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## Standing Committee on Finance

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EVIDENCE

**Thursday, May 6, 2010**

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**Chair**

**Mr. James Rajotte**



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•(1530)

[English]

**The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)):** I call the meeting to order, this 17th meeting of the Standing Committee on Finance, as we continue our study of Bill C-9, an act to implement certain provisions of the budget tabled in Parliament on March 4, 2010.

Colleagues, we are on part 24 of the overview, with officials. We hope to have about a 30-minute discussion with officials on part 24, and then move to the witnesses who are invited for today. That will depend on the number of questions we have from colleagues.

This part 24 deals with amendments to the Employment Insurance Act, to establish an account in the accounts of Canada to be known as the employment insurance operating account and to close the employment insurance account and remove it from the accounts of Canada.

We'll proceed as we have on other parts, with questions from members for five-minute rounds. We'll start with Mr. McKay.

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

We have been told by literally dozens and dozens of witnesses that there is a surplus in the EI account. You're now setting up a separate bank account. Will that "surplus" be transferred to that bank account?

**Mr. Mark Hodgson (Senior Policy Analyst, Labour Markets, Employment and Learning, Social Policy, Federal-Provincial Relations and Social Policy Branch, Department of Finance):** The new EI operating account is not a bank account, it's a specified-purpose account on the books of the Government of Canada. I believe you may be referring to the bank account that the Canada Employment Insurance Financing Board will be responsible for.

The amounts recorded in the current employment insurance account are a historical record of past revenues from premiums and program expenditures. It's a cumulative total of the past operations of the program and doesn't represent cash in an account.

**Hon. John McKay:** It doesn't represent real money, in other words.

**Mr. Mark Hodgson:** That's right. It's an accounting mechanism.

**Hon. John McKay:** The proposal in this legislation is the actual setting up of a separate EI bank account. Is that correct?

**Mr. Mark Hodgson:** It's creating an EI operating account. It's a new account that starts as of January 1, 2009, and it will track

premium revenues and program expenditures in the EI program, corresponding with the starting date of the responsibility of the CEIFB to break even over time.

•(1535)

**Hon. John McKay:** So it's already set up; it's operating as of January 1, 2009.

**Mr. Mark Hodgson:** This legislation, if it's passed, will establish that account as of that date.

**Hon. John McKay:** So you'll have to do a whole bunch of backdating.

**Mr. Mark Hodgson:** There will be restatements of the books of Canada to reflect the creation of this new account.

**Hon. John McKay:** In other words, that's backdating.

So you're going to backtrack to January 1, 2009. Will your fiscal year-end, for the purposes of that particular accounting, be a January 1 date? Or will it be the government's date of March 31?

**Mr. Mark Hodgson:** The EI program operates on a calendar year basis, so the public accounts reflecting the creation of the EI operating account and the end of the EI account for fiscal years 2008-09 and 2009-10 would need to be restated.

**Hon. John McKay:** Have the January 1, 2009 to January 1, 2010 figures been published yet?

**Mr. Mark Hodgson:** No, they haven't.

**Hon. John McKay:** When do you anticipate those figures will be published?

**Mr. Mark Hodgson:** Well, the public accounts are normally published in the fall, so fiscal year 2009-10 would be sometime this fall.

**Hon. John McKay:** So in effect you will know nine months after the fact whether your account was in surplus or in deficit. If you are having a fiscal year-end of December 31, 2009, you won't find out until September 2010 whether it was a deficit or a surplus.

**Mr. Mark Hodgson:** That has always been the case. The program has always operated on a calendar year basis.

**Hon. John McKay:** It has. Okay, so it is actually three months slower than the government's accounts.

**Mr. Mark Hodgson:** Or three months quicker, depending upon which you are looking at. The fiscal year for the EI program starts in January, effectively three months ahead of the new fiscal year.

**Hon. John McKay:** Now, as I understand it, this account is going to work on a swing of about \$4 billion—\$2 billion to the good, \$2 billion to the bad. Is that correct?

**Mr. Mark Hodgson:** I'm not sure I understand the question. The new EI operating account will track all premium revenues and program expenditures. To the extent that there are surpluses or deficits in a year, whatever they turn out to be will be reflected in the new EI operating account.

**Hon. John McKay:** So if in fact you have a deficit of whatever magnitude, how will that be covered?

**Mr. Mark Hodgson:** That will be recovered through future premium rates. The mandate of—

**Hon. John McKay:** So you will carry a deficit in the account until you are able to raise rates—

**Mr. Mark Hodgson:** Yes, to recover that deficit. That's correct.

**Hon. John McKay:** How will the deficit be shown on the government's books? Will it be part of a consolidated deficit?

**Mr. Mark Hodgson:** Yes.

**Hon. John McKay:** So really, for the purposes of this exercise we are setting up a lot of notional accounts and real money is staying where it is.

**Mr. Mark Hodgson:** It's always been the case that premium revenue is paid into the consolidated revenue fund and benefits are likewise paid from the consolidated revenue fund. This is an accounting mechanism to keep track.

**Hon. John McKay:** It is entirely an accounting mechanism. Thank you.

**The Chair:** Thank you, Mr. McKay.

Monsieur Paillé, *s'il vous plaît*.

[Translation]

**Mr. Daniel Paillé (Hochelaga, BQ):** Ultimately, there's no money in a bank account; this is essentially an accounting entry.

We know that only employees and employers have been contributing to this since 1990. We can say there was more or less a balance from 1972 to 1995. In the 1990s, there was already a \$2.2 billion surplus; in 1993, it was -\$5 billion. From 1995 until the end of 2008, there was cumulative surplus of \$57.17 billion. Is that correct?

[English]

**Mr. Mark Hodgson:** That's correct.

[Translation]

**Mr. Daniel Paillé:** So that \$57.17 billion amount, which isn't money that you find in a specific account, invested at the Bank of Canada or a bank, disappears because we're scrapping the account—pardon the intention—but that's essentially what we're doing.

[English]

**Mr. Mark Hodgson:** The creation of the account is not the mechanism by which the money, to mirror the phrase, disappears. In each year where there was a surplus recorded, those surplus funds were part of the CRF.

[Translation]

**Mr. Daniel Paillé:** While I do understand, having played in this kind of film, there's no \$57 billion amount that suddenly appears or disappears. So we can't say that, from 1995 to 2009, the government,

whether it be the Liberal Party or the Conservative Party, enjoyed that surplus of premiums, essentially from employers and employees, none of which came from the government.

To all intents and purposes, we are recreating another account. As you told my Liberal colleague—and we see it on pages 197 and 202 of the budget volume—in the government's budgetary revenues, a line underlining the employment insurance premiums of \$16.9 billion, \$16.6 billion, etc. and that goes up to \$26.6 billion. On page 202, there are employment insurance benefits, which, as if by chance, are slightly lower.

So to make the account balance, despite the 500 pages we have here and the nearly 900 pages of the bill, there isn't a little line indicating that premiums less benefits equals the balance, and the cumulative balance. That wasn't done.

Do you intend to suggest to your minister that it be done?

• (1540)

[English]

**Mr. Mark Hodgson:** I guess that's two questions in one.

First, the numbers that are presented in the budget showing premium revenues and program expenditures: there's a footnote to indicate that EI administration costs are not included in the program expenditures line, which adds another \$1.6 billion to \$2 billion per year. The numbers are closer together than they appear.

[Translation]

**Mr. Daniel Paillé:** I agree with you. That leads me to say that you have benefits payable because that's included. In one way or another, does that include the program administration cost? Is that under "benefits" or "premiums", or somewhere else?

[English]

**Mr. Mark Hodgson:** The forecast of the administration costs, to my knowledge, does not appear in the budget plan, but in each year in the public accounts there is a detailed accounting of all the transactions in the EI account, as there will be in the EI operating account, where the administration costs are shown year by year.

[Translation]

**Mr. Daniel Paillé:** In the budget, we see that, starting in 2011-2012 until 2014-2015, so in four years, we will amass \$19.2 billion, which yields an average surplus of \$4 billion or \$5 billion a year. That corresponds roughly to \$57 billion that the Liberals had amassed to 12 years.

I'd like to know what model was used to forecast both unemployment insurance premiums and benefits. Was it one model in particular? How did you proceed?

[English]

**Mr. Mark Hodgson:** The cost of benefits is derived from the average that the private sector forecasts that underpins all the budget documents, which provides an unemployment rate, which provides a forecast of the number of unemployed, which can be used to calculate the number of beneficiaries. That's how you essentially calculate the cost of benefits.

The assumption was that the rate-setting mechanism that will be employed by the CEIFB will be in place. With their mandate to break even over time from January 1, 2009, onwards, there is the accumulated deficit in the EI program from that date forwards because the premium rates being held at \$1.73 as part of the economic action plan—well below break-even—are generating significant deficits in 2009 and 2010. So the rate-setting mechanism in the legislation was assumed to apply. The premium rates will increase by 15¢ per year for four years.

**The Chair:** Thank you.

Merci, Monsieur Paillé.

Monsieur Mulcair.

[Translation]

**Mr. Thomas Mulcair (Outremont, NDP):** Thank you, Mr. Chairman. I'm going to pick up where Mr. Paillé left off.

I'd like to go back to comments made earlier. I'm going to cite them in English to avoid any translation problem. It was said:

[English]

“It doesn't represent real money”.

• (1545)

[Translation]

He said it was more an

[English]

“accounting mechanism”.

[Translation]

We can nevertheless agree on the fact that the \$57 billion is real money that was deposited by real employees and real employers to a real government. They had no choice but to pay that real money.

[English]

**Mr. Mark Hodgson:** I'm sorry. To clarify, it's not “real money” in the sense that it is cash in a bank account that could be spent on something. It certainly represents real premiums paid by employers and employees, but those premium revenues have flowed to the CRF in each year they were paid, as the legislation requires.

The EI account keeps track of those premium revenues and program expenditures. It's a running total of the program since I think the early 1980s, I'm not sure—possibly 1973.

