's very helpful, because I thought you were almost looking for a grant there, the way the phrase was written.

Mr. Bob Kadis: No, not at all.

Hon. John McKay: My second question is to the DSA and it has to do with the deductibility of business expenses. You set out back and forth between the government's position, the Supreme Court's position. You preferred the Supreme Court's position over the government's draft positioning.

We had a presentation earlier from the real estate folks along the same lines. Their concern was that the purchase of real estate assets was going to be restricted if the draft tabling of this legislation went forward.

It's not clear to me what your point is here. What is the uncertainty or unfairness or arbitrary treatment that is unique to your industry?

Mr. Jack Millar (Member of the Board, Direct Sellers Association of Canada): I'll take that question, if I can, Mr. McKay.

Prior to the Supreme Court decisions, Revenue Canada would audit independent sales contractors and deny their business expenses. They did it on the basis that there was no reasonable expectation of profit. It was a very, shall we say, uncertain application of the law, a very selective application of the law. It was almost by the lottery whether you were selected and this approach was taken.

The matter went to the Supreme Court of Canada in a number of cases, and they said this is much too uncertain a test. It imposes hindsight and it takes priority over the business decisions of Canadians. The Supreme Court totally discredited it. The concern of the Direct Sellers Association is that if it now becomes legislated, that kind of approach will now be part of our law after the Supreme Court says it's an improper approach.

The concern for the Direct Sellers Association is back to the million ISCs across Canada who are trying to run their small businesses, and every time they want to make an expense to make their business more profitable, run better, they have to ask themselves, am I going to be allowed to deduct that expense?

Hon. John McKay: So our lady selling Mary Kay wants to write off some household expenses, if you will, operates out of her car… Is that the kind of person this draft legislation targets?

Mr. Jack Millar: Yes, it does. As a matter of fact, you've raised a good example. There was a case before the tax court last year for an Amway distributor. They had been assessed on the basis they had no reasonable expectation of profit. After the assessment but before it got to court, the Supreme Court had ruled that was an invalid test for denying expenses and it went before the tax court. The tax court used the analysis of the Supreme Court to say the following. Are these business expenses or personal expenses? If it's a personal expense, it's denied. Secondly, if it is a business expense, was it reasonable in the circumstance, or was it excessive, given the size of the business activity? The tax court decided that the expenses that had been denied under the discredited REOP approach were in fact allowable under the Supreme Court's approach.

That's the kind of concern we have. It would be the Mary Kay distributor who is doing their business on a part-time basis.

Hon. John McKay: Okay. Thanks. That's quite helpful, because sometimes you do look at these home businesses and you wonder what's what and you're almost into an intentionality issue.

My third question has to do with the differences in approach between the aerospace folks and the biotech folks. If I could, I would get Mr. Boag to comment on the use and abuse of these credits, the SR&ED credits. The biotech folks seem to think this is a keen idea, because their life cycle is in the order of 12 to 15 years. Your life cycle, on the other hand, is also in the order of 12 to 15 years. They seem to like the credits approach, but you seem to be a little bit down on the credits approach because they can sell the credits off, monetize them, and create some unintended consequences. I would be interested in your comments on that.

● (1215)

Mr. Peter Boag: Thank you.

The challenge with the tax credit approach is that, particularly in the context of companies making investment decisions on whether they are going to invest in Canada or whether they're going to invest in some other jurisdiction—the United States, Europe, or somewhere else like that—it's very difficult for them to look at the tax credit as a cashflow issue that will help them and make a positive investment decision based on a business case for investing in Canada. The tax credit comes after they have made a profit. It's not upfront and where the high investment period is coming. Companies' corporate headquarters assessing business cases find it very difficult to attach a tax credit that's coming some years down the road directly to a specific program when making a decision on investment on a specific program in Canada as opposed to an investment in some other country.

There is then the issue in terms of international treatment of tax. It's really difficult to ultimately find it, because it gets washed away in the complex tax treatments of multiple tax jurisdictions. When it comes to a positive impact on a business case for making an investment decision in Canada or some other jurisdiction, recognizing that we're competing among other jurisdictions for investment in aerospace programs—we're competing with Europe, with the U.S., and increasingly competing with countries in the third world—the tax credit is not a great addition to the business case when it comes to making that kind of investment decision.

Hon. John McKay: Your position is essentially give us the dough, forget the credits.

Your position is essentially give us the credits, forget the dough.

Have I got it down?

