



House of Commons
CANADA

Standing Committee on Finance

FINA • NUMBER 058 • 1st SESSION • 38th PARLIAMENT

EVIDENCE

Tuesday, May 10, 2005

—
Chair

Mr. Massimo Pacetti

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•(1125)

[English]

The Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.)): I'd like to get the meeting going so that we can try to end by around one o'clock. We'll see how many members want to ask questions.

Mrs. Lynne Yelich (Blackstrap, CPC): On a point of order, Mr. Chair, we have an amendment that we would like to put forward. This could save some time, because the witnesses are probably going to be speaking to this.

This has to do with a motion here, an amendment. It was always the intention of the sponsor to put it in the bill, encompassing all jewellery, including watches. His original bill would repeal paragraph 5(c), which does not include watches. The first preference was to amend the bill to repeal all three paragraphs in the act here, but legislative counsel has advised that the amendment is not in order, as it is outside the scope of the original bill to include clocks as jewellery.

The second preference is to amend the bill to include the repeal of the tax on all types of jewellery, including watches, with the exception only of clocks.

Legislative counsel has looked at this amendment and informed the sponsor that it is in order. The amended Bill C-259 would repeal paragraphs 5(b) and (c), while replacing paragraph 5(a) with a paragraph that would include clocks only, and repeal the tax on watches.

I think you'll find that this is really favourable, especially among watch buyers like me.

The Chair: That's fine. We'll just accept it as is. We'll get to it when we do the clause-by-clause.

I want to get to the witnesses now, the Canadian Jewellers Association

[Translation]

and the Quebec Jewellers Corporation. Presentations should be five to ten minutes long. That will enable committee members to ask questions.

[English]

We're going to go in the order I have here, which means we'll start with the Canadian Jewellers Association.

Mr. Charania.

Mr. Mo Charania (Vice-President, Chair of Government Relations Committee, Canadian Jewellers Association): Thank you.

Good morning, members of the committee. Thank you for the opportunity to appear before the committee today.

My name is Mo Charania, chair of the excise tax repeal committee and incoming president in 2005 of the Canadian Jewellers Association. On my right is the current president, Carmen Rivet from Montreal.

I will now hand it over to Carmen Rivet.

Ms. Carmen Rivet (President, Canadian Jewellers Association): Thank you.

Mr. Chair and members of the committee, good morning.

The repeal of the excise tax is not a new issue before your committee. Indeed, before we begin, we would first like to thank all members of the committee who over the years have unanimously supported the repeal. As you are well aware, after a long and arduous fight since 1918, the repeal was announced in the budget of this year.

Here are the facts around the issue. The Canadian Jewellers Association has been consistent in its approach to this issue, which is why we're here today. We have asked for the total repeal of this inequitable tax right from the start, across all classes of the jewellery industry, including watches. Last year your committee recommended that it be repealed in a phase-out. We met with officials of the Department of Finance in November 2004. They informed us that the only option was to seek a phase-out. Given the prospect of the tax continuing or a phase-out, we did as requested, and wrote a letter to the Minister of Finance that stated our case. I have a copy of this available for any member who wishes to see it.

Our understanding is that Bill C-259 before you does not include watches and clocks. As you will appreciate, supporting the bill in its current form would run counter to the objective and stated mission of the Canadian Jewellers Association. This is our mission statement: Professionals committed to promoting the interest of the jewellery and watch industry. If this bill were to be amended to include all categories of jewellery and watches, it would be consistent with the objectives we have fought for since 1918.

I will now hand it over to Mo Charania.

Mr. Mo Charania: Thank you, Carmen.

On behalf of the Canadian Jewellers Association, I'd like to thank each and every one of you for your past support. We would like to thank Mr. John McKay, Minister Goodale, Mr. John Duncan, and all the members of the finance committee, past and present, for their support on this issue.