[Translation]

**Mr. Thomas Mulcair:** Thank you for your answer. It was very complete, but that in no way alters the fact that it was real money, real amounts that were paid. Even if you call it an accounting mechanism, we can nevertheless agree that, when an amount is intended for a specific purpose, in this case to provide compensation for potential unemployment in a cyclical employment market, that money is set aside. In English, you used the words “flowed to”, as though some pieces of cork were floating on a river toward an undetermined location. No. It was the government of the time, a Liberal government—today the Conservatives want to close the two-way door—that stole \$57 billion and put it in the government's Consolidated Revenue Fund. Now that money was used to provide

\$60 billion in fiscal room that, amazing to say, represents exactly the tax cut granted to the largest corporations, that is to say that the fiscal room was created by robbing the employment insurance fund. The money that was supposed to be there for unemployed workers is no longer there because it has been stolen and used for another purpose. It's a bit like in China, where they make you pay for the bullet they use to execute you.

All employers lost as a result, even the forest companies and the manufacturing companies in Beauce, which lost money and therefore didn't have to pay taxes. Those businesses paid into the employment insurance fund for every employee. That money was taken to create the fiscal room necessary to grant tax reductions. So, by definition, a company that lost money did not have to pay tax. So who benefited from the money that was stolen from the employment insurance fund? It was the richest businesses, such as in Canada, in Alberta, and other businesses in the oil industry that had paid taxes. They benefited from it.

In short, that money set aside was stolen and paid for the creation of fiscal room for the major corporations. In fact, it was the businesses that were already losing money that financed the rich oil companies in the west. That's the sad reality that we're trying to launder here today. We're talking about money laundering, but it's being done here today, a laundering by terminology, when we're told that

[English]

it “flowed to” and “it doesn't represent real money”.

[Translation]

That was real money. In addition, there will be a \$19 billion deficit that, once again, will be paid for by businesses, regardless of whether they make money or not, and by all Canadian employees. It will be a punitive tax that, according to the Canadian Federation of Independent Business, will cost 200,000 jobs. That's what we're trying to launder today through a dismal terminology. We're saying there's no problem since it wasn't real money. I'm scandalized by this, Mr. Chairman.

[English]

**The Chair:** You have one minute.

Mr. Hodgson, do you want to respond to that?

**Mr. Mark Hodgson:** I'm sorry, I didn't hear a question in there.

**The Chair:** Mr. Mulcair.

[Translation]

**Mr. Thomas Mulcair:** Was there any real money, yes or no?

[English]

**Mr. Mark Hodgson:** Yes.

[Translation]

**Mr. Thomas Mulcair:** You say “the money flowed to” because, in fact, the government stole it and allocated it to another purpose than the one for which it was paid.

[English]

**Mr. Mark Hodgson:** I can't comment on government spending decisions. What I can comment on is the legislation, which requires EI premiums to be deposited in the CRF, like all other government revenues. In that sense, tax revenue, tariffs, duties, EI premiums, all flow into the CRF. It was a poor choice of metaphor, perhaps, but it is revenue that must be deposited in the CRF. The legislation requires it.

• (1550)

[Translation]

**Mr. Thomas Mulcair:** We nevertheless agree that the real money in question was an amount intended to offset the cyclical nature of the job market. We also agree that all businesses had to pay it, regardless whether they made money or not. This created fiscal room that, by definition, can only benefit the companies that pay taxes, and thus those that make the biggest profits. This fiscal room made this \$60 billion tax cut possible, and it's this very money that was stolen from workers and business, regardless of who they were, to create this fiscal room.

Do we agree on that point as well?

[English]

**Mr. Mark Hodgson:** I can't comment on the accusation that the money was stolen or that there was any link between the way premium rates were set by the EI commission and other government decisions with respect to taxation and fiscal matters. I could draw the member's attention to the Supreme Court of Canada's decision in the CSN/Arvida case where they ruled that there was no impropriety in the way premium rates were set and that the government's appropriation of EI premiums in the CRF was perfectly correct.

**The Chair:** Okay. Thank you.

[Translation]

**Mr. Thomas Mulcair:** In its decision, the Supreme Court blamed the government. You forgot that in your explanation.

Thank you, Mr. Chairman.

**The Chair:** Thank you.

[English]

I have Mr. MacKay and Monsieur Paillé.

I just want to follow up for my own clarification, Mr. Hodgson, because the number of \$57 billion or \$60 billion is used quite often. It was real money in the form of premiums paid by employers and employees on an annual basis. There was a surplus in terms of what was paid in and what was paid out in benefits. My understanding is that goes back to the mid-nineties. But this was on an annual basis; this was not money set aside over a period of time. On an annual basis, if there were a surplus for that year, then the money flowed to the consolidated revenue fund. If there were a surplus, the surplus was allocated in that or the following fiscal year. Is that correct?

**Mr. Mark Hodgson:** To clarify this, the EI premium rate has been set according to legislation by the EI commission each year. To the extent that the premium turned out to be too high relative to the actual outcome of the economy and the unemployment rate, a surplus between premiums and program expenditures would have occurred.

The premium revenues have flowed into the CRF, and the legislation also requires that the benefits, whatever they may cost, are paid from the CRF. At the end of the day, if there is a difference in the year between the two, you have a surplus or a deficit that gets recorded in the EI account and added to or subtracted from the running total.

**The Chair:** Between say 1995-96 to 2006, or even up to 2009, there was essentially a surplus in each one of those years.

**Mr. Mark Hodgson:** Yes.

**The Chair:** But the surplus did not accumulate over time into a larger surplus of \$57 billion. The surplus was actually allocated each year.

**Mr. Mark Hodgson:** The cash, or the premium revenue, formed part of the total government revenues in the CRF—it is not set aside in a separate bank account.

What we have with the \$57-billion cumulative number is the addition of each of those individual year's surpluses.

**The Chair:** So when the government came into office in 2006, there was no pot of money sitting there of say \$50 billion set aside. The money had been allocated up to that point.

**Mr. Mark Hodgson:** That's correct.

**The Chair:** Thank you. I appreciate that.

We go to Mr. McKay, please.

**Hon. John McKay:** It seems to me that the major change that's being proposed here is that you're now going to allocate the costs of running the fund against the account. Is that correct?

**Mr. Mark Hodgson:** The new mechanism that's been put in place will ensure that to the extent that there are future surpluses, they will be transferred in cash to the Canada Employment Insurance Financing Board to invest, until the funds can be returned to premium payers through lower premiums. The board will be responsible for ensuring that over time, within the 15¢ limit on year-to-year changes in premium rates, the program breaks even on its own.

**Hon. John McKay:** But where are you accounting for the cost of the program, the administrative costs? You said something to the effect that it cost \$1.6 billion to run this program. Where does that accounting lie?

**Mr. Mark Hodgson:** The legislation requires that to be charged against the new EI operating account.

• (1555)

**Hon. John McKay:** To date, that has not been true. Is that correct?

**Mr. Mark Hodgson:** No, it certainly has been true that in the existing EI account, the operating costs have also been charged against it, and have shown up in the public accounts each year.

**Hon. John McKay:** Okay, so when we get into this notional \$57 billion, is that with those numbers already bled out?

**Mr. Mark Hodgson:** Yes. That covers the cost of benefits and the costs of administering the program against the premium revenues.

**Hon. John McKay:** Okay, thank you for that clarification.

**The Chair:** Thank you, Mr. McKay.

Monsieur Paillé.

[Translation]

**Mr. Daniel Paillé:** We should accuse Ms. Hall Findlay of causing me problems because I'm eating one of her cookies. Pardon me for taking a little time, but I'm sure the FTQ people will appreciate it.

I'd like to go back to the \$57 billion. This is a notional value, I understood that, and it's no longer there. We're recreating an employment insurance operating account. As you said—and we see it in the figures—there was a \$5.8 billion deficit in 2009-2010, we're talking about a \$5 billion deficit in 2010-2011, and then we start over: \$4 billion, \$3.8 billion and so on.

Is it true that, when there's a deficit—for example, \$5.8 billion this year and \$5 billion next year—the government will charge interest on the employment insurance administration account?

[English]

**Mr. Mark Hodgson:** No.

[Translation]

**Mr. Daniel Paillé:** You don't charge interest on the employment insurance account even if the account is going to be in deficit. So there will be an advance from the Government of Canada to the employment insurance account to pay benefits that, for both years, will be greater than premiums. Is that correct?

[English]

**Mr. Mark Hodgson:** That is one of the changes in the legislation from the operation of the EI account to the EI operating account. The balance recorded in the EI operating account will neither be charged nor credited interest—

[Translation]

**Mr. Daniel Paillé:** And—

[English]

**Mr. Mark Hodgson:** —whether it's in deficit or surplus.

So for the first couple of years, where the account is in deficit, the benefits will obviously be paid from the CRF. If the premium revenue is insufficient, it records a deficit, but it will not be charged interest. Similarly, it will not be credited interest if there is a cumulative surplus recorded, because the cash will be transferred to the CEIFB to invest.

[Translation]

**Mr. Daniel Paillé:** Consequently, it won't pay. The government will definitely advance the funds, but I'm trying to see whether, from an accounting standpoint, interest won't be added in view of the negative balance for the two deficit years. My impression is that there would be interest for those two years. An interest charge would continue because, in cumulative terms, we would be at -\$5.8 billion in the first year, at -\$10.8 billion in the second year, -\$10.4 billion in the third year, -\$6.6 billion in the fourth year, and it won't be until 2013-2014 that we have a slight surplus, whereas if we had kept the \$57 billion in the fund, the smallest surplus we would have had would have been \$46.4 billion in 2010-2011. Subsequently, we would be back up in the stratosphere with \$76 billion.

I want to be very certain that this is what you're telling me.

[English]

**Mr. Mark Hodgson:** The provision that authorizes the Minister of Finance to charge interest on the EI account is being removed. Interest will not be charged on deficits in the EI operating account.

[Translation]

**Mr. Daniel Paillé:** Will you let me continue? On April 15, the Parliamentary Budget Officer produced Table 2 on page 4. In it, he entered \$241 million in interest in 2010, \$447 million in 2011, \$526 million in 2012, \$539 million in 2013 and \$372 million in 2014, which had to be paid by the fund.

Is this interest to which the Parliamentary Budget Officer refers real or not?

Furthermore, if we had kept this notional value of the \$57 billion accumulated in the account, rather than having interest charges, we would have continued receiving interest income, wouldn't we?

