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Chair

Mr. Massimo Pacetti

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● (1715)

[*English*]

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

First of all, I want to thank you for sneaking time out of your day and coming before the committee. You are unfortunately not the lucky ones, because you're here at five o'clock on a Thursday afternoon, but you'll have to bear with us.

We're here pursuant to Standing Order 83.1 on the pre-budget consultations for 2005. I'm going to allow all the witnesses a period of seven to ten minutes. I would like you to stay within that timeframe. We would really appreciate it.

I am going to try not to interrupt you, but if you see the signal, it means please wrap it up. It would really be appreciated, because the members are going to want to ask questions and they don't have much time.

I am going to go in the order I have here on my list. I think you have the same list. The first group is the Association of Canadian Travel Agencies.

Mr. Colette, go ahead.

[*Translation*]

Mr. Jean Colette (Council Member, Association of Canadian Travel Agencies): Good afternoon, Mr. Chairman.

The Association of Canadian Travel Agencies, which represents 2,500 agencies and over 65 per cent of travel agents across the country, is pleased to provide its comments to the Standing Committee on Finance as part of the 2005 pre-budget consultations. The purpose of this brief is to offer the government solutions designed to eliminate barriers and ensure the optimum development of the Canadian travel and tourism industry.

I would just remind you of a few facts. The travel industry employs over 600,000 Canadians. We generate over $51 billion in annual sales and we pay taxes and fees of approximately $19 billion a year.

The travel and tourism industry depends on both national and international sales. Its results have a major influence on the net debt-to-GDP ratio in Canada. Our report points out how the government —by supporting the efforts of this industry that is attempting to redefine itself and in doing so to promote national prosperity—can play a leadership role.

What are we expecting from the government? Legislation, of course, is necessary and must provide a framework to help business succeed. That framework must at least be neutral and allow the market forces to prevail. The federal budget is, however, a good opportunity to propose measures to eliminate any unjustified tax or monetary burdens on this fragile industry. Key budgetary measures could also provide adequate protection for consumers when travel providers declare bankruptcy. Finally, budgetary measures should be introduced to support and ensure competitiveness within the Canadian travel and tourism industry.

This is why ACTA is proposing that the government incorporate the following recommendations in its next budget: reduce or eliminate fees, taxes and other financial burdens unfairly imposed on the travel industry; assume leadership in adopting national measures to protect consumers where travel providers declare bankruptcy; strengthen the measures under the Smart Border Action Plan developed with the United States and harmonize efforts better in order to make our border more secure and more efficient; provide adequate funding for the Canadian Tourism Commission, the CTC, so that it can promote domestic tourism more actively in cooperation with Canadian travel agents.

For the past few years, ACTA has been recommending that taxes and special fees for air transportation be reduced or eliminated. As you no doubt know, Mr. Chairman, all these taxes and fees that are added onto the price of an airline ticket increase the cost by between 40 and 70 per cent, which can add $150 to $300 to what consumers have to pay if they want to travel by plane. It is expected that the steep rise in fuel prices will make the travel sector even more precarious. IATA, the International Air Transportation Association, predicts that North American airlines will lose between US$7 and US$8 billion this year. That means that they need some breathing room on the tax side, because they already have a lot to deal with.

Our position is as follows: the crisis in the industry as a whole is a systemic problem. The additional fees imposed by the government are at the root of the problem, and not outside crises such as the slump in the high-tech sector, terrorism, wars, SARS, mad cow disease, the West Nile virus and all the other calamities that have simply aggravated a situation that was already difficult.

In 2003, in its report entitled *An Industry in Crisis: Safeguarding the Viability of the Canadian Airline Industry*, the House of Commons Standing Committee on Transport strongly supported a unanimous position within the tourism and travel industry that it was necessary to act immediately and eliminate the special fees and surcharges that are so detrimental to the airline industry. The committee therefore recommended that the government act promptly to significantly decrease the unmanageable burden of $800 million in government fees and special taxes imposed on the sector. That money is primarily paid out by consumers.

In our opinion, very little progress has been made on this issue. That is why we are still calling on the government to substantially reduce the taxes and special fees imposed on the Canadian airline industry.

More specifically, we are seeking:

The elimination of the Air Travellers Security Charge, which is a tax that was introduced after the events of September 11, 2001, to strengthen security. Since security has been strengthened at airports and since air travel benefits all Canadians and not just those who travel by plane, it would be reasonable for these costs to be assumed by all Canadians, and not just those who take the plane and use the airports. After all, we are talking about national security. Right now, a very small proportion of Canadians, those who travel by plane, are paying for this enhanced security;

● (1720)

a substantial and faster reduction in airport rental fees paid to the federal government. The federal government's decision announced in May to reduce the astronomical rents paid by airports has not provided immediate relief for some larger airports, including Pearson and Trudeau. ACTA is disappointed by the long-term vision of the rent reduction program and we believe that this measure, the effects of which will not be fully felt until 2010, will not really improve the currently precarious situation in the industry. Although it is a step in the right direction, with the Open Skies Agreement with the United States, Canadian airports and airlines have a major disadvantage compared with their American counterparts, since some large American airports do not pay any rent. High rental costs will continue to have a negative impact on Canadian travellers. A recent national study of the Canadian airport system, carried out by the House of Commons Transport Committee, showed that high operating costs reduce competitiveness and threaten the viability of some 20 Canadian airports that currently pay rent to the federal government;

the elimination of the excise tax on airline fuel. The federal government currently takes in between $70 and $90 million a year through that tax. First imposed in the 1980s as a special deficit reduction tool, the fuel excise tax has already been dropped by other jurisdictions and we feel that Ottawa should do the same;

the adoption of a national passenger protection plan. Provincial and federal legislation does not adequately protect travellers if travel providers go bankrupt, whether these providers are airlines, cruise lines or railways. Only three provinces in Canada, that is, British Columbia, Ontario and Quebec, now have legislation regulating the awarding of licences and exchanges between consumers, retailers and tour operators, in addition to providing some protection for travellers in case of bankruptcy. That protection, however, is ensured by the fund paid into by travel agencies. Last November, Quebec became the only province to establish a compensation fund that is paid out to Quebec travellers in the event of a bankruptcy. We would like to see a national compensation fund created to protect Canadians against business failures of providers;

adequate funding for the Canadian Tourism Commission to enable it to promote domestic tourism more actively in cooperation with Canadian travel agencies, in addition to the main funding for tourism promotion abroad. Tourism promotion budgets are mainly being used to attract foreigners to Canada, when in fact many Canadians travel within their own country. We would like our partners to be able to benefit from this funding to promote our country.

In conclusion, these are only some of the issues that we feel are relevant to the committee's deliberations. ACTA is also discussing these matters with Transport Canada, Industry Canada and other related organizations. However, the committee's support is essential to having these national objectives realized.

Thank you for giving us this opportunity to provide you with our proposals.

[*English*]

The Chair: Merci, Monsieur Colette.

The next group is the Canadian Chamber of Commerce, Ms. Hughes Anthony.

Mrs. Nancy Hughes Anthony (President and Chief Executive Officer, Canadian Chamber of Commerce): Thank you very much, Mr. Chair.

It certainly gives me great pleasure to come before you with my colleague, Michael Murphy, to present the views of the Canadian Chamber of Commerce as you proceed in your consultations. I think the theme you have chosen—enhancing productivity growth in Canada—is really the critical issue facing Canada today. Indeed, the chamber strongly believes that enhancing Canada's productivity performance is one of the fundamental drivers of economic growth and prosperity and as such must be a guiding force in determining government policy.

● (1725)

[*Translation*]

The 160,000 members of the Canadian Chamber of Commerce include local chambers of commerce, SMEs and large corporations representing all sectors of the Canadian economy in all parts of the country.

[*English*]

On behalf of our members, I am very pleased to provide you with a copy of our brief. I hope you have a copy in front of you.

[*Translation*]

You have a copy of our brief before you.

[*English*]

I'l give a bit of background to start. In 2004 Canada's level of productivity for the overall economy was almost 23% below that of the United States. I think that gap was large enough to explain entirely why the standard of living of Canadians, if you measure it in terms of real GDP per capita, was almost 20% below that of our American counterparts. And when you measure that in dollar terms, it's an annual income gap of just over $9,000 per capita.

That's a measurement, but I think in the long run, if our standard of living, our quality of life, continues to lag, our ability to pay for programs such as education, such as health care, such as public infrastructure, will be undermined, certainly compared to our southern neighbour, and so will our quality of life be undermined. I think a major concern is that some of our highly educated and skilled workers will obviously opt to move to where the situation is better. They may opt to move to the United States, where they are able to enjoy a higher standard of living. And we will also not be able to attract people to Canada, and that would be a crying shame.

So our challenge is not only to stop the per capita income gap with the United States from widening further, but also to eliminate it. The Canadian Chamber of Commerce believes this cannot be accomplished without changing policies. And indeed what is required is a long-term sustained strategy with investments for the future.

[*Translation*]

It goes without saying that the business community makes a significant contribution to improving productivity. Our members invest in infrastructure and equipment, hire staff, design and introduce new technologies—in short, they stimulate economic growth. However, without the policies that establish a climate conducive to increased productivity, our full creative potential and our potential to increase employment cannot be achieved.

