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Thursday, March 3, 2011

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Chair

Mr. James Rajotte

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• (0845)

[English]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call this meeting to order. This is the 61st meeting of the Standing Committee on Finance. Our orders today are to continue this committee's study, pursuant to Standing Order 108(2), of tax evasion and offshore bank accounts.

I want to thank our three witnesses for being with us here this morning.

We have two by video conference.

[Translation]

I would like to begin by welcoming Mrs. Louise Champoux-Paillé from the Mouvement d'éducation et de défense des actionnaires.

[English]

In Toronto we have, as an individual, Mr. Walid Hejazi, an associate professor from the University of Toronto. Welcome.

And by video conference in Montreal we have Stephen Jarislowsky, chairman and director of Jarislowsky Fraser Limited.

Each of you will have about 10 minutes for an opening presentation.

On va commencer avec Mme Champoux-Paillé.

[Translation]

Mrs. Louise Champoux-Paillé (Member of the board of directors, Mouvement d'éducation et de défense des actionnaires): Thank you, Mr. Chairman, ladies and gentlemen members of the committee. Special greetings to the women who are with us today.

I am very pleased to be here this morning. To begin with, I'd like to thank the committee for its kind invitation to take part in this meeting of the standing committee. As you said, Mr. Chairman, my name is Louise Champoux-Paillé. I am an economist by training, I have an MBA and I am a certified corporate administrator.

For almost 30 years now, I have been working in the financial services community: banks, insurance companies and securities dealers. From 1998 to 2004, I was President of the Bureau des services financiers du Québec, a regulatory agency which monitors personal insurance, property and casual insurance, financial planning and pool investment fund representatives.

As an administrator, I sit on several boards of directors, including the MÉDAC board, where I am responsible for coordinating

shareholder proposal campaigns and carrying out studies relating to financial and trust ethics, compensation for senior executives of financial institutions, the representation of women on boards of directors and governance-related trends, both in Canada and the United States and in Europe.

Let me say just a few words about MÉDAC, the Mouvement d'éducation et de défense des actionnaires. Founded in 1995 by Yves Michaud, MÉDAC is a non-profit organization. It is chaired by Claude Béland, former Chairman of the Mouvement Desjardins, and is administered by an eight-member board of directors.

In practical terms, we carry out our mission of advocating for shareholders every year by submitting shareholder proposals to Canadian corporations, mainly dealing with sound governance. Since MÉDAC was formed, we have submitted more than 60 shareholder proposals to a dozen large corporations, making us the most active shareholder advocacy organization in Quebec and Canada. More than 50% of all the proposals submitted in Canada in the last 20 years were from MÉDAC.

Early last year, in January of 2010, we published a study on the effectiveness of shareholder proposals entitled *Les propositions d'actionnaires: pilier de saine gouvernance*. Our conclusion was that shareholder proposals contribute to better corporate governance, as evidenced by Board Games. Nowadays, the following features are among the best practices of large Canadian and Quebec financial institutions: a separation of powers between the chair of the board and the president and COO; disclosure of professional fees and independence of external auditors; and, something recently acquired, advisory voting on executive compensation.

Tax fairness for everyone has been one of our key lines of attack since 2002, with a particular focus on bank involvement in tax havens. We have prepared proposals on this theme on three occasions, in 2002, 2005 and 2011. We believe that our proposals are not unconnected to the fact that, since 2007, the National Bank has considerably reduced its involvement in tax havens. We are hoping the same action will be taken by the other banks, given that we have presented proposals in this area.

My opening comments will be in two parts. I will begin by presenting a brief overview of the current situation with respect to both individuals and businesses, and in the second part I will make some recommendations with a view to moving towards greater fairness with the next budget.

• (0850)

Let me begin, then, with an overview of the current situation.

Lord Dewar said or wrote that: “The only thing that hurts more than paying income tax is not having to pay an income tax.”

As their name suggests, tax havens are used to evade taxes or minimize them. In many places around the world, individuals and businesses can do what might be called tax minimization; however, for the vast majority of people, including most with decent incomes, the idea of tax minimization makes little sense: taxes are usually deducted from their pay, and their interaction with the tax authorities ends there.

For a lucky minority and most large corporations, however, tax minimization is a very important part of their business and personal activities.

American billionaire Leona Helmsley said during her tax evasion trial in 1989 that “Only the little people pay taxes.” At the very least, it seems that the most affluent pay the least in taxes. Far from being seen in the business world as reprehensible or morally unacceptable, growing your money under the shade of Caribbean palm trees, for example, seems to be the sensible choice of unethical business people.

Hillary Clinton herself said in a speech at the Brookings Institution, a Washington think tank, that “the rich are not paying their fair share in any nation that is facing the kind of employment issues the United States is, whether it's individual or corporate.”

To really give you an idea of the problem posed by this unacceptable and aggressive international tax planning, by both corporations and individuals, here are some figures and quotations.

The 1989 report by the Auditor General in Ottawa showed that tax evasion involving international transactions was expected to grow in the following years, spurred by the growing complexity of those transactions. Thus, in 2009, Canadian foreign direct investment was more than \$593 billion. Of this, \$78.4 billion, or 13%, was invested in Barbados, Bermuda and the Cayman Islands.

Furthermore, the current tax rules encourage tax evasion. Those rules allow tax-privileged entities in those countries that have signed a tax treaty with Canada to bring income into Canada tax-free.

The five Canadian banks with foreign subsidiaries benefit from a tax exemption in the order of \$2.5 billion, which amounts to 37% of the tax paid by these banks. Given that the average Canadian family paid \$31,714 in taxes in 2009, this tax exemption is equivalent to the taxes paid by 80,000 Canadian families.

According to the Conseil des Prélèvements obligatoires français—this is data for France—multinationals pay 2.3 times less tax than small- and medium-sized businesses. Only businesses with fewer than nine employees truly pay the 30% tax rate; for the very large corporations in France, the rate drops to 8%. In our opinion, that is unfair and a distortion of competition. Perhaps it would be helpful to make a similar comparison for Canada.

●(0855)

A report showed that, between 1998 and 2005, a quarter of the largest companies in the United States paid no tax at all. Add to that individual tax evasion worth \$250 billion in lost tax revenue worldwide every year, and the total is about \$1 trillion of illegal

money flows every year, according to the American think tank Global Financial Integrity. This situation could perhaps be a result of the rich having more influence over government policy than the poor or the middle class, the rich enjoying the opportunity to influence governments in order to secure certain tax privileges and benefits.

Indeed, Dominique de Villepin said this:

The problem with allowing and tolerating tax havens is obviously a political one. The world of finance is often closely connected to the world of politics. That is even more true in the current context, making this a very complicated issue for governments to tackle [...]

The Chair: Mrs. Champoux-Paillé, you have one minute left.

Mrs. Louise Champoux-Paillé: All right. I am going to move directly to our recommendations.

They are as follows: pressure the banks to close down their subsidiaries and branches in tax havens; impose stiffer penalties on those guilty of tax evasion and their advisors, which would provide a stronger deterrent than current, apparently ineffective, penalties; devote the necessary resources to determining the extent of tax evasion in Canada today, as the Canada Revenue Agency says that it does not have this information; repeal the rules allowing tax-privileged entities in countries that have signed tax agreements with Canada to return income to Canada duty-free; eliminate tax breaks given to executives for stock options; make the advisory vote on executive compensation mandatory.

I would just like to conclude by saying that the fight against tax havens and for tax fairness will be long, difficult and onerous. It must be part of a larger societal debate. Can we continue to tolerate two tax systems—one, soft and lax, for the haves, and another, rigorous and merciless, for the have-nots? This debate must not become lost in what is technically legal or dismissed as inexorable fate. The only fate is the one we accept.

Thank you.

●(0900)

[English]

The Chair: *Merci beaucoup pour votre présentation.*

We will now go to Toronto, Mr. Hejazi, for your presentation, please.

Dr. Walid Hejazi (Associate Professor, University of Toronto, As an Individual): Thank you.

Thank you for the opportunity to appear before this committee to give my thoughts on the role that offshore financial centres play in the Canadian economy.

I apologize for not being able to travel to Ottawa, but I have several other commitments here in Toronto today that I could not rearrange.

I am a professor at the Rotman School of Management in the University of Toronto. I have been a professor at the university since 1995. I have written extensively on Canada's competitiveness and the role of international trade, foreign direct investment, and, as well, the role of offshore financial centres.

These writings include academic articles and studies written for the Department of Foreign Affairs and Industry Canada. I have shown empirically that the use of these offshore financial centres by Canadian companies to access the global economy has in fact enhanced the competitiveness of those Canadian companies, and that's enhanced Canada's exports, employment, and investment levels.

The impact on tax revenues to the Canadian government as a result of the use of offshore financial centres by Canadian companies is by no means clear. It is incorrect to assume that tax revenues flowing to the Canadian economy are lower as a result of the use of offshore centres by Canadian companies.

There are many positive effects that result from the use of these offshore centres that enhance Canadian tax revenues. For example, when Canadian companies operate in the global economy, they are more competitive because of the lower tax they have to pay on repatriating those profits to Canada. When those profits return to Canada, they are ultimately paid out to shareholders of these widely held Canadian companies.