• (1600)

[English]

**The Chair:** Okay.

Just make two brief responses, Mr. Hodgson.

**Mr. Mark Hodgson:** To answer your second question first, if we had continued on with the notional cumulative balance of \$57 billion, and this legislation is not passed—

[Translation]

**Mr. Daniel Paillé:** It hasn't been passed.

[English]

**Mr. Mark Hodgson:** —which has not yet been passed, yes—it would decline to about \$43 billion to \$44 billion and it would continue to be credited with interest.

With respect to the Parliamentary Budget Officer's paper...

[Translation]

**Mr. Louis Beauséjour (Director General, Employment Insurance Policy, Skills and Employment Branch, Department of Human Resources and Skills Development):** It should be noted that the budget officer's office conducted its analysis before the new provisions in Bill C-9, An Act to implement certain provisions of the budget tabled in Parliament on March 4, 2010 and other measures, was introduced and that changes were made to the mechanisms for handling deficits and the employment insurance account.

First of all, one of the provisions was deleted. There were no more advances. The advance mechanism in the employment insurance account, whereby interest could have been added, no longer exists. It is a mechanism that no longer exists, and, consequently, there cannot be any interest added to the deficit.

[English]

**The Chair:** Okay. Merci.

[Translation]

**Mr. Louis Beauséjour:** From now on, deficits will simply be taken into account in the—

**Mr. Daniel Paillé:** Thank you.

[English]

**The Chair:** Merci.

Madam Hall Findlay.

**Ms. Martha Hall Findlay (Willowdale, Lib.):** Thank you very much, everyone.

I'm looking at all these numbers. Aside from the establishment of a contingency fund, and I understand that's new, there is in effect a notional account. You can establish revenues, operating costs, the annual surplus or deficit, and obviously, in our case, annual surpluses. That we've seen. The fact that we have all these numbers and can already do all these analyses on the EI numbers, what exactly are we getting that's new with this wonderfully sounding paragraph that we're going to be doing all these things? Because it's only a notional account; you're not setting up a separate new account.

**Mr. Mark Hodgson:** We're getting a new accounting mechanism, the start date of which corresponds with the start date for the new rate-setting mechanism, the new rate-setting body. The Canada Employment Insurance Financing Board, an arm's-length crown corporation, will be responsible for setting premium rates to break even over time from January 1, 2009, onwards.

**Ms. Martha Hall Findlay:** But why do we need a whole new board? Putting aside the \$2 billion contingency fund—which, if you had it, needs to be managed, I understand that—why isn't there simply a decision to say that given that we already have a notional account, the premiums are set on the basis of break-even accounting? Why this fancy new name, new description? I don't understand. We already have all the notional account numbers. We have all the analysis we need. Why doesn't the government just say we're going to insist that going forward we're going to establish premiums on a break-even basis?

**Mr. Mark Hodgson:** Creating the new account that starts from the starting date of the CEIFB makes it much simpler and more transparent to keep track of the operations of the new rate-setting mechanism from the day it comes into effect.

**Ms. Martha Hall Findlay:** These numbers are pretty complete. Is there an issue with not seeing enough numbers?

**Mr. Mark Hodgson:** The CEIFB is responsible for breaking even from January 1, 2009, onwards. A new account starting at zero shows clearly how they're breaking even with the new rate-setting mechanism and the new rate-setting body that was created in budget 2008.

**Ms. Martha Hall Findlay:** I'm still really struggling that you have a notional account now, that you have a notional account going forward, you have a date starting 2009, you have dates here. With all these numbers it seems pretty clear that each year you have the ability to establish program revenues, program costs, annual surplus or deficit. I'm thinking that's a value-add. With all this information you can start with each calendar year at zero, whether it's a calendar or not, asking what the right premium is to achieve break-even. You have all these annual numbers. I'm just questioning the actual value-add we're getting here, as opposed to nice-sounding new names for different accounts.

● (1605)

**Mr. Mark Hodgson:** The CEIFB is not responsible for breaking even year by year but for breaking even over time. Forecasts will always be wrong, actual program expenditures. A new account starting at zero makes it very clear to everybody that the new CEIFB is setting rates to balance from this date forward, and starting from zero is a perfectly reasonable point to start or refresh from.

**Ms. Martha Hall Findlay:** Mr. Chair, I'll just say, because I'm still not getting an answer, that there doesn't seem to be any reason we can't start with the numbers and be able to do that with the account we already have. I'm still confused. In any event, I'm not getting it.

I'll just leave it there, Mr. Chair. Thank you.

**The Chair:** Okay.

Monsieur Carrier, *s'il vous plaît*.

[Translation]

**Mr. Robert Carrier (Alfred-Pellan, BQ):** Thank you.

Earlier it was said that a \$19 billion premium surplus was anticipated for the period from 2011 to 2015. In my opinion, that would mainly be caused by the increase in premiums already included in the budget.

We can clearly see in the budget that the surplus associated with premiums will be paid into the government's consolidated revenue fund. The government is once again appropriating that surplus. It isn't staying in the independent fund.

Can you confirm that for me?

[English]

**Mr. Mark Hodgson:** The income for the new rate-setting mechanism and the new EI operating account began on January 1, 2009. There are significant deficits for 2009 and expected for 2010. The figures that you have seen I expect leave out the administration costs. But setting that aside, the forecast is for about a \$12 billion cumulative deficit in the new EI operating account, which will then be repaid through annual surpluses, and by 2014 the balance in the new EI operating account is expected to be roughly at zero, so the surpluses will be required to repay the deficits that we're incurring to date.

[Translation]

**Mr. Robert Carrier:** I don't see the \$12 billion deficit you refer to in the figures presented. I see a \$5.8 billion deficit for 2009-2010 and a \$5 billion deficit for 2010-2011.

[English]

**Mr. Mark Hodgson:** My mental math may be slightly off, but then again the revenue and expenditures leave out the operating costs in each year, which run around \$1.8 billion on average, so cumulatively for 2009 and 2010, off the top of my head, I'm not 100% sure, but it's around \$11 billion, and in the Parliamentary Budget Officer's report he similarly showed that the cumulative balance reaches break-even by about 2014.



[Translation]

**Mr. Robert Carrier:** From an accounting standpoint, the figures are somewhat similar, but it's nevertheless indecent to forget the cumulative surplus of \$57 billion and to start over with a new account, in deficit for the moment, requiring us to increase premiums.

Like others before me, I find it indecent that we can so easily set aside \$57 billion provided by the workers who pay their premiums, week after week, out of their pay. I want to tell you I find that quite indecent.

Mr. Chairman, if I have any time left, I am going to hand it over to my colleague.

•(1610)

[English]

**The Chair:** You have a minute, or you can take a round.

[Translation]

**Mr. Daniel Paillé:** I'm going to take the ball on the run.

You're with the Department of Finance?

[English]

**Mr. Mark Hodgson:** That's correct.

[Translation]

**Mr. Daniel Paillé:** I'm going to make a Mr. Mulcair of myself by saying I find it somewhat embarrassing to hear a representative of the Department of Finance say

[English]

“my mental math may be slightly off”.

[Translation]

One of you said that the account managers have a mandate to be profitable. So profitability will be measured. We seem to be getting ready to make a gift to this account. There's a difference between what the budget officer has told us and what's on the table right now. We've changed our minds. In the first two years of deficit, no interest will be charged, and in accordance with the principle of concordance—and I see the logic of finance—no interest will subsequently be paid.

At one point, as you emphasized, the deficit in the first two years will be stopped. That deficit was created because the \$57 billion surplus, which had accumulated since 1995, incidentally, was withdrawn. The account managers have a mandate to ensure it is profitable, but how will we evaluate their performance when the surplus won't provide them with any interest? They obviously won't be paying interest during the first two years of deficit, but there's only one choice in order to ensure the account's profitability: increase the premiums. Is my accounting and financial logic correct?

[English]

**Mr. Mark Hodgson:** The mandate of the CEIFB is to break even over time, not to be profitable. There is a balance of premium revenues with program expenditures. To the extent that there are surpluses in the future, the cash will be transferred from the CRF to the CEIFB to invest until it can be repaid through lower premium

rates in the future, below break-even premium rates to repay the surplus from previous years.

[Translation]

**Mr. Daniel Paillé:** I'm a bit surprised. I'm going to pick up on two of your quotations. The mandate is to break even, or the mandate is to be profitable. I was the financial director of a company for a very long time, and I didn't have a mandate to break even or to be profitable; it was one or the other. I'm trying to understand how employment insurance benefits or, conversely, premiums are set. The idea is to increase premiums or to lower the benefits that claimants receive. On this subject, a new committee has been in place since 2009, from what you said. That's been changed. Who appoints the members of this new committee?

**Mr. Louis Beauséjour:** In fact, it's a Crown corporation that was established and that is called the Canada Employment Insurance Financing Board. There's a board consisting of directors appointed by the minister from a list submitted to her by a selection committee.

**Mr. Daniel Paillé:** So before that, this Crown corporation didn't exist.

**Mr. Louis Beauséjour:** No, this Crown corporation was created in 2008 under the 2008 budget implementation bill.

**Mr. Daniel Paillé:** So whereas the chairman—

**Mr. Louis Beauséjour:** This corporation was created in 2008 under the 2008 budget implementation bill.

**Mr. Daniel Paillé:** But why, for what effect?

**Mr. Louis Beauséjour:** That corporation serves to determine the future premium rate, to ensure that the employment insurance account remains balanced over time, and to transfer surpluses, if every any surpluses are generated, to its bank account so that they can then be invested and generate income.

**Mr. Daniel Paillé:** With regard to the composition of the board—

•(1615)

[English]

**The Chair:** Your last question.

[Translation]

**Mr. Daniel Paillé:** All right.

As there will be employer and employee premiums, will the board of directors represent those people who contribute to it?

For example, when I was in private enterprise, my board of directors was managed by the shareholders. Can we say that it will be a joint undertaking—employers and employees? Will there be a relationship between those who pay and those who decide, under the act or in individuals' choices?

**Mr. Louis Beauséjour:** A committee is responsible for choosing a number of potential individuals, a list of which is submitted to the minister. The committee consists of three members: the workers' member, the employers' member and another member. The committee will determine a number of names and submit a list to the minister.