[*English*]

To give credit where credit is due, in recent years the federal government has made progress on the fiscal front to improve the operating environment. We clearly see eight consecutive fiscal surpluses, a debt that is going down, and a federal debt-to-GDP ratio now at its lowest level in many years. Progress has been made on other fronts as well, including some tax relief measures designed to boost productivity. We also are very approving of the expenditure review exercise that's in place with its goal of generating savings and looking at reallocations.

Despite this progress, much more needs to be done to achieve rising and sustained productivity growth. The brief before you contains the detailed recommendations of the chamber. I just want to touch on some of the concepts here.

First of all, we must improve the incentives for businesses and entrepreneurs to invest in Canada. In a globally integrated world, governments and countries are competing to improve economic opportunities for their citizens to attract and retain jobs, to retain businesses and capital. Those that offer an attractive package of tax and regulatory policies and a good quality of life will definitely gain the upper hand.

In order to compete effectively, we need to address Canada's uncompetitive and onerous tax system, which discourages corporate and entrepreneurial capital investment and businesses from locating in Canada. You will see recommendations in our brief with respect to the effective rate on capital, capital cost allowance, and other measures that we know will improve the productivity of our business community.

We also need to streamline our burdensome regulatory environment, which impedes the efficient functioning of the Canadian market and affects the climate for business investment. We have some recommendations on that. As well, our SR and ED tax program requires further enhancement to increase the incentive impact of those investment tax credits. It's important because research and development is a key driver to long-term productivity.

Second, we must invest in human capital, because our citizens play a very important role in the nation's productivity performance. At present, Canada's uncompetitive personal income tax system reduces the incentives for Canadians to work, to stay here, to upgrade their skills, to save, to invest, to take risks. You will see once again in our brief that we've put it as a top priority to give the average Canadian a break—not $125 on their heating bill, but a sustained program of tax reduction for the average, and particularly low-income, Canadian family.

We also need to address the fact that public funding for post-secondary education has been declining. We certainly feel that has the highest payoff of any investment that government can make in improving productivity and economic growth. We need to improve our ability to attract skilled labour through immigration, and maximize the use of the skills our immigrants possess.

The third point is high-quality infrastructure. We do need to invest in high-quality infrastructure, including transportation, communications networks, and border infrastructure.

I certainly support some of the words of the previous speaker with respect to the border. This is critical in encouraging private sector investment, improving our ability to attract foreign investment, boosting our trade, and improving our quality of life.

There are still many issues on infrastructure that we can speak about, including the key aspects of backlogs at the border and the needs of our cities in terms of infrastructure.

Mr. Chair, all of these recommendations are in our brief. The recommendations begin on page 6,

● (1730)

[*Translation*]

or the bottom of page 7, in French.

[*English*]

Just a word on how we achieve our goals. Productivity improvements, whether they be through tax reductions or new investments in critical areas like education or infrastructure, require that the federal government create the fiscal room to make it all feasible. That's where you and this committee really come into play. This has to be accomplished by controlling program spending, by making spending more efficient, and by reducing our level of debt.

We have a few recommendations in that regard. We would suggest that growth in government program spending should never outstrip growth in the economy, which we would call nominal GDP. We saw a 15% year-over-year growth in government spending last year. The economy grows at 2.8%, maybe 3% if you're very lucky, so clearly this is an unsustainable path.

We would also go a step further and recommend that there be a cap or an upper limit on the growth of program spending. We would suggest 3% per annum, based on anticipated growth in population plus inflation. New or growing needs must be accommodated within this constraint, which requires, therefore, some reallocation within the existing budget. The federal government must end its practice of year-end spending binges, and we must plan to use any unanticipated fiscal dividend very wisely and avoid squandering it at year-end.

We are very appreciative of the government's initiatives so far in reducing debt. We think the government needs to continue to allocate the contingency and economic prudence to debt, as well as any unanticipated surplus arising at year-end.

[*Translation*]

In closing, we strongly encourage the government to adopt the recommendations we make in our brief.

[*English*]

By implementing the recommendations we have outlined in our submission, Canadians will enjoy a higher standard of living in the future, and Canada will become more competitive in the international arena and will be the place to be for both individuals and businesses.

Thank you very much, Mr. Chair. I will certainly be pleased to answer any questions the members have.

[*Translation*]

The Chair: Thank you.

I will now give the floor to Mr. Pollard, from the Hotel Association of Canada.

[*English*]

Mr. Anthony Pollard (President, Hotel Association of Canada): Thank you very much, Mr. Chairman and members of the committee. It's a pleasure to be back here again with you this year.

I'd like to say at the outset, as I've said to you before, that we're the good-news industry. Not only are we in the hospitality business—and I know all of you take advantage of our accommodations—but we're the good-news industry because last year we generated $4.9 billion for the federal government in revenue, or what most people would call taxes. I like to think that you kind of like us.

Unfortunately, Mr. MacKay and Ms. Wasylycia-Leis have left, but the comment was made a little earlier this afternoon that “I wish somebody would come here and show us how to increase the pie, as opposed to going out and spending it”. I'm here today to demonstrate to this committee how, in your recommendations to the Minister of Finance, you can actually increase that pie.

Just before getting into that—and I apologize if I lose my voice—the fact of the matter is that our association represents all of the lodging industry right across Canada in each and every one of your ridings. Last year the hotel industry in Canada generated revenues of $12.6 billion. Of interest as well is that we generated $11.4 billion in spinoff business—in value-added, if you will, for other industries. We employ 270,000 people, and we paid out wages of about $6 billion last year.

I mentioned the revenue part right at the outset, and I want to just underline that again. The total amount we generated was $4.9 billion. The federal government brought in $2.2 billion, the provincial governments $1.8 billion, and municipal governments about $900 million. So it's a significant amount of money.

The Prime Minister has made a lot of the government's new prosperity agenda. We are looking at the ways he's asking how to expand export and trade. We believe we can help in a big way.

The cornerstone of my presentation today is a very simple one: an increase in annual federal funding for the Canadian Tourism Commission from its current $80 million to $180 million—$100 million of new funding. Grant Thornton, the accounting management consulting company, in an independent third-party analysis, has just come out and concluded that a $100-million investment by the Government of Canada will generate $620 million in new incremental federal tax revenue. That's not from Tony Pollard or the hotels; a consulting company and an accounting company has defined that.

This will be able to protect and increase Canada's global tourism ranking, which since 2002 has dropped from seventh place to twelfth place in terms of arrivals, and from tenth place to twelfth place for revenues. Just to give you more of an idea how bad things are going, as of July 2005, U.S. travel to Canada had weakened, with auto traffic down by 5.1% year over year. These numbers are all in the brief I have submitted to you.

Let me put this impact to you in a different way. Think of what this means for all the hotels. There are hotels in every one of your ridings. From January 2005 to July 2005 there were 726,000 fewer overnight trips to Canada, compared to the same period in 2001. What does this mean for us? It means our travel deficit has ballooned to $4.1 billion, the highest in almost a decade.

Going back to the funding proposal for the Canadian Tourism Commission, I was out in Whistler, B.C., on March 31, in a meeting with the Prime Minister. He said to me that if we bring forward a proposal that is based on a business case done by an independent third party, he will bring this forward to cabinet for review. So that's what we've done. Grant Thornton, in their review called “The Business Case for Long-term Funding for the Canadian Tourism Commission”, has shown that tourism is a solid investment in Canada.

● (1735)

What would this mean? I'll say it once more—I won't beat a dead horse—it means $620 million of new money for the federal coffers and $4.2 billion in revenue for industry.

The Chair: Excuse me, Mr. Pollard. Is it possible to get a copy of that report? Can you send it over?

Mr. Anthony Pollard: Yes, we circulated it to everybody. It's in front of you. I have another copy here for you, Chairman, if you like. I put it in front of the clerk, I believe.

[*Translation*]

I believe you have a copy of it, Mr. Dupuis, it is in a white folder.

● (1740)

[*English*]

The Chair: The chair is always the last to know.

Mr. Anthony Pollard: Remember, Chair, the number I'm giving you, $100 million gives you $620 million. I think that's an important one to remember. Secondly, it means $4.2 billion in new business revenue and 45,000 new jobs created across Canada. So that's our number one priority. We've costed it out, we've given you the numbers, and we've told you what it is.

A couple of other points I'd just like to make, and I'm conscious of time.

We're pleased the government has made its commitment to infrastructure investments totalling over $8.25 billion. However, we urge the government to take more of a leadership role in our national highway system. We wholeheartedly support the Canadian Automobile Association when it advocates the elimination of a $22-billion deficit in the maintenance of our highway system. They have identified the five top areas in Canada that need to be fixed. It's in our brief; I won't belabour it.

Not only are the highways key to us, so is the air system in Canada. We're a founding member of a coalition with many people at the table here. What we've long been advocating are the removal of the air travellers security charge, adopting an open skies agreement with the U.S., increasing foreign ownership of Canadian carriers, cancelling the planned airport rent increases, and reducing airport rents to correctly reflect the federal government investment.

We all know how important the U.S. border is to us: 86% of all our goods go south of the border. My colleague from the Canadian Chamber of Commerce has already mentioned that very strongly. Let's point out one thing: if goods and people cannot be moved safety and efficiently south of the border, the only thing that's going to go south is our GDP. We salute the government's commitment to border infrastructure, but more needs to be done to include better access. We need more dedicated lanes and sufficient staff to facilitate movement.