When shareholders receive a dividend payment, they in fact pay tax on that income. Similarly, when Canadian companies do very well in the global economy, that enhances access for Canadian exports. It increases head office functions within the Canadian economy and so on. So the net impact on tax revenue in Canada is by no means clear.

I can elaborate on this later if you would like, but I think it's incorrect to assume that the effect on tax revenues is negative, because that has not been shown to be the case. The abuse of these jurisdictions by individuals or organizations to hide income or assets from legitimate tax authority has resulted in a negative view of all such jurisdictions.

Let's be clear: the use of these jurisdictions by any organization to evade paying taxes that should be paid is illegal and such organizations should be prosecuted. But as in the case of purely domestic scenarios, taxpayers have the right to arrange business affairs in such a way as to minimize the tax burden by legal means. Tax minimization does not mean tax evasion.

There will also be those international investors who use creative ways to reduce taxes owed to legitimate tax authority, and in that sense, OFCs are the same or are no different from what we see in a purely domestic environment when people use these creative ways.

So there are benefits that do flow from the use of offshore financial centres by Canadian companies. The use of offshore centres for illegitimate purposes is minimized when there are agreements on transparency and the exchange of information between such jurisdictions and home economies. As is clear from the OECD's most recent list, many, but not all, jurisdictions have in fact moved in the direction of enhanced transparency and disclosure.

There are also benefits that flow from transparency and disclosure of information that I must highlight. The greater the transparency and disclosure of information between, for example, Canada and any particular offshore financial centre, the less likely bad things are going to happen and the more likely that the OFC is being used for a legitimate purpose that serves to enhance the competitiveness of the Canadian economy.

● (0905)

Canadians have a love-hate relationship with foreign investment, but there are a lot of benefits that come when we have foreign investment in the Canadian economy, including the impact on employment, on earnings, on productivity, on capital formation, and on the ability of Canadians to tap into global supply chains. But these benefits are up against the whole issue of hollowing out the Canadian economy. That's on the inward side.

What many Canadians are unaware of is that Canada now has more investment abroad than there is foreign investment in Canada. Canadian companies continue to expand globally at a faster rate than foreign companies are coming into Canada. Today we have about 20% to 25% more investment abroad than there is foreign investment in Canada.

The Government of Canada's website states that direct investment abroad by Canadian business is part of its strategic effort to increase market share and stay competitive in foreign markets. Companies are increasingly using outward investment to strengthen their operations, penetrate new markets, and acquire new technologies, resources, and skills. Over one-third of global trade is in manufacturing and is undertaken between related parties; hence the role of multinationals is even more important. In short, Canadian investment abroad has enhanced the competitiveness of the Canadian economy.

When you dig down into the data, you see about 20% of the investment abroad is actually going through offshore financial centres.

The objective of the research I have done is to go beyond the view that simply because there's a tax advantage associated with using these offshore centres, somehow they're bad.

What are the positive effects of using these offshore financial centres? Offshore financial centres represent conduits for Canadian businesses to gain access to the global economy. This point is important. It allows Canadian companies to go into less traditional, more risky and emerging markets, and to diversify away from the U. S. market. Given the current environment, that's incredibly important.

Canadian companies experience a reduction in the cost of capital when they use these offshore financial centres, and hence they're more competitive when they operate globally. This improvement in the competitiveness of Canadian multinationals generates many gains for the Canadian economy. Limiting the ability of Canadian companies to access the global economy using these offshore centres would significantly impede their competitiveness and would have, in my opinion and supported by my research, a negative impact on the Canadian economy.

One piece of research that I'm currently working on but which I have not yet finished, and I think the speculation is very important for this committee's deliberations, is the following. When Canadian companies use offshore financial centres for legitimate purposes to access the global economy, there are lots of gains that come back to the Canadian economy. When these offshore jurisdictions are used for illegitimate purposes, I don't support that. I think people who use offshore financial centres to evade taxes should be prosecuted.

It is my speculation that the more enhanced transparency and disclosure is between Canada and any particular jurisdiction, the more likely the activities taking place in those jurisdictions will in fact be legitimate and therefore will generate significant benefits to the Canadian economy.

To summarize, there are many benefits that flow to the Canadian economy when our companies use offshore financial centres. Any moves to enhance transparency and exchange of information are likely to be positive and good for Canada, as long as they do not limit the ability of Canadian companies to use these jurisdictions for the legitimate purpose of accessing the global economy with the reduced cost of capital and hence be competitive relative to corporations from other jurisdictions that have access to similar financing structures.

Thank you very much.

● (0910)

The Chair: Thank you very much for your presentation.

We will now go to Montreal, and we'll hear from Mr. Jarislowsky, please.

Mr. Stephen Jarislowsky (Chairman and Director, Jarislowsky Fraser Limited): I'm very proud to be able to talk to you about this. I have not prepared a formal text, because I am not an expert on the topic, really. Basically, what I can talk to you about is on the basis of my experience as an investment counsellor—we have clients, obviously, who are well-to-do—and also as the result of my having been a corporate director of some 20 corporations, most of which had operations abroad.

I would say, first of all, that there are legitimate reasons, which were just brought out by the last speaker, with which I totally agree. A company such as SNC-Lavalin, on whose board I sat for 20 years, would not have had the relative growth it has had unless these possibilities existed outside, possibilities that are basically known to the Canadian government.

It seems to me that to the extent that others are using these same types of facilities.... We are operating out of a high-cost economy today worldwide, compared with China, India, and many other countries, including the United States, in which we have had a re-

evaluation of our dollar from 67¢ to \$1.03. It is obvious that unless we want to send all our jobs abroad, our companies have to take advantage of these types of competitive advantages, which are being used by any international company in the world. As far as I'm concerned, that chapter should be absolutely self-evident.

Cases of individuals hiding their money, formerly in Switzerland, now less so, but also still in other offshore situations, should, I believe, be prosecuted to the utmost, and I believe that one should not go from one amnesty to another in this respect; one should go back and tax these types of totally illegitimate gains right from the beginning.

Having said that, I'd also like to make another statement. That is that in the Bible, in the Lord's Prayer, we say, "Do not lead me into temptation, but deliver me from evil." The temptation for people to take their money outside of this country, either legitimately or by becoming non-resident citizens, and paying their capital gains tax here when they get older—especially for wealthier people—is pretty obvious to me.

I live in Quebec. I pay 50% tax on my revenue. Unfortunately, I'm very wealthy, but I have never chosen to have any tax shelters for myself, nor do I have any money abroad, other than investments in which the facilities are abroad, but for which my certificates are at the Bank of Nova Scotia or in my safety deposit box here.

To the extent that Canadian taxes are extremely high, especially in provinces such as Quebec, where I pay on average 50% straight tax on my income.... Even if I incorporate, which I have to do in order to avoid U.S. estate tax these days, that tax basically in the long run comes to the same amount. In this province, 42% of the population pays no income tax whatsoever. I don't think that is correct, and I do believe that the temptation for people, if something isn't correct, leads to more attempts to try to get out of the taxation.

I would go further and say that at the present time, if you have investments in Canada, except for the appreciation currently of the stock market, which is engineered largely by the Federal Reserve Bank in New York, it is very difficult to have a good savings pattern for yourself, if you are not very rich, that is going to lead to the equivalent of a pension.

We're competing in Quebec with the 24% of the population that works for government and gets \$100 a week more than the other 75%, on average—and that includes me—and at that gets indexed pensions, which the rest of us don't, except for the Canada and Quebec pension funds.

● (0915)

Today, in effect, if you leave your money in the bank, you have a guaranteed loss of about 2% at least from inflation, and by and large you get no money from the bank in interest. On the other hand, you get an enormous number of service charges, which have augmented over the last 50 years that I have been in business from nil to enormous amounts, despite the fact that computerization makes the process far cheaper today than it was at that time.

I would say that if you have a bond that pays 4.5%, between inflation and taxation you end up with nothing. If you have a mutual fund that yields 8%, which is way beyond the average over a long period of time of mutual funds, in effect, after a 3% management fee, taxes, and inflation at 2%, you end up with one-half of 1%.

Capital gains are taxed in Canada, and the inflation effect on the capital gains is also taxed at the half rate, so if you bought something 40 years ago, as I did, and you sell it today, you're paying on that entire inflation, which is probably about 95% or more, in capital gains tax.

So there is an enormous temptation for people who want to have some money left to do something that is probably illegitimate or that is not acceptable. I don't condone it; I've never advised any of our clients to do it; I believe that it's not a good idea to have to worry every day whether there's a letter in your mail saying, "Please appear before the revenue department and explain what you're doing abroad." But I do believe that this type of taxation, which makes it quasi-impossible to have a retirement income other than what you put in—because the revenue really doesn't exist—is definitely an incentive for many people to be tempted to take a first step into something that is illegitimate. It's the old saying, which I quoted, "Lead me not into temptation, but deliver me from evil."

I believe there are many other factors, which deal with the cost and expense that people incur, especially today in an environment in which high unemployment does not permit people to have very much left in savings. We are also a nation that has way overspent, in which our percentage of debt to revenue of individuals is now higher than in the United States. Obviously, this is only sustainable with very low interest rates. The moment these interest rates go up, we will definitely have a problem. With the rise in oil prices and other prices of commodities and food, again as you have less left, there is an incentive to do something that you shouldn't be doing.

