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Chair

Mr. Massimo Pacetti

Standing Committee on Finance

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● (1110)

[*English*]

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

We have before us two motions. We're going to try to deal with them as quickly as possible. I also want to give all the members an opportunity to speak. I'll determine the amount of time based on how it goes. Then we have witnesses at 12 o'clock regarding Bill C-43.

We have the first motion, which was tabled by Mr. MacKay on Tuesday, May 31, pursuant to Standing Order 108.

Mr. MacKay, if you're ready, the floor is yours.

Mr. Peter MacKay (Central Nova, CPC): Thank you, Mr. Chair. The motion should be read, for the record. It states:

> That the committee report to the House seeking instruction to divide Bill C-43, An Act to implement certain provisions of the budget tabled in Parliament on February 23, 2005, into two bills: Bill C-43A, An Act to provide payments to provinces and territories and an Act to implement the Nova Scotia and Newfoundland and Labrador additional fiscal equalization offset payments and Bill C-43B, An Act to implement certain provisions of the budget tabled in Parliament on February 23, 2005; that Bill C-43A be composed of Part 24 (Payments to certain provinces and territories)

This also includes equalization payments to Quebec, as I understand it. I would like the record to state that.

> and Part 12 (Nova Scotia and Newfoundland and Labrador additional fiscal equalization offset payments);

This is of course reflective of the Canada-Nova Scotia-Newfoundland and Labrador offshore accords, which would in essence allow for the revenue streams generated by offshore resource activity to flow directly to those provinces and not be clawed back.

> that Bill C- 43B be comprised of all remaining Parts of Bill C-43;

So that is pulling those sections out and the remainder of the budget bill would stay intact.

> that the House order the printing of Bills C-43A and C-43B; that the Law Clerk and Parliamentary Counsel be authorized to make such technical changes or corrections as may be necessary to give effect to this motion; that Bill C-43A be reported back to the House immediately; and that the Standing Committee on Finance stop its study of Bill C-43 and Bill C-48 until such time as the House decides the matter of dividing Bill C-43, An Act to implement certain provisions of the budget tabled in Parliament on February 23, 2005.

The effect would be to speed up the passage of the Atlantic accord to benefit both of those provinces. The intent is purely to ensure that those provinces receive those revenues prior to the close of Parliament this parliamentary session. It is in keeping with the wishes of those provincial governments and their premiers. It is very much aimed at giving reality to the Atlantic accord. It is also in keeping with Premier Hamm's campaign for fairness that went on for almost half a decade in Nova Scotia. This government has had 12 years to act on the Atlantic accord, and we have yet to see those revenues flow to the province.

It was the Conservative Party that introduced the notion of the Atlantic accord in terms of offshore revenues during the 2004 election campaign. Had a Conservative government been in place, I suggest that the Atlantic accord would have been implemented.

So the Prime Minister has now been brought to the point where we are calling for the implementation. It was not contemplated during the discussions on the signing of the accord that this would be part of the budget. It was a stand-alone item, a stand-alone promise. It should be stand-alone legislation. That is the purpose of this motion.

We have raised this issue in the Conservative Party almost 50 times in the last eight months. We continue to argue that this is the best, cleanest, and fastest way to bring about the revenue being directed to those provinces.

The splitting of the bill would ensure that both Nova Scotia and Newfoundland and Labrador immediately access the revenues they're rightfully entitled to. It's unfortunate that the government has chosen to become mired in politics. We understand, from talking to those in the Senate, that they would equally support the speedy passage of this bill.

I would also, just in a pre-emptive way, suggest that any attempt to say that this committee should not proceed in this fashion is contrary to the overall intent. The Speaker of the House of Commons should be given the opportunity to decide if in fact there is a procedural shortcoming. He presides over questions of order in the House, not the finance committee.

Whether an issue identical to this particular matter was brought forward in the House of Commons previously is again an issue for the Speaker to decide. It can be found in Hansard, on October 31, 2002, where the Speaker made a ruling that after hearing similar arguments to what was presented at a committee, the Speaker allowed a motion in question to go forward. So there is precedent for this to happen.

It was quoted in Marleau and Montpetit that while the rule of anticipation is part of the Standing Orders in the British House of Commons, it has never been so in the Canadian House of Commons. Furthermore, references to attempts made to apply this British rule in Canada in the past have not proved to be conclusive.

In any event, the most important point is that the motions are different, and the committee report has provisions that deal with its deliberations on Bill C-43 and Bill C-48. It proposes that the committee not proceed with Bill C-43 and Bill C-48 until the House has had the opportunity to rule on this division, therefore the other motion does not give the same instruction. So there is a very distinct difference between the motion that was presented in the House and the one before this committee that it would be seized with.

Finally, the committee report is different, as it includes the splitting off of part 24, payments to other provinces, mainly Quebec. This motion of instruction was moved in the House by Mr. Hearn and dealt only with part 12, the Atlantic accord. So this motion of instruction has a reporting date of two sitting days, while the other committee report was to take effect immediately.

With respect to the other motion on the order paper in the name of Mr. Doyle, it has not yet been moved, and as a result can be withdrawn at any time. So that should not be considered. Mr. Doyle's motion is waiting to see what will happen in this committee.

So the argument that I anticipate will be put forward by the government is a red herring. The decision as to whether or not this motion violates the rule of anticipation in the House of Commons is a matter for the Speaker to decide, not the chairman of the finance committee, with the greatest respect. Second, these motions are different; therefore the rule of application would not apply.

Finally, the rule of anticipation is part of the Standing Orders of the British House of Commons, and any attempt to apply those rules to this committee is not conclusive or binding. The Speaker's ruling of October 31, 2002, as I referred to earlier, clearly allows two motions to be debated, under the circumstances, even if they are identical, which as I have outlined they are not.

Those are reasons in and of themselves to allow this committee to pass this motion and to have it go back to the House of Commons for the Speaker's due consideration and presumably a vote.

Thank you.

● (1115)

The Chair: Thank you, Mr. MacKay.

Next is Mr. John McKay, and then Mr. Hubbard.

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

[*Translation*]

The Chair: After Mr. McKay it will instead be Mr. Loubier.

[*English*]

Hon. John McKay: Thank you, Chair.

We actually have two motions in front of us, motion 1 and motion 2. Motion 1 would split Bill C-43 into Bill C-43A and Bill C-43B, and then motion 2 further splits into Bill C-43C and Bill C-43D. I don't know what's next, maybe we have Bill C-43E, Bill C-43F, Bill C-43G, Bill C-43H, which tends to make the essential argument somewhat strange.

Mr. Chairman, I want to point out to the honourable member that in the last budget, the parallel budget bill to this budget bill was introduced into the House March 31, 2004, and its passage and royal assent occurred May 14, 2004. It was a six-week period to go from A to Z to be able to pass this parallel budget bill. It can be done with the will of the House and the will of members.

I don't understand why the member objects to having this part of the bill included in the budget. I don't particularly understand his argument for priority as well, because in part 24 he sets up preferential treatment for payments to Newfoundland and Labrador, Nova Scotia, Quebec, Saskatchewan, and the three territories, which leaves the rest of Atlantic Canada on another track, which leaves the rest of Canada on another track—presumably a slower track. If it's not a slower track, then the whole basis for his argument collapses. I don't quite understand his argument. Why should those four provinces and three territories be fast-tracked under part 24 to receive moneys ahead of other parts of Canada that presumably have as much, if not more, interest in the bill?

I also don't understand why he would want to fast-track this particular amount of money ahead of, say, moneys for cities and communities. I don't think there's a mayor in Canada who is not anxious to begin receiving the money set aside in the budget for the cities and communities. Again, why would some provincial governments and some territorial governments receive moneys prior to the municipal governments that also seem very anxious to see this budget pass?

I also don't understand the basis for his argument that, for instance, moneys would go to Atlantic Canadians under the child care and early learning proposals in the budget. Again, why should this particular money—which we all agree is important money for Newfoundland and Labrador and Nova Scotia—somehow jump the queue over people in municipalities, people anticipating environment moneys, people who anticipate receiving money under the gas tax, people who anticipate receiving money from the child care initiatives—many of whom live in Atlantic Canada? Is it all of Atlantic Canada or, in this case, half of Atlantic Canada? What is the argument and logic as to why this particular money should be treated preferentially over the initiation of payments to seniors? Again, I don't understand the basis of the argument.

● (1120)

Why, for instance, is the honourable member not supporting the provision in the budget in 2005 that sets out $700 million for five-year initiative support for economic development? Why is he against Community Futures? The coast guard is anticipating $47 million in further investment. Why would he be opposed to that? It again is unique to Atlantic Canada. The oceans action plan is again unique to Atlantic Canada. Aquatic resources, with $59 million in budget 2005, is again unique to Atlantic Canada. The Atlantic salmon endowment fund, Genome Canada, border security—all of these initiatives are initiatives that are to the benefit of Atlantic Canada.

What, then, is his basis for arguing that this motion should proceed?

The Chair: Thank you, Mr. McKay.

I have four more speakers. I have Monsieur Loubier, Mr. Hubbard, Ms. Wasylycia-Leis, and then Ms. Minna. I want to try to get this done. I'll allow three minutes per speaker.

Monsieur Loubier.

[*Translation*]

Mr. Yvan Loubier (Saint-Hyacinthe—Bagot, BQ): Thank you, Mr. Chairman.

We shall vote against those two motions for the fundamental reason that we are here to work. As we have said, we have no intention to obstruct. We shall not propose a dilatory motion. We shall vote against this budget as long as it doesn't take Quebec's priorities into account, particularly as concerns fiscal unbalance and employment insurance.

I think that we should start studying Bill C-43 and Bill C-48 as soon as possible with the goal of improving their content rather than discussing forever senseless or useless motions. So I suggest we close rapidly this debate and study these two bills whether we agree or not with their content. We have a lot of work to do and we should not fall into the trap of moving motions that look very much like dilatory motions.

[*English*]

The Chair: Merci, Monsieur Loubier.

Mr. Hubbard, and then we have Ms. Wasylycia-Leis and Ms. Minna.

Mr. Charles Hubbard (Miramichi, Lib.): Thank you, Mr. Chair.

Like Mr. Loubier, I fail to really understand what Mr. MacKay is proposing. If we don't accept the budget implementation bill as it came to our committee—if we're referring it back to the House—we would then wait to see what the House plans to do with it. In effect, I think what you're saying to us this morning, Mr. MacKay, is that you would like to delay the process of dealing with the entire budget, and in doing so you're really hurting the provinces in Atlantic Canada. Because if the budget is not passed....

I think, Mr. Chair, the timetable we're working towards is that the House will adjourn around June 23. After that, of course, the Senate, hopefully, will get the bill and it will receive royal assent very close to the end of June or in the first part of July. With that we would find that the people of Canada, as Mr. McKay has mentioned, will benefit from the budget, and the many different people across the country who would be getting projects, who would be getting activities, who would be getting more money for all of those. But if we delay it and send it back to the House, we don't know when the House will send it back to us; it could be weeks, Mr. Chair. Unless Mr. MacKay has a better method of dealing with this than what we have at present—and I would like to hear from him before we vote on the matter—it would appear to be a delaying tactic.

● (1125)

The Chair: Thank you, Mr. Hubbard.

I'll give you an opportunity at the end. I'll give you two minutes at the end.

I have Ms. Wasylycia-Leis, Ms. Minna, and then Mr. Bell.

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

Let's do this as quickly as possible so we can get back to the business at hand, which is Bill C-43 and Bill C-48. I would say notwithstanding the merits of the idea of separating out the accord from the main bill, Bill C-43, and notwithstanding the principle involved, clearly if the fundamental objective is to ensure quick passage of the accord so that Atlantic Canada can benefit from the money that was in the side deals arranged between the Government of Canada and the Governments of Newfoundland and Labrador and Nova Scotia, then the quickest way to do it is to ensure Bill C-43 is passed as quickly as possible.

Mr. Chairperson, it seems we're taking a lot of time to avoid doing that. I would hope that if this is more than simply playing games, perhaps the Conservatives might agree to expeditious passage of Bill C-43 and Bill C-48.

In the spirit of that, I would ask for agreement for a friendly amendment to motion number one that would delete all words of the four last lines of the motion that say:

> and that the Standing Committee on Finance stop its study of Bill C-43 and Bill C-48 until such time as the House decides the matter of dividing Bill C-43, An Act to implement certain provisions of the budget tabled in Parliament on February 23, 2005.