The Chair: Ms. Lambert, quickly, ten seconds.

Mrs. Janet Lambert: Yes, very quickly.

We have a lot in common, as you've mentioned, with aerospace. However, we have some significant differences. There are two big differences between biotech and aerospace. First, Biotech has no revenues; aerospace has commercialized product with commercialized revenues. The other big difference is two-thirds of TPC money goes to defence and aerospace; the amount of money that goes into biotech from TPC is a rounding error in the TPC program. Those are two major differences.

The Chair: Thank you.

Ms. Wasylycia-Leis.

Ms. Judy Wasylycia-Leis: Thank you very much.

As you can tell, we only have five minutes each, so we all have to focus in on some issues. I'm going to focus in first on a general question that has to do with the whole dilemma we have before us in terms of where do we put any surplus money that's available to us. I have heard most of you talk about a mixed approach and investment when it affects your industry directly. I haven't heard anybody talk about investing in services and programs that surely keep your industries profitable.

I'm wondering if anyone here can talk about or tell me how much the public health care system is worth to your industry here in Canada and why you're not talking about the importance of continuing to invest in things like public health care, child care, and other issues where in fact we're surely addressing productivity by doing so.

Does anybody want to take that on?

The Chair: Ms. Lambert and then Mr. Boucher.

Mrs. Janet Lambert: Thank you very much.

We have 80% of the Canadian biotech companies currently solidly invested in health care. The research and development that they are doing is improving the social and economic benefits of Canadians with regard to not only jobs but our actual health care. The other 20% is in agriculture and in emerging technologies.

Ms. Judy Wasylycia-Leis: My question is not about what your industry is doing in terms of investing to make lives better for Canadians, but whether or not you recognize the role of government in terms of investing in public health care and a national child care strategy so that in fact your industries are more productive and more profitable. I'm wondering if at some point any of you are going to talk about the value of government in this respect and the need to actually invest in programs in this budget year—in social programs, health programs, housing programs. I've heard a bit about infrastructure, but that's it. If anybody else wants to make a stab at it, fine; if not, I want to go on to green cars.

The Chair: Mr. Boucher wanted a crack at it, and then Mr. Millar.

Mr. Pierre Boucher: Thank you, Mr. Chairman.

We've recognized in our brief the need to invest more money in health care. We also recognized the need to invest in infrastructure; actually we had a whole section dealing with that. Again, the concern is that in the future will we be able to retain the advantage or the growth that we've had in recent years and maintain our position worldwide as a major player in the economy. I think we need to invest in areas that will protect that growth area and the leading edge that we've had in many of the manufacturing industries. So it's a bit of both: we've said that we support the growth in spending money in social programs, but not exceeding the GDP growth in Canada. I think there's room to invest and a need to invest, but meanwhile we have to preserve our role that we play in the economy globally.

● (1220)

Ms. Judy Wasylycia-Leis: One more and then I want to ask a question on green cars if I could.

Mr. Jack Millar: The Direct Sellers Association does recognize the importance of child care and the fact that there is significant government revenues that go to support it. Of the Direct Sellers Association 75% of the small businesses are run by women, who quite often have children at home. So child care is very important. After acknowledging that, however, the Direct Sellers Association is populated by small businesses, and I think they're also concerned as to what might be the proper balance in terms of utilizing the current surplus.

Ms. Judy Wasylycia-Leis: I have a quick question for Mr. Nantais. On the issue of green car technology, does your association support moving from a voluntary program of emissions control to a compulsory one? Do you support the push to have government invest in a green car strategy so that we can contribute to the whole environmental agenda and the establishment of guidelines or targets for Kyoto?

Mr. Mark Nantais: I could probably take 20 minutes to answer that question, but very quickly, first off we support a voluntary approach to vehicle fuel efficiency standards. We need to make the distinction between emissions, because you spoke of the emissions. Emissions in our industry means smog-related emissions. Our industry is regulated, and we have adopted the most stringent national emission standards in the world, which is very different from vehicle fuel efficiency, which emits in terms of gasoline combusted carbon dioxide, a greenhouse gas. So you have to make the distinction between smog-related and greenhouse gases.

On the fuel efficiency issue, we've had in Canada since 1988, or roughly thereabouts, a voluntary program that was based on the same levels of objectives as in the United States. We've actually performed better than those objectives. For us the voluntary program works quite well, because we continue to bring in vehicles with the most advanced technologies on a North American basis. We're able to lever the larger economies of scale, bring those technologies to Canada that are clearly leading edge in a most cost-effective manner, and more affordable. That's the key for Canadians.