**Mr. Daniel Paillé:** So the minister can choose—

**Mr. Louis Beauséjour:** She chooses from the list.

[English]

**The Chair:** Merci.

Mr. McCallum, please.

**Hon. John McCallum (Markham—Unionville, Lib.):** Thank you.

I'd like to follow up a little on the questions from my colleague, Martha Hall Findlay.

First of all, I notice subsection 80.(2) of the EI act says that advances shall "be repaid in such manner and on such terms and conditions as the Minister of Finance may establish". So it's my understanding, as as happened in the last couple of years, that the Minister of Finance can override any decision of the board in terms of setting rates as long as it doesn't increase or decrease more than the maximum allowable rate. Is that correct?

**Mr. Mark Hodgson:** Those are two separate parts of the legislation. Part 24 of the budget implementation act, proposed section 2188, repeals section 80 of the Employment Insurance Act. There will no longer be the authority to make advances to the EI account, which will no longer exist. That was a holdover from past rate-setting mechanisms and it's no longer necessary.

There is a provision in the legislation that I think you were referring to at the end of your question, which gives the Governor in Council the authority to set a premium rate where the CEIFB has not set a premium rate by the specified date or to override the rate set by the CEIFB.

**Hon. John McCallum:** This is what essentially was done in the last two years, correct?

**Mr. Mark Hodgson:** The Employment Insurance Commission set the rate for 2009 according to the existing legislation. The budget implementation act of 2009 set the rate for 2010 through legislation.

**Hon. John McCallum:** Right. So it is correct, then, that the finance minister or the cabinet, if they should choose, can set the rate that they wish to set.

**Mr. Mark Hodgson:** There is that authority in the legislation.

**Hon. John McCallum:** Okay.

I'm not objecting to starting with a zero account, but I come back to the value-added question. The board is always subject to override by the minister, if the minister so chooses. But the board has very little discretion, is that not true? It is required, by legislation, to get out of any deficit as quickly as it can. Is that true?

**Mr. Mark Hodgson:** Subject to a 15¢-per-year limit on how fast rates can change.

Similarly, should surpluses occur, it is required to reduce premiums until any cumulative surplus has been repaid, and over time the new EI operating account is intended to break even.

**Hon. John McCallum:** So the board has essentially zero operating latitude, because it is required, subject to these minimums and maximums, to get rid of surpluses or deficits as quickly as possible.

● (1620)

**Mr. Mark Hodgson:** And according to the forecast provided to them by their actuary of what the expected premium revenues and program expenditures for the forthcoming year will be.

**Hon. John McCallum:** I don't understand the point of having a huge new costly apparatus in a board when you are giving to the board zero latitude. Why can't you just save all that money and do it by a computer program?

**Mr. Mark Hodgson:** The budget implementation act of 2008 was passed by Parliament and created this authority and this structure and this board.

**Hon. John McCallum:** That's not my question. I know that's the case. But I am asking you, as a question of economics or public policy, why have a big apparatus, which has zero latitude in terms of what it does, when exactly the same result could be achieved by a computer program lodged in the Department of Finance?

**Mr. Mark Hodgson:** It is an independent, arm's-length crown corporation that will set premium rates and will ensure that any future surpluses are held and invested until they can be returned to premium payers.

**Hon. John McCallum:** The law could still be the law but without this board to implement it, and the government would still be accountable for whether they had obeyed the law. So I don't understand.

It's the same question about value added. What's the point of having all these people who have no authority to do anything?

I'll leave it at that. Thank you.

**The Chair:** Thank you, Mr. McCallum.

*Avez-vous une question, Monsieur Paillé?*

[Translation]

**Mr. Daniel Paillé:** The government hasn't set the rates until at least 2015?

[English]

**Mr. Mark Hodgson:** As budget 2010 states, starting with the premium rate for 2011, the CEIFB will be responsible for setting premium rates. What the budget contains is a forecast of economic conditions and the probable application of this legislation, should it pass.

[Translation]

**Mr. Daniel Paillé:** I'll be very brief, Mr. Chairman. The costs of the structure, which we just discussed, will be mechanically borne by this account.

[English]

**Mr. Mark Hodgson:** Yes.

[Translation]

**Mr. Daniel Paillé:** So it's the workers and employees who contribute to it who will pay the cost of this new Crown corporation?

[English]

**Mr. Mark Hodgson:** That's correct.

[Translation]

**Mr. Daniel Paillé:** I have a simple suggestion to make to Mr. McCallum.

You on the Liberal Party, with the money from the sponsorships, could pay back the money that you stole.

Well, I apologize.

[English]

**The Chair:** I don't think that's a question to you, Mr. Hodgson.

I want to thank you for being with us this afternoon, Mr. Hodgson and Mr. Beauséjour.

We will suspend for a minute and we will bring the other witnesses forward and hear their presentations.

•(1620) \_\_\_\_\_ (Pause) \_\_\_\_\_

•(1625)

**The Chair:** I call the meeting to order again. I apologize to the witnesses for the shortened time this afternoon, but we did have to finish up discussions with officials.

We have six organizations with us here this afternoon: la Coalition québécoise pour le contrôle du tabac; Genome Canada; Pathways to Education; the Canadian Apparel Federation; the Fédération des travailleurs et travailleuses du Québec; and PricewaterhouseCoopers.

We will have a five-minute opening statement from each, starting with Monsieur Cunningham.

[Translation]

**Mr. Rob Cunningham (Senior Policy Analyst, Canadian Cancer Society, Coalition québécoise pour le contrôle du tabac):** Thank you, Mr. Chairman.

On behalf of the Coalition québécoise pour le contrôle du tabac, thank you for this opportunity to testify today.

My name is Rob Cunningham, and I am a lawyer and a senior policy analyst at the Canadian Cancer Society, which is a member of the coalition, together with other groups. Today we want to express our support for the clauses in this bill on tobacco, in order to better control tobacco smuggling.

[English]

Having higher prices and higher taxes are very effective ways to decrease tobacco use. All members of Parliament are aware of how we have a significant illegal contraband problem in Canada, and we need solutions.

We support the enhanced tax stamp regime that will be authorized with this bill as a component of an overall comprehensive strategy. It will assist in preventing counterfeiting. There was just recently a seizure in Vancouver of counterfeit products. It will assist with those licensed companies that produce more than they report to government, because each package will have a unique identifier on it, the way money does, with covert and overt features. It will also provide a base for a further step that some countries are doing. We've seen progress along these lines in Brazil, in Turkey, in California, and there have been discussions in other jurisdictions about having a better system of tracking and tracing to help identify a point of

diversion. So illegal product is seized, and you can see through the unique identifier what the last point of legal control was before it was diverted illegally.

For other types of contraband such as illegal manufacturing—that's a different category—there are different remedies available. We have recommended to government remedies with respect to other types of contraband.

We urge all members of this committee to support these aspects of this bill. We hope that the government will move quickly with regulations that are effective, and that this component can enhance part of a broader comprehensive tobacco control strategy.

Why are the Canadian Cancer Society and the Coalition québécoise pour le contrôle du tabac concerned about this? We know that kids are getting this, especially in Ontario and Quebec, where the prices in terms of taxes are the lowest but the contraband is highest. It's not because of high taxes. It's because of illegal sources of supply, and we need to control the distribution chain.

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

•(1630)

**The Chair:** Thank you for your presentation.

We'll now go to Mr. Hughes, from Pathways to Education.

**Mr. David Hughes (President and Chief Executive Officer, Pathways to Education Canada):** Mr. Chairman, committee members, thank you for the important work you're doing and for the privilege to address you today on behalf of an ever-growing number of students and communities being served by Pathways to Education Canada. Thank you to the federal government for considering an investment in our program, which is lowering dropout rates of at-risk youth and helping them make the all-important transition to post-secondary education and meaningful employment.

Our data proves that investing in our most vulnerable youth and the communities they come from will deliver the best return on investment any community or government can make. It will help close the troubling gap between the haves and have nots and it will result in safer and healthier communities, more informed and engaged citizens, a more diversified and productive workforce, and a stronger economy.

We all know the problem. Each year we see thousands of Canadian students making life-altering decisions to drop out of school. In most cases, this seemingly simple and personal decision puts our youth on a downward-spiralling course that affects us all with a ripple effect that leads to lower wages, higher unemployment, a diminished tax base, higher rates of poverty, and greater dependency on social assistance.

Lower levels of education lead to more crime, threatening the safety of our neighbourhoods and putting greater strains on our justice system. It also leads to higher incidence of drug use and teenage pregnancy, putting greater strains on our health care system. The data on this is clear, be it from Statistics Canada or the countless studies from here or abroad. What is less well known is the extent of this problem. Average provincial dropout rates across the country hover between 20% and 30%, and most major cities have low-income communities where the dropout rate ranges from 40% to 60%. We also know that this problem is more severe for a growing number of children of first- and second-generation immigrants and aboriginal families, where we are seeing dropout rates of 70% and higher.

Pathways to Education Canada is a charitable organization with a laser-sharp focus on reducing these dropout rates. We do so by helping at-risk youth complete high school and make that transition to post-secondary education successful, with the goal of helping them achieve meaningful employment and a better future than their historical path might have afforded them.

Our program operates through carefully selected networks of community agencies who deliver a comprehensive set of supports, which include academic support where volunteers provide after-school tutoring in core subject areas; social support where volunteers run group mentoring activities aimed at increasing social skills, communication skills, problem solving, and career planning; and financial supports aimed at reducing barriers to school completion and providing incentives, which include bus tickets and lunch vouchers while in the program and a scholarship that is earned through participation in the program and paid out to post-secondary institutions only on the completion of the program. Plus it has one-on-one mentoring, coaching, and other supports that tie together these various components and serve as a single point of accountability for these students and these individuals who serve as an advocate for the students within the school system.

So that is what we do, but what have we achieved?

Research and evaluation are key components of the Pathways to Education program. We have a highly disciplined approach to outcomes measurement, applying learning from our research to our replication and program improvement process. The early hope for our program was to reduce high school dropout rates of youth to a level that was similar to or better than the city average. To date, results of our initial site in Toronto's Regent Park continue to far exceed that goal. We have over five cohorts, 850 youth, and the dropout rate for this youth group in this community has declined from 56% to now 12%, a reduction of more than 75% and now approximately half of the city of Toronto and provincial averages.