I would hope that would be seen as a friendly amendment, if the Conservatives are serious about wanting fast action on the Atlantic accord but are not wanting to play any games and slow down the passage of these budget bills that Canadians are desperately waiting to see passed.

The Chair: Just on the amendment, please.

Mr. Peter MacKay: Just on the amendment as proposed, we would certainly be amenable to that and agreeable, if there was a guarantee from all parties that a vote would take place on this motion in the House of Commons in the next two days. If that vote is to take place, we would certainly—

Ms. Judy Wasylycia-Leis: What does that have to do with it? It has nothing to do with my friendly amendment.

Mr. Peter MacKay: I'm offering a friendly amendment to your friendly amendment.

Ms. Judy Wasylycia-Leis: Forget it, then.

The Chair: So there's no friendly amendment. Thank you.

I have Ms. Minna, and then Mr. Bell and Mr. Solberg.

Hon. Maria Minna (Beaches—East York, Lib.): Mr. Chairman, I have to question the move here, because there is a question to split the bill first one way, as has already been mentioned, and then two more ways.

So I have to assume that when we want to split the Atlantic accord because of all the great things that the honourable member has talked about and all the fantastic needs.... What I don't understand is why he thinks there is a need for this urgent money to get to those provinces only and not others, but then there's no urgency to deal with seniors' income with the rest of the bill. I don't see why that's not just as important. Passing the rest of the bill addresses a lot of these issues, why children shouldn't be getting their programs, why the environment isn't important, because then, on the other bill, they're also splitting off the environment. Presumably they've decided that should be delayed as well.

I have no idea what they intend to do with the remainder of the bill, because I have not at this point heard one iota of support on the rest of the bill in the House of Commons, from the debates, with respect to their support for the children's issues, seniors, housing, and the cities. These are issues that have been outstanding for a long, long time, and they're waiting to be addressed. They're just as urgent for the seniors who cannot buy medicine, who cannot pay rent, or who cannot buy food—and most of them are women.

I'm really tired, after having spent I don't know how long pushing my own government and through the women's caucus to get some of these issues to where they are now, and they're finally in a budget, to have to hear now that we're going to put it on the back burner because we want to split off all these other pieces because they're more urgent or more important.

I don't know exactly what plan the Conservatives have for the environmental part, but I'm also surprised that Ms. Wasylycia-Leis is prepared to even get into that kind of splitting of pieces, because basically the intent here, as far as I can tell, is to delay certain others and to let certain others go forward. We're picking and choosing winners and losers in here, because, quite frankly, this budget has a lot of other parts to it that have to do with real needs of people, including the environment. I'm not prepared to pick and choose winners and losers, quite frankly. I think it's unconscionable.

At the last meeting, we agreed we would do hearings today and then clause-by-clause on Tuesday. Now we're going into splitting bills, and we're never going to get to clause-by-clause, which means delaying the whole of Bill C-43 and Bill C-48, on which the opposition members aren't even prepared to entertain witnesses, never mind....

So, quite frankly, I think this is totally unacceptable.

● (1130)

The Chair: Thank you, Ms. Minna.

Next I have Mr. Bell and Mr. Solberg. I'm going to give you guys 90 seconds.

Mr. Bell.

Mr. Don Bell (North Vancouver, Lib.): Mr. Chair, I am against the motion for the reasons that have been stated by my colleagues on this side.

A budget is a basket of programs. It includes benefits for all of Canada. Some of the issues that were talked about—the coast guard and the oceans programs—are uniquely Atlantic, but there are portions in there that are also unique to British Columbia, that are important to my area: child care, early learning, the gas tax moneys that we have fought hard for at the municipal level. There are also those initiatives that would be included with the passage of Bill C-43, such as moneys for the mountain pine beetle, assistance to Quebec for the transfer of parental benefits, the Asia Pacific, the green municipal funds of $300 million, and the $200 million to Quebec. These are things that we just need to get on with in dealing with the budget.

[*Translation*]

Mr. Yvan Loubier: I would like us to vote, please.

[*English*]

The Chair: Thank you, Mr. Bell.

[*Translation*]

I still have one name on my list.

[*English*]

Mr. Solberg, you have 90 seconds, please.

Mr. Monte Solberg (Medicine Hat, CPC): Thank you, Mr. Chairman.

There are some facts that Ms. Minna, Mr. McKay, and others should know. These increases in the GIS for seniors won't happen until next year. But they act as though if the budget passed tomorrow, all of a sudden seniors would get this money. That's not true, and they should know that; whereas if we pass the offshore accord, the Atlantic accord, that money would flow to the provinces immediately, because they need it for this budget year. So it's quite different, and they need to know that.

Also we should point out that it took the government several weeks to get the budget to a vote in the House. They delayed for reasons that were inexplicable. Now, all of a sudden, it's a great urgency.

Mr. McKay said that if we got the Atlantic accord on a fast track, together with payments to other provinces like Quebec, it would suggest everything else was on a slow track. In fact, we've had a Liberal government for eleven and a half years, and these things have been on a slow track. They've had a chance to address these things, and now even the things they claim they're concerned about won't flow until next year. In some cases, it will be years down the road.

I would also point out that they can split the bill.

The Chair: Thank you, Mr. Solberg.

Mr. Monte Solberg: They're going to split the corporate tax cuts off. I would point that out to Mr. Bell. That's one thing they're proposing to do. It is important to note that.

I would argue, Mr. Chairman, that these arguments from the other side are specious.

The Chair: Thank you, Mr. Solberg.

I want to give an opportunity to your colleague.

Mr. MacKay, can you wrap it up? If I give you two minutes, is that fair?

Mr. Peter MacKay: Sure, Mr. Chair, thank you.

Obviously, the Conservative Party supports Bill C-43. To suggest otherwise, to suggest that we are somehow against all of the benefits that may eventually, in a year or more, flow to Canadians, is completely untrue, completely mendacious. All of the members on the Liberal side know this.

With respect to the $200 billion tied into this budget, there has to be some level of examination. That's why we had sponsorship scandals initiated by this government. That's why we had problems in the HRDC budget in the past. That's why we have billion-dollar boondoggles in the gun registry. There is a need for the opposition to be rigorous in their examination of budgets.

Clearly, there would be no delay whatsoever by splitting the bill, and there is plenty of precedent there. We had an equalization bill, a health bill, that were stand-alone items allowing benefits to flow to provinces.

Here's the urgency, Mr. Chair, and this is the most critical part. Provinces like Nova Scotia and Newfoundland and Labrador are losing. Nova Scotia is losing $900 million a week. In Newfoundland, it is $3 million a week. They need that money now for their budgets, and the government is holding them ransom by wrapping it all into a 23-item, complicated, cumbersome bill. It wouldn't be held up. It could be passed immediately, as has been stated by the Senate and by members of Parliament. What we see forming today, just to be clear, is the Liberal-Bloc-NDP alliance working against the interests of Atlantic Canada.

Some hon. members: Oh, oh!

Mr. Peter MacKay: This ridiculous rhetoric coming from the other side is purely hypocrisy, pure folly, Mr. Chair. We can get this done quickly. It could be done and through the House in a matter of days. It would not in any way interfere with Bill C-43 and the normal proceedings. That portion of the bill could proceed, as it will proceed, quickly, efficiently, through the House. This is simply a matter of doing what's right, implementing the Prime Minister's promise. But as we've seen on so many occasions, his word means nothing.

● (1135)

The Chair: Thank you, Mr. MacKay.

We are going to go directly to a recorded vote. I call the question.

(Motion negatived: nays, 6; yeas 5)

The Chair: The motion is defeated.

We will go to motion number 2. Do we need to debate, or can we go straight to a vote?

Mr. Solberg, I'll leave it to you.

Mr. Monte Solberg: Mr. Chairman, it is important to say a few words on this.

Motion number 2, which you have before you—

The Chair: Let me just clear this up. I'll allow you five minutes; if you don't need the time, that's fine, but I'll allow members...if they can indicate to me who wants to speak on this, but I want to start on time. If we start even earlier, it's even better.

Mr. Peter MacKay: Mr. Chair, I would take my leave and have Mr. Pallister speak instead.

The Chair: Thank you, Mr. MacKay.

Mr. Solberg.

Mr. Monte Solberg: Mr. Chairman, motion number 2 basically fleshes out some of the concerns that members, really on all sides, have had with respect to certain clauses of Bill C-43 that many of us believe should be put into their own legislation where they can receive stand-alone scrutiny. Members on the government side, including the government House leader, have spoken in favour of this, as have members of all parties.

This motion specifically allows us to be able to do that. I think I state the obvious when I say that the CEPA clauses in Bill C-43 may have a profound impact on the Canadian economy, yet they are very ill defined in this legislation and deserve I think much deeper scrutiny. If we were able to hive this off, it would mean, obviously, that we could move forward in discussing the other elements of Bill C-43 that other members have pointed out are important to people. And they want to have this pass very quickly. If in fact that's the case, then I would urge members on all sides to support this motion and allow this to be split off, and in doing that, give us a chance to deal with this expeditiously.

The Chair: Thank you, Mr. Solberg.

I have Ms. Wasylycia-Leis, Ms. Minna, and then Mr. McKay. You have two minutes.

Ms. Judy Wasylycia-Leis: Thank you, Mr. Chairperson.

The Chair: We're going to try to wrap this up. All the witnesses are here and we can begin the next round.

Ms. Judy Wasylycia-Leis: I would, first of all, like to say that I assume, based on the last vote, and based on the assumption that the comments from my honourable colleagues in the Conservative Party are sincere, that win or lose they are prepared to get down to work and get both Bill C-43 and Bill C-48 done as expeditiously as possible. In the spirit of that, I would again ask for acceptance of a friendly amendment to delete all the words in the fourth line after “motion”, which begin with “and that”, so that none of the work we have to do today and next week gets delayed by any decision around this particular motion. I accept it as genuine and I accept it as sincere. If there are no games being played, then there is no reason why we, as a committee, cannot proceed on these other two bills. We don't have to deal with the part that deals with CEPA, but we can get on with the business at hand.

The Chair: On the amendment only—on the friendly amendment.

Mr. Monte Solberg: Mr. Chair, I want to ask a question of my friend who just said what she said. If the understanding is that we would not deal with those clauses of Bill C-43 until such time that the House has reported back, I have no particular problem with that.

● (1140)

The Chair: Ms. Wasylycia-Leis, what is the friendly amendment you're proposing?

Ms. Judy Wasylycia-Leis: Simply to delete those lines that would stall procedures dealing with Bill C-43 and Bill C-48, if in fact this motion won. I want to make sure our committee stays on track and gets our work completed. However, if Monte Solberg is suggesting that we're going to have to have an ironclad recommendation versus what's in CEPA and what's not and how we dance around it, I would hope we could do this on the basis of good will, and if there's not good will and understanding, then I don't want to take up the time of this committee haggling over this.

The Chair: That's why you're proposing an amendment, but with any instruction from the committee to the House, we don't know when it's going to come back from the House. I'm not sure I understand your amendment.

Ms. Judy Wasylycia-Leis: Then just vote.

The Chair: I'm not going to accept the amendment, because I don't even think Mr. Solberg understands, and I don't want to put words in Mr. Solberg's mouth.

Ms. Minna, and then I have Mr. McKay. You have two minutes.

Hon. Maria Minna: Mr. Chairman, I'll be very quick. Basically the problem here is the same. We are now splitting environmental.... This is an expenditure of about $10 billion to 2012. I've heard all kinds of different comments that it's not perfect, and what have you. The fact of the matter is that environment is a major issue in this country. We had a vote in the House that ratified Kyoto, and this budget is now implementing a plan and putting money aside to basically begin to operationalize our commitment to Kyoto.

This split really goes against the House's interest, because the House has already voted on that issue. By splitting the bill we again delay environment, so we're saying that environment is on a separate track somehow. Then I don't know what will happen to the west, because again I have to go back to the kinds of debates I've listened to in the House from the official opposition. They have been totally negative toward the environmental aspect and totally negative toward the children and other aspects of the investments in Bill C-43. I do not want to see Bill C-43 delayed.