My basic conclusion from what I've said is that yes, there should be strict enforcement. Just as I believe that there should be extremely strict enforcement—and the Coalition for Good Governance, which Claude Lamoureux and I started, is totally in favour of strict enforcement in the investment area—there should be strict enforcement for people who cheat or take money out illegally. But on the other hand, I think Parliament must also realize that in Canada taxation has become extremely high.

I want to throw another item into this, with respect to tax evasion; it concerns, certainly in my province, the question of construction and doing things for your house and your garden. In the area of my country place, I cannot get somebody to do something for legitimate reasons. They will only take my money and paint my house if I pay in cash. That is the result of a stranglehold by unions in Canada, especially in Quebec, of this whole area. I can pay \$20 in cash, whereas if I use union labour, I might have to pay \$60 per hour.

● (0920)

That is something that is a major gap in Canada from the point of view of taxation. That's all I have to say.

The Chair: Thank you for your presentation.

We will now go to questions from members. I will ask members to direct their questions, because we do have two witnesses by video conference. We'll start with Mr. Szabo.

Mr. Paul Szabo (Mississauga South, Lib.): Thank you, and my thanks to the witnesses.

I will try to synthesize what the three people have said. Madam Champoux basically says banks have to get out of the offshore business. That's the big point. Mr. Hejazi, transparency and disclosure is going to be the big recommendation from you. Mr. Jarislawsky is saying we pay too much tax in Canada and we have to get rid of the temptation of looking for offshore opportunities. There's not much room to reconcile all of those three opinions, so I'm going to ask each of you to rebut or to make a point.

I'll start with Madam Champoux. From what you've heard from the others, is there any succinct rebuttal that you would make to either of the other two witnesses?

[Translation]

Mrs. Louise Champoux-Paillé: I certainly heard the arguments made by the other two witnesses, but I would like to give you a few statistics that do not jibe with what I heard.

From 1961 to 2009, the individual tax burden in Canada increased from 33% to 42%. I just want to say—

Mr. Paul Szabo: Yes, but please be brief.

Mrs. Louise Champoux-Paillé: All right. We are in the process of debating tax evasion and tax avoidance, but we should actually be debating principles of fairness.

[English]

Mr. Paul Szabo: Okay. I have to go to Mr. Hejazi.

Do you have an observation to frame the discussion we're going to have today?

Dr. Walid Hejazi: Shall I respond?

Mr. Paul Szabo: Yes, I am asking each of the three witnesses to give us a quick rebuttal.

Dr. Walid Hejazi: I wasn't sure if the first witness had finished.

Mr. Paul Szabo: Well, she hadn't, but she wasn't answering the question.

Dr. Walid Hejazi: I will respond. I think it would be unfair to limit the ability of Canadian companies to access the global economy by using these offshore centres. The idea that these corporations don't pay tax misses the point. The empirical evidence shows that once these corporations generate higher profits in the global economy, this money is paid out to shareholders in Canada, who then pay tax on that income. In addition, head office functions are enhanced in Canada, which generates additional tax revenue. I think it would be unfair to Canadians because I believe that limiting the ability of Canadian companies to use—

Mr. Paul Szabo: Okay. This is your presentation again.

Dr. Walid Hejazi: No. I'm responding. May I say one more thing?

We are in a new economy, so when you look at the share of tax revenue paid by individuals versus corporations, this is completely necessary. Corporations and capital are mobile, and if you're not competitive in this new global economy, corporations will leave.

Thank you.

• (0925)

Mr. Paul Szabo: Mr. Jarislowsky, do you have something new to offer?

Mr. Stephen Jarislowsky: I think there is something new to offer. Last week I was in Switzerland, and I stayed at the British embassy for one night because the ambassador is a friend of mine. The next day the ambassador had his minister coming over from Britain and they were going to discuss with the Swiss government how to stop the leak of taxes between Britain and Switzerland.

I believe this is one of the ways that has to be used to influence these tax shelter countries. Today I think that is more and more possible with computerization. In the Swiss case, these people are willing to negotiate. I think that is the way to go, while trying to close the loopholes for individuals.

As far as the corporations are concerned, they must compete, and we cut our own nose to spite our face if we don't allow them to compete abroad.

Mr. Paul Szabo: Thank you.

Of the two last questions, I'm going to give one to Mr. Hejazi on transparency and disclosure. Is there anything specific in terms of how to enforce? The experience has not been good on how to enforce or to get the agreements abroad for the exchange of information.

Mr. Jarislowsky, you talked about Canadians not paying enough taxes. What do you say about corporations?

We'll start with Mr. Hejazi, and then you can finish, Mr. Jarislowsky.

Dr. Walid Hejazi: In terms of specific recommendations, I can't speak to that, but what I can say is that people I've talked to in offshore jurisdictions are concerned about the Canadian government going on a fishing expedition, trying to get access to information that it may not have a right to see. If there's a non-resident or if someone is doing something in the global economy and is not subject to Canadian tax, the whole issue then becomes why the Canadian government has a right to see that. But I will say that I'm on the

record of supporting that the Canadian government should be able to see any revenue or assets that are subject to Canadian tax.

How do you separate those two? I don't know.

Mr. Paul Szabo: Okay.

And finally, Mr. Jarislowsky, what do you say on corporate taxation?

Mr. Stephen Jarislowsky: I think that is totally in the realm of politics. The other day I met the Premier of Quebec at the club and I asked him "Jean, when are you going to stop buying votes?" And he said in very honest answer, "When I'm no longer in politics."

I sincerely believe that 42% of Quebecers don't pay any income tax for political reasons. I sincerely believe that the structure of the education amount of money that is required per student is totally politically based, etc. And I think what the people in Parliament have to do is to differentiate some of these items from politics, these political favouritisms.

I can also give you another one—the amalgamation of the islands of Montreal by the Quebec government. Thank God I'm in the Westmount room today and we escaped. I was on that committee and we were told that was going to bring lower taxes. What has it done? It has done the opposite. The costs have gone up by 30%. Again, it was an attempt to buy the votes of the unions, and that was all there was to it.

The Chair: Thank you.

Mr. Stephen Jarislowsky: I think the politicians have to be very careful not to mix politics with what is correct, fair, honest, and equitable.

The Chair: Thank you.

Thank you, Mr. Szabo.

We'll now go *ensuite à Monsieur Paillé, s'il vous plaît, pour sept minutes.*

[Translation]

Mr. Daniel Paillé (Hochelaga, BQ): Thank you, Mr. Chairman. I would just like to begin by stating that I am neither a direct or indirect relation of Mrs. Champoux-Paillé, even if her arguments are worthy of her second family name. I also convey my greetings to Mr. Jarislowsky, who described the situation in Quebec.

Mrs. Champoux-Paillé was saying that there is no easy way out, except the one we accept, and since you have spent pretty much your whole life in Quebec, you are probably in a place where you have been delivered from evil. The fact that there has been unionization or that the government is using its political weight is a whole other debate. Things really are not so bad on the Island of Montreal.

To begin with, I would like to try to summarize two points. All three of you have shown the difference between attempting to avoid paying too much tax and tax evasion. We may all avoid a brush with police, but escaping from prison is another matter. The common thread between your three positions is that you believe that any form of tax evasion is illegal and that those who ultimately do not pay their fair share, and try by every possible means not to pay taxes, should be prosecuted. All three of you made particular mention of the connection with individuals.

I understand there may be ways of avoiding paying tax if you're the chief financial officer of a company. Everyone knows that the CFO of a private company focuses, not on maximizing profits, but on minimizing taxes. It's not the same for the CFO of a publicly owned corporation, which has to maximize earnings per share.

You say we should avoid a situation where people are paying as little tax as possible. We are part of a globally competitive system where the ability to secure capital is very important. So, there have to be rules.

My question is about individuals and businesses. Do you think the Canada Revenue Agency has the necessary resources to combat tax evasion? Is criminal prosecution not enough?

Do you not think the Canada Revenue Agency is amateurish in its approach to people who are trying to avoid paying tax, in the sense that it wipes the slate clean and forgives people who try to do that? What do you think Mrs. Champoux-Paillé?

● (0930)

Mrs. Louise Champoux-Paillé: I have followed all the testimony before this committee. I discovered that Canada Revenue Agency officials themselves stated that they do not have all the necessary resources. When I did some research to try and find information in support of that, I often had to refer to other countries in order to be able to raise these questions with you.

First of all, I do not think the Agency has access to the necessary information.

Second, thought must be given to ways of toughening up the regulations so that people who engage in tax evasion receive the appropriate punishment.

Mr. Daniel Paillé: Mr. Jarislowsky, I have a question and I'd like to take advantage of your experience. You said you are not an expert. I find your humility touching.

When people fill out forms at Jarislowsky Fraser Limited to open up an account, they have to provide a great deal of information. As a way of combatting tax evasion, does a firm such as your own do anything more than just have people fill out the traditional forms to open an account that are requested by the regulatory authorities? Do you try to find out whether your clients are evading tax? Please enlighten me, Mr. Jarislowsky.

[English]

Mr. Stephen Jarislowsky: If I ask "Are you evading taxes?", some might say "I have an account abroad." I will say, "I will not manage that, and I suggest to you that you give it up because if you get caught, it isn't worth your while." I cannot very well say to him that I'm going to report it to the tax authorities. We have very few of

those people because we don't like those people. We don't deal with those people.