We need to give Canadians, quite frankly, some recognition, because they are rather prudent already in their vehicle purchasing decisions. For instance, we already buy twice as many compact and sub-compact cars as the United States. We already have a more fuel-efficient fleet in Canada, and in our industry we're spending literally billions of dollars on new technologies, everything from electric hybrid vehicles, diesel-electric vehicles, right through to, for instance, the longer-term technology such as hydrogen fuel cells.

So we prefer the voluntary approach. It has proven to work, and I think that's a very wise way to go about it.

Ms. Judy Wasylycia-Leis: I hear what you're saying. It just seems to me that we've talked for years, and the federal government has promised for years major investment in green car strategies, and we never seem to make… We're tinkering and we're playing around and making tiny little steps, and we need to be taking giant steps.

I wonder if you're prepared to recommend any major strategy as part of this budget that would really create a new industry in Canada, make us the centre for a North American industry for green car production or fuel-efficient green car technology, something that would actually make a really significant impact on the challenges facing us.

Mr. Mark Nantais: Certainly the member companies I represent, Daimler-Chrysler, Ford, and General Motors, have research and development facilities in Canada. In fact, they already have a world mandate to develop some of these technologies. I know each of those companies is committing more revenue and resources to expand those research facilities, so it will evolve over time. Again, there are other major facilities that are centralized in other parts of the world, whether it be the United States, or Stuttgart, or even Japan, but certainly Daimler-Chrysler, Ford, and General Motors have those facilities and are committed to doing more in Canada. They have also, as you are probably aware, put in roughly about a billion dollars into fuel cell development right with Canadian companies here in Canada, so they're committed to that.

In terms of a green vehicle strategy for Canada, quite frankly, it's very important that the government as part of its budget process consider providing incentives to help people—the early adopters, as we call them—afford these technologies. Affordability is a real issue here in Canada. When you talk about 135% of your personal disposable income needed to purchase an average vehicle relative to 93%, that's a problem.

● (1225)

The Chair: Thank you.

[*Translation*]

You have 10 seconds, Mr. Lacroix.

[*English*]

Mr. François Lacroix: This problem has to be looked at globally. It's not only the vehicle, but what it travels on. It's proven that a rough road consumes a lot more fuel and concrete roads save fuel on trucks. This is a great part of the problem.

The Chair: Thank you.

Perhaps I can ask the panel to stay an extra ten minutes, because I have two witnesses with five minutes each.

Ms. Minna.

Hon. Maria Minna: Thanks, Mr. Chairman. I'll try to be quick. I know that I can't ask all the questions. Maybe I'll do them some other time.

Firstly, I want to say that I'm one of the members who supports more investment, whether it's in children, in housing, or in research and what have you. In the last ten years the increase in innovation and research I think has done us a great deal of good.

I have a very quick question for the auto industry, because this keeps coming up all the time.

I understand the incentives and I understand all the research, but is there now a technology that would allow us to actually put on the market an electric car or something that we could market and bring the price down? Is there such a technology? I keep thinking that there probably is, because we've been talking about an electric car for fifty years.

Mr. Mark Nantais: Again, electric cars versus electric-gasoline hybrid cars…

We witnessed what happened in the state of California, where they put in place a mandate for electric vehicles. They put that in place prior to the technology evolving to the point where it was affordable and it met the acid test. The acid test for us and for the consumer is how does that shape up relative to a conventional gasoline vehicle? When you have a very restricted range in an electric vehicle versus… And you have to have a warm climate and flat country, so they're not going to work on the prairies in Canada, even though it's flat. Nonetheless, it's technology that had not evolved to the point where the consumer was ready for it. As a result, that mandated program, in my view, failed very miserably. It cost the car companies billions of dollars in aggregate and no environmental benefit.

So the technology for electric vehicles for niche applications is there—and I say “niche”, not for widespread market use at this point —but we're turning now our attention to get tremendous improvements in fuel efficiency through electric and diesel gasoline hybrids and other technologies, which could perhaps be more affordable in terms of fuel efficiency and reducing the greenhouse gas emissions related to those.

We operate on the basis of what we call “technical preparedness”. We have to be able to shift when the market shifts. But right now I think one would suggest that we don't see a huge future for electric vehicles except on a niche basis.

Hon. Maria Minna: All right.