The honourable member keeps going back to the tax cuts. This committee never made recommendations on corporate tax cuts anyway. It was never the priority of the committee as a whole in the first place. A lot of the things we recommended were respected.

However, I am not in favour of cutting off the environmental piece. It goes to health and everything—the economy of this country. It's a very important piece of our budget. If you take that out you're gutting the health aspect as well as the economic aspect. Frankly, I think we ought to get down and discuss the bill as sent to us.

The Chair: Thank you, Ms. Minna.

Next are Mr. McKay, Mr. Pallister, and Mr. Penson.

Mr. Solberg, if you can keep your comments, I'll give you an opportunity at the end to—

[*Translation*]

Mr. Guy Côté (Portneuf—Jacques-Cartier, BQ): On a point of Order, Mr. Chairman.

These discussions bring us back to the previous motion. I ask you to put this motion to a vote immediately, Mr. Chairman.

Mr. Yvan Loubier: We are wasting our time.

The Chair: I've already proposed to put it to a vote, but members of the Committee want to speak and I will give them the opportunity. I have limited their remarks to two minutes.

[*English*]

Mr. McKay, Mr. Pallister, and Mr. Penson, two minutes, and I'll give an opportunity to Mr. Solberg to respond at the end.

Hon. John McKay: Prior to using up my two minutes, can I seek clarification from the chair and the clerk with respect to the first four lines of the motion? It says:

> That, when the House instructs the committee to divide Bill C-43, An Act to implement certain provisions of the budget tabled in Parliament...into two bills; Bill C-43A and Bill C-43B, that it report to the House seeking a further instruction to divide Bill C-43B....

It seems to me that motion 1 was defeated; therefore motion 2 is out of order because it's determined on a condition precedent, and the condition precedent is that motion 1 pass. If motion 1 had passed, we would have ceased our deliberations and been off to the House. It seems to me that it's out of order.

I'd just like a ruling before I speak to the merits of the motion.

The Chair: I'll have the clerk speak to that, sir.

Monsieur Dupuis.

[*Translation*]

Mr. Richard Dupuis (Clerk of the Committee, Standing Committee on Finance): Mr. McKay, you might be technically right. However, Motion 2 only deals with environmental provisions. It could be argued that if it passed, this motion might be implemented.

● (1145)

[*English*]

Hon. John McKay: If the motion was phrased to delete the condition precedent of the passage of motion 1, I would agree with you, but it's not phrased that way. The motion is phrased so there is a condition precedent. The condition precedent is the passage of motion 1. So I don't see how this could possibly be in order, aside from the merits of the issue.

The Chair: When the House instructs the committee to divide Bill.... I think that's where the—

Hon. John McKay: Exactly. But then the mover of the motion has to remove that for it to be in order.

The Chair: Do you have a problem removing that, Mr. Solberg?

I don't think there's a problem.

Mr. McKay, you have two minutes.

Hon. John McKay: You don't think there's a problem. Okay.

As other members have mentioned, some of these arguments are repetitive, so the arguments with respect to Bill C-43, splitting A and B, are exactly the same arguments, and I would adopt other members' views that this is more obstructionism on the part of a certain party.

If the argument was that there was somehow some urgency in that this had been a critical issue over time that had built up and built up and built up.... That argument can't be mounted on this particular section, on C and D. There is no urgency with respect to this, other than that it reflects the commitment the government made to the implementation of the Kyoto accord.

So we understand that the Conservative Party is against that Kyoto accord. We understand that any movement, whether it's by way of plans or initiatives, be it in the budget or outside the budget, they're against. There's no particular rationale with respect to part 13, which is the Canada Emission Reduction Initiatives Agency—setting up the agency—part 14, which is the technology fund, or part 15, which is the adjustment to the CEPA legislation to remove the word “toxic” as it applies to CO_2. There's no particular argument as to whether it's an urgency or whether it's any other matter other than, I understand, that the Conservative position is that they're “agin” it.

The Chair: Thank you, Mr. McKay.

I've got Mr. Penson and then Mr. Pallister.

Mr. Charlie Penson (Peace River, CPC): Mr. Chairman, I think members will agree that these CEPA amendments were a bit of an oddity in the budget implementation bill to begin with, and I think it's recognized by the House leader of the government party that that is the case. He seems to have agreed that it might be a good idea to split it off in committee and send it to the appropriate committee in any case.

So this is really just trying to implement that provision, Mr. Chairman, because it seems to me that the CEPA amendments that are being proposed would fit better for study under the environment committee. As I said, they weren't included in the budget, and all of a sudden they showed up as an amendment. It seems to me today that if we were to split this off, it would allow the environment committee to start studying this as quickly as possible. There are some important things that need to be considered here. Let's bring it to the appropriate committee and allow them to commence their study on it.

The Chair: Thank you, Mr. Penson.

Mr. Pallister, and then I'll allow Mr. Solberg two minutes.

Mr. Brian Pallister (Portage—Lisgar, CPC): As Mr. Penson has just said, these particular provisions are nowhere to be seen in this well thought-out and detailed plan that the government has advanced to us, which gives the lie to any pretense of transparency or openness as far as the government is concerned. Mr. McKay should support our amendment based on his comments. He made the comment that there is no urgency to these provisions, therefore we can split them off. We're agreeing. We're trying to advance, and we're advancing thoughtful amendments to try to advance Bill C-43.

What I also have to respond to, Mr. Chairman, is the foolish argument that's being made by some of my colleagues that somehow we are trying to be obstructionist. I think if anyone would take a little bit of time and examine the history of this place, they might realize, for example, that when the Conservative government was in power and presented its budget in 1991, the Liberal opposition, with the help of the NDP, delayed the passage of that budget by 189 days. When the act to implement Bill C-76 was presented in 1992, the Liberals and the NDP worked to delay the passage of that budget by 291 days. When an act to implement Bill C-93, a further budget act, was introduced in November of 1992, it took 151 days to pass.

Of course, circumstances were different. But the fact remains that the argument that's being made that we should somehow accept poorly thought-out, clearly deceptive components of a budget because we care about seniors is so specious that it almost defies response, and I'm ashamed to have to respond to the colleague opposite when she makes those kinds of assertions.

We are trying to facilitate the passage of a budget and we're being attacked as obstructionist. It's bizarre. These are bizarre arguments that have no logic. They have no historical support whatsoever. In fact, quite the contrary. When these two parties worked together in the past, as government, they tried to expand spending. There was one party helping to obstruct that at that point in time in the interests of Canadian taxpayers.

● (1150)

The Chair: Thank you, Mr. Pallister.

Mr. Solberg, I'll allow you a final two minutes.

Mr. Monte Solberg: Thank you.

The Chair: Yes, Ms. Wasylycia-Leis.

Ms. Judy Wasylycia-Leis: On a point of order, Mr. Chair, I think given the fact that the Conservatives in the last budget year...Bill C-30, for which they were also opposed and had deep concerns.... Our committee spent two days on that bill. There were no amendments and no discussion by the Conservatives.

The Chair: Mr. Solberg, final remarks. I'm much obliged, by the way.

Mr. Monte Solberg: Thank you very much, Mr. Chairman.

What I'm trying to figure out is the Liberal position on CEPA amendments. We've had the government House leader say that he had no problem splitting it out. He thought it should be split out. I've talked to the finance minister about this. He says, no problem, let's split that out so that we can deal with it separately. Now we have them flip-flopping and saying, no, it has to be kept in there. What is going on here? Do you ever take a position on anything?

Remember what we're talking about in the CEPA amendments.

Ms. Judy Wasylycia-Leis: Who's flip-flopping?

Mr. Monte Solberg: Mr. Chairman, can we have a little order, please?

The Chair: We've had order up to now.

Go ahead.

Mr. Monte Solberg: Mr. Chairman, first of all, it was the NDP that opposed Bill C-43 and now they're in favour of it, so I point out the obvious flip-flop.

Mr. Chairman, we're talking about budget measures, CEPA legislation, where the government wants to spend hundreds of millions of dollars buying hot air credits from third world countries. How does that help Canada?

What we're trying to do is bring some scrutiny to this. These members want to tie all of this to the budget so that it can be forced through quickly because there are some measures in the budget that all parties support. Well, what about those things that are contentious and deserve extra scrutiny? Let's hive them off, give parliamentarians the time to properly scrutinize these things that could have a profound impact on our economy, our standard of living, and the environment. With regard to the other things for which there's more support, let's move forward and deal with them. I don't understand why this is such a problem. I don't understand why the Liberal Party is so divided on this and is taking many different positions.

The Chair: Thank you, Mr. Solberg.

We'll go straight to the question.

(Motion negatived: nays 6; yeas 5)

The Chair: The motion is defeated.

The meeting is suspended. We're going to try to get started at 12 sharp.

● (1154)

(Pause)

● (1203)

The Chair: Good afternoon to all of the witnesses. Thank you for coming on such short notice. The members appreciate it.

Pursuant to the Order of Reference from Thursday, May 19, we're here to study Bill C-43, an act to implement certain provisions of the budget that was tabled in Parliament on February 23, 2005. I know it says Bill C-43, but I don't mind if some questions are asked on Bill C-48 because they're sort of linked. I'm going to try to limit it to Bill C-43 if I can.

I'll allow five-minute interventions. I know some of the groups were told ten minutes, but if we can stick to five minutes, that will allow the members an opportunity to ask questions. We're going to try to finish on time at 1:30.

I have here a list of witnesses.

From the Canadian Council of Chief Executives, Mr. Stewart-Patterson, the floor is yours.

Mr. David Stewart-Patterson (Executive Vice-President, Canadian Council of Chief Executives): Thank you. Merci, monsieur le président. Thank you to all members for the opportunity to appear this morning.

I'll be as brief as I can.

In February the Canadian Council of Chief Executives offered qualified support for the 2005 budget. We welcomed in particular the government's bedrock commitment to fiscal prudence, its pledge to make Canadian tax rates more competitive, and its new investments in core federal responsibilities, notably national defence and Canada's presence abroad.

Even then, however, we were deeply disturbed by the continued rapid growth of overall spending, up by 12% in 2004-05 alone, a five-year total that hit 44%. Of course, the months since have seen a steady string of new spending announcements, $9 billion and counting the last time I looked. The prospect of any election brings with it the obvious temptation for governments to try to bribe voters with their own money. This dubious tactic, however, rarely leads to sound public policy, and I think this year the cascade of announcements has reached a new order of magnitude.

I want to make clear here that our concern is not with the merits of any particular initiative. Health care, child care, and equalization are all important to Canadians, as are many of the other commitments made in Bill C-43. We quite accept, as the Prime Minister put it last week, that investing in child care is a much more serious matter than handing twenty-dollar bills to toddlers so they can buy new squeaky toys.

On the other hand, we'd suggest that good governance has to involve more than throwing billion-dollar bills at squeaky wheels. We're hearing a lot of squeaking. We're seeing a lot of spending these days. There's a troubling absence of unifying vision and coherent planning. To be blunt, I must say that gimme, gimme, gimme does not qualify as national economic strategy.

Now, we're a non-partisan organization, and I want to make clear that these criticisms are not aimed solely at the Liberal government in Ottawa. Those who take advantage of short-term instability to keep putting new demands on the table are just as guilty as those who give in to those demands.

The federal government has been able to increase its spending dramatically while remaining in surplus only because of courageous policy decisions made in the past, decisions to embrace freer trade, to battle inflation, to eliminate budget deficits, and to reduce both personal and corporate tax rates. Those decisions have paid off in terms of stronger economic growth, more and better jobs, and pretty spectacular growth in government tax revenue.

As just one example, skeptics once predicted that free trade was going to kill our economy along with our social programs, but since the signing of the North American Free Trade Agreement, federal revenue from corporate income tax has more than quadrupled. More than 15¢ of every federal tax dollar now comes from corporate income tax. That's more than two and a half times the 6¢ out of every tax dollar that was collected from corporate income tax in 1992-93.

But the world isn't standing still. If Canadians want good economic news to continue, the government is going to have to get much more aggressive about reinvesting for future growth. Beneath the apparently healthy surface of Canada's economy these days, there are some rather disturbing trends emerging.

Here are a few examples. Canada needs average productivity growth of 2% a year over the next 30 years in order to look after health care, pensions, and other costs of an aging population. In 2003 and 2004 average output per hour increased a total of 0.1%. Effectively, we've had zero productivity growth for two years running.