Finally, I'd be remiss not to point out the challenges facing us with new passport requirements for travel to the U.S. We're part of a coalition with our friends at the Tourism Industry Association. We would like to see this delayed for another year. We want to see a refinement of the definition of what's required. I ask all of you as parliamentarians, when you're working with your colleagues in Congress, to please point out the importance of this. I think all of you are behind us in this area.

Human resources are key for us. We work very closely with the sector councils, including the Canadian Tourism Human Resource Council. We encourage support of this.

I'd like to close by saying the government needs to rein in its runaway growth in new spending, particularly on social programs. We need to focus on reinvestment in economic growth, which is the cornerstone of what I've said today. We have intense global competition, high energy prices, a rising dollar. All of this has impacted us significantly. The recommendations I put forward to you today for government investment will change all of our fortunes and impact the government's own ROI positively.

Thank you very much, Mr. Chairman. Merci. I'd be happy to take any questions.

The Chair: Thank you, Mr. Pollard.

Mr. Jones, from the Railway Association of Canada.

Mr. Chris Jones (Director, Federal and Provincial Government Liaison, Public Affairs and Government Relations, Railway Association of Canada): Thank you, Mr. Chair, for the opportunity to appear and present our brief today.

I am here today with my colleague, Sab Meffe, from CN.

Quickly, a word about the Railway Association of Canada. We represent some 60 members across the country, virtually the entire Canadian rail industry, in three sectors: the class one, CN and CPR; the short-line sector, of which there are approximately 40—the passenger sector, the commuter railways, GO, AMT, West Coast Express, Capital Railway, the inter-city railway, VIA; and our tourist or excursion operators who operate seasonally.

Off the top, I heeded your earlier advice that we should be brief. I will very quickly summarize our two main requests.

We would like you to consider recommending moving the capital cost allowance rate for rail rolling stock up to 30% from its present 15%. We believe this rate should also be applicable to rail leasing companies and private car owners.

Our second request is that you consider recommending the replenishment of the capital in the Canadian strategic infrastructure fund to provide it with stable, predictable resources going forward for the next five years.

Our presentation today is essentially based on your report of 2004 and your recommendation number 14 of last year, in which you said your advice to the government was that they should consider amending Canada's capital cost allowance policy in a three-pronged fashion: you suggested that similar asset classes should be treated similarly, that the Canadian rates are similar to the rates for comparable assets classes in the United States and other countries, and finally, that Canadian rates reflect the useful life of assets.

We've adopted that approach. Our first point, very briefly, is that we see a divergent treatment of the highly capital intensive rail sector versus other modes: truck tractors, a rate of 40%; road trailers 30%; vessels 33%, and aircraft 25%. The rail rolling stock, as I mentioned, at the moment is 15%, and track is depreciated at a rate of 10%. We believe the unequal treatment of the two main surface modes is quite pronounced.

The taxable benefit that this confers on the trucking sector, in our view, tilts the deck in favour of trucking competitiveness, inasmuch as it allows for greater customization and more rapid modernization of their fleet.

On the U.S. question, the more progressive tax depreciation regime in the U.S. means that U.S. rail rolling stock is fully depreciated within eight years. It takes more than twenty years for the same asset to be depreciated in Canada. Again, this discrepancy works to the benefit of the U.S. railways, permitting them to more rapidly customize and adapt their equipment in response to changing market conditions.

In a sense, we believe that the U.S. tax code facilitates faster asset renewal and enables the entry into service of newer, more fuel efficient locomotives.

On the third point of your 2004 report, a quote from Budget 2005: “Alignment of the CCA rates with the useful life of assets can enhance productivity and standards of living through a more efficient allocation of investment across classes of assets.”

We believe that the rail sector has seen rapid technological innovation and change in the last ten years: computerization, modern electronics, and networking have all entered the infrastructure of the locomotive. And increasingly the United States EPA is reflecting this, in that they now consider the useful life of a locomotive to be between six and ten years, given that its emissions profile will begin to degrade after that period if there isn't an overhaul done.

Our specific proposal, therefore, is to move the rates for CCA for rolling stock to 30%. We are assuming that the Canadian railways would be fully cash taxable, that there would be a base year of capital spending in 2006 of $400 million on rolling stock—we are a highly capital intensive industry, so we would be making these investments—and that there would be a 5% increase in industry capital spending.

You ask, Mr. Chair, that wherever possible we try to cost the items we are putting forward to you. Hence, we would suggest that in the first year this would cost the government between $5 million and $6 million, and on a fully phased-in basis, between $20 million and $25 million.

I will not dwell long on the benefits, but suffice it to say there would be induced economic spinoff for the supply sector, taxable revenue for government, and a series of societal cost savings that would result as the pressure on highways decreased.

● (1745)

The second point is that the desire on our part to see the SIF replenished or topped up is simply that we are in negotiations with provincial governments that have indicated they are willing to look at doing short-line infrastructure investments on a P3 basis, on the condition that the feds, who have been at the table in Quebec recently, top up the SIF allocation, which they could then access.

While those funds are now being run down, having been committed, we would like to see a top-up of that. These funds would then be used on a P3 basis to upgrade the track, beds, and bridges of Canada's 40 short-line and regional railways, to enable them to accommodate the new North American standard of the 286,000-pound cars.

Essentially, the short-line sector is in a bit of a perilous state at the moment: its operating ratios are eight to ten points higher than the class ones, and they just don't have the retained earnings to make these investments. This is very important for regional economies, hugely important, as short lines are the feeder lines connecting many of these communities and regions to the NAFTA and the global economy.

In conclusion, using the approach identified last year by the Standing Committee on Finance, we believe we have made a strong case that the existing CCA rate for rail rolling stock is inadequate. We respectfully request, in view of modal fairness, greater parity with the U.S., and a more comprehensive understanding of useful life, that rail's rate be moved to 30%.

Finally, given the importance of the short-line rail sector to the nation's freight movement system, to regional economies, and to economic development, we respectfully request that the committee recommend the replenishment of funds within the SIF.

Thank you very much.

● (1750)

The Chair: Thank you.

I hate to interrupt, but I have to ask, why are you asking for the CCA rate to be moved also for private car owners? How does that tie into the rail industry?

Mr. Chris Jones: Because at the moment a great deal of the leasing business that the private car owners are involved in is ridden south of the border, and there is a substantial loss of tax revenue to the Canadian government because of that, because of the poor CCA rates.

The Chair: Railcar owners, not the private cars. Railcars. Are we talking about railcars or private—-

Mr. Sab Meffe (Assistant Vice-President, Taxation, Railway Association of Canada): We're talking about railcars. This will enable the railways to—

The Chair: I thought it was automobiles. Sorry.

On the cost on page 8, it's $5 million to $6 million in year one and then $20 million to $25 million fully phased in. What does that mean?

Mr. Sab Meffe: That means under the capital cost allowance system the first year depreciation doesn't kick in, there's the half-year rule, so as the capital expenditures go in and the capital cost allowance kicks in at the higher rate it takes a few years before it's fully phased in.

The Chair: Throughout the useful life of the asset. Thank you. Sorry about that.

The Tourism Industry Association of Canada, Ms. Demers.

Ms. Jennifer Demers (Director, Government Relations, Tourism Industry Association of Canada): Thank you.

On behalf of the Tourism Industry Association of Canada, I want to thank the finance committee for giving tourism and all of its sectors a voice in the federal government's pre-budget consultation process.

As I'm sure you're aware, tourism is a major economic sector in Canada. It's a $5.7-billion industry that keeps 1.6 million Canadians working, contributing to community and economic development in all regions of the country. And more importantly for you guys, it generates $17 billion in tax revenues, approximately half of which goes directly to the federal government. Because of these significant social and economic benefits and the tourism industry's tremendous growth potential, we believe it should be a public policy priority.

In TIAC's written submission, we address the committee's questions regarding productivity and related indicators that realistically are more easily measured in other industries, such as manufacturing. In my presentation today, I want to review some of the key actions that are needed to ensure that tourism continues to be a source of jobs and prosperity for all Canadians. Briefly, in order of priority, they are increased funding for the Canadian Tourism Commission; the elimination of the air travellers security charge; renewal of the strategic highway infrastructure program; federal, provincial, and territorial agreement on a long-term funding solution for Canada's national highway system; reform of the employment insurance program; and continued federal support for the Canadian Tourism Human Resource Council.

As I'm sure the chair will be pleased to hear, I know time is limited, and I will address only the top three.

Canada faces fierce competition in international tourism markets, and other destinations continue to outspend us substantially. Tony alluded to the fact that we've declined to twelfth in terms of visitations, and we've also declined to twelfth in terms of expenditures. When I started working for the tourism industry in 2000, we were seventh and eighth respectively, so these are significant drops.

One of the reasons for this is that some cities in the United States have higher tourism marketing budgets than the entire Canadian national marketing agency, which is the CTC. The CTC currently receives $80 million in core funding from the federal government, and of this amount, about $64 million goes directly into marketing and sales. It's very important to note that this figure is matched by private sector investments on a one-to-one ratio.

We are seeking an additional $100 million for the CTC. This would bring its budget to about $180 million a year and enable it to work more effectively with the industry in promoting Canada as a tourism destination. As Tony mentioned earlier, this would generate a significant return on investment. The estimated net impact would be up to $4.2 billion in incremental tourism revenue growth and would yield more than 45,000 new Canadian jobs—and of course the magic number, $620 million per year in incremental federal tax revenues.