We do have accounts of Canadians—and I would like to underline this—who have given up their Canadian residency and live abroad now, having paid their capital gains taxes, and who would be here, probably, still paying Canadian taxes except for the fact that they find that the burden of taxation is high and the winters are very long.

● (0935)

[Translation]

Mr. Daniel Paillé: Mr. Hejazi, you call tax havens "offshore financial centres". Don't you think you should distinguish between a tax haven, where people go to benefit from double interest deductions and a very low tax rate on dividends, and an international financial centre, that people use because of capital cost competition?

[English]

Dr. Walid Hejazi: The reason I chose to use the term "offshore financial centres" is that I believe that in many of the public discussions we have, all of the activities that take place in offshore financial centres are painted with the same brush: tax evasion. If a large corporation operating in the global economy uses these offshore financial centres to minimize their taxes, it's not illegitimate if they're doing it within the law. The reason I use the term "offshore financial centres" is that I'm trying to educate the public and educate the people who read my research that there is a distinction between using these jurisdictions for legitimate and illegitimate purposes. If you look at the big banks, I would find it very hard to believe that any of them would violate Canada's tax laws. I just can't accept that.

Those organizations are using these structures within a legal context. I use the term "offshore financial centres" because I want people to start thinking about them for their legitimate purposes and not only for their illegitimate purposes.

I hope I answered your question.

The Chair: Thank you.

Merci, Monsieur Paillé.

We'll go to Ms. McLeod, please.

Mrs. Cathy McLeod (Kamloops—Thompson—Cariboo, CPC): Thank you, Mr. Chair.

I'd like to thank the witnesses. Certainly we're seeing a real diversity of viewpoints today.

First of all, in response to Mr. Paillé's comments with regard to the resources needed to go after the offshore accounts, I find it somewhat ironic that when we do estimates and look at the small marginal increases for supporting increased investigations and increased manpower, we are criticized for that. Then at the next meeting, we don't have enough resources.

Perhaps when we're looking at our budget for Canada Revenue Agency, we need to also look at what our outcomes are. When we bring in significant additional money by putting in some modest resources, perhaps we shouldn't be looking at them in isolation.

In terms of what Canada has been doing since 2006, we've increased the number of workers by 44% in this area. And an additional \$30 million has been allocated to going after this issue, with some success. We've had a lot of money come back to Canada. I'm not sure that people are fully aware of the actions we've taken in moving this forward.

I'd like to make a few comments. If we look at the issue of evasion, it sounds as if we have everyone agreeing on the evasion issue. We and many other jurisdictions believe that the first step should be a voluntary disclosure program. It's been somewhat successful. People pay their penalties.

I'd like a comment from each of the witnesses. It sounded as if Mr. Jarislowsky thought we should be prosecuting to the full extent of the law.

Could you each give me a thought with regard to voluntary disclosure versus going in with the big, full force of the law and all the costs associated with that?

Perhaps I can start with Mr. Jarislowsky.

Mr. Stephen Jarislowsky: To answer your question, I do believe the revenue service, both in Quebec and in Canada, is sufficiently fully staffed. Where I don't believe we're getting full value is that I do not believe these people are trained especially in these areas.

Every year both governments look at my tax return and ask for additional money. It's never that they've found something that gives me money back. Each time I have spent an enormous amount of time justifying that what I have declared was right. In one case, they said I had received paintings from my holding company as remuneration. It took me a year and a half in the courts to negate this and get a fully clean slate again.

I was asked by the revenue department to give them a lecture some years ago on what should be done in order to train people better in the revenue department and not just to hire accountants, people off the street, and give them a whole bunch of dossiers to get money from. In other words, if you want to pursue this area, you have to have extremely well-trained people, who are not just going in there to get money, but to get the facts that could lead to prosecution. That is absolutely essential.

I don't think there is a lack of people in the revenue department. I think there are probably too many, but not well trained.

• (0940)

Mrs. Cathy McLeod: Perhaps to narrow in on the specific issue, it's people who are deemed to be evading taxes in tax havens and the use of voluntary disclosure programs as sort of a first step. Maybe we could turn to Mr. Hejazi.

Mr. Stephen Jarislowsky: Just as a personal statement, I believe that an amnesty would be a good way to go. This is a personal view. If you're going to punish to the greatest extent of the law, then given that someone has broken the law, what's the point of the person voluntarily disclosing it if the person knows he or she is going to be

found out? The person has broken the law, so the person may as well continue to try to evade, and as you increase your enforcement, the person is just going to dig in deeper or go to another jurisdiction or something.

In my personal view, I actually believe that some kind of amnesty would be a good way to start to bring people back into the fold and not make it so onerous on them, that given that they have broken the law, they can never recover.

If I may quickly add one more comment about Revenue Canada, I don't know the distribution of careers within the organization, but my guess would be that there are probably too many accountants and lawyers going after enforcement and not enough economists trying to create incentives so that, as my colleague in Montreal put it, people are not tempted to do this in the first place.

Mrs. Cathy McLeod: I don't know if I have time to keep going.

The Chair: You have one minute.

Mrs. Cathy McLeod: Rather than going to the third answer on that particular one, Mr. Hejazi, you had indicated you would elaborate further. I was quite surprised in terms of your statistics regarding Canada doing business abroad versus people abroad doing business in Canada. Certainly, the corporate tax structure has changed quite dramatically over time. That must be trending things in a bit of a different way, although I suspect there are always going to be those global opportunities.

Dr. Walid Hejazi: In Canada, corporate taxes are certainly moving in the right direction. It's really important to note that because corporations and capital are mobile in this new global economy, we must be competitive, and the government has moved in the right direction on the corporate side. I would add that with a fair playing field, with taxes sort of equal across the major economies of the world, Canadian companies will continue to have to operate in foreign markets to get access. Even if corporate taxes were equal, you would have to have a presence in foreign markets in order to do business there. That's why I compliment Canadian companies for doing so well in the global economy.

The Chair: Thank you.

We'll go to Mr. Rafferty for a seven-minute round.

Mr. John Rafferty (Thunder Bay—Rainy River, NDP): Thank you very much, Chair. I'm happy to be here today.

Thank you all three for being with us.

I'd like to begin with a question to Mr. Hejazi. We're talking about businesses here, but it's my impression, speaking to a lot of Canadians, that when we talk about tax havens they almost exclusively think of individuals as opposed to companies. They don't think of companies in terms of tax havens as being top-of-mind for themselves, but they see the unfairness of individuals benefiting on that individual level.

So I wonder, just for clarification, Mr. Hejazi, if there's a large corporation and there's a chairman, a chairperson, or some other executives who derive income from their overseas operations but are resident in Canada, do they pay taxes on that total amount of income they are getting?

• (0945)

Dr. Walid Hejazi: That should be a question directed to someone at Revenue Canada. But my understanding is, as a Canadian resident, any income I generate, whether it's in Canada or globally, as an individual I pay tax on that income. If I do not, my understanding is I'm evading taxes. Is that the answer to your question?

Mr. John Rafferty: Yes, thank you very much.

Canadians are also under the impression, I think, that it's very prevalent in Canada, the use of tax havens by the wealthiest individuals in Canada. I wonder if, Ms. Champoux-Paillé, you'd have a comment on how prevalent it is, in fact.

[*Translation*]

Mrs. Louise Champoux-Paillé: That is in fact a perception. What is important to us is that the entire system be re-thought so that everyone is paying the appropriate amount of tax to the government.

[*English*]

Mr. John Rafferty: Thank you.

Mr. Jarislowsky, a technical question for you. You've been very candid in your answers, and I certainly appreciate that, and I know that we all have appreciated that. I'll be candid, too, quite frankly and say that I can barely manage my own finances—

Voices: Oh, oh!

Mr. John Rafferty: —but I do have a question for you. That is, suppose I woke up in the morning and under my bed I found a couple of million dollars in a suitcase.

An hon. member: You'd be a Liberal.

Voices: Oh, oh!

The Chair: Order, order.

Mr. John Rafferty: No, it's a serious question now. How would I go about not paying any taxes on that money? I just don't know how it's done. When I think of individuals and I think of tax havens, I just simply don't understand how people do it.

Mr. Stephen Jarislowsky: It would be a question of whether it was capital that you had forgotten due to a situation of Alzheimer's or something else, and not necessarily to be joking, or whether it in fact was revenue that you should declare. If it was revenue that you should declare, well, then you should declare it.

Mr. John Rafferty: But if I didn't want to declare it, what would I do?

A voice: We'd call you Mulroney.

Mr. John Rafferty: Ignore the other comments here, Mr. Jarislowsky.

Mr. Stephen Jarislowsky: You would obviously just keep the money and say nothing and hope you get away with it.

Mr. John Rafferty: Maybe anyone can jump in. How would I invest that in a tax haven?

Yes, Mr. Hejazi.

Dr. Walid Hejazi: I don't have the study with me, but I think what you're alluding to—I think, and correct me if I'm wrong—is if I were to walk into one of the big banks and deposit, the RCMP would probably be notified. But I think what you're maybe trying to get at is, would I put it in my briefcase and fly to a Caribbean island to try to open an account and hide it there? Maybe that's what you're going towards.