Foreign direct investment is a major driver of both job creation and of business innovation. Foreign direct investment into Canada grew an average of 9% a year through the nineties. It failed to grow at all in 2003, and it's the first time that's happened since the Depression of the 1930s. It didn't do much better last year either, rising just 3%.

Consumers are spending pretty freely these days, but they're counting on their incomes rising and on interest rates staying low, because the household savings rate fell below zero in the first quarter of this year. In the same quarter, despite a big increase in business investment in new machinery and equipment to cope with that higher dollar, Canada's manufacturing sector shrank, with 15 out of 21 industry groups showing a loss of output.

So no productivity growth, minimal growth in foreign investment, negative household savings, and a manufacturing base that's struggling to stay afloat in a competitive, volatile, high-dollar world do not bode well for the future prosperity of Canada and of Canadian families. It takes a first-class economy to pay for and sustain first-class social programs. Canada desperately needs a coherent economic strategy that will deliver both. We need to set aside some of the short-term political manoeuvring, I'd suggest, and start talking seriously and constructively about what we want our country to look like a generation from now and what combination of public policy is going to be needed for us to deliver on that goal.

Bill C-43 does include elements of sound economic strategy. To name just a couple, I can mention investment in transportation and investment in border infrastructure, which make a direct contribution to competitiveness. Greater investment in defence and security, for that matter, is a precondition for maintaining the open markets on which our prosperity depends. And of course the budget recognizes the importance of both corporate and personal tax policy in building a stronger economy.

● (1205)

As the C.D. Howe Institute noted this spring, the corporate tax cuts in the 2005 budget, combined with those of earlier years, would stimulate $56 billion in capital investment by Canadian businesses, raising Canada's gross domestic product by $5 billion a year and creating 340,000 jobs at little and perhaps no fiscal cost to Canadian governments.

Further to this point, I'd note that the latest figures for 2004-05 show that federal revenue from corporate income tax exceeded its previous historic high last year, a record that had been set just four years earlier, just before the government started to cut corporate tax rates. In short, the tax cuts announced in 2000 have more than paid for themselves already, and that's without counting any of the tax revenue that flows from the jobs that were created by business growth along the way.

Canada is not alone in acting on this reality. Since 1997, 25 of the 30 member countries of the Organization for Economic Co-operation and Development have cut corporate taxes: Italy by 16 percentage points; Germany by 13 points; Japan by 9 points; France by 8 points; and the U.K. by just 3 points, but to the lowest rate in the industrialized world. Governments around the world, in other words, are increasingly turning to corporate tax policies, the single most effective tool they have, for attracting new investment, accelerating economic growth, raising family incomes, and funding social programs.

Canada, on the other hand, now has the third highest marginal effective tax rate on business investment in the industrialized world, and countries with far lower tax rates collect far more in terms of tax revenue.

I admit here that lower tax rates by themselves cannot ensure a prosperous future for Canadians, but if we want our economy to grow, if we want our social programs to improve, we have to work harder in making Canada a place where more talented people want to live and work and where more investors want to create and grow businesses.

The government has sent very confusing signals about where it stands on corporate tax cuts: including them in the budget; promising the New Democratic Party that they would be dropped; and then promptly promising the business community that they would go ahead on schedule. In business, uncertainty is damaging. What investors know for sure about future tax rates affects the decisions they make today.

So our suggestion to this committee is very simple. Bill C-43 includes the promised tax cuts at the moment. The vote at second reading indicated that the bill, including tax cuts, enjoys the support of a substantial majority of the House. Why make the situation more complicated than necessary? Leave the tax cuts where they are and pass them as is.

More generally, our sense is that Canadians would welcome action by this committee to move Bill C-43 forward as quickly as possible. Given its vast scope, all of us do have some reservations. In particular, the proposed amendment to the Canadian Environmental Protection Act, which the committee just discussed, was not part of the budget as originally presented, and to avoid delaying the rest of Bill C-43, and in order to give it the more detailed study it deserves, we would support the notion of splitting off the CEPA provision and debating that as a separate bill.

This issue aside, our council maintains its support for the budget as it was originally presented and suggests that the best way to serve Canadians is to end the uncertainty by passing Bill C-43 without delay.

We do not, however, support the passage of Bill C-48, which asks Parliament for blanket authority to throw future funds in undefined ways at vague policy objectives. The environment, education, affordable housing, and foreign aid are all worthy causes, but the basic principles of transparency and accountability require that members of this House have the opportunity to judge whether specific proposals for action in these areas would represent efficient and effective use of taxpayers' money.

Bill C-48 represents neither fiscal prudence nor sound strategy. It is nothing more than a postdated blank cheque that would give the cabinet blanket authority over a $4.5 billion slush fund.

Canadian companies face new competition and new opportunities every day within national and international markets. If our enterprises are going to take advantage of these opportunities to keep investing in new operations and new jobs that are going to lead to higher incomes and a growing tax base, it's essential for governments to do their part in shaping a positive business environment through sound fiscal policy, competitive tax rates, disciplined spending, and smart regulation.

At the federal level, Mr. Chairman—and I'll conclude—this means putting a stop to the spending splurge and getting started on a meaningful debate about the strategic needs of this country. What really matters to Canadians is not where the polls are going to be five minutes from now, but where our country is going to be in 10 and 20 years. This is where we at the Canadian Council of Chief Executives are going to be focusing our efforts in the months ahead, and we hope others will join us in putting Canada first.

Thank you very much.

● (1210)

The Chair: Thank you, Mr. Stewart-Patterson.

I have the Canadian Association of Petroleum Producers, Mr. Alvarez.

Mr. Pierre Alvarez (President, Canadian Association of Petroleum Producers): Thank you very much, Mr. Chairman.

CAPP appreciates the opportunity to appear before you today to outline our views, support for, and concerns about aspects of the two pieces of the budget legislation.

I'll be commenting on six topic areas; however, before I begin the main part of my presentation, I'd like to give you some numbers that describe the contribution to the Canadian economy of the upstream —that is, the exploring and producing side—of the oil and gas business.

We're now the largest private sector investor in Canada. In 2005 alone, we'll invest $35 billion in the Canadian economy and pay $20 billion directly to governments. The upstream industry is truly a national one, active in 12 of 13 provinces and territories and accounting for approximately 6% of the country's gross domestic product. We impact the livelihoods of 500,000 Canadians and are number one among Canadian industries in environmental spending. Finally, with the recent changes in stock market performance, the oil and gas industries combined now represent close to 25% of the value on the Toronto Stock Exchange.

The ability of our sector to continue to provide stimulus depends on the availability of skilled workers. We are now facing limits in a number of skills and professions from labour shortages that are expected to worsen over time and extend across a greater number of career areas. Many of the same skilled trades and professions required for oil and gas development will be sought by other developments, such as mining and forestry, as well as civil infrastructure programs that are being accelerated through both federal and provincial support.

We would urge the committee to ensure that the funds identified for increased spending and training initiatives in this budget are adequately targeted to the resource sector—obviously including mining and forestry, not just the oil and gas industry.

There's also significant potential for aboriginal communities both to be part of the labour supply solution and to resolve their economic challenges through increased participation. This will only happen in a meaningful way if education levels and training are addressed in these communities. In particular, we are asking you to reinstate at an expanded level the access-to-capital element of the first nations business development initiative, which was cancelled by the department as part of the fiscal plan.

Finally, we are pleased that the federal government is working with provinces and municipalities to improve infrastructure in cities. We strongly believe this support has to go beyond major centres, however, to include in a meaningful way rural towns and communities.

Our industry is one of the largest employers in rural and remote areas. We're finding our ability to operate is increasingly constrained because the lack of basic infrastructure, roads, water, sewage, housing, and community facilities is impacting upon our operations and making it more difficult to attract and retain the skilled workers we need.

CAPP and its members were encouraged by the 2004 report of the External Advisory Committee on Smart Regulation and a subsequent report on actions and plans that outlines how the federal government will move towards a regulatory system that is smarter. The smart regulation initiatives must not be allowed to languish in the too-hard-to-do pile of government ideas.

Regulatory efficiency is an important element affecting the competitiveness of Canadian industry, and the implementation of the committee's recommendations will require an ongoing commitment of financial and human resources within the budget.

Turning to northern Canada, the right geological conditions exist to make it a significant oil and gas producing region. Nevertheless, oil and gas investment in the north, approximately $500 million in 2004, is minute compared with that in the rest of Canada. Drilling activity tells the same story. Only seven of the 24,000 wells drilled in Canada in 2004 were in the north. Exploration development costs in northern Canada are high, reflecting the logistics of working in remote locations with a short drilling season.

In addition to a demanding operating environment, development proponents face a regulatory system that is complex, unwieldy, and ill-equipped to handle applications for oil and gas activity. The result has been delays, increased costs, and higher risks. Lack of transportation and other infrastructure adds further.

These factors combine to make the jurisdiction increasingly uncompetitive with the rest of Canada and the world. Our submission contains five recommendations to address these concerns.

Along with my colleague, CAPP and a number of other industry groups have expressed disappointment over the Government of Canada's announcement to remove corporate tax changes from the budget. We recommend the government proceed with the tax rate changes previously announced as part of this budget. After all, these changes were studied, analysed, and recommended to Parliament by this committee to address the competitiveness issues facing all Canadian industries.

Turning to Atlantic Canada, there are currently three oil and gas producing projects, with a fourth scheduled to begin production this year. These projects are the result of discoveries made 20 or more years ago. There has not been a commercial discovery since then in the region. The region is also high cost, high risk for our industry and is experiencing increased competition for industry's investment. As a result of the phase-out of the resource allowance and a replacement by resource deductibility in the corporate income tax, these projects with high upfront capital investments were negatively affected.

We continue to recommend several fiscal measures that could restore the economics and enhance the competitiveness of the region, including restoring the investment tax credit to 15%, providing class 1 accelerated capital cost allowance, and increasing cumulative development expense rates.

● (1215)

My last item is climate change, Mr. Chairman.

CAPP and other stakeholders have been working constructively on climate change policies with the federal government and provinces for some time. The federal government has announced the outline of a policy for large final emitters that could serve as the basis for defining an LFE policy acceptable to provincial and territorial governments and our industry. However, there are still many details to be defined to produce a policy that is workable for the diverse operations in the oil and gas sector as in other sectors. CAPP will continue to work with the LFE group to complete the design details in a practical way. We believe the decision on a regulation or legislation to implement the LFE target system should not precede the completion of those details.

Mr. Chairman, new technology is critical to maintaining Canada's quality of life, meeting our energy needs, improving our environmental performance, and reducing greenhouse gas emissions. Canada needs to increase its investment in new technology. The policy direction for LFE targets includes an innovative feature that recognizes the importance of technology development. Bill C-43 proposes to create a greenhouse gas technology investment fund and allow for the issuing of technology investment units as credits that can be used by LFE companies to comply with their GHG targets. As currently drafted, Bill C-43 falls short in two areas in its implementation of what is basically a good idea. Our written submission provides two amendments to address these concerns.

Mr. Chairman, enabling measures in the budget bill for setting up the technology investment credits are but a small part of the LFE greenhouse gas target system. The acceptability of the overall LFE policy depends on getting the design details right. The government should not proceed with the LFE regulations until it gets those details right. Therefore, a decision on the legislative basis of the policy would be premature at this time. Nevertheless, CAPP believes you should proceed with the enabling legislation to set up the technology investment credits in an effective way by introducing amendments as I have just proposed.

Thank you very much, Mr. Chairman.

● (1220)

The Chair: From the Canadian Petroleum Products Institute, we will now have monsieur Belletrutti and Mr. Baily.

Mr. C. Dane Baily (Vice-President, Business and Communications, Canadian Petroleum Products Institute): Thank you, Mr. Chairman, for the opportunity to address the committee and share our views of the petroleum products industry.

Due to the tight timeline, we have not prepared a formal brief but are providing a copy of our comments.

[*Translation*]

I regret that our remarks have only been submitted to you in English. Consequently, we shall be pleased to answer you in French.

[*English*]

My name is Dane Baily. I'm a vice-president of the Canadian Petroleum Products Institute. Jack Belletrutti, also a vice-president, is with me today.

I'd like to present our views on Bill C-43—specifically part 15, the proposed changes related to the Canadian Environmental Protection Act—but first I will give you a little background on who we are.