Furthermore, greater investment in the CTC would increase the tourism industry's productivity. The CTC's vision is that Canada will be a premier four-season destination to connect with nature and experience diverse cultures and communities. With the right resources, the CTC can decrease the seasonality of visitation, reducing the employment peaks and valleys that occur between the summer and winter months.

With respect to an issue that's a lot more timely right now, increased marketing funding for the CTC will mitigate the negative impacts that will result from the western hemisphere travel initiative, or as we know it, the passport issue. Currently, the anticipated losses to the Canadian tourism industry between now and 2008 will be $1.7 billion. In Canada, that's greater than SARS. In the United States, they alone will lose $785 million.

Moving on, the air travellers security charge has a negative impact on tourism businesses because it drives up the price of airline tickets, thus impacting the competitiveness of Canadian airlines and Canadian destinations. While we appreciate the fact that the government has indeed reduced the air travellers security charge in three consecutive budgets, excessive costs still remain, including the airport rent and the fuel surcharge, which place an unsustainable burden on Canada's air transportation system and especially on the businesses, like tourism, that rely on it. Like the travel agents, we believe security is a public good that benefits all Canadians, and air security, like other modes of transportation, should be funded out of general revenues rather than by a special user fee.

● (1755)

TIAC would also like to see the government renew the strategic highway infrastructure program, which concludes this year. The government committed to renewing all the other infrastructure programs in the 2005 budget. We would like to see highway infrastructure included in the commitment to address the $22 billion deficit that our highways currently have, let alone the challenges that our system is going to undergo with the 38,000 kilometres that were added to the system by Transport Canada last week.

The funding of our national highway system has certainly not kept pace with population growth, urbanization, and increases in vehicle travel since the Trans-Canada Highway was completed. Highway transportation is key not only to tourism's productivity but to that of many other sectors of the Canadian economy.

In closing, I'd like to point out that tourism resources are an investment, not an expense, as government revenue from visitor expenditures will rise accordingly alongside standards of living and competitiveness.

Thank you very much. I'd be happy to answer any questions.

The Chair: Thank you.

Mr. Peeling, from L'Association minière du Canada.

Mr. Gordon Peeling (President and Chief Executive Officer, Mining Association of Canada): Thank you, Mr. Chair.

My name is Gordon Peeling. I'm the president of the Mining Association of Canada. And I'm pleased to have with me today Dan Paszkowski, our vice-president for economic affairs.

[*Translation*]

Thank you for giving me an opportunity to highlight the priorities we set out in our statement on the 2006 federal budget. The MAC, the Mining Association of Canada, represents the majority of companies involved in the exploration, mining and value-added processing of our natural resources.

[*English*]

Canada is a recognized world leader in mining. Canadian mineral exploration, production, and supply and service companies are viewed as second to none in the world, with productivity levels far exceeding the Canadian average. In a recent *Globe and Mail* article, “Striking it rich”, mining was identified as one of the ten things Canada does best.

Mining was also recently recognized by the Prime Minister in a speech to senior federal bureaucrats, where he stated that:

> We have a unique opportunity to capitalize on Canada's energy endowment and the potential of our mining industry. In an insecure world, short on energy, short on commodities, and becoming more so as China, India and others multiply global demand, Canada's energy and mineral endowment is one of our greatest comparative advantages.

As the Prime Minister noted, Canada stands on the threshold of a wonderful economic opportunity. What I want to talk about today is how we are going to seize that opportunity.

You have our full submission, and on page 4 are all of the recommendations. I just want to underline, first, that many of the points that are taken up in our larger report echo and support the comments already made by our colleagues from the Chamber of Commerce. Consequently, I won't go into those in detail. I only want to touch on three of the issues that are both challenges and opportunities for us as we seize that Asian market opportunity—or have a chance to seize this opportunity.

The first challenge in the mining industry is that our mineral reserve base requires a regular cycle of new mines to replace depleted reserves, to maintain the industry's infrastructure, and to keep us competitive on a global scale. In recent years high productivity levels and limited base metal exploration investment have depleted Canada's reserves for most base and precious metals. Unless new exploration investment is stimulated and we add new reserves, current levels of production will see the exhaustion of copper in 11 years, zinc and silver in seven years, lead in six years, and nickel in 21 years, which is comparatively better off due to the recent discovery and development of Voisey's Bay, which just went into production in October and will make its first shipments this November.

Declining reserves place our value-added smelting and refining activities and dependent communities at risk. Canada has become increasingly reliant on foreign sources for minerals and metals. In 2003 the total amount of base metal concentrate imports exceeded exports, creating a trade deficit in this category for the first time in Canadian history. This trend has continued in 2004. This is all happening at a time of growth in emerging markets. In 2003 the total value of China's mineral imports surpassed $100 billion U.S., and it continues to grow.

The export opportunities for Canada are huge. However, given the long lead times between exploration, discovery, and production, without additional efforts we will not be able to take advantage of this opportunity. A key part of improving our long-term reserve concerns is to improve our geoscience information base. To fill this knowledge gap, MAC recommends that the government fund the 10-year, $250 million cooperative geological mapping strategies program, CGMS. The geoscience strategy was developed in full partnership with federal, provincial, and territorial governments. It follows a regional approach and triggers matching contributions from the provinces and territories.

In addition to CGMS, we urge committee members to support two additional measures that will spur exploration and make all Canadian jurisdictions more attractive to investment.

First, the best place to make a discovery is in and around an existing mine. MAC recommends the introduction of a 20% deep drilling investment tax credit. This rate is equivalent to the rate applied to scientific research and development, and it would apply to any exploratory drilling below 300 metres. The objective is to discover deep ore deposits or to extend the reserve life of existing mines at depth.

Second, there is an urgent need to update the current Income Tax Act definitions of Canadian exploration expenses and Canadian development expenses. These definitions have not been amended for several decades. They are out of date with the reality of today's exploration and mineral development industry and make deep mine exploration prohibitive. They would restrict the benefits of the proposed deep drilling investment tax credit. The geoscience dimension, CGMS, is a longer-term solution, while the deep drilling and updating of the CEE and CDE provide near-term solutions that will help bridge the gap in the interim. Canada has the geological base to justify this approach.

• (1800)

The second challenge and opportunity is in the human resource area. Over the past year, the Mining Industry Training and Adjustment Council conducted a national sector study of the short- and long-term human resource issues facing the industry. The study concluded that the mining sector will need between 28,000 and 71,000 skilled employees over the period 2005-14, and this is in addition to the 25,000 employee shortfall in the oil sands industry. That's a net need after we take account of all available sources.

This is a serious issue for the future of our industry. Yet the creation of 100,000 long-term, high-paying jobs is a tremendous opportunity for Canada. We urge the government to examine opportunities to work with industry, educational institutions, aboriginal peoples, and other stakeholders to address the current and future skill needs in the mineral sector. Unless we work in partnership with governments and key institutions to attract skilled workers, we may face negative cost and productivity impacts and limit our future development opportunities. And here as well, we would certainly say that the support that the sector councils receive needs to obviously continue and expand as we face this challenge. We for our part are ready to put and offer those 100,000 jobs, and that's on a reasonable growth scenario, but clearly sources as we see them today are not able to match that need.

I want to quickly touch on climate change as the final of the three points. To help meet Canada's goals, MAC developed towards sustainable mining energy use and greenhouse gas emissions management indicators that facilitate continuous improvement towards recognized best practices. Our voluntary commitment in the non-ferrous metal smelting and refining sector has reduced greenhouse gas emissions per unit of output by 35% over the period 1990 to 2000. While this illustrates our seriousness in energy and emissions efficiency, the federal plan as it currently stands provides no recognition for our efforts.

In fact, an additional 15% to 20% improvement target is being proposed for the period 2000-10. To help meet these targets, facilitate adoption of the best available technology, stimulate energy efficient investments and enhance productivity, MAC recommends the reintroduction of the 50% straight-line depreciation rule available to industry between 1961 and 1988. Allowing industry to write off the entire cost of pollution abatement investments over two years will immediately improve the economic opportunities of technological measures to reduce greenhouse gas emissions.

In conclusion, Canada still has a prosperous and productive mining industry. If we act now, we can keep it that way, deliver upwards of 100,000 high-paying jobs over the next ten years, and contribute to Canada's overall prosperity.

I would just remind you once again that all of our recommendations are on page 4 of the report. And I just want to refer to an article that appeared in *The Economist* just last week, two weeks ago, referring to growth opportunities and where jobs are being created in the Canadian economy:

> The engines of growth in the 1990s—cars and high-tech industries—have slowed or shrunk. In their place, dowdy perennials, such as mining, have become the new stars. “The economy has just been flipped on its head,” says...Statistics Canada.

We don't like to think of ourselves as a dowdy perennial. Perennial, yes: we've been 4% of the gross domestic product for the last 30 years, or between 3.5% and 4%, and we have the opportunity to grow that. So perennial, yes, but we do need a partnership with government to see that continue.

Thank you.

• (1805)

The Chair: Thank you, Mr. Peeling.

Mr. Attaran, from the Canadian Coalition for Global Health Research.

Mr. Amir Attaran (Canada Research Chair in Law, Population Health and Global Development Policy; Canadian Coalition for Global Health Research): Thank you, Mr. Chairman.