Mr. John Rafferty: And how would that—

Dr. Walid Hejazi: There's a study that came out, which I can share with the committee. I don't have it with me. It was a professor in Australia who actually went to 10 OECD—developed—countries, including the United States and Canada, to several offshore jurisdictions, and as a non-citizen tried to open accounts. He found that the most difficult jurisdictions to open accounts in were in the Caribbean, in those tax havens, as you put it, those offshore financial centres. He found the easiest place to open an account was in the United States. So the idea that I could simply get on a plane and fly to an island in the Caribbean and open an account with this suitcase full of money...this is not something that I'm aware is easily done. It probably can be done, but it's not as easy as you might think, with people just getting on a plane and walking into a local bank and opening it. They will not open accounts for you just like that.

Mr. John Rafferty: Thank you for that comment.

I think I have about a minute left.

Mr. Jarislowsky.

Mr. Stephen Jarislowsky: In our firm, to the extent that we get money of this type, we have to report it. I think that is totally proper. Therefore, the way we are regulated in the investment management business, we cannot just take that money.

• (0950)

The Chair: You have one minute.

Mr. John Rafferty: Go ahead to the next questioner.

The Chair: Thank you, Mr. Rafferty.

We'll go to Mr. Brison for a five-minute round.

Hon. Scott Brison (Kings—Hants, Lib.): Thank you very much. This has probably been one of our most productive panels. All three of you have been very direct and helpful in terms of us understanding this issue.

Mr. Jarislowsky, what is the impact of capital gains tax in Canada leading people to temptation, as it were, in terms of potentially moving money to other jurisdictions? I'm not inferring illegal activity; I'm saying legitimate and legal tax avoidance measures.

I'd appreciate your view on capital gains tax and what role it may play.

Mr. Stephen Jarislowsky: I think capital gains tax obviously plays a role in how people invest. On the other hand, to the extent that you deal with stocks or other assets that pay income, that income is declared every year on your return and is taxed to the extent that it's taxable. A problem that arises very often is if you had held a security for about 50 years and your records don't exist anymore, you will probably have to go to the V-day date in 1972 to fix your capital gains tax. Very often, unless you have an accountant who keeps track of each one of your assets in stocks and bonds and the original cost in Canadian dollars, sometimes the records are just not there.

By and large, in Canada, I believe most people in these types of assets pay a capital gains tax. To what extent they pay it when they sell a cottage where they haven't kept all the repair bills, etc., that's a different matter and it's much more complicated.

As an aside, I think you should also address at some point the RRSP, RRIF situation, where, in effect, if I invest in stocks, when I take the money out I don't pay any capital gains tax, but I pay 100% tax instead of the 50%. This makes it pretty prohibitive to invest in stocks in that kind of investment.

Hon. Scott Brison: This is not on the offshore tax haven issue directly, but in your experience, what effect do capital gains taxes have on people's investment decisions? In other words, are people making investment decisions in many cases based on tax reasons as opposed to rational investment decisions?

Mr. Stephen Jarislowsky: As I tried to tell you before, if I get 4.5% in interest per year, I get absolutely no return after tax and after inflation. By and large, I believe most people are forced to go for investing on the basis of trying to obtain capital gains to get a real return on an investment.

Hon. Scott Brison: Doesn't the capital gains tax tend to lock up capital and prevent people from selling a stock they've held on to for a long time and then investing in other vehicles?

Mr. Stephen Jarislowsky: It depends on the stock. If you buy Bell Telephone or the Royal Bank, you can keep it for a long, long time. If you buy a mining venture and don't get out in time, you lose most of your money again. There are cyclical stocks. There are all kinds of stocks.

The same applies with respect to pricing. If real estate gets vastly overpriced in Canada, which in many jurisdictions, especially in the west, it is, I think at that time you might want to take a capital gain, because sooner or later it goes back to the bench line.

The Chair: Mr. Brison, you have 30 seconds. Mr. Hejazi wanted to comment.

● (0955)

Hon. Scott Brison: Yes, and I would welcome that.

Dr. Walid Hejazi: We know there's a significant prosperity gap between Canada and the U.S. There are lots of reasons for that, one of which has to do with innovation and R and D. Even though the Canadian government is one of the most generous in the developed world when it comes to subsidizing R and D, Canadians don't do as much as we would like. This is directly relevant here.

There are two points I want to make. The C.D. Howe Institute has a paper that looks at the tax effects, the implications, of doing innovation. At the Rotman School, we have the best MBA students in Canada. They come up with these great ideas and they want to do this new venture or that innovation. But because the capital gains tax is where it's at, they may be discouraged from doing this innovation within Canada. They may be encouraged to do other things, because the innovation and the profits and the capital gains that come with it are taxed at such a high rate.

Secondly—

The Chair: Mr. Hejazi, we're over time here.

Dr. Walid Hejazi: I'm sorry.

We've had many speakers come to the Rotman School and talk about how anyone who wants to have a new venture that would likely experience a significant capital gain should move to an offshore jurisdiction and set up a structure there. Do the activity in Canada, but have all of the revenue, capital gains, booked in the offshore jurisdiction to escape Canadian taxes. This is the temptation issue that I think is very important.

The Chair: Monsieur Carrier.

[Translation]

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

Ladies and gentlemen, welcome to our committee. Thank you for being here this morning and sharing your expertise on tax evasion, a subject we consider to be very important.

Mrs. Champoux-Paillé, I would like to begin with you. You have provided figures that are quite impressive. You estimate that the five Canadian banks with foreign subsidiaries are benefitting from tax exemptions in the order of \$2.5 billion as a result of their investments in tax havens. What role would you say the OECD plays with respect to these investments?

The official explanation provided by advocates of tax havens is that they are essential for business competitiveness and that if we disallow this practice, it will place our own companies at a disadvantage. However, the OECD did a study on countries considered to be tax havens and established a grey list of countries with which there is very little information exchanged, something that leads not only to tax avoidance, but actually to tax evasion.

What is your view with respect to the countries that are on the grey list? Do you not think a responsible government that treats taxpayers fairly should at least impose major restrictions to prevent companies from investing in the countries identified by the OECD?

Mrs. Louise Champoux-Paillé: I have seen the OECD list that relates to information disclosure. However, there are other factors to be considered in determining which countries are tax havens, in particular a tax rate that is much lower in relative terms.

If you look carefully, you will see that other organizations have also ranked tax havens, and the OECD may be the organization that is least demanding in that regard. In my study, I give the names of other organizations that also identify tax havens, and the OECD is one of the least demanding.

Mr. Robert Carrier: I'd like to put the same question to Mr. Jarislowsky.

I'm sure you have some expertise in this area since you must be asked about this by many of your clients, who may be tempted to invest in tax havens.

In terms of the grey lists of countries where it is possible to hide income, do you think that our government should be coming down harder on these investors?

[English]

Mr. Stephen Jarislowsky: What I said before is that I do not believe in tax evasion. I will not deal with any client who comes to me with a proposition like that, and I do not want to know anything about any money in that category.

I feel that these people should be prosecuted and that the tax department should make sure that any Canadian resident or citizen who has not gone abroad and given up their residency requirements should be in that position.

• (1000)

[Translation]

Mr. Robert Carrier: I would also like to hear—

[English]

Mr. Stephen Jarislowsky: We strictly discourage our clients from going to tax havens, because we have seen lives wrecked many times. We have seen people who have done this, on legal advice from supposedly good lawyers, and been caught. Actually two of

them committed suicide. I do not believe that price justifies making a little more money.

[Translation]

Mr. Robert Carrier: Thank you.

Mr. Hejazi, do you have an opinion on that?

[English]

The Chair: Just a brief 30-second response—

Dr. Walid Hejazi: If you have enough money that you want to set up a structure to avoid paying income taxes, I think you have enough money. It's just not worth it.

Any initiative by the Canadian government or the OECD to crack down on that kind of activity should be done in a way to minimize the impact on the legitimate use of these offshore centres.

Thank you.

The Chair: *Merci*, Monsieur Carrier.

Ms. Glover, please.

[Translation]

Mrs. Shelly Glover (Saint Boniface, CPC): Thank you, Mr. Chairman, and allow me to thank our witnesses. My first question is for Mrs. Champoux-Paillé.

I read your recommendations last night and was particularly interested in the third one. I also heard our other two witnesses today say that they fully agree with your proposals to impose stiffer penalties and go after people who engage in tax evasion. Your recommendation also includes advisors. Yet we heard from a number of advisors here in the committee who told us the exact opposite—that we should really consider imposing fewer penalties, which would encourage people who evade taxes to voluntarily submit their financial statements, and so on. I was very surprised by that.

Mrs. Champoux-Paillé, what do you think of those advisors who told us here that cutting back on the penalties would mean that fewer people actually commit these kinds of crimes?

Mrs. Louise Champoux-Paillé: We think it is absolutely critical that the penalties be stiffer. That is the only way to put an end to the practices of these advisors who encourage their clients not to pay the income tax they owe.

So, I would just like to repeat our recommendation in that regard.

Mrs. Shelly Glover: Thank you very much.

The other witnesses who are with us today seem to share that opinion. One of your proposals, your recommendation no. 1, begins as follows: "Pressure the banks to close down their subsidiaries and branches in tax havens [...]"

[English]

I'll switch to English for the other two witnesses.