The mandate of the Canadian Jewellers Association is to work with all people who support the total elimination of our excise tax. Many of you here today will be surprised to learn that our association was founded in 1918 solely to seek elimination of this tax. As I watched the celebration of VE day ceremonies on Sunday across Canada and Europe, I could not help but think that this issue predated that war.

Ladies and gentlemen, this issue is not a political issue. It has been, from the beginning, one of equity. A tax that was used to fund World War I was just; in the year 2005, its continuation as the sole tax remaining from that era cannot be by any measure justified. If in your collective wisdom you can move towards a faster or total elimination across all categories, you would honour the principles of justice and equity that I as a Canadian was taught in school to expect from our House of Parliament.

Thank you for the opportunity to appear before you today.

• (1130)

The Chair: Thank you, Mr. Charania.

[Translation]

We'll now hear from Mr. Marchand, from the Quebec Jewellers' Corporation.

Mr. André Marchand (President, Quebec Jewellers' Corporation): Mr. Chair, members of the Standing Committee on Finance, guests and participants, good morning.

As representative for the Quebec Jewellers' Corporation, which includes manufacturers, representatives and jewellery retailers, allow me to ask you to forget your political allegiances for just a few moments so that you can properly consider our request. We are asking you to amend Bill C-259 to make it consistent with the wishes of members of the jewellery industry.

It is unthinkable that manufacturers and distributors of watches and clocks should be excluded from this bill, given that no jewellery retailer has ever just sold jewellery. That goes without saying, as watchmaking is an integral part of the jewellery industry.

Due to an unfortunate turn of events, watchmaking has not been included in the bill. However, we believe that this shortcoming can be easily and quickly addressed, thereby benefiting all stakeholders. I'm calling on your judgment as parliamentarians to ensure that justice and fairness are the only criteria that apply in these circumstances.

A friendly agreement will be easy to reach if each of us is willing to take responsibility for placing the jewellery industry's interests above personal interests.

Nobody is casting any doubt on the good faith guiding you, the members of the Standing Committee on Finance, given that you have already recommended that this so-called luxury tax be scrapped once and for all.

Over the last couple of years, several jewellery retailers have closed their doors because their net income wasn't enough to provide them with a decent salary. The same is true of Quebec manufacturers who are forced to import jewellery collections from Asian countries and whose ranks are continuing to shrink. Such a move will enable them to remain competitive, but for how long and at what price in terms of job losses?

If no positive action is taken, this may lead to the industry's imminent demise. The situation is critical and we, as retailers, manufacturers, importers and wholesalers are urging you to address this problem in order to once and for all put an end to this flagrant injustice which has gone on too long.

We did and still agree that no financial compensation should be awarded by way of credit or other means. We hold this position despite the unfairness of this tax which has penalized the jewellery industry in general and retailers in particular for far too many years. Retailers have had to deal with the burden of an ongoing inventory on which, over the years, they have had to pay a sum equivalent to 10 per cent of their total stock which amounts to between 30,000 and \$80,000 per jewellery store.

Furthermore, jewellers have been disadvantaged by competition which, due to gaping loopholes in the law, enabled some jewellers to avoid paying this tax and also often the GST and QST, which together amount to 25 per cent of the usual sales price. Of course, such jewellers are able to deduct this percentage from their sales price.

A provision in the legislation gave craftspeople an exemption from the excise tax if they produced products with a total value of no more than \$50,000 per annum. It therefore became easy and practical to close a company as soon as this amount was reached and to set up new companies as often as necessary.

An immediate and complete scrapping of this provision is therefore fully warranted. We would ask you to review your position, thereby enabling our industry to take back its rightful place despite increasingly tough competition.

Nevertheless, Mr. Chair, during an initial consultation, we accepted and still accept the phasing out of this tax over a four-year period. However, we remain convinced that it would have been fairer to completely scrap this tax as soon as this bill was introduced.

We'd like to thank you for considering our request and extend to the members of the Standing Committee on Finance and other participants in this meeting our warmest wishes.

I, André Marchand, president of the Quebec Jewellers' Association, have made this presentation for and on behalf of the Quebec jewellery industry and its members.