I'm Professor Amir Attaran, Canada research chair at the Institute of Population Health, University of Ottawa. I'm speaking on behalf of the Canadian Coalition for Global Health Research. We are the odd one out at this session.

Let me just briefly introduce us. We're a non-profit organization of about 500 members, mostly Canadian researchers, in the biomedical or clinical sector. A quarter of our membership comes from the low- or middle-income countries, countries where people live on as little as a dollar a day. That puts a totally different gloss on what productivity means from what has been discussed so far.

I'm certain the committee has heard ample about the world's development needs. Let me just give you some vignettes, if I could, from my own expertise, which is global health.

Tuberculosis is a disease that kills four million people a year, including in Canada. It's treatable, but in a very curiously archaic way. The way we diagnose TB is with a technology that's about a century old. It's slow, it's labour intensive, and there hasn't been research and development to come up with a better way. The medicines are so old and inefficient that you need to take them for six months to two years before you'll be cured. As far as I know, nobody in Canada is researching either better diagnostics or better medicines.

Another example is bird flu, avian influenza. It's found only in Asia, so you might think it's only an Asian problem. Why should Canada care? Well, as of yesterday, in one of the most astonishing scientific discoveries I can think of in the last few decades, it turns out that the bird flu is related to the flu virus that caused a great pandemic in 1918 and killed 30 million people worldwide in one year. It's very closely related genetically.

As you may have seen in *The Globe and Mail* today, there was the prediction that if Asia's bird flu mutates into its very close cousin of the 1918 sort, up to 300 million people could die within a matter of months or a year, including in Canada. This is in a world that is much more populated and much more connected by flights to Canada than in the past. Yet the suggestion that Canada should aggressively research bird flu as a global health problem hasn't sunk in to the extent that is necessary.

These are real issues of development and productivity. You can't develop as a developing country if your citizenry is flat on its back, ill, for six months as it's getting over a case of TB. You can't hope for Canada's trade to increase in a world where people are kept poor by disease.

The surest way to get any sort of growth for Canada, on a sustained basis, in all sectors, in all ridings, in all export industries, is to have wealthier consumers abroad for our exports, whatever they may be. I wish to suggest that research and development is vital for that to happen. I mean that in the high-technology sense of medical research, or, for that matter, agricultural research or computing research. This is something Canada can accomplish within our own companies and our own universities. It can be managed by our own institutions. But it does bring priceless benefits to people living on a dollar a day in poor countries, and to us, in improved bio-security worldwide.

What's needed is cutting-edge research, high-technology research, such as we have here, where we can invent new medicines or advanced seeds for farmers in South Asia, or we can bring the Internet to schools in places like the Caribbean.

The Prime Minister has emphasized as much. I'll read an excerpt from what he said in his throne speech response in 2004:

> Our long-term goal as a country should be to devote no less than 5% of our R&D investment to a knowledge-based approach of assistance for less fortunate countries. We in Canada are rich in medical science and research. We have a moral obligation to share our capability with those in desperate need.

That's it exactly.

● (1810)

The coalition warmly welcomes the Prime Minister's 2004 commitment to spend at least 5% of Canada's advanced research and development budget on challenges particularly located in developing countries, which affect us through trade and bio-security.

The coalition has surveyed Canada's three major research councils, and none are allocating 5% of their research budgets to the challenges of poor countries, as the Prime Minister has called for. Probably the Canadian Institute of Health Research comes closest. It allocates 1% of its $700 million budget in this way, or just $7 million. The Natural Sciences and Engineering Research Council and the Social Sciences and Humanities Research Council could not tell us the percentage they allocate for research to help poor countries. Definitely we do not think it's 5%. Nobody does.

I'm not asking that you blame Canada's research councils, and please don't do that. They would reach the Prime Minister's goal of 5%, but they cannot do so without additional funding and political instruction from this committee. The combined budgets of CIHR, NSERC, and SSHRC are about $1.9 billion. Meeting the 5% promise would cost $95 million. There may be smaller amounts that would apply to other federal research programs.

The take-home point, however, is this: In a committee to which my colleagues today have eloquently represented the needs of Canada's industries and talked about very large numbers in support, tax, and expenditure measures—in the hundreds of millions or billions of dollars—I'm asking about $95 million to save the lives of people abroad and here, to feed them, to educate them, and so on. As that is important to productivity abroad, it is important to productivity at home.

It also matters to our prestige as Canadians in the world. Our government, as I'm sure you are aware, has been much criticized over another development goal, which is to promise 0.7% of Canada's overall GDP in foreign aid. Among European countries, five of them currently meet that goal and six have set a timetable to meet it. Canada has declined to set a timetable, but we do ask that our allies trust us that some day we will get there. I submit to you that if our allies are to believe us, in that sense, as Canadians, that we will meet the larger goal of 0.7% in some years, we should build credibility now by fulfilling the very small goal of spending 5% on research and development immediately, this year. That will build a lot of credibility for us internationally on the much bigger project of foreign aid.

I end with this: Please provide Canada's research councils with perhaps $95 million to meet the Prime Minister's promise, and please endorse by unanimous motion the Prime Minister's commitment that 5% of all federal research budgets should be spent generating knowledge and technology against the problems of poor countries.

On behalf of the Canadian Coalition for Global Health Research, my deepest gratitude, sir, for your concern.

Thank you.

● (1815)

The Chair: Thank you.

We're going to go directly to members.

I ask the witnesses to stay an extra 15 minutes, at least. We're going to have seven-minute rounds, and then I have Mr. Cullen for a five-minute round, and that's it.

I have Mr. Penson, Mr. Bouchard, Mr. Hubbard, Mr. Comartin, and Mr. Cullen.

Monsieur Penson.

Mr. Charlie Penson (Peace River, CPC): Thank you, Mr. Chair, and I'd like to welcome the panel here this afternoon.

We're not going to have much time for questions; we have a big panel. We have your briefs; I've taken note.

I would say this theme of productivity we're on is not a new one, as most of you around this table know. In fact, since I've been involved, in the 12 years I've been here, we've done numerous studies at industry, trade, and finance itself on productivity. In fact, if we brought them here, they'd probably be about two feet high.

But we have a sudden interest now with the Minister of Finance. I'm not quite sure how that works. It's kind of dyslexic in terms of corporate tax cuts—on again, off again, on again, off again—but in any event, I think most of us welcome the fact that there's some recognition that we have a declining standard of living. It's largely related to the productivity issue.

Now, what I've heard largely today—and with the exception of Mr. Attaran...we certainly have heard a number of people with the same focus from other panels, but not from this panel—is that we have this dilemma here where some people are coming and saying we have to have more spending in skills upgrades and infrastructure. Then we have others who are saying, if we don't get business operating, how can we afford all of this? I subscribe to the school that says we have to get our house in order first before we can move forward.

What I heard today, and it's been a recurring theme from a lot of economists and business, is that we basically have a huge tax on investment, and investment matters because capital is mobile; if they don't invest here, there are other opportunities that may be better. So we have to be competitive on the investment side.

But what I'm trying to get a sense of—and maybe I'll start with Ms. Hughes Anthony and go to Mr. Peeling—is the sense of urgency. The last time I looked at one of the studies, we had about a $6,000-per-capita gap with the United States. Now you're telling us it's over $9,000. We heard at this committee not too long ago that our gap with Sweden—Sweden, a socialist country, a high-spending country—is over $20,000 per capita. We have slipped very badly. I guess the question is, how can we afford all of these things people are asking for if we're not getting the reinvestment in the kind of jobs that will keep these jobs in Canada to give Canadians a higher standard of living, jobs we are going to need in order to address an aging population situation and to upgrade skills?

I'll start with you, Ms. Hughes Anthony.

Mrs. Nancy Hughes Anthony: Thank you very much.

Yes, I certainly agree that the urgency of the situation is perhaps not well understood, and I do not envy the job of this committee to reconcile all the many interests that come before us. You can say, my goodness, Canada looks like it's doing pretty well. We have surplus budgets, we have low inflation, and we have all kinds of things that look pretty good, but I would underline that there is an urgency.

I would draw one fact to the committee's attention, and I'm sure you saw it, that in the month of July for the first time ever we were not the number one export trading partner of the United States; China indeed surpassed us in that regard. Now, there could be reasons why that particular month, etc., but what it says to me is there's a huge competitive impact in the world and Canada sort of assumes things like the North American market is ours, the American export market is ours. We cannot assume that; we cannot assume the good times are going to continue to roll.

Also, I think we need to very definitely look at our foreign direct investment statistics. We have seen those on the decline in Canada for a number of years. It means that investors, if they're in Hong Kong or London, are looking at Canada and saying no, that's not a great place for me to put my money.

So I do think there's an urgency to the situation, and I think the chamber was extremely disturbed at the level of program spending the government permitted itself to put in place, particularly in the last year. We looked at the results in September; it was 15% year over year. The economy doesn't grow by 15%; the economy, if you're very lucky, grows by 2.5% and 3%.

I think it is time to turn to the economy, look at the advantages we have here, and make sure we can preserve them, because there are tremendous threats.

● (1820)

Mr. Charlie Penson: Mr. Peeling, just before you start, welcome to the committee.

I know you've been here a number of years, and it's good to see that an old-growth company, an old-growth industry like yours, that's sort of been written off, with all the high-tech sector, is suddenly making a resurgence. I know you've said you've been here all along and been doing very well, but there was a lot of emphasis on the high-tech companies. You must be feeling pretty good these days that you're carrying a lot of weight.