CPPI is a national industry association representing refiners and marketers of petroleum products. Our members are major companies, regional companies, and marketers of petroleum products. We have operations throughout Canada. We generate over $50 billion in revenues annually and collect, on behalf of government, over $15 billion in fuel taxes. Our industry members collectively employ some 130,000 Canadians in communities right across the country. We contribute directly to keeping the economic engine running, ensuring that Canadians have a secure supply of quality fuels. Our refineries are part of the large final emitters group with respect to Canada's climate change plan.

CPPI does not believe that CEPA 1999 is the appropriate vehicle to regulate any part of Canada's Kyoto commitment. New legislation specific to that treaty would be preferable. This said, and given the government's decision to use CEPA, we would like to introduce the following two points: first, we do not believe CEPA needs to be amended in order to regulate greenhouse gas emissions; second, if amendments are required for whatever reason, the budget bill process is not the appropriate vehicle for introducing the amendments.

I will be more specific on these points. First, the authority to regulate greenhouse gas emissions already exists in CEPA 1999. In division 6, entitled International Air Pollution, is section 166, which was written to provide the regulatory authorities to enforce Canada's commitments under international agreements such as the Kyoto Protocol. Although the section has yet to be tested, we believe it is a logical alternative to the government's choice to use part 5, Control of Toxic Substances. Even paragraph 64(b) in part 5 provides the authority to regulate a substance under the conditions that "constitute or may constitute a danger to the environment on which life depends". This, we believe, could be used as is to cover greenhouse gas emissions.

On the second point, CPPI is very concerned about the precedent of significant changes to what we would call framework or core-enabling legislation—such as CEPA—being included in a budget bill. This process does not allow for full review of the changes in the context of the framework legislation. The focus of the budget bill for this issue is the allocation of funds to manage GHG emissions reduction programs; it is not on how changing the definition of CEPA toxic will affect the government's overall ability to manage substances of concern. These changes are not trivial, and, as you know, greenhouse gases, like carbon dioxide, are not toxic. They occupy about seven pages of Bill C-43 and need the appropriate review by all the stakeholders. A review of the proposed changes properly belongs within the five-year CEPA review that is currently under way.

In conclusion, there's no need to change CEPA to accommodate the budget items related to Canada's climate change plan. CPPI recognizes the concerns some industries have with the stigma resulting from a toxic label and recognizes that changes to CEPA may be necessary to address their concerns; however, these are significant changes, requiring thoughtful review, and are inappropriate for a budget bill. Our views are entirely consistent with the House of Commons Standing Committee on Environment and Sustainable Development's fifth report, tabled in the House on April 15. They recommended the removal of part 15 from Bill C-43.

Thank you, Mr. Chairman.

● (1225)

The Chair: Thank you, Mr. Baily.

La Fédération des contribuables canadiens, monsieur Williamson.

Mr. John Williamson (Federal Director, Canadian Taxpayers Federation): I'd like to thank members of the committee for the opportunity to bring the Canadian Taxpayers Federation's perspective to your budget deliberations.

No doubt, the second budget bill, Bill C-48, commonly known as the NDP budget agreement, will be examined by this committee at a future date, and while we have many concerns with the first budget bill, which I'll outline here today, they pale next to the NDP amendment.

It is not only the additional $4.6 billion in new spending contained in Bill C-48 that is alarming, but the decision to amend the Financial Administration Act by removing the provision legislating that surplus revenues be directed to debt repayment is irresponsible for two reasons. First, it signals a weakening in the government's commitment to reduce Canada's debt. Second, it will commit the government to spend money after the end of this fiscal year without first allocating it to a specific program. This will serve to further erode parliamentary oversight of government expenditures. It also violates basic accounting principles, which, in the sponsorship program era, is the last thing Ottawa should do when it comes to spending tax dollars.

I hope to be invited back for the hearings on Bill C-48 when they are held, be it later this month or sometime after the summer recess. I'll return to Bill C-43 for now.

The Canadian Taxpayers Federation is urging this committee, and in fact all parliamentarians, to renew and strengthen the commitment to debt reduction by making it central in the budget review.

Starting in 2006, Canadian taxpayers will have a little more money in their pockets thanks to a higher personal income tax exemption. An individual taxpayer's income tax bill will be cut by a measly $16 next year but will rise to $192 a year in 2009.

Despite Ottawa's multi-year and multi-billion-dollar surpluses, which represent an ongoing over-taxation of Canadians, the government is delaying for another four year what we describe, very generously I'd add, as modest tax relief.

The government appears incapable of living within the budget it sets for itself. For instance, when the budget was tabled a year ago, that is to say, March 2005, Finance Minister Ralph Goodale said program spending in 2004-05 would be $148 billion. When the economic update was delivered in November last year, we were told spending would instead rise to $151 billion. The recent budget revealed actual spending in 2004-05 was $158 billion. The finance minister missed his original budget target by an astounding $10 billion. This makes a mockery out of future spending projections. Moreover, this trend has not been isolated to one year.

Despite rising spending levels, there are, not surprisingly, calls for even more, but before lawmakers go too far down this road, it is worth remembering that since the budget was balanced in 1998, program spending has risen by 48% and is projected to climb by 82% come fiscal 2009-10. This figure does not include additional spending included in the NDP budget amendment.

A growing economy and debt repayment has the federal government debt on a downward trajectory. The CTF has long advocated for a debt retirement schedule. For now anyway, the Financial Administration Act wisely requires by law that 100% of any surplus be directed to debt repayment, yet the medium-term outlook makes it clear that we need to move from debt repayment by accident to debt repayment by design.

CTF applauds the government for embarking on streamlining of program spending, with a target of 5% per year, and we applaud the sale of government assets such as Petro-Canada and the proposal to sell public buildings. These types of initiatives will go a long way to ensuring that this government can implement a mandated debt retirement schedule.

The CTF recommends an annual budget line devoted to debt repayment, beginning with 1% in fiscal 2005-06 and rising to 5% of annual revenues. If our good fortune and good fiscal management hold—something I'll note that is now in doubt with the NDP budget amendment—our half-trillion-dollar debt could be paid off in a little more than a generation, saving billions in annual interest payments. This is key. Managing today's debt load and the $35 billion annual servicing cost will be onerous come 2020. This is because over the next 15 years, millions of Canadians will move from work to retirement. The combination of fewer taxpayers relative to the number of retirees and more people using medicare and collecting pension programs like old age security and the guaranteed income supplement, for example, will put Ottawa's ability to afford social programs in jeopardy.

Ottawa has already reduced more than $60 billion in net debt over the past eight years. This has resulted in annual savings on debt interest payments of $3 billion to $4 billion a year. We must continue to reduce our national debt to free up scarce resources in the coming years. I'll note as well that we have found such a move to be politically popular, just as an aside.

● (1230)

Members of this committee, you have an opportunity to make recommendations that will speak to these concerns.

Thank you.

The Chair: Thank you, Mr. Williamson.

We will now hear from Mr. Jackson of the Canadian Labour Congress.

Mr. Andrew Jackson (Senior Economist, Canadian Labour Congress): Thank you, Chair.

I've been appearing before this committee for about the last fifteen years, and this is the first time I can recall that I've ever appeared to support a budget. This might just indicate that we're coming to more of a balance in our fiscal arrangements. I want to say on behalf of the CLC that we strongly support the revised budget.

The additions that were negotiated made a somewhat good budget much better. In fairness to both parties, it's moved us forward across a whole series of incredibly important agendas—urban infrastructure agenda, training, child care, and so on. So we're strongly in support of this budget and the spirit of cooperation that brought it about.

I would just flag one area where we are unhappy still, which is the all-party agreement on employment insurance reform. It has not been reflected in the budget, so more needs to be done on that front.

Today I wish to speak to the corporate tax issue, which of course is part of the budget agreement. I must say I go back to when I appeared with our secretary treasurer, Hassan Yussuff, before the committee in its pre-budget hearings. I had quite a debate with my business colleagues at that time around the case for further cuts in the general corporate tax rate. I think my business colleagues were rather surprised at the tax rate cut in the budget. It was actually beyond what they were pushing for.

It was a surprise to us that there was a further cut in the general corporate tax rate in the original budget, a further two-percentage-point cut in the rate, building on the rate cut of seven percentage points that had already taken place. That's another $3 billion cut to federal revenues when fully implemented.

The case that's been put forward for these corporate tax cuts is that we'll lose out on business investment if they're not implemented. So the payoff for a more competitive tax system of lower tax rates is supposed to be more business investment and better jobs. I want to take on that argument without in any sense disagreeing with the proposition that business investment is incredibly important to our well-being as a country, to productivity. The issue is, how much do general cuts in the general corporate tax rate contribute to that objective of higher real business investment?

I've distributed a short paper to the committee, and I'll flag a few of its key points. First, does Canada have a corporate tax competitiveness problem? I've cited data here from KPMG; I could do it from *The Economist*, from *The Global Competitiveness Report*. The budget itself made the case that our effective corporate tax rates are not out of line with those in the United States.

The only serious argument that our effective corporate tax rates exceed those in the U.S. has been put forward by the C.D. Howe Institute by Professor Mintz. Those studies are somewhat misleading if you draw from them the conclusion that you need a cut in the general corporate tax rate to raise business investment. The tax incidence studies of the C.D. Howe Institute, which this committee commended in its last report, look at a wide range of tax measures, including provincial sales taxes on capital goods, inventory tax measures, and others.

So I think the proposition that Canada has a problem in terms of effective corporate tax rates vis-à-vis the U.S. right now is not well founded.

Secondly, what is the link between the corporate tax rate and real business investment? I make the point in the paper that business investment is much more strongly driven by demands for goods and services produced by business than it is by the cost of capital. The tax rate is only one small element in the cost of capital. When you're talking about tax measures affecting business investment, what you're really concerned with is the impact on decisions that are made at the margin by the marginal business considering a marginal investment.

● (1235)

In that context I want to draw your attention to.... I will table the full report with the committee, but I've just circulated a very short extract from a working paper from the Department of Finance on taxation and economic efficiency, which members can peruse for themselves. The bottom-line result of their study is that if you're going to take a business tax measure to impact on the real rate of business investment, increasing capital cost allowances—the depreciation rate for new investments—is a far more powerful tool than cutting the general corporate tax rate. This is hardly a surprising result when something in the order of a quarter of all Canadian corporate profits are in the financial sector where they're not heavily exposed to foreign competition in the first place.

What really counts in terms of business investment is that most of it takes place in our resource sector and the manufacturing. In the manufacturing sector, corporate tax cuts benefit returns from investments that have taken place in the past, not new investments going forward. So to repeat, the results of this study really show that much more targeted tax measures are much more effective in terms of boosting business investment per dollar spent.

What I do next in the short study is to go on and point out the brute fact that as we have cut our corporate tax rate, the general rate, from 28% to 21%, real business investment in Canada as a share of our economy—that's investment in both buildings and machinery and equipment—has been slipping slightly or has at best been stable. There is perhaps a very slight increase of late in the rate of business investment in machinery and equipment. So really we're faced with this proposition. We have delivered up these big tax cuts that have had major impacts on federal government revenues and very little bang for the buck in terms of improved business investment performance.

From our point of view—to repeat—real business investment is incredibly important in terms of creating and maintaining good jobs, but there are much more effective tools to hand. I would argue public dollars spent on training at the moment would be much more effective in terms of increase in the kinds of investments we're talking about in our energy sector and our manufacturing sector and so on.

Where are those profits going that have been boosted by these deep cuts in corporate tax rates? Well, if you look at the Statistics Canada data, what we're seeing and have been seeing over recent years is a massive outflow of corporate profits from Canada in terms of direct investment abroad. An awful lot of it is by the banks, money being moved to offshore tax havens in the Cayman Islands and so on and so forth. So you really have to argue, is this the most efficient way of building our economy going forward, or are there alternative measures available?

In conclusion, we strongly support the amended budget—the budget amended to remove these corporate tax breaks. I'm not saying go back all the way to where we were. I'm not saying no corporate tax measures at all. I'm saying further general corporate tax rates are not the way to go.

Thank you.

The Chair: Thank you, Mr. Jackson.

Members, I have seven minutes.

Mr. Solberg, and then Mr. Loubier.