• (1635)

**The Chair:** One minute, Mr. Hughes.

**Mr. David Hughes:** Similarly, we have experienced a 93% participation rate in our communities and an increase in participation in post-secondary school, which has risen from 20% to 80%.

Beyond the performance of these students, the Boston Consulting Group has taken an analysis of our program. They concluded that for every dollar invested in it, a minimum of \$25 was returned back to society in reduced social assistance costs and increased tax revenues.

They calculated that the program would have a \$400,000 cumulative lifetime value to each graduate—in other words, a 9.4% internal rate of return. So the \$20 million being proposed under this act would in fact lead to a \$500 million return to Canadians in the future.

This investment will enable Pathways to Education to expand its program from being a regional program to being a national one, helping us expand to fifteen to twenty locations, to seven to eight provinces, and serving over 10,000 students.

Thank you for considering this.

**The Chair:** Thank you very much.

We'll go to Genome Canada. Mr. Patterson, please.

**Mr. Dale Patterson (Interim Chief Executive Officer and Vice-President, External Relations, Genome Canada):** Good afternoon. It's a pleasure to appear this afternoon before the committee.

My name is Dale Patterson. I'm the interim CEO and vice-president of external relations at Genome Canada. I am pleased to be joined by my colleagues, Dr. Cindy Bell, who is the executive vice-president of corporate development; and Guy D'Aloisio, who is the vice-president of finance.

As many of you may be aware, Genome Canada is a not-for-profit corporation that acts as the primary funding and information resource relating to genomics and proteomics research in Canada in a unique model of collaborative federal-provincial partnering. Genome Canada has adopted a bold yet systematic approach that focuses its activities exclusively in the areas of genomics and proteomics research, with an emphasis on the delivery of tangible and measurable results. This approach has positioned Canada among the world leaders in the fields of human health, agriculture, environment, forestry, fisheries, and new technology development. Furthermore, Genome Canada continues to play a leadership role on the ethical, environmental, economic, legal, and social issues—referred to as GE<sup>3</sup>LS, associated with genomics and proteomics research.

One of Genome Canada's strengths is its network of regional centres across the country. Six have been established since 2000. The centres are independently incorporated and act as focal points for local expertise and interests by facilitating access to top-flight science and technology innovation centres and by assisting researchers with project development, management, and fundraising. Centres and scientists also work together to secure co-funding for each project at the level of 50% or more of the total project cost.

While we are proud of our track record, we are also looking forward to our future, and to this end, the recent federal budget provided \$75 million in additional funding to Genome Canada, for which we are thankful.

At our March 2010 board meeting, the board of directors of Genome Canada moved quickly to ensure that these new funds would be invested in areas of key importance to Canadians.

First, we announced that \$15 million would be directed toward an open competition in support of the science and technology innovation centres. This is in addition to \$9 million in existing funding, for a total of \$24 million.

Second, up to \$60 million will be directed toward a combined open and targeted large-scale project competition that will emphasize a high potential for economic return. At least \$30 million will be targeted to research in the areas of forestry and the environment, and up to \$30 million in support of strategically important research in Genome Canada's other sectors: agriculture, fisheries, and human health.

We want to get these funds directly into the hands of the researchers as quickly as possible while ensuring that we are funding the best of the best. As a result, we are moving fast to put competition guidelines in place in the coming weeks.

Excellence is the only standard that Genome Canada will accept or fund. That's why every project must first be peer-reviewed by an international panel of experts, ensuring that Canada's best research is the world best research, with the potential to produce meaningful applications through knowledge transfer and technology development.

Genome Canada's formula for success has not gone unnoticed. When Spain created its genome foundation, it modelled itself on Genome Canada.

Genome Canada has also been very cognizant of its accountability requirements with respect to the funding it receives from the federal government and has had a number of third-party reviews of its operations over the past five years. These have included a compliance audit by Industry Canada, a formal third-party summative evaluation and performance audit, the results of which are posted on the Genome Canada website. Through the regional genome centres, recipient audits are also undertaken on funded projects to ensure compliance with the formal terms and conditions of funding. These are in addition to complying with the detailed terms and conditions of the formal funding agreement with Industry Canada.

Since its inception, Genome Canada has been in the news: mapping variations in the human genome, identifying risk factors for type 2 diabetes, sequencing the SARS virus, making a major breakthrough in breast cancer treatment, creating new tools to diagnose organ transplant rejection, designing new biotechnologies that minimize the environmental impact of oil sands production, creating hardier varieties of wheat in response to climate change, and sequencing the salmon genome to improve breeding selection for commercially important traits. This has happened thanks to the support of parliamentarians including many of you around the table. A number of our success stories are included in the package we've issued.

Finally, a word on a number of additional changes at Genome Canada.

Genome Canada is governed by a board of directors who serve renewable two-year terms. A key priority for us is board renewal and recruitment, which is currently under way. In addition, following the departure of our founding president and CEO, we have retained an executive search firm to assist us in undertaking a search for his successor.

We look forward to answering any questions you may have in relation to Genome Canada. Thank you for your time and for this opportunity.

● (1640)

**The Chair:** Thank you very much, Mr. Patterson.

We'll go to Mr. Kirke, from the Canadian Apparel Federation.

**Mr. Bob Kirke (Executive Director, Canadian Apparel Federation):** Thank you, Mr. Chairman, for the opportunity to address the committee. I'm pleased to be here to provide our comments on Bill C-9.

Before I begin, please allow me to introduce our association and our industry. The Canadian Apparel Federation represents over 400 Canadian companies that are active in the apparel industry. The industry itself produces a wide range of women's, men's, and children's apparel. The industry directly employs approximately 50,000 people, with the largest concentration in the Montreal area. Other areas of concentration include Toronto, Winnipeg, and the Vancouver area. We are one of the few manufacturing sectors found in all provinces and territories.

Many Canadian firms have become market leaders and successful exporters in the past decade. They have made major inroads into the U.S. market, in particular. Despite our successes, the Canadian apparel industry faces immense pressures and challenges, including one of a domestic nature; that is, duties of up to 14% on imported raw materials.

Our association last appeared before this committee in 2004 on this issue. Duties paid on these imported raw materials represent the most significant policy issue for the industry, as companies need to have access to competitively produced raw materials to meet the needs of the Canadian consumer and our export markets. Since 2004, we have seen some progress on this issue. But currently, our industry pays approximately \$65 million in import duties on raw materials on an annual basis.

The clothing industry is one of the truly global manufacturing industries. Clothing is made in virtually all countries. And in developing countries, it is seen as a key strategic industry. Our firms understand globalization, because they know that they are competing with manufacturers from around the world who are keenly interested in our domestic market and our major export market, the United States.

Canadian firms can compete based on superior design and innovation combined with superior customer service. However, if we are to remain competitive, we must have a policy framework that ensures that we are not working at a disadvantage to our competitors internationally.

As we have mentioned in previous appearances before this committee, our most important industrial policy issue has been the duties paid on imported raw materials. I am happy today to support the passage of Bill C-9, because it contains the elimination of these duties.

Last year, the Department of Finance initiated a consultation on input tariffs, including textile tariffs. The *Canada Gazette* notice on September 19, 2009 set out the government's intention to eliminate duties on imported raw materials. From our perspective, it is a balanced approach, as it applies to the apparel and textile sectors. Fabric mills will benefit from the removal of duties on their inputs, namely yarns and unfinished fabric. Apparel producers will benefit from the removal of duties on inputs they use to manufacture, primarily finished fabrics.

In the current economic climate, this is the most effective policy at the government's disposal to lower the costs of domestic manufacturing. It eliminates an unnecessary financial burden on domestic manufacturers, namely the 14% duty on raw materials.

Our members have made dozens of individual submissions to the Department of Finance requesting tariff relief on literally hundreds of different tariff lines.

I have provided the clerk of the committee with a summary of our association's submission. The bottom line is that we strongly support the passage of Bill C-9. We also support the red tape reduction initiatives contained in the budget.

We also believe that the government should establish a mechanism to review various proposals that came up in this process relating to other tariff relief measures, such as outward processing. These should be reviewed on a sector-specific basis.

I thank you for your time, and I'd be happy to answer any questions.

• (1645)

**The Chair:** Thank you very much for your presentation.

[*Translation*]

Now it's the turn of the Fédération des travailleurs et travailleuses du Québec.

Mr. Ducharme, please, go ahead for five minutes.

**Mr. Michel Ducharme (Vice-President, Fédération des travailleurs et travailleuses du Québec):** Mr. Chairman, committee members, on behalf of the Fédération des travailleurs et travailleuses du Québec, I thank you for allowing us to express our opinion, in particular on Part 24 of this bill.

With respect to the employment insurance account, I would say, from the outset that, for the FTQ, eliminating the employment insurance account is an unconstitutional act, contrary to democracy. Bill C-9, An Act to implement certain provisions of the budget tabled in Parliament on March 4, 2010 and other measures, states:

“The account in the accounts of Canada known as the Employment Insurance Account is deemed to have been closed at the beginning of January 1, 2009 and removed from the accounts of Canada at that time.”

The bill adds that only those premiums and other amounts collected under the employment insurance plan as of January 1, 2009 will be included in the new employment insurance operational account. To take this kind of action, the Conservative government assumes it has constitutional authority to cancel public accounts, the amounts contributed and counted for employment insurance plan purposes of \$57 billion in the employment insurance account. And yet, in its previous budget, the government was compelled, following a judgment by the Supreme Court of Canada in the challenge by the Syndicat national des employé(e)s de l'Aluminium d'Arvida and by the CSN, to have the premium rates for 2002, 2003 and 2005 passed by the House of Commons in accordance with the imperative democratic rules provided for under the Constitution of Canada. The purpose of the government's efforts at the time was clearly to adopt premiums for the purposes of the employment insurance plan, not a general tax.

Now the government is clarifying the scope of the amendments adopted in previous budgets respecting the setting of the premium rate with respect to cumulative surpluses in the employment insurance account. These are cumulative surpluses, remember, reducing access to employment insurance for thousands of workers in Canada, with all the negative effects that result from that for those people and the communities to which they belong, and systematically setting premium rates distinctly higher than the atrophied employment insurance system through various cuts since the early 1990s.