Mr. Gordon Peeling: Well, yes, but maybe not in all the right places.

Mr. Charlie Penson: Not you personally, of course.

Mr. Gordon Peeling: Let me go to the key point here. First of all, I will make the point that this is a high-tech industry and we in Canada are at the leading edge in tele-remote mining and robotics in mining. We have leading-edge technology. What we are great at doing in Canada in many ways is taking the best technology others develop in other fields and applying it to our mining needs. We are great adopters and adapters of technology as well as being good at developing our own. That's one point.

I want to talk about the urgency issue because in my view, to emphasize what Nancy said and particularly from my sector's perspective—and these numbers may not work out for the broader economy—we have about a five- to seven-year window to seize this opportunity. I represent a capital-intensive industry. Those capital taxes and large corporation taxes are a disincentive to productivity; they are a drag on our reinvestment opportunities.

And I represent a sector that's also one of the most aggressive outward investors in this country. We may be buying that Chinese market, not from Canada but from Chile or Mexico or Peru or Australia or Indonesia or New Caledonia. The reality is, we have every opportunity to do it from here but the signal my industry gets is that there are better places to invest because we can't get that capital tax structure right.

We also need to, I think, move to the 19% level and, I would say, the 17% federal corporate tax rate, and not five years from now; it needs to be much quicker if we want a North American advantage to attract investment. Nancy has indicated where the foreign direct investment levels are going, and they're not in a direction we should be happy about.

Mr. Charlie Penson: Mr. Peeling—if I just may interrupt, because the time is short—not even Canadian investment levels.... We've had a sea change in Canadians investing outside of our country in the last ten years. It now exceeds the amount of direct foreign investment in Canada. That also should send up some red flags, I think.

Mr. Peeling, I wanted to ask you, if there was only one recommendation to come out on the tax side, where would you come down? Would it be on capital cost allowance? Would it be on investment tax credit? Lower corporate taxes? Where is the most urgent concern?

Mr. Gordon Peeling: I'll put on my broader-based hat of what I think would be the best for the economy, generally speaking, and that's getting to 19% now, 17% as soon as we can thereafter. Yes, I'd like the capital tax.

We're going to have to address some of those issues related to the technology changeover to meet new pollution abatement and prevention opportunities in climate change, etc. Some of those things won't happen. I deal with technology in my basic plants that, when invested in, is meant to have a 30-year life. But if we have to meet obligations between now and 2012 with what might be very quick turnovers thereafter, you have to change the way we approach our capital investment structures in this country. You have to drive it more quickly than the normal business case we have dealt with.

So you have a number of things; it can't only be one. But in the medium term it's 19% and 17%.

● (1825)

Mr. Charlie Penson: I just want to say, under the capital cost allowance there is a recognition that companies are entitled to write down the cost of their expenses of doing business; that's what capital cost allowance is really all about. It's just a matter of how fast they're able to write that down. I heard you and Mr. Jones saying that in a lot of these things the new technology outlives its usefulness very quickly, and therefore you need a faster time to write that down. So the recognition is there that we're able to write that off, but you want to write it off more quickly.

Mr. Gordon Peeling: We do because it then changes the payback. It makes it a positive story for industry to invest. For a typical investment, if we can get a 15% return over that two-year writeoff as opposed to 3% over 20 years, that makes it a wise investment. That's what will incent industry to address these things. If I can only have one and you're not going to address the 17% and 19%, give me the capital cost allowance.

The Chair: Thank you.

Monsieur Bouchard.

[*Translation*]

Mr. Robert Bouchard (Chicoutimi—Le Fjord, BQ): I would like to thank all of you for your presentations. You all deserve congratulations, because these presentations were well supported and are very valid.

My first question is to the Tourism Industry Association of Canada. Unlike some witnesses who have spoken about a shortage of employees—I am thinking of the Mining Association of Canada and the Canadian Chamber of Commerce—which also referred to the importance of human resources—you do not demonstrate any staff shortage in the tourism industry. Your comments were mainly related to taxation.

Is there a real staff shortage problem in the tourism industry? If wo, have you thought about any possible solutions? That is my question. Who can answer it?

[*English*]

Ms. Jennifer Demers: On behalf of the Tourism Industry Association, we recognize that there are labour shortages. Naturally they are seasonal, as tourism is a very seasonal industry.

In our submission we talked about the challenges and the importance of support for sector councils like the Canadian Tourism Human Resource Council. Respecting the committee's seven-minute guideline on presentations, I didn't go into details or at length on the human resource challenges that we have. There are a few things that we think the federal government can do to address some of these challenges.

Of course, the first thing would be to continue to support the Canadian Tourism Human Resource Council. They do an amazing job on making sure that we've got a well-trained professional workforce in the tourism industry.

Second, we need to have more proactive immigration policies. It's great that we want to bring skilled labour into the country, but many of the job shortages aren't necessarily in skilled labour positions. The shortages are in positions at hotels, resorts, and different areas of the industry. Our industry is very highly labour intensive. If you bring in the workers, we can find jobs for them. For example, in Alberta, Fort McMurray, and other areas, they can't even come close to getting enough labour in the winter months, let alone in the summer months. Banff is another example.

Those are a couple of ways. I think Tony could probably speak to it from an accommodation side as well.

The Chair: Mr. Pollard, go ahead.

Mr. Anthony Pollard: Thank you very much.

There are significant labour shortages across Canada. Right now we're short about 40,000 people for what we would typically need on a given day.

The solution that we're seeking is through the Department of Human Resources and the temporary foreign worker program. We've had some success in this area. We're asking for the national guarantee that is given to agricultural workers. We're willing to pay to transport people to Canada. We'll put them up, and we'll have them work here. They will return to the countries where they came from.

I'm working with ambassadors and high commissioners from eight different countries right now. We see some success on the horizon. But the Government of Canada is going to have to become a little more amenable, as they are in the agricultural sector, to doing it through the temporary worker program.

● (1830)

[*Translation*]

Mr. Robert Bouchard: Thank you very much.

My second question is to the representatives from the Canadian Chamber of Commerce.

You spoke about eliminating all regulations that offer no significant benefit to society, and about the overlap of regulations between the federal government and the provincial and territorial governments.

I imagine that this is not the first time you have made representations on this matter. As we know, in the past, major efforts have been made to review all our regulations. You raise the subject again. Other organizations also told us in the course of these consultations that there are still a great many regulations, and that apparently very little improvement has been made.

Have there really been any improvements? If so, could you mention them? Have you ever calculated how much money might be involved and what benefit there might be to industry and all those involved in production?

Mrs. Nancy Hughes Anthony: Yes, obviously.

As you have mentioned, this has been one of our favourite files for a long time at the Canadian Chamber of Commerce.

Clearly the situation has somewhat improved in several areas. I credit the premiers from the provinces and territories for this as they have recently studied the issue. For example, we can see more mobility between the provinces in certain fields and disciplines. However, there remains some overlap between the provinces as far as certain standards, for example, are concerned. There is a concrete example. We are currently working on it, because we can see that this could bring about tremendous benefits. I'm talking about the creation of a single national, pan-Canadian regulatory organization for securities that would administer a single code.

However, we have also indicated in our presentation other areas where there could be improvement. Trying to understand values and their consequences is never an easy thing. Indeed, there is overlap in the approval system for environmental projects, for example. This is quite honestly a nightmare from certain perspectives.

Moreover, we are not aware of the precise number of projects or investments that, following our study of the Canadian situation, are leaving because they cannot stand the amount of regulation and overlap between the provinces, the territories, and at times the municipal and regional governments, etc.

In my opinion, we all—the government, the business sector and the private sector—have the responsibility to continue working on this. Governments are not always necessarily at fault; sometimes, it may be businesses or professional associations for example, who do not necessarily want to share with other provinces.

We must therefore keep moving forward, because it is ridiculous to present ourselves as a country that has really achieved free trade, whereas there are still barriers domestically.

● (1835)

[*English*]

The Chair: Thank you, Mr. Bouchard.

Mr. Hubbard, then Mr. Comartin, and Mr. Cullen.

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

First of all, it's rather ironic today that the global health research group is here at the same time as our travel agencies and tourism groups. If we looked at avian flu and the possibilities that we could have a problem with that, I think tourism in this country, in fact in most of North America, would come to a complete standstill. We in Canada have some preparation for that; the Americans have very little. We could probably hear more about this later, but I want to go to railways first.

In terms of your short lines, you're representing 60 members. It would be good if we had some information for the minister and for this committee to indicate your revenues and your investments, let's say for the last two years. Rolling stock certainly is a factor, but I think as a nation we have to be concerned with whether or not our railways—we had a complete change in railway policy about ten years ago—are coming up to the standards that we need to see them be replenished, the roadbeds looked after and all that type of investment that your organization has to put in.

Secondly, with the railways, I talked to Mr. Jones before on this. We have to do more with railways besides simply maintain. I think there's a tremendous opportunity for innovation. We have one of the largest producers of high-speed rail transport in the world in our own country with Bombardier, which is making contracts around the world. Is there any evidence that somebody in this country is looking at some high-speed rail? We hear so much about air. But railways, in terms of from here to Montreal, Montreal to Toronto, with the time it takes to travel by air today, really, if we became more efficient with railway movement and high-speed like the TGV, we wouldn't have aircraft flying all over the country and having these landing fees, security fees, and everything else that goes with it.