Mrs. Janet Lambert: Some of our companies in biotechnology are operating on fuel from renewable resources such as corn, not non-renewable resources.

Hon. Maria Minna: Ethanol.

Okay, thank you.

Because my time is limited, I want to move on a bit and go very quickly to the Direct Sellers Association.

I understand your point with respect to the unemployment insurance, the EI. I agree with you that we need to start looking at self-employed people and the whole EI system, which we have not done and which is something I support, one of the things I'm going to be lobbying the chair about in our report.

I want to ask you, though, with respect to the DSM, the direct sellers mechanism, you're talking about 20% to 25% of the direct selling industry operating through the ISCs, the independent sales contractors. They are sales agents but are not covered. In the previous paragraphs you talk about the ones that are covered, where the companies are paying the GST and there's sort of an arrangement there. What would happen in the 20% to 25% with the Mary Kays, or Tupperwares, or what have you? Can one make the same arrangements, or would that not be possible?

● (1230)

Mr. Jack Millar: The answer to your question, Ms. Minna, is yes, it would. This mechanism was initially developed in 1991, when the GST first came into Canada. It was realized that when you have a million small businesses, they may not be able to deal with all the administration of the tax. It's a very paper-intensive tax regime, and the idea was to remove that burden by having the companies pay the tax on the suggested retail price, or collect the tax and remit it. It has worked very well.

The Direct Sellers Association has been before this committee since the early 1990s, but a number of changes were made to the mechanism in 1993 and 1996, I believe, and this is just coming back to try to make it more user-friendly for the total industry.

But your point is correct. It would be collected by the top companies. There would be no revenue loss.

Hon. Maria Minna: So you're looking for an expansion of the same benefit.

Mr. Jack Millar: Yes.

Hon. Maria Minna: Okay. I just wanted to understand how that would work. Thank you.

Now, to the Canadian printing group, I heard you on the issue of tax cuts, individual tax cuts. I'm not sure if you're talking about targeted tax cuts or across-the-board tax cuts, which tend to not necessarily benefit the people who may need them the most and at a certain level.

By targeted tax cuts, I don't necessarily mean cutting the actual income tax but maybe providing things like tax credits or child tax credits to families. That's another way of targeting. I just wanted to clarify that.

The other one has to do with training, which is an area I have a great deal of interest in, because I find that while there are a lot of companies in Canada that do train their employees, there are also a lot of companies that don't.

You're right that we have transferred to the provinces, but we did transfer money as well, because with the exception of Ontario, in other provinces we not only transferred the responsibility but also a federal staff and the funds that were attached to the federal staff, including the federal employees.

So that's an area that needs to be addressed, but when you talk about financial incentives, I have two questions. Can you tell me why the company would need financial incentives? I would think it would be to their benefit to find ways of training their employees. And does your organization, your industry, have a sector council where it addresses that issue?

Mr. Bob Kadis: In response to the three questions, the sector council firstly, we are currently in the process of applying for sector council status. We've been working on that for the better part of a year and are getting quite close to that, and yes, that's certainly the main channel under which we would like to see the needs addressed. We certainly support that aspect.

As to the issue of why firms would need incentives, it's really dual-pronged. First of all, probably 60% of the total number of printing companies would be in the province of Ontario. So when we talk about provinces having had the moneys to go with the training that was transferred, it didn't happen for 60% of our industry.

Hon. Maria Minna: We didn't trust Harris with the money, so we didn't send it to him.

Sorry, I'm being very honest with you. That was my position, anyway, speaking for myself.

Mr. Bob Kadis: I understand.

So the training that is done is typically ad hoc. The school systems that supported training have virtually disappeared in the province because of the cost of equipment. You do not find schools with modern printing equipment. You have Ryerson in Toronto and very few others. You have some in Alberta, but very few schools that are providing the training. So it has shifted even more dramatically away from the school systems to be providing the trades.

We certainly welcome the current push to encourage children to get into the trades, but there are no facilities. There are no programs. These programs have literally dried up. So the companies are really ill-prepared to provide that.

For most companies, this is quintessential small business. They don't have trainers on board. They are basically working owners and proprietors. So it's very difficult for them to access training, to provide that training. It's really something on which they do need support. It's not that they don't want to; they don't have the capabilities to do it.

Hon. Maria Minna: I understand what you're saying.

As far as the sector councils are concerned, the reason I raise the issue is that I support them. Actually, back in 1993 it was partly my idea and partly Lloyd Axworthy's to get these things going. That's why I was asking.