Moreover, all stakeholders who have had to analyze the premium rate setting process, in particular, have observed that rates have been set based on other imperatives than the financial imperative, essentially the employment insurance plan. The Canadian Institute of Actuaries did it, as did Judge Gascon of the Superior Court and Judge LeBel of the Supreme Court of Canada. Judge Gascon held that the fact nevertheless remained that, despite their scope—he talked about cumulative surpluses—criticized by the Auditor General of Canada and the Chief Actuary of HRSD, one searches through the evidence in vain for justifications and explanations for maintaining these surpluses at the level where they stand. Judge LeBel held as follows, on behalf of the Supreme Court of Canada: “In my opinion, those amendments had a significant effect on the validity of such levies in the circumstances in which they were adopted, that is, at a time when government representatives could not have helped but see that employment insurance revenues in fact greatly exceeded what the system required and that those revenues no longer had an actual connection with the system.”

In 2005, the government put a legislative framework in place to exclude the cumulative surpluses in the employment insurance account from the premium rate-setting process. It also altered the premium rate-setting parameters by stating that the rate had to be set based on the estimated costs of the plan for the subsequent year, not on the basis of the maintenance of a reserve to prevent upward fluctuations in premium rates at the time of an economic slowdown, a role that cumulative surpluses were officially supposed to play in the employment insurance account.

Despite this new rate-setting mechanism, the rates adopted since 2005 to cover only the costs of the employment insurance system, with the exception of 2010, nevertheless had the effect of increasing the cumulative surpluses in the employment insurance account by nearly \$8 billion. However, Judge LeBel of the Supreme Court did not see fit to comment on the legislative amendments since 2005 because they were not directly concerned by the legal issue.

• (1650)

**The Chair:** You have one minute left.

**Mr. Michel Ducharme:** One minute left? I'm going to go right to the conclusion.

Let's go back to Judge LeBel of the Supreme Court. In his view, the fundamental reason to rule on the constitutionality of the amounts collected and accounted for was to maintain a connection in the act between the needs of the plan and a certain rate stability. These principles maintained an allocation policy, a balance in the collections that preserved their constitutional characteristics as regulatory collections. This action is based on the idea that the government can do what it wants with the cumulative surpluses in the employment insurance account. However, that claim was not allowed by the Supreme Court because appropriate accounting had been kept.

In conclusion, we consider that the government must abide by the Constitution. The section of Bill C-9 repealing the employment insurance account does not appear to be a legislative choice authorized by the Constitution of Canada in that it retroactively alters the nature of the amounts collected and entered in the account.

We demand that the planned increases in premium rates be used to restore the employment insurance plan, enabling it to adequately cover workers' unemployment risk on a permanent basis, and we ask the House of Commons and the Senate to block the coming into force of this repeal of the employment insurance account—

**The Chair:** Thank you, Mr. Ducharme.

**Mr. Michel Ducharme:** —and to require the government at least to check in advance with the Supreme Court—

**The Chair:** You'll have some questions from members.

**Mr. Michel Ducharme:** May I add something else?

**The Chair:** Thank you.

**Mr. Michel Ducharme:** Six minutes goes by fast!

[English]

**The Chair:** Mr. Firth, for the final presentation, please.

**Mr. Michael Firth (Partner, Indirect Tax, PricewaterhouseCoopers):** Thank you, Mr. Chairman.

Good afternoon, members of the committee. Thank you for the opportunity to make some comments this afternoon.

My comments are restricted to those parts of part 2 of Bill C-9 that deal with amendments to the Excise Tax Act in relation to the application of GST/HST to financial services and financial institutions. My comments are mainly directed to section 55 of part 2, which excludes a number of specific services from the definition of an exempt financial service, in some cases from January 1, 1991, and in other cases from December 14, 2009. I will identify some real concerns with the unworkability and the widely acknowledged overreach specific to these amendments. I will also highlight escalating, grave, and very widely held concerns among corporate GST registrants and their professional advisors that, whilst they are common to the current amendments, extend to many other amendments to the Excise Tax Act over recent years and to the GST overall.

These concerns relate to the current poor state of legislative maintenance of Canada's GST. Two prominent indicators of that decay are the increasing recourse to very tardy and harsh retroactive amendments many years after the tax and appeal courts have clearly illuminated the effect of the legislation; and the now routine expectation that taxpayers are to file returns and remit very significant amounts of tax, incremental to the effect of the current legislation, based on effective dates of press releases containing no legislation. Subsequently, taxpayers are then expected to file for a further number of years on the basis of a sequence of draft legislative versions, evolving as a function of consultations all conducted after the effective date.

I will refer to the GST throughout, but of course I do mean the GST and the HST as they apply in participating provinces.

Turning now to the specific amendments, section 55 of part 2 changes the GST status of a number of services from being a defined financial service, and therefore from being exempt from GST to being taxable. I will comment first on subclause 55(3) of the bill, dealing with proposed paragraphs 123(1)(r.4) and (r.5) to the act. In the interests of dealing with the time constraints, I have provided committee members with a copy of an article entitled "Semantics Antics", published in the March 2010 CCH *Canadian GST Monitor*. It provides much more detail on this specific amendment.

In the general scheme of a VAT like our GST, when a financial service or instrument is exempt from GST, then to avoid creating a distortion between those suppliers who sell directly using their employees and those who use independent intermediaries, it is necessary and desirable to also exempt financial intermediation services. These intermediation services include the roles of insurance brokers, mutual fund brokers, agents selling commercial and retail finance, mortgages, and so on.

The wording of this amendment would appear to render taxable a very wide range of financial intermediation services. In fact, it may, at a stroke, completely obliterate exemption of all financial intermediation in Canada.

A brief history of this amendment will be helpful to understanding its stressful impact on Canadian taxpayers. On December 14, 2009, the Department of Finance included five lines in a press release describing an exclusion from exempt intermediation of a service "facilitatory" or preparatory to the provision of a financial service. No specific examples were given.

Two months later, on February 11, 2010, the Canada Revenue Agency, which I will henceforth refer to as the CRA, published GST/HST notice number 250, which provided more information on the effect of the 2009 press release amendment. This notice contained a number of very specific examples of services that were, in the CRA's view, newly taxable effective December 14, 2009. Included within this key change were all commissions paid to mutual fund dealers; commissions paid to anyone, such as an automobile dealer, arranging for the provision of finance; and a range of other intermediation services, all of which had been clearly understood and identified previously as exempt. These were complete U-turns in the government's policy.

• (1655)

**The Chair:** One minute, Mr. Firth.

**Mr. Michael Firth:** As a result of dialogue, Finance Minister Flaherty announced on March 25 that the policy was not in fact not to impose new taxes on the financial sector, and the release was just badly worded.

So let's take a look at where you are now if you supply one of the services in this danger zone. The legislation proposed in this bill taxes your service. Notice 250 from the CRA taxes your service. That notice has two caveats on it: one, when it was released in February, which says, "Be warned, the legislation may not be enacted as described"; and a second one after Minister Flaherty's statement, saying that there is now a review conducted by the CRA. What are you supposed to do?

Persons making these supplies and their advisers simply do not know what to do. Clearly this is unacceptable and brings the tax into disrepute. The only honest and forthright way to deal with this is to remove this amendment from the bill. Then, following the process of consultation now under way, a new amendment should be developed to apply from a prospective date.

Time does not allow me to comment on the aspect of investment management services, but I did supply another article to the committee entitled "A New Lower Low", which does give you more detail on that.

In conclusion, it is fair to say that the consensus among tax advisers and their clients is that the system of tax statute maintenance is broken. The amendments before you are a very good example of that.

Professional advisers are very concerned, corporate taxpayers within Canada are very concerned, and corporate taxpayers outside of Canada are becoming increasingly informed and dismayed. And that, ladies and gentlemen of this committee, should concern us all.

Thank you.

**The Chair:** Thank you very much for your presentation.

We'll go to questions from members.

Point of order, Mr. Wallace.

**Mr. Mike Wallace (Burlington, CPC):** I know the standing order for this committee has seven-minute and five-minute rounds. Since we only have half an hour, could we look at three-minute rounds so we can get as many rounds in as possible in the next half hour?

**The Chair:** Can we move to shorter rounds to allow more questioners? The opening rounds are all seven minutes, and if we do seven-minute rounds we'll only have four questioners. Is that okay with the members?

[Translation]

**Mr. Robert Carrier:** Mr. Chairman?

[English]

**The Chair:** Monsieur Carrier.

[Translation]

**Mr. Robert Carrier:** Can we sit after 5:30 p.m. instead?

[English]

**The Chair:** I can't be here past 5:30, and our other vice-chair has left.

[Translation]

**Mr. Robert Carrier:** Can we have five two minute periods? I could chair, Mr. Chairman.

• (1700)

[English]

**The Chair:** Well, four-minute rounds? I'm looking for a consensus.

**Mr. Mike Wallace:** Go for four minutes.

**An hon. member:** We're wasting time.

**The Chair:** Four minutes?

**Some hon. members:** Agreed.

**The Chair:** All right, we'll start.

Mr. McKay, please.

**Hon. John McKay:** Well, since I've gone from seven minutes to four minutes, I'm going to restrict myself to two questions.

First to Genome. First of all, I want to thank Mr. Patterson for stepping into the breach. It's an important position you've taken on, and Genome Canada is an important organization. And I appreciate, on behalf of the people of Canada, your willingness to step in as interim CEO.

My first question to you, Mr. Patterson, is with respect to long-term planning. We heard yesterday that Genome's money comes actually from last year's budget rather than this year's budget. So I was wondering how those kinds of financial manipulations actually affect your budgetary planning, particularly your budgetary planning with respect to longer-term planning so that you have some certainty. Because I know these projects take quite a while to reach fruition.

**Mr. Dale Patterson:** Thank you for your comments and your question.



I'm going to ask Guy if he can address that, as our VP of finance. But there is no question that we will be back to see this committee and address this committee on a yearly basis. We come for yearly funding, and we will be putting forward a multi-year ask this year.

Guy, maybe you can get a little more specific.