Given the recommendation that Madame Champoux-Paillé has made, I would like to hear from Mr. Hejazi. What do you think would happen to our Canadian companies if we banned our banks from practising in tax-haven-identified areas? If we actually changed the tax rules in Canada to ban any foreign tax practices, what would happen to Canadian companies that operate globally?

Dr. Walid Hejazi: Limiting the ability of Canadian companies to use these offshore jurisdictions for legitimate purposes would negatively impact the competitiveness of the Canadian economy, and the banks in particular. One thing I should note is that about 40% of Canadian investment abroad is actually in finance, and the banks are sort of leading in that area. Many of the Canadian companies operating in the global economy work with the Canadian banks. They need to be together, because the Canadian banks have worked with these companies for many years.

Limiting or preventing the ability of Canadian banks to operate in those jurisdictions would have a dramatic, negative impact on the Canadian economy. I also believe that many other companies—not the banks, obviously—would cease to be Canadian. They would decide to move their head offices to other jurisdictions that allowed them to use these international financial structures.

The point has to be stressed that simply because there are tax advantages associated with using offshore jurisdictions, it does not mean it's negative for the Canadian economy. There are many—

• (1005)

Mrs. Shelly Glover: I appreciate that, Mr. Hejazi.

If I could, I will move on to Mr. Jarislowsky because I only have a bit of time.

Mr. Jarislowsky, could you answer the same question?

Mr. Stephen Jarislowsky: I totally agree; I don't believe you want to do that. What you want to make sure is that the Canadian banks are operating in a legitimate manner and that they do not do this to hide criminal activity.

To come back on the previous item, I do believe very strongly that many tax advisers have made a lot of money advising on things that basically were not legal. Then they got big fees from people, after it was discovered they weren't legal, to undo them. I do firmly believe that people have to be legal in that area.

Mrs. Shelly Glover: Mr. Jarislowsky, you are a man after my own heart. You're a very frank man, and I very much appreciate that.

I tend to agree with you, which is why when the advisors come here and make these comments about reducing penalties and reducing the enforcement, it gets my goat—it really does.

The Chair: Thank you, Ms. Glover.

We'll go now to Mr. Pacetti, please.

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): Thank you, Mr. Chair.

Thank you to the witnesses for coming forward today.

I think we're getting to some of the answers, but the problem is we're mixing a whole bunch of things together. I think there are two aspects. There are mainly individuals who are using offshore

accounts to evade taxes and then we have companies that are not necessarily using them for evading taxes. I want to make sure I understand that correctly.

When companies are saying they use it for legitimate purposes—and this question is directly to you, Mr. Hejazi—is there a legitimate need to have offshore accounts? We can use the banks as an example. If the Canadian banks are operating in the U.S. or in China, does the money have to necessarily be funnelled through Barbados?

Dr. Walid Hejazi: Yes. The reason this is important is that when you have a Canadian company operating in a country like China, you have banks and other companies from other OECD-developed countries also operating in China. These other companies have access to financial structures that are similar to Barbados, as you say, and other offshore jurisdictions.

What happens is the company that uses these offshore jurisdictions has a lower tax rate, a lower cost of capital, and that Canadian company is therefore able to compete in a jurisdiction like China. If a Canadian company were not allowed that structure, it would be disadvantaged relative to a British, French, or German bank or company that had access to the same structure.

Mr. Massimo Pacetti: Then in your opinion that would be a legitimate reason.

At what point would it become an illegitimate reason, or when would it become evading taxes?

Dr. Walid Hejazi: The hypothetical is that income earned in Canada is somehow transferred to an affiliate in an offshore jurisdiction, or intellectual property, or R and D, or patents, and that kind of thing. It would become evading taxes when people use these creative structures to move these assets or this income out of the Canadian environment into an offshore jurisdiction to avoid taxes that are legal within the Canadian context. That's an example, and it's hypothetical.

I don't know of any specific examples where that's happened, but that's an example of where these offshore jurisdictions are used to shelter income or assets that should be taxable in Canada.

Mr. Massimo Pacetti: Thank you.

• (1010)

[*Translation*]

Mrs. Champoux-Paillé, do you have a comment on that? Do you think Canadian multinational corporations should have some means of transferring their revenues to tax havens—in other words, to countries where they pay lower taxes, in order to be more competitive?

Mrs. Louise Champoux-Paillé: As far as we are concerned, such strategies should be abolished.

I would like to come back to the question asked earlier. The National Bank has considerably reduced its involvement in tax havens, and yet, as I'm sure you will agree, it continues to make money. It's simply a matter of sound governance.

Mr. Massimo Pacetti: All right. I do not necessarily want to defend the National Bank, but it can hardly be said that it is a multinational with a strong presence around the world.

Mrs. Louise Champoux-Paillé: Yes.

Mr. Massimo Pacetti: Compared to the success of the five or six other banks.

Mrs. Louise Champoux-Paillé: The National Bank is of the same caliber as the others.

Mr. Massimo Pacetti: No, but in terms of competitiveness, the National Bank does not have as extensive a presence as the other banks. That's one of the reasons. I am not passing judgment here. Do you see that as a competitive advantage?

Mrs. Louise Champoux-Paillé: It's not an acceptable advantage. [English]

Mr. Massimo Pacetti: Mr. Jarislowsky, in my opinion, if we divide the fact that individuals use tax havens to evade taxes and corporations will go with the assumption that it's a necessity, you're still opposed to the idea of providing amnesty—not amnesty, because I don't like to use that word, but giving individuals an opportunity to repatriate all their income at a certain amount, whether it be 20%, 30%, 40%, or even 50%. You would still be opposed to that?

The Chair: Just a brief response, sir.

Mr. Stephen Jarislowsky: There have been many cases where you have had amnesty after amnesty. I believe that in the case of any individual, if you're going to give amnesty at a lower rate, something should still be payable. They shouldn't get away with it 100%.

Secondly, I believe if that amnesty is misused a second time, then you throw the book at them.

The Chair: Thank you.

We'll go to Mr. Hiebert, please.

Mr. Russ Hiebert (South Surrey—White Rock—Cloverdale, CPC): Thank you.

Thank you all for being here.

It's a very interesting discussion.

If I were to summarize what I've been hearing from Dr. Hejazi and Mr. Jarislowsky, it's that there are legitimate ways for corporations to use these offshore centres to minimize tax and to be more competitive and therefore to be persuaded to stay in Canada. But there are no, or perhaps limited, ways for individuals to use these offshore centres to minimize tax, and that should be prevented through enforcement or transparency negotiated with these relevant jurisdictions, at the same time acknowledging that most individuals will not leave the country for the purpose of avoiding tax, as a corporation might.

Would that fairly summarize what you've had to say?

Mr. Stephen Jarislowsky: If it's addressed to me, I would say yes and no. But for very wealthy individuals, the answer would probably be no because to the extent they want to get this benefit, they would leave and pay off their capital gains at this time or give their money to a charitable foundation or whatever. So I don't fully subscribe to what you're saying.

It is too easy in Canada to become a non-resident and to move your money out.

Mr. Russ Hiebert: Dr. Hejazi.

Dr. Walid Hejazi: Yes, many people decide to declare themselves non-resident and then the income they earn in a global economy becomes non-taxable. As a Canadian, if someone decides to do that and then moves to an offshore jurisdiction, they're not breaking any law and it's legitimate. But there's an additional complication whereby many wealthy individuals in Canada can set up a corporation, so then there's a blurring between corporation/individuals, and then there are individuals who set up, for example, a private bank in an offshore jurisdiction and use that to manage assets they have in those jurisdictions. So as a first cut, I agree with that dichotomy you have, but there is some blurring of it.

Thank you.

Mr. Russ Hiebert: The sense I'm getting is that we want Canada to be a safe place for Canadian corporations to invest because we want them to stay here and we don't want them to leave in this internationally competitive environment, but we're less concerned about individuals. If so-and-so decides to set up an offshore trust or a private bank or simply move to a warmer jurisdiction with nicer winters, that's the price we're prepared to pay. But we don't want that to happen to corporations. Would that be a fair assessment?

●(1015)

Dr. Walid Hejazi: I would say yes. With all of the loss in jobs and the movement of production facilities out of Canada, the last thing we want to do is make it more expensive for companies to locate within the Canadian environment. So I agree with you, yes.

Mr. Russ Hiebert: How much lower would our taxes need to get?

Mr. Stephen Jarislowsky: In this country in the last 30 years we have lost half our manufacturing already, mainly as the result of the rise of the Canadian dollar. And it is very difficult today to attract manufacturing investment when you don't know where currency is going to be. So I would say we should do everything we can to keep what we have left in this country.

Mr. Russ Hiebert: Our government has substantially lowered taxes in the last five years, and we're looking to get down to a 15% tax rate as of next year. How much lower would we need to go to keep these Canadian companies and minimize the enticement of going overseas?

Mr. Stephen Jarislowsky: Well, I think it's again a question of the Canadian dollar. To the extent that our Canadian dollar goes to \$1.50 U.S., we will still close more. It is one of the very important problems. We have 80% of our trade with the United States. They're begging us by bringing their dollar down and bringing our dollar up.

Mr. Russ Hiebert: Mr. Hejazi.

Dr. Walid Hejazi: I would argue that the government is going in exactly the right direction. It's hard to say what the right rate should be. The reason is that there's a big distinction between statutory rates and effective rates, with the deductions, and so on, that corporations have.