Thank you.

• (1135)

The Chair: Thank you, Mr. Marchand.

[English]

We'll go to the members, and we'll start with Ms. Yelich, for seven minutes.

Mrs. Lynne Yelich: Thank you, Mr. Chair.

Ms. Rivet, you are the current president. In your opening remarks, you mentioned jewellery and watches. Therefore, are you in agreement with the sponsor's amendment that I put forward earlier, to have clocks removed? Is this consistent with...? Legal counsel agreed that this was important. I just wanted to know if you were in agreement.

Mrs. Carmen Rivet: We're in agreement.

Mrs. Lynne Yelich: All right.

I'd like to hear from all of you on why you think this bill is not being passed. What is the problem? What do you think some of the problems are that it's not being passed quickly? Any comment on that? What's the problem?

Mrs. Carmen Rivet: What is the procedure? After the second reading, it came here?

Mrs. Lynne Yelich: Yes, and why do you think it's stalled, or is just not being passed?

I think it was you, Mo, who talked about the tax going back to the First World War. That's a fairly interesting remark when you think about the fact that it was created because of the First World War and it's still in existence. As you were saying that, I was thinking perhaps you should do little pins, with little axes, saying "Axe the tax"—a jewellery tax axe.

At any rate, I just want to know what you think. What could we do to move this bill?

Mr. Mo Charania: It's difficult as an association to comment on parliamentary process and committee process. We're not familiar with this. I mean, we represent the best interest of our industry, and we're looking for repeal of the tax. If we are forced to accept a phase-out, so be it, although our mandate would be to have a total repeal of the tax. We've been very consistent with that over the years, starting since 1918.

The Chair: We'll go to Mr. Côté and then we'll come back.

Monsieur Côté.

[Translation]

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

My remarks will be brief. As you know, the members of the Bloc Québécois have, over the years, supported your legitimate request to eliminate the excise tax. As you know, during the last consultations on the government budget, it was proposed to phase out the tax over five years, which is undoubtedly a second-best solution. If I understand correctly, even if this provision does not fully eliminate the tax in the first year, you are still happy with it.

In fact, given your presentations and the spirit of Bill C-259, it should include watches as well as jewellery. Some time ago, I realized that the bill did not contain that aspect. I hope that the committee will agree to recommend that the bill include watches.

Mr. Marchand, I simply want to make sure that I have understood correctly. You are saying that because the act is flawed, when companies reach a certain volume of sales, in order to avoid the excise tax, all they need to do is shut down the company and set up a new one.

Mr. André Marchand: The act was designed for jewellers, the ones who design their own jewellery. Delrue, Schwartz and several other big jewellers design their jewellery. The prices were quite high, because the pieces were exclusive. To enable them to sell their pieces, they were allowed to make up to \$50,000 worth of jewellery. That news spread quickly, and the loophole in the act enabled several others—who were not designing jewellery but simply making jewellery—to set up a company. After having reached the \$50,000 amount, these manufacturers close the company down and open a second, a third, a fifth and as many companies as they want, without having to pay a cent in excise tax. That has been going on for years and years, despite our representations.

• (1140)

Mr. Guy Côté: If, for one reason or another, this bill were not adopted and the proposal to phase out the excise tax over a five-year period were adopted, would you make representations? Has it already been done to eliminate this provision for the next five years?

Mr. André Marchand: I do not understand the exact meaning of your question.

Mr. Guy Côté: You talk about the regulatory provisions that enable these companies to avoid paying this tax. If this bill were not adopted and the government continued to collect this tax over the next five years, how could we eliminate the loophole in the regulations that enables these companies to avoid paying?

Mr. André Marchand: By taking the difference between those companies and designers into account. Back when these jewellers worked full-time and put in an incredible number of hours, they might have earned a maximum of \$75,000 or \$100,00 a year. However, if one or several companies set up five, six or ten companies in the same year, it seems very clear to me that that is betraying the reasons, the very good intentions in the act, that were designed to protect jewellers who design their pieces.