**Mr. Guy D'Aloisio (Vice-President, Finance, Genome Canada):** Yes. We actually receive our funds based on cash needs over however many years we feel they're required. For example, for the \$75 million, we have provided Industry Canada with what we think are the annual cash outflows that we will need in order to consume and go through to finance the projects we're going to approve.

At the beginning of each year they provide us with the actual cash for the funds that we need for that year. So how it's accounted for internally in the government I can't comment on, but that's the way we receive our funds.

**Hon. John McKay:** But the issue is also stability of financing going forward. I'm sorry about having to leave it there.

Mr. Cunningham, your friends at Imperial Tobacco disagree with you. To no one's great surprise, they regard the stamping regime as ineffective and feel it will not achieve the stated measure of fighting the illegal tobacco crisis.

How is this stamping proposal going to actually cut back kids' smoking?

**Mr. Rob Cunningham:** We need a series of remedies, and this is one of the remedies. It's interesting that Imperial Tobacco, which has been convicted of contraband itself, has been paying the largest fines in Canadian history, and then a civil payment that's much larger than that. They've been calling on the government to take action on contraband, but when the government takes action, they're unhappy. There's a cost. It's not that big on a per-pack basis. They're going to have to pay that.

One problem is counterfeiting, and this unique, highly sophisticated stamp will be hard to counterfeit, with a unique identifier. So you'll be able to tell if it's legitimate or not from the stamp in a way that you can't now. These yellow tear tapes, which are the stamp, are a lot easier to counterfeit. Moreover, certain licensed producers may produce more than they report to government, so you will be able to capture that, because each stamp will have a unique identifier and they won't be able to get away with it in the future.

But there are a series of other remedies that we need, and the bigger problem that we have at the moment is illicit production. So there are other remedies that are needed.

**Hon. John McKay:** Thank you.

Okay, I'm done.

**The Chair:** Thank you, Mr. McKay.

Monsieur Paillé, *s'il vous plaît*.

[Translation]

**Mr. Daniel Paillé:** I'm going to take 30 seconds to speak to Bob Kirke. I'm surprised to see that a representative of an employer, who pays 1.4 times the employee premium rate, can be in favour of Bill C-9 on employment insurance. If we have some time left, we can discuss that further.

I'd like to thank the people from the FTQ for presenting their file. That file reminds me of the victims of Earl Jones. In that case, they were a group of vulnerable individuals who were cheated in a swindle, and here we have vulnerable people who contribute to employment insurance and who are also being cheated. If we can't say the government is a swindler, what is the term you would use to illustrate the fact that some \$50 billion has disappeared and that everything has been accumulated since premiums have been paid by employees and paid at one point four times that rate by employers?

• (1705)

**Mr. Marc Bellemare (Syndicate Counsellor, Fédération des travailleurs et travailleuses du Québec):** It's very simple. You see I'm not wearing a tie. I call them "tie-wearing fraud artists". This is the legalization of theft. I'm even going to go a little further in my comments. The Supreme Court actually ruled that the government was entitled to use the money, but the Supreme Court didn't give the money to the government. The Supreme Court ruled that there should be a connection between the use of the funds and the employment insurance plan. Abolishing the employment insurance account breaks that relationship.

If the government were serious, which I doubt, it would ask the Supreme Court to rule immediately on this issue. If it doesn't do that, we are going to do it. But the problem is this: if we do it, it will take 12 years before a decision is rendered. The government has already gone directly to the Supreme Court in the case of same-sex marriage. We are asking the government to do the same thing in this case.

In addition, Mr. Paillé, the budget documents are false, utterly inaccurate. We're talking about a surplus of \$600 million for 2008-2009: that is contrary to the 2009 evaluation and control report, which has just been prepared, and that refers to a deficit of \$879 million for the 2008-2009 fiscal year.

We're talking about expenses and so on. If we check the budget documents, we realize that the administrative expenses, that is to say the \$2 billion a year in administrative expenses, aren't included in the expenses. So when we refer to a deficit of \$5 billion or \$5.8 billion, that's not true. You have to add the other \$2 billion.

**Mr. Daniel Paillé:** Time is passing—

**The Chair:** You have one minute left.

**Mr. Daniel Paillé:** I'd like to hear what you have to say on one subject, the appointment method for the three board members. You had the benefit of the answers to the questions directed at the departmental people. That made me think, perhaps incorrectly—I ask you to correct me—of a grievance tribunal: there is one union representative, a management representative and the two agree on the selection of a board member. That's how it works in settling a grievance. Do you still do it that way?

**Mr. Marc Bellemare:** No.

**Mr. Daniel Paillé:** Why is your answer no?

**Mr. Marc Bellemare:** No. The three board members are appointed for the government. The board member representing the employers is appointed in consultation with the management organizations. The board member representing the workers is appointed together with the organizations representing employees, whereas the chair of the board is the sitting deputy minister, and he is therefore appointed by the government.

If you're talking to me about the Employment Insurance Financing Board of Canada, that's different. There's a selection committee to appoint people to the board, that's true, but none of the persons recommended by the board member representing the workers has been selected by the government. In accordance with one of the criteria, there had to be people with experience in placement, and so on. And yet at the FTQ and the Fonds de solidarité, we manage a fund of \$7 billion with people who have experience; we submitted candidates' names and they were not accepted. With regard to the board, sir, I want to add that, with regard to—

**The Chair:** Thank you.

**Mr. Marc Bellemare:** —the \$241 million in interest—

[*English*]

**The Chair:** Merci, Monsieur Paillé.

We'll go to Mr. Menzies, please.

**Mr. Ted Menzies (Macleod, CPC):** Thank you, Mr. Chair, and I thank our witnesses.

We do have a very short time here, so I'll be very quick.

Mr. Firth, I accept your criticisms, and it was a misunderstanding. I just want to make sure we know that's your opinion, and I understand there are other opinions out there. This was simply a definition respecting financial services, and it was intended to address the uncertainty from certain court decisions and was never intended to be a policy change. No new taxes were imposed, and it is a continuation of a long-term policy. I'm just reaffirming that.

Certainly there were retractions from CRA, but I want to read into the record how this impacts the investment industry. Ian Russell is on record, and I will quote:

And this is nothing that is unusual. What happens is the courts, there will be a tax case, they'll go to the courts and courts will rule. And in this case they made a ruling that using perhaps a loophole in the Tax Act that the fees paid on discretionary managed money were tax exempt.

And the concern was sufficient at Finance that in the following December they put out a clarification. And they made it very clear that those fees were subject to GST.

(...)

You are absolutely right. And the cause of the confusion first of all in the CRA is they confirmed that discretionary management services and investment management services were taxable but then they had this phrase in which was services without discretionary authority. And that all of a sudden opened up everything to... what does that mean? Does it mean that things that had been tax exempt are taxable?

But the reason we were reasonably confident which gets to your point, Michael, is that, that would be a fundamental change in tax policy. That is the responsibility of the Department of Finance not CRA. CRA simply implements tax policy. So what we were looking for from Finance was a confirmation that in fact tax policy had changed and there was no such confirmation except in that very, very narrow context of some promotional services that were carved out. Otherwise, it was simply reaffirming tax policy.

(...)

So the Minister just confirmed and removed the confusion on the street. I think it was very important for the Minister to do that as quickly as he did.

It's pretty clear, I think, to the industry that's impacted by it. What's the conflict?

●(1710)

**Mr. Michael Firth:** Absolutely not clear at all. The legislation, if you read it, goes as far as the CRA took it in their bulletin. It taxes almost every form of financial intermediation, and there has been no retraction.

All we have is legislation that stands as originally proposed. We have the CRA notice from February, which gives a number of U-turn examples that say that mutual fund commissions, formerly exempt, are now taxable; finance commissions paid to auto dealers, formerly exempt, are now taxable; certain commissions paid to other financial intermediaries, formerly exempt, are now taxable. That's what created the huge alarm. The life insurance sector estimated the additional tax they would bear would be about half a billion a year.

There has been no retraction. All we have now, planted on top of that CRA notice but still with the original legislation before this committee, is a statement that the CRA will embark on a review. So if you make one of these endangered supplies.... And these days everybody is an intermediary, because whether it's a retail or wholesale product, whether you're buying a couch or a jet engine, the vendor will arrange for the financing and will receive a commission. It was also suggested to the CRA that equity brokerage was affected by this taxation as well. If you are in that zone you have legislation that taxes you, you have the CRA notice in February that taxes you, and you have this woolly statement from the minister and an endorsement that the CRA will now conduct a review.

So there has been no retraction, and many supplies are clearly taxable under the legislation in front of you.

**The Chair:** Thank you.

We'll go to Ms. Ashton, please.

**Ms. Niki Ashton (Churchill, NDP):** Thank you very much for your presentation.

[*Translation*]

I'd like to ask the representatives of the Fédération des travailleurs et travailleuses du Québec a question. You made a very dynamic presentation expressing the concerns of many workers across Canada, and of course of those who live in my constituency. You clearly presented the historical background, which has taken place since the 1990s and later. I'd like to give you the opportunity to further clarify your point of view. I know you have more to say concerning the specific concerns about this budget, as regards the premium rate and the concerns of workers who are going through an extremely difficult economic period, particularly in the forest industry in Quebec, in my constituency and across Canada. You could tell us more about those concerns and that feeling among those workers, who see the government taking their money, their investments, and disappear when they need its support.

**Mr. Marc Bellemare:** Thank you for your question. The workers will have to pay between \$500 and \$800 more in premiums in the coming years. The government is currently facing an odd situation. There are two acts which are not compatible. When the government created the board, its first obligation was to establish a premium rate that would make it possible to achieve a balance every year—thus no surpluses, no deficits.

When the board established the premium rate, it also had to take into account the monetary advances that the government had made and the establishment of the \$2 billion reserve. The equilibrium rate calculated by the actuary amounts to only \$2.43 for 2010. The budget officer says \$3.06. The rate is currently \$1.73.

The act provides that we cannot increase the rate by more than 15¢. Do you have an idea of the time it will take workers to repay that deficit? It's not an \$11 billion deficit. We're talking about a deficit of \$17 billion or \$18 billion. At 15¢ a shot, that will take eight to 12 years to repay it. What's more is that, when the government achieves surpluses, the board's obligation is not to pay money into the consolidated revenue fund, but to lower the premium rate. So workers are stuck. The FTQ explained that there was \$57.2 billion that belonged to employers and workers. The deficit should be met out of the surplus.