I would argue that we're definitely moving in the right direction. There's still some distance to go, but bringing down corporate tax rates is exactly the right thing to do to make it more attractive for foreign companies to locate in Canada and for Canadian companies to maintain operations here.

Mr. Russ Hiebert: Thank you.

The Chair: Madame Champoux-Paillé.

[Translation]

Mrs. Louise Champoux-Paillé: I would like people to ask who is benefitting from these tax cuts. Is it the large organizations or corporations, the large multinationals, or is it the SMEs which are already paying their share of taxation? I think that is the real question.

[English]

The Chair: *Merci.*

Thank you, Mr. Hiebert.

We'll go back to Mr. Szabo, please.

Mr. Paul Szabo: Mr. Hejazi, would you like to answer the question that was posed?

Dr. Walid Hejazi: Yes, I would.

These big multinational corporations, the big Canadian corporations and the banks, for example, are very widely held. When corporate tax cuts go to the big corporations, what do they do with the additional revenue? They pay it out to shareholders. When they pay it out to shareholders, it's all taxable. When they earn all of this extra income and they're doing better in the global economy, they hire more people.

My classes at the Rotman School are full of employees from the banks. I'll talk specifically about Scotiabank, where they have a big presence in the Caribbean. Many of the students at the Rotman School are in fact managing those global operations.

There are lots of benefits. It's not as if the corporation gets these tax breaks, goes off to sit on a beach, and enjoys them. They go to the shareholders. They go to the employees. They go back into the Canadian economy.

Thank you.

Mr. Paul Szabo: Okay. I understand.

Not much has been said about the dimension of the problem. I hope all three witnesses will give some thought to the size of the

problem and the urgency level and compare it to what you would assess to be the importance in size of the underground economy domestically and what relative priority that should take.

I would think there may be some commonality in terms of the approaches that are taken in terms of "carrot or stick", etc. I want to ask for a very brief response from each of the three as to the priority and timeframe that may be required to reasonably address the challenges.

Madame Champoux-Paillé.

• (1020)

[Translation]

Mrs. Louise Champoux-Paillé: As far as MÉDAC is concerned, there should be a comprehensive reform of the tax system based on the principles of economic solidarity.

[English]

Mr. Paul Szabo: Okay.

Mr. Jarislowsky.

Mr. Stephen Jarislowsky: I don't know the exact extent of it, and I don't think anybody really knows the exact extent of the private use of illegal tax shelters. I firmly believe that it's irrelevant.

We have to stop it to the extent that we can. We have to better educate our people in the revenue department in order to be able to do it. But the emphasis in this country should be on Canadian jobs and on good Canadian investment returns, which will lead to more investment in Canada.

Mr. Paul Szabo: Okay.

Mr. Hejazi.

Dr. Walid Hejazi: May I take two minutes, or is that too long?

Mr. Paul Szabo: Well, I have two minutes. Show me that I'm making a good investment here. Carry on.

Dr. Walid Hejazi: That's a lot of pressure. But one thing I would say is that the returns are taxable, so.... Anyway, that was a joke.

As we talked about corporate tax rates going down and moving us in the right direction, we know that reducing taxes, corporate and personal, move us in the direction towards reducing the size.

But let me speak to the legitimate use of these offshore centres. I'm going to give you a few numbers. We have about \$500 billion in the global economy; about 20% goes through offshore centres.

Let's say there's \$100 billion. Let me just put some rough numbers to this. If I have \$100 billion going through offshore centres...and suppose the return, the income generated, is 8%. So there's \$8 billion a year generated in income from those investments we have in those offshore centres.

Let me throw a 40% tax rate on there. So I have \$100 billion in offshore centres, I have an 8% return, so \$8 billion in revenue, and I have a 40% tax rate. Many people believe that if we could tax all of that income that's generated in offshore centres, that would be about \$3.2 billion. That's the sort of number I've seen thrown around by some people. That's sort of an upper bound. If the Canadian government were to limit the ability of Canadians to use those offshore jurisdictions, many people I've talked to think Canadian tax revenue would go up by about \$3.2 billion. I argue it would go down. I argue it would go down because the income generated would fall because Canadian companies would not be as productive and competitive.

Secondly, many Canadian companies would actually leave Canada—

Mr. Paul Szabo: Thank you. I appreciate that.

But the dimensions, then...you're still talking about some \$3 billion. Compared to the underground economy domestically, it's small.

Dr. Walid Hejazi: When you think about tax evasion—and again, as my colleague in Montreal put it, we can't measure it—the vast majority of tax evasion, the vast majority of lost tax revenue in Canada, I would guess, is done by Canadians in Canada doing home improvements and other things and not by Canadian companies or individuals operating in offshore financial centres. I agree with you completely.

The Chair: Thank you.

Mr. Stephen Jarislowsky: And I agree with that fully.

The Chair: Thank you, Mr. Szabo.

Mr. Stephen Jarislowsky: I think what we have to stop is the black market in Canada and the evasion of taxes in it.

The Chair: Thank you.

We'll go to Mr. Wallace now.

Mr. Mike Wallace (Burlington, CPC): Thank you, Mr. Chairman.

I'd like to thank our guests for coming this morning. It has been a very interesting conversation.

I'm going to focus, I think, a number of my questions to Ms. Champoux-Paillé. I have to speak in English, I'm sorry.

I think the fundamental discussion thus far has been that there is a difference, my view included, between tax evasion and tax avoidance.

Every year at this time many of my colleagues and residents in my area are putting money into RRSPs. I would say they are trying to avoid paying more tax. It's not necessarily thinking about the long-term benefits of saving for their retirement but really sort of an immediate reaction, that "Hey, I have to put some money in an RRSP, I have lots of room, and it will help me save a few tax dollars." So that's tax planning, tax avoidance. I don't really think there's anything wrong with that.

Personally, I would prefer a flatter tax system with a lot fewer deductions in it. But that isn't going anywhere. The system is the way it is, and it is tax planning.

I had an event this past week with 260 seniors at it, a tax planning seminar put on by CRA and Service Canada, where they were the speakers and we had 260 people. There were some questions from the audience that were on tax planning issues, and they could not answer because they have to have a financial adviser giving out that information.

This leads me to my question about your organization. I'm a little confused based on your... You say "its mission, as the name indicates, is educating and advocating for investors". In terms of the organization, does that not include—in informing and educating investors—tax planning and tax avoidance issues, not just tax evasion? Does your organization make a significant...?

• (1025)

[Translation]

Mrs. Louise Champoux-Paillé: We train people to behave appropriately as citizens. In that sense, we promote a fair and equitable contribution to taxation. Members of society have a right to provide for their retirement, but avoiding paying tax and investing offshore in order to pay less tax is unacceptable. We train people accordingly.

[English]

Mr. Mike Wallace: Here's my next question. In your presentation today, which I appreciate seeing in both official languages, you cite three papers: "Opportunity to close bank subsidies in tax havens", 2002; "Shutdown of tax havens", 2005; and "Elimination of bank subsidiaries at branches in tax havens", 2011. Are those papers that your organization has presented?

[Translation]

Mrs. Louise Champoux-Paillé: Yes, to the banking institutions.

[English]

Mr. Mike Wallace: Okay.

I think elimination of bank operations in other countries is a fairly difficult thing to make happen. I know you make an argument that you think your work has generated some activity by the National Bank, in terms of removing some of its branches. Is it not just as important that we have banks have a disclosure requirement such that whatever money from Canadians goes into their branches in other jurisdictions, we are informed of that money, so that we know it's there?

Isn't that really what you're after? It's the information; it's not whether the branches are in those countries or not. Or do you make a distinction there?

[Translation]

Mrs. Louise Champoux-Paillé: We are not saying that banks should not have subsidiaries offshore. We are simply asking that they not establish them in tax havens. And we have had success in that regard. Last year, we presented a similar proposal to CIBC shareholders and it received support from 9.5% of them. That is not very much, but 9.5% represents the small shareholders. It's important to consider the fact that 30% of banking shares are held by small individual investors, that 50% of them do not vote and that only 15% do. Ultimately, 9% out of 15% means that 50% of individual investors voted in favour of the proposal that tax havens be abolished.

[English]

Mr. Mike Wallace: Okay. *Merci beaucoup, madame.*

The Chair: Thank you, Mr. Wallace.

We'll go to Mr. Rafferty again, please.

Mr. John Rafferty: Thank you, Mr. Chair.

I'd like to ask all three of you a question. As I'm the last questioner, I'd like....

Am I the last questioner?

Oh, I'm not; we have a motion, yes.

The Chair: We have a motion. It depends how long members want to debate the motion. But you have your five-minute round.

• (1030)

Mr. John Rafferty: Okay. Thank you.

What I'd like each of you to do in turn—and you have about 90 seconds to do so, because if it's under 90 seconds and I have time left, I'll be forced to talk about corporate tax cuts, which I don't want to get into here....

Really, what we're talking about is tax fairness. If you have a suggestion or a thought concerning one or two or three items that you'd like to share with us on how we can improve tax fairness with respect to our discussion today, I think we'd all like to hear.

Perhaps Ms. Champoux-Paillé could begin. We want to give each of you an equal amount of time.