Mr. Monte Solberg: Thank you very much, Mr. Chairman. Thanks to all of you for being here on pretty short notice. I do want to apologize at the beginning for the short amount of time that we have to give to you today. We—the Conservative Party—wanted more time, but we weren't allowed to have it, unfortunately.

I also want to point out that our party has taken the position that we support many of the measures in the budget. Unfortunately, when the Budget Implementation Act came in, the government introduced some of the CEPA things that we found to be unacceptable and have trouble supporting. I think it's important that you understand that, so there's no confusion based on things you've heard from other members here about our position. We do continue to support reduction in corporate rates, personal income tax breaks, and some of these increases in transfers to seniors, for instance. I need to make that point.

I want to follow up. Maybe I'll start with Mr. Jackson's point. He points out, as Mr. Stewart-Patterson has pointed out, that although there has been a reduction in corporate rates, we really have seen foreign direct investment in Canada flat at best or negative in 2003. If in fact more reductions are warranted, why doesn't this actually increase more investment in the Canadian economy?

Maybe, Mr. Stewart-Patterson, you want to talk a little bit about that and explain why this is important. I don't want to put words in your mouth. Obviously if corporate profits have been increasing, this benefits other people as well. Besides fat cat capitalists, it helps workers and pension funds and the people who own RRSPs. Can you at least address Mr. Jackson's point?

● (1240)

The Chair: Just before we begin, I want to say for the witnesses who haven't been here before that the members have seven minutes for questions and answers. I'm going to allow them to ask questions to whomever they'd like. There may be more than one individual or two. But if you could keep your answers to a brief intervention, I would appreciate it.

Thank you.

Mr. David Stewart-Patterson: Thank you, Mr. Chairman.

I guess I'd make a couple of points. First of all, with respect to the impact on federal revenues, I think it is important to point out that everybody who opposes tax cuts tends to say “this is going to cost the government money”. The fact is, if you look at 2003-04 and 2004-05, during those two years in which the corporate income tax rate fell by four percentage points, federal revenue from corporate taxes went up by $7 billion, contributing a huge amount to the pool of money.

The question on investment, however, comes back to.... I would agree with my colleague, Mr. Jackson: ultimately it's demand that drives business investment. However, tax rates have a big impact on where those investments get made.

I think it is true we've seen successful Canadian companies increasing their investments abroad, and that's a healthy process. It's not just going to the Cayman Islands we're talking about, whether it's major acquisitions in financial services, such as John Hancock in the oil and gas sector, or Tom Brown buying EnCana, or whether it's expansion of businesses worldwide, with a company such as Manulife and its activities across Asia. The fact that Canadian companies are investing abroad is healthy in its own right. We shouldn't discourage it; that's how we build global champions.

I think what we have to worry about is a lack of interest among companies based elsewhere in coming into this country. What's important is that when Canadian companies invest abroad, they're making money abroad, and the benefits of that activity flow back to Canadians through the profits. That's what we're seeing showing up in the higher corporate tax revenue, despite the lower rates. However, I think it's also legitimate to ask what it is we're going to do to make sure Canadian companies and foreign companies alike want to invest in this country, create the jobs here, and create the other tax revenues that flow from that activity.

I wouldn't disagree with Mr. Jackson when he says it's not just the headline corporate tax rate that matters; there is more than one way to improve the returns on investment. The fact is, the business environment we create in this country matters in terms of the results we get.

The Chair: Mr. Jackson.

Mr. Andrew Jackson: I think the idea that we're creating Canadian corporate champions when the Canadian banks invest in the Cayman Islands is somewhat preposterous.

Mr. Monte Solberg: But how much money are we losing to tax havens? When you talk about all the investment that's being made outside of the country, what percentage would go to the Cayman Islands or Barbados?

Mr. Andrew Jackson: I would just refer you to the Statistics Canada study. I'd be pleased to send you the reference on where our foreign direct investment is going. But by memory, I think about a fifth of it was to offshore tax havens, which is quite a bit.

Obviously there are legitimate investments abroad. I just want to say in terms of the point that cutting the tax rate produced higher revenues, the fact is corporate tax revenues have actually been quite buoyant in recent years because corporate profits have been incredibly strong. Corporate profits today are actually at a record high share of GDP.

What I find preposterous is the notion that, for example, the oil and gas sector, where record high profits are being earned because of the soaring energy prices, need a further tax cut as an inducement to new investment. That's absolutely preposterous. There are major new investments going ahead prompted by energy prices. The question is, how much should all Canadians share in the benefit of those investments in the form of tax revenues?

I'd be really surprised if my colleague was going to argue that new oil sands developments and so on were marginal at this point, depending on whether the corporate tax rate is cut by two percentage points or not. It's basically a windfall gain in the context of extremely high profitability. Just the fact that we have record high corporate profits today and real investment has been relatively subdued I think does prompt the question, which measures are really more effective?

● (1245)

Mr. Monte Solberg: But isn't the issue, Mr. Jackson, with respect, that if somebody can take advantage of lower tax rates in another jurisdiction and come to do their business in Canada, for instance, or explore elsewhere in other parts of the world...don't we want to attract that investment to Canada?

Mr. Andrew Jackson: They have to come to Canada in the resource sector. I agree there is a tax competition issue between us and the United States when it comes to certain parts of our economy, and particularly manufacturing. But there I think it is really important to separate out what the tax compliance issues are and what the real investment issues are. There's no doubt that transnational corporations can, through the way in which they keep their books, shift profits to lower-taxed jurisdictions.

Actually, if you followed Professor Jack Mintz's testimony in the U.S., he was down there saying their tax rates were too high, which was why the profits were being shipped to the offshore tax havens. I think the real way to address that whole issue is through international tax treaties—the kinds of instruments that were being developed at the OECD—and more effective enforcement by Revenue Canada. Otherwise, you just get into a sort of downward spiral, where effectively nobody is taxing corporate profits at all.

The Chair: Thank you, Mr. Jackson.

Monsieur Loubier.

[*Translation*]

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

I have listened carefully all our witnesses but particularly the remarks made by Mr. Jackson and Mr. Stewart-Patterson. I think that both of them are right, but from a different perspective.

Mr. Jackson, you are right to say that Canadian tax laws, tax agreements and corporate tax provisions are driving capital out of this country, particularly to Barbados. We shall have a special session before summer recess to analyze not only the tax agreement between Canada and Barbados but the whole tax regulation concerning that agreement. I agree with you when you say that we are driving investments out of this country. However, the example comes from on high, because the family of Paul Martin, Canada's Prime Minister, also has financial interests in Barbados and is benefiting from tax regulations and the tax agreement between Canada and Barbados. When the example comes from so high, we should not be surprised to see an increase in Canadian direct investments in tax havens such as Barbados.

This being said, you will agree—and I think that Mr. Stewart-Patterson said so earlier—that we should not only take into account corporate tax in Canada, in the U.S. or in the rest of the world and compare corporate tax levels on that basis. We must also take into account the competitivity of Canadian businesses. It is now lower than in other countries and it must be considered in the context of the new competition from Asia and particularly China that has already started. We must put ourselves in a competitive position so that one negative part of the equation won't create unemployment in Canada. Some people say that instead of reducing corporate tax rates, we should rather lower personal tax rates. In the final analysis, the result is the same because if businesses are closing their doors as we saw recently in Huntingdon or in my riding, it creates unemployment. Corporate tax rates are not the only element but it is one that might contribute, particularly if we reduce SME's tax rates, to improve our competitivity and help us face the new situation created by competition from Asia for example.

I would like to hear what Mr. Jackson and Mr. Stewart-Patterson have to say about this, but also from all others witnesses who have something to add. I think that we should strike a balance between the welfare of workers and the competitivity of businesses.

● (1250)

[*English*]

Mr. Andrew Jackson: I'll be very brief, in deference to my colleagues. I'd just like to flag, as I did in this brief report, that if you look at that KPMG report on Canadian competitiveness, they found not just that taxes were a fairly small part of the competitive equation, but that Canada ranked very highly in terms of cost-competitiveness.

I think our real problem as a country is lack of sufficient investment in innovation, research, and development, which is very concentrated in a few major firms, and lack of investment in training. If you'd like to put it in codas—the basic building blocks of the knowledge-based economy.

While Canadian businesses have been doing very well, what's disappointing is how little our investment in those key areas has increased. I guess I see public investment as making a really important part of the difference. I think the skills training investments in this budget, for example, are extremely important. They move us part of the way to where we want to go.

I shouldn't speak for my colleague, but my perception is that one of the big brakes on expansion in western Canada right now is the lack of sufficiently trained workers to go to those projects. A corporate tax cut isn't going to solve that issue.

Similarly, I think of the kind of innovation in the energy sector as well. Public investment is a really important part of that. There are the very specific targeted investments we've seen. We're getting new investments in the auto sector because of the...Bombardier in Montreal, for example, through the technology program.... They are a more effective way of levering the kinds of business investments we need.

I'm sorry, I'm going on too long.

The Chair: Mr. Stewart-Patterson.

Mr. David Stewart-Patterson: I actually agree with my colleague Mr. Jackson on some of those points. In particular, I would agree that tax rates are not the only factors that come into play. It is a broader issue of competitiveness. What's the combination of factors in terms of the people and the skills that are here and in terms of the business environment, which includes the regulation as well as taxation? What is the quality of the transportation infrastructure—highways, airports, and airline connections? For that matter, the quality of the social infrastructure matters. If a company is going to attract highly skilled people into an operation that's serving customers around the world, that operation is going to go into communities that are good places to live as well as to work.

While Mr. Jackson and I could go on for many hours about the advantages or disadvantages of tax rates, I would agree that there are many other factors that have to come into play when we talk about a strategy for making this country the best place in the world for people to live, to work, and to do business.

[*Translation*]

Mr. Yvan Loubier: Do you think that if we keep corporate tax rates at their present level and do not start immediately to improve other elements, we might lose our comparative advantage? Businesses could use their surplus resources to train their skilled workers on the job, improve their production technology and increase their competitivity. Do you agree with this?

[*English*]

Mr. David Stewart-Patterson: My experience is that larger companies that are engaged in competition around the world, that operate across borders, tend to be the most intensive when it comes to investing in employee training and development, because they understand the need to attract skilled people. To keep good people means you have to invest in them as well.

The interest in expanding beyond Canada's borders and in becoming a growing company that operates in the global market goes hand in hand with a stronger commitment to investment in employee development—now that's direct company investment. By the same token, I think it's also important to note that....

Again, I come back to the tax system. The most famous example, of course, of low corporate tax rates paying off is Ireland. The corporate tax rate is just 12.5%. They actually collect more tax revenue as a share of their economy than Canada does with our high rates. Ireland has made a conscious decision to put a big chunk of their government revenue into greater efforts on the education side.

● (1255)

The Chair: Thank you, Mr. Stewart-Patterson.

I have Mr. Bell, and then Ms. Wasylycia-Leis.

Mr. Don Bell: Thank you, gentlemen. I appreciate your presentation.

I have a few questions. First of all, to Mr. Alvarez and to Mr. Baily, aside from the other issues you talked about, I'm just curious about the capital cost allowance increase for the transmission lines that has gone from 4% to 8%. I'm just wondering if that's been a help. Does that assist as I suspect it might? I'm curious.

Mr. Pierre Alvarez: As Mr. Jackson said, we've talked at a couple of budget sessions and we agree on training, we agree on infrastructure, we agree on R and D, and we also agree that CCA is an important part of it. Our view is that for some of the major pipes it has probably not gone far enough.

But I think there's a second issue. Its application needs to be extended. We have a real problem off the east coast right now, where we do need to see exploration activity jumped up, and the CCA is an effective way of prompting new investment.

We were encouraged to see it. We hope this is the beginning of a consistent expansion both in terms of size and application in subsequent budgets.

Mr. Don Bell: It's a step in the right direction, then, is what you're saying.

Mr. Pierre Alvarez: Yes, exactly.

Mr. Don Bell: Mr. Baily.

Mr. C. Dane Baily: I really don't have anything to add to what Mr. Alvarez has said. We're fully supportive.

Mr. Don Bell: Mr. Stewart-Patterson and John Williamson as well, you both talked about spending and debt reduction in your presentations. One is the question of the increases. The information I have is that the spending levels as a function of revenue in the eighties and nineties, when we had a Conservative government, were around 16%, and we're now down around 12%. Even Bill C-48 would add about one-tenth of 1% to that. My question is, are you aware that we in fact have reduced that ratio? I presume you think that's a move in the right direction. I'd be curious to hear your comments on that.