Mr. Jones, would you like to comment in terms of what your organization is doing in being aggressive in maintaining routes, and secondly, in looking at new ways of improving transportation, especially of passengers?

Mr. Chris Jones: First of all, the industry's annual capital spend is in the order of about $1 billion. Roughly $600 million of that is on track, roadbed, that kind of infrastructure. About $400 million is actually on the rolling stock. More of this is spent, of course, by the class one railways than by the short-lines, who tend to be a little more strapped for cash.

The industry's abiding policy is a commitment to safety. They constantly invest in their track. If they were to let their franchise go in terms of safety and the good running condition of the rails, that would have very negative consequences. So there's a strong safety commitment. We have had a little spike in recent months with some derailments and accidents, but I'd ask the committee to look at the substantial growth in workload. The industry is moving more freight than ever, so this is taking place against a backdrop of a substantial increase in traffic.

On the second point, high-speed rail, I dare say the airline community in Canada would have a thing or two to say about that. We've argued for a long time that the densities in the Toronto-Montreal-Ottawa corridor would support high-speed rail. They likely would support it in Calgary and Edmonton as well. Funnily enough, I think there's been more receptivity in Alberta in recent months to that notion of putting together a high-speed corridor between Calgary and Edmonton.

Just very quickly, I think we should look at the tremendous hydroelectric power that Quebec has. If we ever did establish an electrified rail system with a catenary system, we possibly could look at using that to subsidize the high-speed system.

Mr. Charles Hubbard: Thank you.

Moving now to this security fee, we seem to have had a lot of concerns with security fees at airports, but really they're only a small part in terms of ticket costs. You have all these other costs that you didn't really zero in on so much; you seemed to go with the security. Every Canadian—the guy who lives in a small village—should be paying some of the cost of people travelling by air in terms of that security. We see these Taj Mahals being built for airports. In fact, you could build four bridges to Prince Edward Island for what they've invested in the last few years at the Toronto airport. So why do you centre in on this security? It's a very small part, and it's been reduced.

I see that Mr. Murphy is ready to answer that about the security.

Not too long ago, I got ordered to stop in Toronto and get another flight. It was so much to land and then so much to take off, all within the confines of the same airport. Or that's what Air Canada told me.

How do they continue to have these departure fees and landing fees and all those that they put in?

● (1840)

Mr. Michael Murphy (Senior Vice-President, Policy, Canadian Chamber of Commerce): Do you want me to take a crack at that one, Mr. Chairman?

The Chair: Go ahead.

Mr. Michael Murphy: We didn't raise it today, but we sure have raised it many times over the last several years. I don't think it's just a question of the ATSC, the air travellers security charge, which the government has tweaked a couple of times in the last two years. I agree fundamentally with the positions you've heard expressed here today, that it just doesn't make sense to load that kind of cost specifically into one sector of the economy. You're also looking at other layers of cost. You heard fuel taxes mentioned today by at least two or three of the speakers, and that's across modes in terms of transportation. That's another issue. Airport rents is another one we can layer on here. Those are heavy-duty costs. While the government made an announcement in May in terms of what it's going to do over the long term, we still have a tremendous challenge there.

You mentioned the Toronto airport. I think the airport authority there is going to eat about 43% of the total costs on airport rents. The bill is still going up this year. It's still going to go up for many airports on an ongoing basis. You're talking about inherent costs here in the area of roughly $1 billion a year, or just a little less than that, so pretty significant.

I think you heard today—and this is not a question of ranking modes here in terms of which is more important—a reference to the burdens that have been placed in the air sector. They get a lot of profile because there's a lot at stake here in terms of the way the air rent issue has been applied to airports and how these costs get passed on through the system. Our members, the users of the system, the people who use airports, not just travellers but also the people who rent space there, or basically the customers or the clients of airports—all of us feel that. I think that's why there's been such intensity around this issue for the last several years.

Mr. Charles Hubbard: In terms of what the government spends, most of last year's increase was in non-returning costs; in other words, they weren't costs that were being built into our budget over a long period of time. But when you looked at your proposal and at what you're going to cut out and to put in, did you really try to look at last year's budget and ask, what would this thing look like? You have a very broad report, and I'm not sure the budget would work: you want more money for infrastructure; you want more of this and more of that; and you want to cut out EI, or the employment insurance things. I wonder just how this is going to work its way through. I would hope that you've done that from a basis.

Could you make a few comments? Was your presentation realistic in terms of what the Minister of Finance has to work with?

Mr. Michael Murphy: If I could start with that, you've got three legs of the stool here, and all of it starts with program spending. The government increased spending last year by over 15%, a number that none of us have seen...forever—incredible increases. We know that big chunks of these increases were transfers to provinces. And unless we do something about containing them I would agree with you that there won't be any room to do anything else, whether it's dealing with the debt issue that we've still got, or.... We're still spending close to 20 cents on the dollar today to service debt, and it's still our largest expenditure in the economy. I don't think that's where we want to be. We've got a debt-to-GDP objective that's been set now by the government. We support that objective. I don't think it's the most rigorous objective, but we've got other things that we've got to do.

The third leg of the stool is the tax side. I think this is the fourth year now that we've tried to bring some discipline, as Nancy has mentioned several times, in looking at what's going on with growth of the economy and in trying to correlate government spending with that; that's the benchmark that we're trying to get. We've been nowhere near that in the last several years. So from our standpoint, until you attack that you're not going to be able to make big movement on the other side.

From the tax standpoint and the debt management standpoint, they both come back to the spending side. I think we've got to get some discipline in there so that we've got more flexibility to deal with some of the other priorities that we've identified.

As far as spending goes, I think there are two things that are key. Yes, we've pointed out that you need to prioritize spending, and I think that's a responsible recommendation. Right now we've got a shotgun approach. I think we need to prioritize it. We've picked two things here: infrastructure, which I think a lot of people have talked about, and we've also talked about post-secondary education, because there's a payback there. I go right back to your theme of productivity, and I think there's a direct payback there.

In the last budget, the government reallocated close to $11 billion. There was an exercise done through PCO; all departments participated. The goal was $13 billion and we got $10.9 billion, roughly. There's room to improve on that; I think there's a lot more work that can be done there. I don't know if we've got a program in place to keep going in that area, but I think we should have one.

● (1845)

The Chair: Thank you, Mr. Hubbard.

Mr. Comartin, and then Mr. Cullen.

Mr. Joe Comartin (Windsor—Tecumseh, NDP): Thank you, Mr. Chair.

Thank you all for being here.

Again, in recognition of the time and the lateness of the day, I'm going to ask just two questions of Ms. Demers, Mr. Pollard, and Monsieur Colette, about the passport issue. I have two questions. One, what have your individual associations been doing to thwart the attempt on the part of the U.S. to impose that? And secondly, do you have any suggestions of what the federal government could be doing in addition to what they have done up to this point?

Ms. Jennifer Demers: Thank you for the question.

First of all, TIAC has formed what we call a passport coalition with the Hotel Association, the travel agents' association, and over 20 other groups across Canada, the United States, and internationally to address this issue. Our coalition works with an existing U.S. coalition, the U.S.-specific travel and tourism coalition, to deal with this matter.

We've got three really key recommendations. First of all, they include the elimination of the phase-in period of the western hemisphere travel initiative, which is something that the Department of Homeland Security and the Department of State have proposed; it's not mandated by Congress. So if we've got to have this passport initiative in place, eliminate the confusion of the phase-in period.

Second, we've got to identify now what are these supposed other secure documents that can be used in lieu of a passport. We're all working together; in fact, we have a meeting next week to agree as a group what we are going to put forward.

Third is implementing a solid communications strategy in terms of how to address this. I think it should be part of a three-pronged approach, including, first of all, getting the word out on what the current rules and regulations are, because you don't need a passport right now. Ontario Tourism recently did a study that indicated that 40% of Canadians thought you already needed a passport to go to the United States, and 33% of Americans did. That's inhibiting travel.

The final component is to encourage people to get this documentation, whether it be a passport or an enhanced driver's licence, should they accept that proposal, or others.

Without this communications strategy, travel is going to become extremely backed up at the borders, because of the confusion caused by the documentation—and we don't want travel to become prohibitively costly.

Mr. Anthony Pollard: The focus we're putting on this is that it is not a Canadian issue, in fact it is a North American issue. We believe that we have the support of all the parliamentarians in Canada that this really doesn't make sense. We do support the whole issue that security is paramount, so what we've been doing through my association is working with your border caucus, which is non-partisan, to say that we need to work with congressional leaders in the United States to be able to convince them of what the ramifications of this action would be. In fact, this week we were pleased that Senator Clinton from New York has raised the issue and is starting to attract some noise against it. I know that my colleagues in the American Hotel & Lodging Association are very concerned because of outbound U.S. citizens who cannot come back into the United States. Therefore, it has a major impact on not only us in Canada, but in the Caribbean and so forth. So we're working with all of the major lodging companies that have government relations people on Capitol Hill. We're putting our focus on the U.S. more than we are on Canada.

As I said in my statement at the outset, I know that all of you around this room have contacts with your congressional colleagues in the U.S., and we ask you to please work on our behalf in that regard as well.