I think that is the main point. It would be possible to tighten up the act quite quickly so that it is more restrictive and so that it supports the people it was designed to cover.

[English]

The Chair: Merci, Monsieur Côté.

Mr. Bell and then Mr. Tweed.

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

I have just a few questions. First, my understanding was that there was the bill, the option the government had chosen in terms of the phase-out, and that what was being proposed represented a form of administrative simplicity, to make it easier. Is that correct? You talked about the complexity, and about...not the loopholes, perhaps, but the inconsistencies.

My understanding was that part of what was being achieved through the intended action of government was to try to simplify that, so there were not these inequities. Is that a fair statement?

[Translation]

Mr. André Marchand: If I understand your question correctly, it is about tightening up the act and making it more restrictive.

[English]

Mr. Don Bell: I had understood that part of it was to try to achieve administrative simplicity. Do you feel that what was being proposed by government—not necessarily this bill, but what was being proposed—accomplishes that?

Ms. Carmen Rivet: We tried to find some positive ways to accept the phase-out. In this case, when you have a phase-out, it means that as a retailer, all my stock includes that excise tax. Taking the tax down 2% per year is easier, as a matter of fact, than taking it down totally 10%. If tomorrow the tax is down 10%, and someone next door to you opens a new store, then you compete with a stock that is all brand new, with 10% less in investment.

That's the only positive way to accept a phase-out.

Mr. Don Bell: The difference would be...and not necessarily a new store; it could be a store beside you that's low on inventory and that replenishes with new inventory. It would be the same thing.

Ms. Carmen Rivet: If someone started right from the beginning, tomorrow, with 10% less compared to my inventory, which includes this 10%, then it would make a difference.

Mr. Don Bell: Would you say that's a big factor or not? My understanding of the idea of the phase-out, which was supported by this committee, was that there was some degree of orderliness, I guess, and minimizing of the problem. You've talked about the sharpness or the acuteness of the problem, and the inequities between different dealers.

Ms. Carmen Rivet: My understanding was also that for the government, it was a loss of revenue. By phasing it out, it would make a bigger difference for the government as well; we're talking about anywhere from \$80 million to \$92 million over the past ten years. It's easier for the government to phase it out because it will mean a difference of \$80 million if it's a total repeal.

Mr. Don Bell: Actually, I think the difference over the four- or five-year period that's left is about \$200 million in total, or that's my understanding, if the phase-out goes by immediate versus the planned phase-out. It's \$85 million to \$100 million a year.

My other question is that the United States and other countries don't have this at this point, that this is a left-over Canadian anachronism.

• (1145)

Ms. Carmen Rivet: They had it for two years and it turned out to be a complete mess, so they decided to abolish it. And if I'm correct, it was only on jewellery that was \$10,000 or more, per piece.

Mr. Don Bell: Is it your understanding that what's being proposed here, the change, is a favourable change, then? The phase-out included watches, and what was being proposed as the immediate cessation did not include watches. The way this is phrased here, does that address the issue that you're concerned about, then?

I've just seen this for the first time, so...

Mr. Mo Charania: As an industry, our mandate is professionals committed to the interest of the jewellery and watch industry.

Without watches being included, that takes a good portion of our industry away from...you know, immediate repeal and Bill C-259, and we couldn't support it within that context. However, if watches were included, as an association serving our industry and looking out...

I mean, the association was formed for the repeal of the tax. So if watches were included, we would have to back this, because it's what our association stands for, and why it was founded.

Mr. Don Bell: Thank you.

Mr. Chair, I wanted to get clarification on Ms. Yelich's statements. My understanding is that there had been legislative ruling that the bill couldn't be amended, but then she indicated.... I'm confused; apparently what's being proposed can be amended. Or did she just say that she's gotten legal opinion?

The Chair: That was her interpretation. We didn't address it, but perhaps we can get an opinion after all the members get a chance to ask questions.

Mr. Tweed.