Mr. David Stewart-Patterson: I would agree. As a country we're a lot better off now than when we were racking up $30 billion and $40 billion deficits and digging ourselves deeper in the hole every year. That required some pretty tough decisions during the 1990s. As I said in my remarks, the country is enjoying the fruits of those decisions today.

By the same token, what worries me is that if you look at the trend of spending over the last few years, you'll see that since we got back into balance, the spending trend has been ramping back up again. Spending has been increasing faster than the economy has been growing. The government has been making commitments to lock in increases in transfers, for instance, at rates that are faster than the economy is expected to grow. All of that is building up pressures down the road, which is worrying.

But the real issue, frankly, is not the absolute level of government activity. The question is, are we getting value for that activity? That's my main concern with Bill C-48. It's not the objectives that are put forward; it's the fact that the bill is basically a blanket permission for a cabinet at a future date. We don't even know what political stripe that cabinet might be by the time the authorization comes through. What worries me is the notion that you're going to agree now to give cabinet blanket authorization to spend that much money without having any opportunity to say, what's it being spent on? Are these programs or whatever activities are authorized at that later date actually going to be good value for taxpayers' money?

● (1300)

Mr. John Williamson: I would agree with part of that, but I think also the comparison between bringing down the deficit versus a surplus era.... When you look at spending, tied to or adjusted for inflation per Canadian, you see it's never been higher than it is today. Measuring it against the size of the economy is a clever tool, but that assumes the government should grow in lockstep with the economy, and there's no reason why it should. It should grow at a rate that keeps program spending constant perhaps, but there's no reason why, if the economy is supercharged, government needs to grow with it, and that's where we are today.

I think as well that one of the big changes is that you measure it against revenues. Again, I think that's an inaccurate comparison, because taxes went up throughout the 1980s and the 1990s to battle the deficit. The deficit is gone and we're still paying those taxes. I could list a number of taxes that were implemented as deficit elimination taxes that are still on the books today. So we hike taxes to beat down the deficit and that's gone, but the Government of Canada is still bringing in billions of dollars in revenues, which we view as a systemic overtaxation of Canadians. There is a balance, I think, between more spending and modest tax relief.

It was in fact the former Prime Minister who talked about the Liberal balanced approach to public policy, which was to reduce taxes, spend more in priority areas, and pay down debt, and increasingly we see the government is abandoning two of those steps. The tax relief is, I would argue, completely off the agenda; debt repayment is quickly falling off the agenda—it's been capped; and the focus now is entirely on spending.

My final point is that we're now back in an era where—at least I think we're heading there, particularly with the NDP budget amendment—if there's any change in the economy with a slowdown due to exports or the higher dollar, we're that much closer to falling into deficit. The current Prime Minister took prudent steps as finance minister to give the government more wiggle room in the face of economic change, but that is evaporating very quickly.

Mr. Don Bell: As I understand it, what's made very clear by the Prime Minister is that our commitment to that reduction, to the 25% debt level, is still there and very strong. My question to you is, do you think that's an acceptable level? Do you think, in relation to the economy, that the 25% target is a realistic target?

Mr. John Williamson: Well, look, we maintain that the Government of Canada would get to that 25% just through economic growth. It sounds like a target that is striking, but really, we're going to get there regardless.

We maintain the focus has to be on debt repayment to bring down the interest charges. Again, we spend $35 billion a year to service the debt. The Government of Canada, again through the prudent actions they took by paying down debt in the past, are saving $3 billion to $4 billion a year. I would argue we're about to cut off our nose to spite our face just by ramping up spending and moving away from the debt repayment. A dividend of $3 billion to $4 billion a year to spend on programs or to cut taxes is a huge opportunity, but instead, by focusing on short-term spending, we're giving up that dividend down the road. We can improve on that number.

Mr. Don Bell: During the fall we had about 300 witnesses here on the pre-budget consultation. At that time, one of the differences of discussion, I guess, with the NDP member was the issue of whether your debt reduction is debt reduction or that the ratio comes down because of an increase in spending.

In my understanding, very clearly, our position is different in that we have gone for actual debt reduction as opposed to just saying the amount is reduced by virtue of increased spending. That's why I asked you about that 25% target we're at. You're saying it will come if we increase the spending, but we're committed to debt reduction. I'm gathering you're in concurrence with that as—

Mr. John Williamson: Sorry. It has nothing to do with spending. It will come just because the economy is growing and that overall debt level is not changing.

Again, if you look at the demographics between now and 2020, there are going to be huge changes. The number of taxpayers relative to the number of retirees is going to swing. Workers are going to be drawing pension benefits, in particular, which are very, very costly to government, and there is going to be more demand on health care. So I think, frankly, the next 20 years, when the Government of Canada wants to focus on actually paying down the deficit....

Don't get caught up in that debt-to-GDP ratio. The pointy heads on Bay Street love that, but it doesn't mean anything when it comes to actually paying the interest charges and reducing those charges and putting the government in a better financial situation to deal with the spending questions that are coming just 15 or 20 years down the road.

But the other thing is that the Government of Canada, when they....

Okay. Sorry.

● (1305)

The Chair: Thank you.

Ms. Wasylycia-Leis, and then Mr. Pallister.

Ms. Judy Wasylycia-Leis: Thank you, Mr. Chairperson.

I have a couple of questions. One is for Andrew Jackson, who I'd like to thank for his 15-year persistence and congratulate him for finally making a difference here, and one question is for the rest of you. Perhaps Mr. Stewart-Patterson, who is the most strident and extreme in his description of his analysis, could answer that question, although others may want to jump in.

I will ignore Mr. Williamson's comments about ignoring the debt-to-GDP ratio, since that seems to be a normal, well-used way to measure the significance of debt in a country like Canada and is useful in terms of comparative analysis. I will ignore his suggestion that we're on the brink of another depression, or another recession, or of wrack and ruin because we're doing all this awful spending of $4.6 billion over two years, even though the *Fiscal Monitor* reports a $9 billion surplus for the fiscal year we've just ended, 2004-05, and if one looks at all the independent forecasters, who come from the business community as well, by the way, there is an anticipated $8 billion surplus for the next three years. So we're not exactly in a squeeze. The question is, what does one do with the resources?

My question for the first side of the table has to do with the impact on the corporate sector, because no one is trying to suggest we do something that is going to destroy our competitive advantage in this country. We are talking about $9 billion in corporate tax reductions per year by the year 2010, without the small changes recommended by the NDP to the Liberals. So keep that in mind. By the year 2010, $9 billion per year is a significant amount, for which there are, might I suggest, no specific plans attached.

When one reads the budget pertaining to corporate tax reductions, it does not say that these tax reductions are tied to investment in Canada or the creation of jobs. There is no specific plan, and as we see the results over the last four or five years, with significant corporate tax reductions, particularly in the last corporate tax reduction from 28% to 21%, instead of investment in Canada increasing, it has steadily declined. As profits went up and as corporate tax breaks went up, investment in Canada and assistance to our economy went down. This is because we had no plans and no requirements on the business community, yet with respect to the meagre $4.6 billion spread over two years, which is recommended in the NDP better balanced budget, accepted gratefully by the Liberals, we have at least some idea of where the money will go.

For example, might I reference $1.5 billion to enhance access to post-secondary education, particularly aimed at assisting students through a tuition reduction or other measures as appropriate, as well as money to support training programs, with no obligation for provincial matching funds. Both measures will include aboriginal Canadians. That's just one example of the agreement. There is an example of a very clear direction being applied to a relatively small amount of money compared to what you are talking about.

I guess what I'm asking you is, why the double standard? You demand of us to be fiscally responsible, so we are. We say, okay, we'll ask you to forego a measly $4.6 billion over two years in corporate tax breaks while your profits are at record levels so that we can put some money into housing, some money into education, some money into the environment, and some money in terms of the 1.2 billion people who get $1 day and live in poverty, and you tell us we have no plans and we're irresponsible. How can it be that you're not prepared to forego that $4.6 billion over two years so that we can make some progress in terms of areas that you know darned well, and you've said it at these hearings, will benefit the economy? By investing in education you know we will in fact be able to grow the economy and your businesses will grow and prosper.

That's my first question.

The second one to Andrew Jackson is this. You mentioned, as giving us a bang for our buck, the issue of investing in education, safe housing, and other areas, so one can earn a decent living and be productive. Can you do a bit more explaining for everyone here how in fact investing in things like education and housing will actually create jobs and will actually make people more productive and help grow our economy, and in the end actually bring down our debt-to-GDP ratio?

● (1310)

Mr. David Stewart-Patterson: I will start. I will just make a couple of points—

The Chair: Can I help? She used up six of her seven minutes, so can we keep the response brief?

Mr. David Stewart-Patterson: I'll try to be very brief, Mr. Chair.

The first point I'll make is that as I understand it, there is no direct fiscal trade-off because the money being authorized in Bill C-48 comes in the next two fiscal years before any of the tax cuts kick in. It's being drawn from other resources. So the corporate tax cuts are not necessary to pay for these promises in any case.

Second, as I mentioned earlier, the knowledge of what tax rates will be in the future affects investment decisions now, and therefore, if they're going to go ahead anyway, the government has indicated that it's important to keep that certainty in place.

And the third point I'll make—and I come back to my central concern about Bill C-48, which is not investment in education or affordable housing or foreign aid, the purposes that are laid out there, it's the blanket authorization in these vague areas—

An hon. member: [*Inaudible—Editor]*

Mr. David Stewart-Patterson: But what I am saying is that Bill C-48 says Cabinet may, on any terms and conditions that Cabinet considers appropriate at the time, do anything it wants with the money being put on the table.

Ms. Judy Wasylycia-Leis: [*Inaudible—Editor]*

The Chair: Thank you, Ms. Wasylycia-Leis.

Mr. Pallister.

Mr. Brian Pallister: Thank you, Mr. Chairman, and thank you gentlemen all, for your presentations. They're much appreciated.

As opposed to my colleague from the New Democratic Party, I don't look at $4.6 billion as measly. And I don't think Canadian taxpayers do either. What I think should concern all of us who are interested in having every pressure brought to bear, through our policy decisions, to derive a positive impact for the Canadian people, is having something of a strong hand at the wheel that's steering the economy in a certain direction, because I know business a little bit, and I know it likes some sense of confidence. And I think consumers do too.

So when I see promises made and then backed away from, it concerns me, and not just specifically in the area of the corporate tax issue, which, as Mr. Stewart-Patterson rightly observes, is irrelevant to the NDP-Liberal Christmas list budget. The two are irrelevant. The promised spending that was arrived at through that three-day or three-hour negotiation—we don't know because it wasn't transparent—was about $4.6 billion over the next two fiscal years.

I would like to refer you to the budget. I know all of you gentlemen have read the budget document, and you'll know that within it the government makes a great deal of effort to talk about sound financial management. It speaks at length about it, and I'll quote from the document:

> A commitment to sound financial management is never easy—and it is never over. It is not something to be done once—or just for a while—and then set aside.

Well, $4.6 billion was set aside. This government committed in the previous year's budget to an expenditure review committee process, not a radical concept to any Canadian or any small business person. Reprioritizing expenditures, managing your business, is something people in small business take for granted they have to do. People in their household budgets have to do that. Only in this government would that be considered a novel and radical and forward-looking concept.

That being said, after four months of work, that committee came up with this much in savings: in 2005-06 and 2006-07, $1.465 billion of savings. There is some serious question now as to whether that would actually be achieved, but after four months of work, less than $1.5 billion in operational savings was derived from that worthwhile process, which in theory we totally support.

And then overnight we see a commitment to spend three times as much as those total savings. This, I think, gives cause for concern. This is why the Conservative Party is interested in making sure that these budget proposals, both of them, are subjected to the proper scrutiny.

So with that introduction, let me ask you, given the vacillation on the corporate tax reduction that the government promised to do, then promised the NDP not to do, then promised to do again, do you think there's a danger here of some reduced confidence in the business community due to the unsteady hand on the wheel?

Any of you gentlemen who feel you would like to answer, please do.

● (1315)

Mr. David Stewart-Patterson: I'll speak to that first.