● (1850)

Mr. Jean Colette: I think one of the main things about the border is all the negativity that is involved in crossing the border. We know that a lot of people are stressed by going through security at airports, for example, which I think is a burden. Crossing the border by land is certainly another issue, because we have a lot of delays. I think one of the things we should do is invest more into the infrastructure to make it easier to cross. We want a safe border, but we also want to make it faster and quicker, and it has to be more fluid, so we have to have more people working at the borders, more lanes have to be opened, and there has to be more financing. That's the main thing. If you want to come to Canada and you know that you're going to have to wait four hours in your car to cross, I think that's one of the main issues. We need to invest in that, not just in security and passports, and all these other things, but in more employees.

The Chair: Did you want to add something, Ms. Hughes Anthony?

Mrs. Nancy Hughes Anthony: If I could add a word, and I thank you for the question.

You mentioned our ability to thwart this initiative. I'm not sure we're going to be able to thwart it, because it has actually been laid out in a statute. We're working very closely with our associates in the U.S. Chamber of Commerce, because I totally agree with Tony here that to make the issue North American is important. We also position it as, yes, it's involving the travel industry, but it's larger and broader than that. It impacts the very economy of particularly border communities and the way many border communities carry on their daily commerce.

I agree, I think we need to work on the type of documentation that is required, the timeline that is required, if there are children in there or not in there, etc., and so forth.

I was very happy, as others were, to all of a sudden see that Senator Clinton has woken up to this. I thought, glory hallelujah. I don't think we'll be able to turn this off, because it has been embodied in a statute, but I think we can certainly try to facilitate it and make it somehow easier, particularly for the average, low-risk traveller.

The Chair: Thank you, Mr. Comartin.

Mr. Joe Comartin: You're welcome.

I have to respond to that. The reality is in fact the discussion that's going on with the northern border caucus in the U.S. to in fact stop it.

The Chair: Mr. Cullen.

Hon. Roy Cullen (Etobicoke North, Lib.): Thank you, Mr. Chair, and thank you to the presenters.

It's late in the hour. I had a few questions, but I'm going to be more focused.

Ms. Hughes Anthony, I think the gist of your message was that in terms of productivity, continuing on our path of tax cuts and in fact accelerating and being more aggressive in terms of tax cuts is probably the quickest path to increasing productivity. In the overall mix, I'd be interested in your thoughts on the balance between where we are going to get the biggest lift, personal income tax reductions or corporate.

Also, there are a couple of areas that do concern me. One is the formation of risk capital. In Canada we are probably a little more risk-averse than our American neighbours. Are there some government interventions that would be useful or appropriate in this area to encourage the formation of risk capital pools? We've done some things with stock options and tax-free rollovers, but is there anything there that the government could do to create more innovation?

The other area is the area of tech transfer, of technology diffusion. We've put a lot of money into the universities, into that environment. In fact, they're saying it's a bonanza, that people are coming back, that there's a lot of research going on. I know we need a lot of basic research as well, but how do we get some of that science transferred and diffused into the commercial applications in a way that will in turn help us with our productivity?

Mrs. Nancy Hughes Anthony: I'll ask my colleague Mr. Murphy to reply to the first part of that.

Mr. Michael Murphy: In terms of the tax side, as I was indicating earlier, I think it fits into the overall strategy in terms of spending and continuing to manage our debt, and then where tax does fit in. We have two priorities here that are hugely important, but they stem from two fundamental beliefs.

One, you have to find a way to encourage investment. You've heard a lot about that today, and I hope you've heard a lot about it from some of the other panel presentations you've had. How do you continue to do that? We've just seen another study done; I think C.D. Howe did it very recently on the effective rate of tax on capital in our country. We could sugar-coat it and say we're not doing too well, but the fact is that we're doing terribly in this area. In fact, only China has a worse record than we do in terms of stimulating it, and that's because of the compounding on the corporate tax side with capital taxes, with CCA rates, where we've taken baby steps in the last couple of budgets, but there's a lot more to do. All of those stimulate investment to get back to your productivity objectives, so I would give that a very high ranking.

The other objective is standard of living and the quality of life of Canadians. Are we overtaxed? I personally believe we are. I think there's an opportunity to really look here. Our brief specifically talks about some of the specific things that we'd like to see done. People who make between $25,000 and $45,000 a year in this country are paying effective marginal rates of about 60%. I think this is the third or fourth year we've had this point in there, so I know I'm not saying something you haven't heard before. I think it's so important to try to incent people to think about making an extra dollar. Today, why would you want to do that if you're going to get your benefit package clawed back? There's a series of those, and people in that income bracket really get hammered. So the way to get at this is to look at that lowest tax bracket, the 16% level, and our recommendation is to move it down to 15%.

It's the same thing on the corporate side. Don't just bring back what happened in the budget and what we lost as a result of the Bill C-48 situation that we went through earlier this year. Do something far more aggressive than that. Our specific recommendation is to start the process next year by going from 20% to 19%, not by taking half a point between 2008 and 2009. That is marginal at best.

So that's how I would answer the first part of your question.

● (1855)

Mrs. Nancy Hughes Anthony: Perhaps I could answer the second part of the question, because it's very much linked.

I know this is a concern that the Prime Minister and several of the ministers of cabinet have talked about. Gee, how come we've invested all this money in research and innovation and those darned people in business just aren't picking it up and commercializing it? I think there's a myriad of factors that are at play there, and I think many of the factors relate to the creation of the kind of business environment and investment climate that Mike has just spoken about.

In addition, we put some other little bits and pieces in there that are quite fundamental. Small companies really have a hard time accessing SR and ED tax credits. We say they're the most wonderful tax credits in the world, but you have to have an army of lawyers and accountants to figure them out and be able to work them.

So there are some ways, I think, in which we can definitely try to promote that environment, but then also look at those principal researchers. Say to somebody, "Gee, we want to get you into Canada, we want to bring you in from the United States". There are tax issues. I'm sorry to harp on it, but there are tax issues. Simply look at the difference between even our sort of top marginal tax rate, the rate at which it kicks in versus the United States, the very low threshold that it kicks in here in Canada—it's about $150,000—whereas in the United States it's closer to $300,000. So right there, you have a job even getting the brains in and making the brains stay in this country, as opposed to leaving us.

I think there are a host of environmental factors we have to be quite analytical about. One of them, when I mention SMEs, is the complexion of our country, the structure of our business, that is so small-business-focused. We have to recognize that, and in a number of areas I think we have to make some adjustments and really look at it through that lens, to make sure we're allowing the real opportunities to flourish here.

The Chair: Thank you, Mr. Cullen.

I have two quick questions. The first question is to the Chamber of Commerce, and we need a quick answer, if possible.

On page 11 you're stating in your brief that you recommend reallocating spending from lower-priority to higher-priority areas. Can you give me one example of a low-priority area?

Mrs. Nancy Hughes Anthony: Mike, would you like to take that?

Mr. Michael Murphy: Sure. Let me start with EI, because it's such a big number.

Government brings in somewhere between $18 billion and $20 billion a year in terms of EI premiums. One of the good things that we've done with EI is establish some principles in the last year or so that say we're going to work EI from now on at a break-even rate, that the premiums will break even with the costs of providing the services under the system.

I think the principle is one that we fully support, but the problem with that is, what are you including in the package? Basically, EI has become stretched out to be a kind of a grab bag of social policy issues, so we've introduced a number of programs under the rubric of EI. It's not an insurance program any more; it's far bigger. So the costs tend to be far greater. We've also sweetened the benefits. We did—and I won't repeat what I said in front of this group many times—some really fine work in 1996, the government did at the time, to reform EI. We've reversed all that. We now make it a lot easier to get access to it.

I think in terms of how much money we spend on it, there's an opportunity there to get that number down significantly. So there's one thing you could do. There are other things, but in the interests of time I've picked a big one.

● (1900)

The Chair: Thank you.

[*Translation*]

I have a question for you, Mr. Colette.

If we eliminate or reduce the air travellers' security charge which currently is only $6, would this have a noticeable effect on the total cost of the ticket?

This is in the wake of what Mr. Hubbard was talking about earlier.

Mr. Jean Colette: Yes. In fact, I wanted to show that this does not necessarily concern that tax alone, but in fact all taxes that negatively affect the cost of passenger tickets.

However, I also wanted to raise the fact that airport security is also national security. Indeed, what comes in and out of the airport affects all the people of Canada. Currently, the structure that has been set up for security is funded on the backs of travellers, that is on a certain number of citizens, even though this may have an effect on the entire country. That is what I was trying to say in this respect.

[*English*]

The Chair: An extension, Ms. Demers, because you asked for the same thing. Does the air travellers security charge really affect the number of tourists coming to this country? When I'm buying a ticket, I don't really look at what the security charge is, or whatever, if I plan on going somewhere, when I have to pay it out of my own pocket.

Ms. Jennifer Demers: Past studies have shown that a reduction in air travel directly correlates with an increase in price, so especially for a family of four it is cost-prohibitive. But the main reason we support its elimination, not one more reduction, is it's poor public policy—why one specific sector of the travel industry has to pay for safety and security as opposed to all of the others. We just think it's a general public safety that benefits the whole of Canada, not just air travellers. That's why we support its elimination, based on the fact that flat out it's poor public policy.

The Chair: Thank you.

Thanks again to all the witnesses.

Sorry, Mr. Attaran. We probably put you in the wrong panel, but at least we have your brief on record.

Thanks, members, for being here until seven o'clock.

The meeting is adjourned.

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