Mr. Merv Tweed (Brandon—Souris, CPC): Thank you, Mr. Chairman.

Thank you for your presentation. It was interesting for me, because in the last campaign, that was one of my first issues. When I met one of my jewellers at a door, he had the package ready to present to me. He must have been expecting me. It was quite interesting, and we've kept in touch. Certainly he's kept his association in touch with what we've been proposing.

One of the things we talked about, in general, was what kind of impact this would have on, say, a regional economic situation. Would it benefit one part of Canada more than the other or would it be across the board, for all people involved in this industry? Is there a concentration of manufacturers in one part of Canada versus another, or is it pretty broad-based?

Ms. Carmen Rivet: Maybe I can speak on the retail side, being a retailer. I think for the retailers who are close to the border, it might be a little more difficult for them than for retailers who are more away from this area. Take Canadian diamonds; if you total all the taxes, it's nearly 27%, which means that when we as Canadians sell Canadian diamonds, they are more expensive than anywhere else in the world.

In my area, I have a lot of people who travel all the time. When they do travel and they compare prices, either with those in the States or outside America, they have the ability to see the difference in the price. That's where it hurts, because they come back with the goods they bought outside and ask us to appraise them.

So for the same goods, ours are more expensive, because we have other taxes and also this excise tax.

Mr. Merv Tweed: That probably is part of the reason for the lobby, I guess, in my area, because we are within minutes of the American border. Obviously, they're feeling the impact of people having accessibility.

Is there any direct impact with regard to the aboriginal communities, either in the production or in the sale? Does that cross over at all into this?

[Translation]

Mr. André Marchand: It does have an impact but there are some very strict laws and many of our jewellers are not very familiar with them. They were supposed to bring the purchased objects to the reserve or the reserves in question. They had a card that allowed them to make those purchases without paying taxes. That caused problems for several jewellery stores who ended up being taken to court and paying extremely high fines. Those cases served as an example and now people are more familiar with the laws. We are better protected.

With your permission, I would just like to add a point for the gentleman's benefit. Watch sales account for about 20 to 30 per cent of total annual sales for jewellery retailers. That is a very significant amount.

• (1150)

[English]

Mr. Merv Tweed: Finally, you talk about the competitiveness if the tax were eliminated completely versus the progressive. Do you take a direct writedown? If it were to be passed immediately with the 10%, would you just revalue all of your inventory? Does it become your hit to take the 10%?

Ms. Carmen Rivet: We would have to absorb the 10% that has already been paid. As well, recently we had to work with the strength of our dollar; it made a very big difference in terms of our purchasers, who were coming in with sometimes lower prices because our money was stronger. So we've dealt with that, and I guess we can deal with absorbing the 10%.

Mr. Merv Tweed: And probably, with the discussion of it being eliminated completely over the five-year period, to some degree it probably impacts the amount of inventory you would carry at this point, until you get clarification as to what direction the government takes.

[Translation]

Mr. André Marchand: Certainly, and that represents 10 per cent of our inventory. If, over time, that goes down to zero, then we will have recuperated the corresponding amount, that is 30,000 to \$80,000. We will be able to put that towards the purchase of new merchandise or the improvement of our respective businesses. That is a considerable amount.

[English]

Mr. Merv Tweed: Thank you.

The Chair: Thank you, Mr. Tweed.

Monsieur Côté.

[Translation]

Mr. Guy Côté: Thank you.

I will put a very blunt question to you. You are not supporting the bill because it does not include watches but if it did, you would support it. Given what you were saying, would it not be to your advantage if the bill were not passed, so that the tax be gradually eliminated instead of being eliminated immediately and completely?

Ms. Carmen Rivet: We have always asked for its immediate and total elimination. That is what we fought for and that is what we have always hoped for. When we had to choose between a withdrawal over five years or nothing, we opted for the withdrawal over five years. We often wrote to the department and to the people from the finance department telling them that a withdrawal of over five years was better than nothing at all. However, we were hoping for a total withdrawal. It is the only luxury tax that remains. You are familiar with the issue. One of the reasons we fought against that tax is that we were counting on its total withdrawal. Right up to the last minute, right up to the tabling of the budget, I was hoping for a nice surprise, that is its total withdrawal.