The problem you're presenting is not just an issue of training at our level. The educational system is another problem which is out of our jurisdiction. Nonetheless, I hope you're also making representations at that end—

● (1235)

Mr. Bob Kadis: Yes, we are.

Hon. Maria Minna: — because there's no point in having training schools or colleges if they're not doing the work the companies need.

Mr. Bob Kadis: I think the first part of your question dealt with where we saw the tax reductions.

We believe that on a personal tax basis, at the high end of income the tax is too high, non-competitive. We heard earlier that there's a brain drain, a difficulty in maintaing and retaining people. We believe the tax burden overall is high. Certainly you can target at the low- and mid-income in a variety of fashions, whether it's done as with child care credits and other formats or through tax rates, but we're saying that overall, personal income tax rates here in Canada are too high. We see the levels at which the highest marginal tax rates kick in at roughly $113,000 in Canada, compared with corresponding rates in the States close to $160,000.

We see a marginal tax rate that's in excess of 10 points different. We believe you can cut those taxes, and that with the multiplier effect on the economy governments will collect more, not less revenue. We've seen that in Ontario, where after a number of years—

The Chair: Thank you.

Mr. Bell.

Mr. Don Bell: I have one question for Mr. Lacroix of the Cement Association.

In your presentation you're focusing primarily on the benefits for roads as opposed to construction itself, are you?

Mr. François Lacroix: There is a part for roads definitely, but it applies to all infrastrucure—buildings, sewers…

Mr. Don Bell: You're talking about this life cycle analysis approach you recommended, saying there should be some $5 million set aside. How did you arrive at the $5 million?

Mr. François Lacroix: This is a figure that was estimated by talking to Transport Canada people. That is why we put that figure in there. We tried to get a figure for Environment Canada, as they are planning to have sustainability tabled, but we haven't received a figure yet.

But yes, the whole principle applies to various infrastructure. In the case of buildings, for instance, if we're talking about energy use, the energy expended to build a building represents approximately 10% of the overall energy that's going to be used for that building over its life. It's very important to look at the life of the building, because it acouunts for 90% of the energy use.

Mr. Don Bell: Are you using or have you used fly ash in roads at all? I've seen it used in the construction of buildings. It reduces the energy that's required to produce the concrete by a reduction of the cement.

I realize you're in the Cement Association, but it apparently produces a stronger product.

Mr. François Lacroix: Ninety-nine percent of the fly ash distributed in Canada is distributed by cement manufacturers, so I don't feel offended.

Yes, it is used, but it's used more in buildings and other structures —

Mr. Don Bell: Other than roads?

Mr. François Lacroix: —than in highways, because of the durability problem. Also, fly ash is mainly available in western Canada, and 60% of roads are built in eastern Canada. However, it was used around Edmonton this summer.

Mr. Don Bell: In terms of green benefits, there appear to be a number of them from using fly ash, in reduced energy use and all the effects that follow.

Mr. François Lacroix: That is one part, but I emphasize that If you use fly ash to build a building you are reducing the energy—I agree with you—but 90% of it is used in the operation of the building, so it's more important to have a solid, durable building that is well insulated.

● (1240)

Mr. Don Bell: Then I have just a final question, because I'm curious about that. The concrete that's created with that, I understand, is durable.

Mr. François Lacroix: With...

Mr. Don Bell: With fly ash, it's as durable.

Mr. François Lacroix: In the environment, yes it is, depending on the quantity of fly ash. You cannot use great quantities of fly ash in a concrete mix that is going to be exposed to salt and freeze-thaw cycles.

The Chair: Thank you, Mr. Bell, and thank you, witnesses, for your indulgence.

Most of the briefs we have are pretty good, if I have to rank them. But your last suggestion, Mr. Mendlein, did not have pricing. Could you get us a pricing? What do you think it would cost?

If anybody has anything else to add, they can do it in a brief summary. We are looking at what any of your suggestions would cost. It's a finance committee, and we're going to make recommendations, so we would like to have costs. If you have anything else to add, just try to keep it brief; we have no problem with that. Just try to get it to us as soon as possible.

An hon. member: Did you receive an aerospace brief?

The Chair: It will be coming, I believe.

I think most of you gave us briefs, but you can provide us with briefs in one language, and we'll have them translated, for the future.

Thank you. The meeting is adjourned.

Published under the authority of the Speaker of the House of Commons

Publié en conformité de l'autorité du Président de la Chambre des communes

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