It's time for us one day to actually talk about the employment insurance program. We only talk about the rate, about the cost. Does the employment insurance program actually meet its definition? The answer is no. We can never agree on the nature of the program. We're only told about costs and theft.

• (1715)

**The Chair:** Thank you, Ms. Ashton.

Ms. Hall Findlay.

[English]

**Ms. Martha Hall Findlay:** Thank you, Mr. Chair.

Despite all the wonderful presentations, my questions are directed to Mr. Cunningham.

With all respect, I don't sit here to represent Imperial Tobacco, but in my riding of Willowdale I have one heck of a lot of convenience stores, and they are not happy, obviously, with the contraband tobacco situation. Stamping cigarettes might address those who try to pretend that they're selling a particular brand to a store that might actually be in a position to tell the difference. But I can tell you that most of the people who are really worried, certainly in my riding, are worried about the bags of cigarettes. They are not in a position to believe that a stamp, and an added layer of cost for the legitimate tobacco companies—and I'm not here to comment on that—will come close to addressing the issue of contraband tobacco. My concern is that all the effort put into something like that may in fact take away from any effort by this government to truly deal with contraband tobacco.

I would put it to you now, because you have already acknowledged that this is not the only solution, to make suggestions. Concrete suggestions would be great.

You've said that you think the biggest challenge comes from the illicit manufacturing. I would suggest, and I ask your opinion.... The Imperial Tobacco suggestion has been—and we've certainly heard this elsewhere—that we finally have an independent expert panel to address this issue. It seems all too often that this issue, which has a huge dollar value and a huge effect on many small businesses, continues to be swept under the rug, because people are simply not willing to address first nations issues and the criminal element in other organized crime.

Can you speak to this at all?

**Mr. Rob Cunningham:** Yes.

I'm not sure that we need to have another panel to have another round of consultations. There was an intergovernmental task force, federally, that was announced in May 2008. That was two years ago.

There's been consultation. We believe that it's time for action with respect to the other remedies, which would include the most important source, which is illegal manufacturing on the U.S. side of Akwesasne. For that we need to persuade the U.S. Attorney General, through the Minister of Public Safety, to take action to shut down those illegal factories on the U.S. side. That is our most important source of baggies entering Canada.

Second, the border post, which last summer was moved from Cornwall Island to the other side of the bridge, has actually made an important difference in reducing contraband within the last 12 months. It became a choke point that didn't exist previously. Before, the smugglers could go right around the border post and into Canada. So our recommendation, as is the Canadian Convenience Stores Association's, is to have the border post remain in its current temporary location. But make it permanent, and make other adjustments, as necessary, for a suitable permanent location.

We heard the RCMP state last week that there are now 50 illegal manufacturers in Canada—unlicensed—and that's a concern, because it's growing. Because of the sensitivities about enforcement on first nations reserves, we recommend having better control of the raw materials supplied to these unlicensed manufacturers. It is not only the leaf tobacco—but have control over those suppliers; it is also cigarette papers and so on.

These are all actions that we hope can be implemented in the very short term.

• (1720)

**Ms. Martha Hall Findlay:** Thank you very much.

Thanks, Mr. Chair.

**The Chair:** Thank you.

Monsieur Carrier, *s'il vous plaît*.

[Translation]

**Mr. Robert Carrier:** Thank you, Mr. Chairman. Four minutes goes fast. I'm going to speak to the people from the Fédération des travailleurs et travailleuses du Québec.

I understand why you're exasperated over the fact that workers have been robbed of \$54 billion in surpluses accumulated over the years. I think that, if money were taken from anyone here, that person would be in the same frame of mind. Earlier, Mr. Bellemare, you said that, if Bill C-9 were adopted, you would go to the Supreme Court since the government is not interested in doing so. You know that Bill C-9 will surely be adopted, with the cooperation of the Liberals, who don't want to see the government defeated. So are you going to take immediate steps to go to the Supreme Court?

**Mr. Marc Bellemare:** No, we're not going to do it immediately. FTQ officials, including my colleague, our vice-president who is here today, will quite definitely reflect on the matter. We will definitely consult the union movement across Canada and in Quebec, of course. If we do it, it will pose a problem; it will take between 11 and 15 years before a decision is rendered. The first Supreme Court appeal took nearly 12 years. If the government wants to be as transparent as it says, but not opaquely transparent, truly transparent, let it ask the Supreme Court to decide the matter. It's previously done that. The Constitution of Canada allows the government to seek immediate clarification from the Supreme Court. It's only a common sense rule, and I'm not doing any advertising for Honda.

**Mr. Robert Carrier:** We could tell it, as in the case of the single securities commission it wants to introduce in Canada, despite the unanimously unfavourable opinion of the people of Quebec, that it should go to the Supreme Court. It could be done in the same way; I believe the matter is just as important.

**Mr. Marc Bellemare:** Yes, I repeat what I previously said on the subject: the Supreme Court didn't give the money to the government. I'm going to give you an example, sir. All of you, ladies and gentlemen, have a bank account. You deposit your money, the bank uses it, and it does what it wants with it. The same is true of the employment insurance account, but in the case of the bank, the money is still yours.

**Mr. Robert Carrier:** Yes, I know.

**Mr. Marc Bellemare:** Here employers and workers have been robbed of \$57.2 billion.

**Mr. Robert Carrier:** In the little time I have left, I also want to ask David Hughes a question about Pathways to Education. I'm quite surprised to see that a budget of \$20 million is being allocated in education across Canada, whereas every province has its own department of education. I wonder whether discussions have been started. I'm a member from Quebec. Are any discussions underway with the Government of Quebec with a view to transferring the money you have at your disposal to it or to invest in its programs?

[English]

**Mr. David Hughes:** Yes.

The funding of Pathways to Education Canada, in our local program sites, are largely funded already through provincial support, through provincial sources, and through private sector funding. To date, there has been very little funded through the federal government. We are in discussions in Quebec with both private and provincial-level individuals, to see what the opportunities are for funding there, but the Pathways to Education program isn't strictly about education. It's about community engagement. It's about developing youth. It's about addressing community health. It's about helping with the transition into post-secondary education as well as preparing for workforce readiness, and so many other issues. So we believe that while there is largely a role for provinces to fund and assist with this work, as there is with the private sector, there is also a role for the federal government in this work.

[Translation]

**The Chair:** All right, thank you.

[English]

We'll go to Mr. Kramp, please.

**Mr. Daryl Kramp (Prince Edward—Hastings, CPC):** Thank you, Chair.

Welcome to our guests. I regret not having enough time to get around to all of you.

I have a bit of a personal passion. I will discuss this very briefly—related in with Mr. Cunningham—as a former president of a local Canadian Cancer Society branch, and obviously I'm home to a riding where there is a multitude of smoke shops, and not too far from Akwesasne too. This might be information for my colleague across the floor too.

You have made reference to some of the dramatic changes and benefits we've received lately from some of the changes that have been made at the border. For my colleagues' information, this issue has been studied quite explicitly in this last while by Canada Border Services and the public safety committee. I am certainly looking forward to their report. Hopefully it's going to deal with even further suggestions to improve this matter, but of course a number of witnesses have come before that.

My concern right now is I'm really pleased for you to recognize that it's a complex issue. There are sensitivities involved, and there is no single solution. It's going to take a multiple of solutions on this, but certainly the stamping is a step in the right direction. You've acknowledged that, and I'm really pleased to see that.

What I am concerned about as well is that everybody thinks that it's just the baggies that are the problem. You touched on that a little bit. There's a huge trade, and you've intimated some of the penalties that were in place. A lot of our small businesses have the problem of illegal branded packaged cigarettes that are a huge problem too. I'm wondering if you could just put it in scale for us.

• (1725)

**Mr. Rob Cunningham:** By its nature, the contraband problem is hard to measure and to quantify, but on the example you mentioned, there are examples of products that have federal tax paid but not provincial tax, and it's supposedly for sale on a first nations reserve, but then it gets diverted off reserve. It has the stamp on it, it has the health warning on it, and either people come on the reserve to buy it or it's diverted for distribution into formal channels off reserve. That is an example of the different categories of contraband.

We do need a comprehensive strategy, as you indicate.

**Mr. Daryl Kramp:** I have just one other suggestion. We're blessed in our area: we have the former provincial medical officer of health, now our local medical officer of health, Dr. Richard Schabas, who is doing a mass education program as well. So I'd suggest you can also help by leading rather than dictating—in other words, educate rather than legislate. So there's some movement forward.

Just in the brief amount of time I have, I'd like to slip over to Mr. Hughes for just a very quick question. I'd like to personalize your accomplishments. We're tremendously pleased and quite proud of your contribution to Canadian society for our youth: they are the future. Do you have any particular numbers regarding persons who have been assisted or are being assisted directly? Quantify those numbers for us so we can put a face and a name to the effects of your good work.

**The Chair:** We have about one minute, Mr. Hughes.

**Mr. David Hughes:** Right now we have 2,425 students participating in the Pathways to Education program. That doesn't include the number of alumni. We now have, just this past year, seen our first students graduate from the program. They had gone through the first registration in grade eight, started the program in grade nine, and have graduated and are in university. We have a number of students who are now overseas studying, or who are in post-graduate work here in Canada. Last year we also saw a number of graduates who went into community colleges and a number who have gone into the trades.

With regard to where we expect to be, we would like to see those numbers of students in the program grow closer to 7,500 to 10,000 students by 2015.

**Mr. Daryl Kramp:** When do you expect to get the greatest growth, from a partnership point of view?

**The Chair:** Very briefly, Mr. Hughes.

**Mr. David Hughes:** We anticipate seeing our next program sites in the communities of Kingston, Winnipeg, and Halifax next, and after that seeing them in the provinces of Alberta, B.C., and elsewhere.

Thank you.

**The Chair:** Thank you.

I want to thank all of our witnesses for being with us here. I apologize for the shortened time period.

[*Translation*]

Thank you for your presentations.

[*English*]

Ladies and gentlemen, we will see you on Tuesday. Thank you.

The meeting is adjourned.

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