I think the sentiment I was trying to express in my opening remarks talked about the importance of certainty in the business environment with respect to tax cuts. But my comment more generally about my sense of Canadians wanting to see the main budget bill go forward I think reflects that there are a lot of programs and a lot of different commitments that have been made in that, because it's such a vast and sprawling document, and I think a lot of Canadians are looking for some certainty. So one of my suggestions was that to the extent that there is consensus or at least a strong majority in the House, we should move ahead on that part of it.

I will make one other comment. It has to do with the reallocation, your comment about spending review, because that has been a very strong priority of our council for the past couple of years. We strongly supported that, and I do have to observe that while they identified $11 billion in potential savings, we still have to see whether those savings can in fact be realized.

We understood and supported the notion that the idea of those savings was to reallocate them to other purposes, whether they were for tax cuts or other spending measures. But further to Mr. Williamson's point earlier on debt reduction, I'm quite comfortable with 25% as a ballpark figure for where our debt ought to end up, but the real value of debt reduction comes from the fact that the more principal you pay down, the more you save on interest.

I think Mr. Williamson pointed out that $3 billion or $3.5 billion a year in savings already from a debt that has been reduced is a reallocation of $17 billion over a five-year period towards whatever other purposes the government sees fit. You have to admit that no expenditure of government is less useful than paying interest on debt. Therefore, debt reduction is guaranteed positive reallocation of spending from less useful to more useful purposes.

Mr. Pierre Alvarez: Could I just make a concluding—

The Chair: Mr. Alvarez, I think you have a comment.

Mr. Pierre Alvarez: I have just two quick comments.

To correct an earlier impression, capital spending and investment by our sector is going up every year, has not gone down, and our payments to government in taxes have tripled. We're up to $25 billion to $35 billion a year. So it's separate.

On the question of certainty, when you're spending $6 billion to $8 billion on an oil sands project that's going to be around for 20 or 30 years, 2009 or 2010 is not far away, and certainty is important.

Mr. Brian Pallister: I gather I have about 30 seconds to conclude, gentlemen.

I'll just observe that I think the forgotten thing in capping debt repayment that is unfortunate here is that this country, in the next 25 years, is going to experience one of the most significant increases in the ratio of elderly people to the working age population in the world—I believe second only to Japan. So the need for us to have other resources for health care and for other social investments, as I know Mr. Jackson wants to refer to, is apparent. So I invite Mr. Jackson to—

The Chair: Thank you, Mr. Pallister. It was supposed to be a quick comment. We're way over time. If I get an opportunity, I'll come back to you. I just want to allow Ms. Minna to speak.

I don't have anybody else, other than Ms. Minna, so maybe I will allow you to comment, Mr. Jackson, just on Mr. Pallister's comment.

Mr. Andrew Jackson: I'd just say, if you're really concerned about an aging society and its implications, as we should be—it's going to be a huge challenge—I do think investments in children make an incredible amount of sense in that context. I didn't get a chance to answer, but on Judy's question, if you take the hard economic analysis around returns from investment in child care and decent early learning programs, those have well-established high rates of return, which I would argue far exceed the returns from paying down the debt.

Can you make that argument for every item of public spending? No, I don't think so, but if you choose those priorities carefully.... I think some of those priorities in this budget are major investments that deal with those challenges.

Mr. Brian Pallister: Well, Mr. Jackson—if I could, sir—the fact is that much of the money you want invested became available as a consequence of paying down debt. Isn't that fair to observe?

The Chair: Thank you, sir.

We have 10 minutes left. Ms. Minna will have five minutes, and Mr. McKay and Mr. Hubbard will share the other five minutes.

Ms. Minna.

Hon. Maria Minna: Thank you, Mr. Chairman.

I understand, if you like, the disappointment of business, Mr. Stewart-Patterson, with respect to corporate tax cuts, although the medium and small business cuts will still be going through. I do take exception—and this is not the first time it's been stated by business—to the comment that we are bribing voters with their own money. The same thing could be said about business. Are we bribing business with their money every time we do tax cuts, because that's assumed...?

A voice: [*Inaudible—Editor]*

Hon. Maria Minna: I didn't interrupt you when you were talking. Come on. I take exception to that kind of comment.

In terms of taxes, I think the individual Canadian puts into the treasury about 65% and it's 45% from business, if I'm not mistaken. That's roughly the area. I don't consider investing in people, which is investing in the economy—for me, it's one and the same thing—as bribing people.

I want to go into the comments that were made earlier by Mr. Stewart-Patterson—and I'm not sure if one of the others made comments—on the issue of productivity. We keep talking about productivity always in terms of tax cuts or other things, rather than investing in people. And it was raised earlier...and never mind the stuff we've talked about, but if you read some of the stuff the Governor of the Bank of Canada, David Dodge, has talked about on the investment in child care and the productivity results down the road—we're talking 10 or 20 years down the road. If we're looking at investing, do you not agree with David Dodge that in fact investing in early education and child care is probably one of the better returns for the long-term productivity of this country? That's one.

The other is this. Just recently Nortel was in the media saying that we need more investment in research in this country if we are going to make a difference. For me, investing in training—and research and innovation, again, is another area where this is investing. It's spending, no question, but it's investing in our people, in our capacity, in our human capital. I would like to know if you think that is a waste of money and not something we should be spending money on.

Most seniors spend all of their money in this country anyway, and again, it's investing in the economy in the sense that you're dealing with....

The final question for me is.... I know we keep talking about spending versus not, and tax cuts and so on, but I know when my parents ran a family, the first thing they worried about was feeding the family, keeping it clothed, keeping it housed, and keeping it healthy. You can pay down the mortgage, but at the end of the day, if you can't feed your children, and they're on the street and they can't be clothed, and they're dying of cold and hunger, then you've got to choose. I'm not suggesting this government is going to choose not paying down the mortgage, because I think we've made that commitment very clearly, but surely, after eight budgets now of looking after the mortgage—and we are committing to continue to do that—we can now begin to look after investing in the capital, in research, in people, in children, as this budget tries to do.

I would like some reaction to those from you, and maybe Mr. Andrew Jackson as well. Thank you.

● (1320)

Mr. David Stewart-Patterson: Certainly. I think I've already acknowledged that there are many ways to invest in future growth, and certainly investing in human capital is a very important part of that. I think the whole fiscal debate sometimes gets misframed when it gets put into the context of either spending or tax cuts. I prefer to look at it in the context of, does this involve current consumption or is it an investment in future growth? You can contribute to future growth through investments of government spending if you want, as well as through the tax system and encouraging.... There is a balance that's required.

Hon. Maria Minna: [*Inaudible—Editor]*...child care piece or not?

Mr. David Stewart-Patterson: Child care is part of investment in human capital, if I can put it in the economic frame. You start early and you have to keep investing in people through school and right through their working lives. Some of that investment will be publicly funded; some of it will be funded by employers as they develop their employees.

The other part of the equation is value for money. This is where I zero in on Bill C-48 and some of the measures in Bill C-43. When governments are spending, they need to look at what results are going to be achieved. What is it we're investing in? What are the returns we expect? How are we going to measure it? How are we going to measure the impact we're having on the lives of Canadians? I don't think you can do it simply by saying a couple of years down the road we're going to throw a bunch of money at a problem area.

The other point you raised was research, training, innovation. I'm still not sure with the tax cuts: small businesses may be treated differently from large businesses. The fact is that it's the larger businesses that invest the most in employee training, and that tend to be most innovative, because they're globally connected. They bring in more ideas. They're connected with partners elsewhere that are more research intensive. You have to look at the objective of trying to discriminate. If it's good policy, if tax rates have an impact on business behaviour, then it's going to have an impact on behaviour whether it's large or small. That notion of discrimination just doesn't make sense to me.

● (1325)

The Chair: Thank you, Mr. Patterson.

Mr. Hubbard.

Mr. Charles Hubbard: Thank you, Mr. Chair.

I have two questions. First of all, Mr. Alvarez indicated that his industry pays a very significant amount of taxes. I don't want to be misled by that. I think he's referring to three levels of taxes, and maybe he could just tell us what share of it is federal.

Secondly, to Mr. Jackson, I was taken back a little bit by his analysis of the corporations that pay taxes in this country. He indicated that one particular sector pays a very disproportionate amount of the overall corporation tax revenues.

Maybe each witness could just answer those in terms of what should be on the record.

Mr. Pierre Alvarez: Because of the ownership of the resource at the provincial level, and the offshore at the federal level, we'll pay about $20 billion directly to governments this year. Somewhere between $4 billion and $5 billion of that will be directly to the federal government.

Mr. Charles Hubbard: Thank you. That's all I wanted to know. I think you said a much higher figure in total before.

Mr. Jackson, I don't want to take too much of your time.

Mr. Andrew Jackson: I was saying that usually between a fifth and a quarter of all corporate income tax revenues come from the financial sector, mainly from the banks. If you're going to argue that our tax system needs to be internationally competitive, you need to remember that the tax system applies to a lot of sectors that don't face a lot of international competition in a genuine fashion.

Mr. Charles Hubbard: I thought you used a higher figure than that. I'm glad this is on the record.

John, the rest of the time is yours.

Hon. John McKay: Thank you, Charlie.

I think it's valuable that both Mr. Jackson and Mr. Patterson are here, because I want to ask them essentially the same question.

Mr. Jackson, you cited a paper by Maximilian Baylor and Louis Beausejour with respect to capital cost allowances. It's not a Department of Finance paper. It's a paper put out by people who work in the department. It's the views of the authors. Nevertheless, it raises some interesting questions. The issue is how to get the best productivity bang for the buck.

I want to ask both Mr. Patterson and Mr. Jackson whether a hard look at capital cost allowances might be a direction for future tax initiatives in the corporate sector. We've been pretty well stuck on the useful-life concept. We varied it this year for environmental initiatives. Mr. Alvarez' industry is very happy about it, as are a bunch of other environmental industries.

Can I get a quick response from both of you on that?

Mr. Andrew Jackson: First, you did quite properly correct me; the research papers that are issued should not be taken as the views of the department, so I shouldn't have described them as such. That said, I think they are credible research.

The comment I would make is that I think this kind of result, that increased capital cost allowances can give you much more bang for the buck in terms of investment, emerges out of other research. I would argue that in fact if you had some combination of nominal rates remaining at a fairly high level, and increasing capital cost allowances, then you really have a major incentive on the part of businesses to invest. And I think in many ways our corporate tax system has gone the wrong way over the years. The whole focus has been on lowering the general rate and getting rid of all the special incentives in the system, and maybe if you're talking about raising investment, the way to go is more the other way. Maintain a general rate, at least at where it is, and start thinking about what targeted incentives are really going to make a difference for the specific sectors.

Sectors vary a great deal in terms of how they fit into the national economy, into the global economy. So I think these loose concepts, such as we need tax cuts for competitiveness, don't really take you very far in terms of the interventions that are really going to be effective.

● (1330)

Mr. David Stewart-Patterson: I'll be very brief. I think a simpler tax system, in principle, is better, which is an argument for keeping things on the headline rate. But, yes, ultimately it's not the headline rate that matters; it's the effective tax rate on any given investment by any given company. So corporate or capital cost allowances are very much a part of that equation and are certainly worth taking a look at.

Hon. John McKay: Thank you.

The Chair: Thank you, Mr. McKay.

I want to thank the witnesses.

Before I adjourn the meeting, I want to allow Ms. Wasylycia-Leis 10 seconds. Your motion is on 48 hours'...?

Ms. Judy Wasylycia-Leis: Yes. I'd like to move a motion and seek unanimous consent to have it accepted now. It is that the Standing Committee on Finance report back to the House on Bill C-43 and Bill C-48 by June 10, 2005. And in French:

[*Translation*]

That the Standing Committee on Finance report back to the House on Bills C-43 and C-48 by June 10, 2005.

[*English*]

The Chair: Do I have unanimous consent to adopt the motion?

People don't even have the motion, Ms. Wasylycia-Leis.

Ms. Judy Wasylycia-Leis: We could hand it out.

The Chair: We'll take it on 48 hours' notice. Is that okay?

Ms. Judy Wasylycia-Leis: So there's no unanimous consent?

The Chair: No. So 48 hours? All right.

Thank you to the witnesses for appearing on such short notice. It was very well appreciated.

The meeting is adjourned.

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