[Translation]

Mrs. Louise Champoux-Paillé: In our brief, we made a number of proposals. I am not going to go over them again, but I would just like to mention that one of the main recommendations is that considerable thought must be given to the ethical side of our Canadian tax system. That is what we are looking at, and I would urge you to gather the opinions of individuals, of ordinary Canadians, with respect to our Canadian tax system.

[English]

Mr. John Rafferty: Thank you.

Mr. Jarislowsky.

Mr. Stephen Jarislowsky: I don't believe there is such a thing, as long as we have politics.

Mr. John Rafferty: I don't know whether you would wish to expand on that. You have a few moments left.

Mr. Stephen Jarislowsky: I gave you a number of examples before: the City of Montreal amalgamation, school taxes.... It just goes on and on. As my friend the Premier of Quebec said, "I will not buy votes when I'm no longer in politics." I think this is a terrible thing.

I also believe that to the extent that there are pressure groups that influence decisions, those also—and this is more obviously true in the States than here.... There, it is almost mandatory that people stand up for certain things, because otherwise they don't get re-election money from certain areas. As long as that is the case, you're not going to have real tax fairness, and I don't expect it.

Mr. John Rafferty: Mr. Hejazi.

Dr. Walid Hejazi: I love your question. I think it's a terrific question, and I wish I had an hour, but I know I only have a minute.

To follow up on the last comment, "as long as politics...", when you have people standing up and talking about tax evasion, tax havens, multinationals not paying their fair share, and then when you ask a broad cross-section of Canadians, it appeals to their...I'm not sure what the term is, but....

What we want to do as policy makers is create an informed decision. We don't want to make a decision only to get votes or only to appease a wide part of the public who may not understand fully the issues before us.

I believe we get tax fairness when we create an environment in which our companies are able to be globally competitive. There's a \$10,000 prosperity gap between Canada and the United States: the average American earns \$10,000 more than the average Canadian. If we could create an environment that is globally competitive and close that prosperity gap—raise the level of income in Canada to the level it is at in the United States—then with the same tax rates that we see today, the tax revenues we would generate would be so substantial that we could fund all of the initiative the government has before it.

So the right way to get the tax fairness is to think about the economics, create an environment that creates the biggest economic pie, and then take the tax revenue that's generated from it and use it for the initiatives that we have before us.

Thank you.

Mr. John Rafferty: Mr. Hejazi, here is one quick question. I have 30 seconds.

Are OFCs, as you term them, working as they now are? Is the system now fair?

Dr. Walid Hejazi: Without question it is. The fact that Canadian companies are as competitive as they are in the global economy, with all of the measured benefits this situation has had on Canada by way of raising our GDP and raising our income per capita, has generated additional tax revenue. OFCs are working when they are used for legitimate purposes. Interfering with that would hurt Canada and would hurt tax fairness.

The Chair: Thank you.

Mr. Jarislowsky, you may add very briefly, please.

•(1035)

Mr. Stephen Jarislowsky: I would say that to the extent that we had more capital because we controlled our government costs better and had lower taxation—we have double taxation on dividends today in Canada—and had as a result more investment capital, the richer, in the long term, Canada would become.

The Chair: Thank you.

I'm sad to break off this discussion. It's been a very fascinating discussion, and members still have some questions.

[*Translation*]

Thank you very much for your presentations and for answering our questions.

[*English*]

We have a motion that we have to deal with today, so I'm going to thank our witnesses and excuse them, and then I'll go to the point of order from Ms. Glover—

Mrs. Shelly Glover: The point of order involves the witnesses.

The Chair: Oh.

Ms. Glover.

[*Translation*]

I would like to thank Mrs. Champoux-Paillé. Her presentation was in French and in English, but on page 13, I discovered something very interesting, which is only in French. Could we have that part of the brief translated into English so that all committee members can have a look at it?

Thank you.

Mrs. Louise Champoux-Paillé: Thank you.

[*English*]

The Chair: Thank you for pointing that out.

We thank all of you. If you have anything further, please submit it to the clerk and we will ensure that members receive it. Thank you so much for being with us.

I will go, then, right to Mr. Brison. You all have a copy of his motion.

Mr. Brison, please move your motion.

Hon. Scott Brison: Mr. Chairman, I suspect that other members have been approached as well by people involved in the property and casualty insurance business concerning the issue around demutualization. I don't believe this to be a partisan issue, but it's one that we're all being approached on. As such, it would be helpful if, as a committee, we were all to receive a briefing from Finance and from those involved in the demutualization process of property and casualty insurance companies.

You all have my motion. I move that the committee investigate as soon as possible the demutualization of property and casualty insurance companies; and that the committee convene a session to study the implications of property and casualty insurance company demutualization that includes the following: a summary on the issues

by the Library of Parliament; Department of Finance officials present to give statements and answer finance committee members' questions; a variety of experts and witnesses for and against the demutualization of property and casualty insurance companies present to give statements and answer finance committee members' questions, as well as any other witnesses or materials that the committee deems relevant.

The Chair: Thank you, Mr. Brison.

I have Ms. Glover.

Mrs. Shelly Glover: I'm sorry, Mr. Chair. I'm generally in favour; however, I'm not sure....

Could I ask Mr. Brison a question, through the chair?

Did you include the third point that we had discussed with regard to the experts and witnesses? I was going to propose an amendment to the language—that is all—but if you're withdrawing the third point—

Hon. Scott Brison: I've just received this. This is the first time I've seen this.

You're speaking about the amendment regarding issues and concerns surrounding potential....

The Chair: Just to clarify, the motion is as stated, as members have it. If you want to move an amendment, you can.

Hon. Scott Brison: Yes. If you want to make an amendment, I'm open to that. It doesn't change the intention.

Mrs. Shelly Glover: Here is the amendment. I would propose that in the third point, starting with “a variety of expert witnesses”, take out the “for and against”—

Hon. Scott Brison: Sure.

Mrs. Shelly Glover: —to be replaced with “regarding issues and concerns surrounding”. Then continue with “the” and put in “potential demutualization of property and casualty insurance companies, including potential guidelines”. And in the last sentence, where it says “as well as any other witnesses or material that the committee deems relevant”, my proposed friendly amendment would be to add “and that the committee report its recommendations to the Minister of Finance”.

Hon. Scott Brison: Sure, that's fine.

I accept that there may be a small change to the word “surrounding” and another one to the word “committee”.

The Chair: The chair's comment on the amendment is that it's in order, but “that the committee report its findings to the House of Commons” accomplishes the same thing.

Okay?

The debate is on the amendment.

I have Monsieur Paillé.

•(1040)

[*Translation*]

Mr. Daniel Paillé: I agree with the idea of removing the words “for and against”. In any case, people will be explaining their positions on this. I would simply like to know what you suggested for the last paragraph. I didn’t understand what you were saying. Did you suggest something different?

[*English*]

The Chair: Ms. Glover.

[*Translation*]

Mrs. Shelly Glover: Simply that we report on the issue.

Mr. Daniel Paillé: Yes, I agree. I have no problem with that.

[*English*]

The Chair: Any further discussion on the amendment?

No.

All those in favour of the amendment?

(Amendment agreed to [See *Minutes of Proceedings*])

The Chair: All those in favour of the motion as amended?

Monsieur Paillé.

[*Translation*]

Mr. Daniel Paillé: Can we discuss the motion before voting on it, if you don't mind?

[*English*]

The Chair: Is there discussion on the motion as amended?

Monsieur Paillé.

[*Translation*]

Mr. Daniel Paillé: I completely agree with our friend, Mr. Brison, because we have heard about this. Insurance company officials have met or will be meeting with the Minister of Finance. We do want to hear from Finance Department officials on this. We also want to look at the Library of Parliament paper and hear statements from witnesses. I am simply wondering whether one meeting will be enough. I think there may be more than one person or expert witness we will want to hear from. There may be more officials from the Finance Department. So, even though I agree with the motion, I would like the committee to retain the option of consulting other people. I think it's important to do a post mortem on the property and

casual insurance companies that were demutualized several years ago and see what the implications might be of demutualization for other types of insurance companies.

[*English*]

The Chair: Just to be helpful, as the chair, one thing we could do is say “that the committee convene a study” and then, that way, it could be one meeting or two; it's not specific in terms of how many sessions we have. That way, the committee can instruct the chair as to how many meetings the committee wishes.

Can that be a friendly amendment from the chair?

Some hon. members: Agreed.

[*Translation*]

Mr. Daniel Paillé: That's fine. We trust the Chair.

[*English*]

The Chair: Okay.

Mr. Szabo, do you want to speak to the motion?

Mr. Paul Szabo: I'll just speak from a procedural point of view because it could turn out to be a very extensive bit of work.

So that all the committee members can be engaged at point one, I'd like to see the summary of the issues from the Library of Parliament well in advance to give members an opportunity to prepare themselves, to get everybody up to speed before we jump into a meeting and see the Library of Parliament summary for the first time.

The Chair: I think we could have that by Friday.

Some hon. members: Oh, oh!

The Chair: Sorry. Point well taken.

My sense is we will not begin this until April, so I think we can certainly have something well before then.

Some hon. members: Agreed.

The Chair: I want to indicate to members that I will not be here next week. Mr. Pacetti will be chairing the meetings, and they will begin at 11 a.m.

Thank you.

The meeting is adjourned.

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