Mr. Guy Côté: Do the advantages of a total and immediate withdrawal outweigh the advantages of a withdrawal over five years?

Ms. Carmen Rivet: Absolutely. Obviously when you have to find the positive side...

Mr. Guy Côté: Earlier, however, you mentioned the advantage that a competitor may have, for example, in increasing his inventory without necessarily having that 10 per cent immediately. That is why I was putting the question to you.

Ms. Carmen Rivet: In answer to Mr. Bell's question, I would say that when we found out that the withdrawal was going to take place over five years, then we tried to see the positive side.

Mr. André Marchand: I would like to add that when we will no longer be paying that 10 per cent, it will go back to the clients. Competition is so fierce that it would be impossible to do otherwise. We will most certainly not be putting that money into our own pockets.

[English]

The Chair: I have one more member...who seems to have walked away.

Don, go ahead.

Mr. Don Bell: I just wanted to clarify something, Mr. Marchand. Did you say that the percentage of your sales represented by watches was 25%? Did I get that wrong?

• (1155)

[Translation]

Mr. André Marchand: It varies between 20 and 30 per cent, depending on the jeweller. It is 22 per cent for myself. I have a jewellery store.

[English]

Mr. Don Bell: So you're saying that watches are 20% to 30%, on average.

Mr. André Marchand: Yes, that's right.

[Translation]

The Chair: Does everyone around the table agree on that number: 20 to 30 per cent?

[English]

No more questions from the members? Okay.

Mr. Bell, can you ask your question again? I'm not going to pretend that I know legal proceedings, so I'll pass it over to the clerk to interpret the amendment.

Mr. Don Bell: My understanding was that the phase-out covered everything, that the bill did not, and that it could not be amended. There had been a ruling by the legislative committee that it couldn't be amended. Ms. Yelich indicated that to some degree it could.

I've just seen this now for the first time. I'd just like to know exactly what this means, because it says:

Clocks adapted to household or personal use, except those specially designed for the use of the blind, ten percent

So it sounds like it changes the rate; it doesn't eliminate it. I'm a little confused, since I don't have the rest of the bill in front of me.

The Chair: Perhaps I can answer that. The last time we met on this issue, we didn't discuss clause-by-clause. We just allowed the clerk to interpret some of the amendments that were proposed. We didn't go into detail.

Mr. Don Bell: All right.

The Chair: I don't mind allowing the clerk to speak on this to clear it up.

Mr. Don Bell: Is what has been suggested by Ms. Yelich acceptable from a legalistic point of view? Could you tell me that, please?

Mr. Jean-François Lafleur (Procedural Clerk): Yes, it is. In fact, this is one of the amendments submitted at the time.

[*Translation*]

The only thing that remains is this amendment, that was supposed to be moved I am told.

In answer to your question, I would say that any bill is amendable. Therefore, Bill C-259 is also.

In terms of whether or not amendments are in order, we usually only decide on amendments that have been moved. We cannot presume anything about something that will be moved. We decide on amendments that have been moved and discussed. We have seen them and have an idea of whether or not they are in order. Once they are moved, the chair of the committee makes that decision. Does that answer your question?

[*English*]

Mr. Don Bell: Then what Ms. Yelich was referring to was her opinion rather than a ruling.

Mr. Jean-François Lafleur: It was an opinion, absolutely.

The Chair: We haven't done clause-by-clause. We'll have Finance Canada officials next Tuesday, and the committee will have to decide what we do at that point.

[*Translation*]

I would like to thank the witnesses for coming today.

[*English*]

Thank you for allowing us the opportunity to question you. Sorry about the delay, but that happens in this place. Thanks for your patience and your indulgence.

Bonne journée. Meeting adjourned.

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

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

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