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Chair

Mr. Massimo Pacetti

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● (1545)

[*Translation*]

The Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.)): Mr. Loubier, do you want to speak?

Mr. Yvan Loubier (Saint-Hyacinthe—Bagot, BQ): Yes, Mr. Chairman. I want to inform committee members that, this morning I tabled in committee a summary report of a pre-budget consultation that my colleague from Chicoutimi—Le Fjord and I prepared following a cross-Quebec tour. The purpose of that consultation was to gather comments and suggestions from organizations and individuals who wanted to take part in the exercise for the purpose of Mr. Goodale's next budget. I tabled the document and am taking this opportunity to thank all my colleagues who took part in this democratic exercise, as well all those individuals and organizations. I submitted the results of our work to the office of the clerk, in the hope that the minister will consider the views of Quebeckers living not only in Montreal, but in the regions as well.

The Chair: Thank you, Mr. Loubier. Did you also send an electronic copy?

Mr. Yvan Loubier: Yes. Thank you, Mr. Chairman; you're very kind.

The Chair: I want to welcome the witnesses. I believe some are missing. We're nevertheless going to start because, as I said, I would like to stick to the timetable. This is our last meeting here in Montreal. We've already met with people in four cities in the West. This is the second city we've visited this week, and the committee will be travelling to Toronto for the next few days. We also heard from a number of groups in Ottawa.

We are meeting today pursuant to Standing Order 83.1 in the context of the pre-budget consultations 2005. I'm going to give groups a period of seven or eight minutes each to make their presentations. I'd like you to stick to that timeframe, or else committee members won't have the opportunity to ask you questions.

The first group is the Shipping Federation of Canada. Mr. Broad, I turn the floor over to you.

Mr. Michael Broad (President, Shipping Federation of Canada): Thank you, Mr. Chairman.

For more than 100 years, our organization, the Shipping Federation of Canada, has represented the interests of ships that transport Canada's exports to and from ports east of the Rockies. Canada's economy in large part derives its prosperity from international trade. The country's prosperity also depends on the capability of its transportation system to ship goods effectively from point of origin to destination. Shipping is a key component of that transportation system.

We're mainly responding to the third question suggested by the committee, concerning investment in physical capital, and we will refrain from answering the other questions, for which we do not have the necessary expertise.

[*English*]

From our industry's standpoint, investment in transportation infrastructure is an essential priority in the upcoming budget. This is due to the simple fact that the overall efficiency of the transportation network is a key element in the productivity of Canadian companies that produce and sell goods, and by extension the productivity of the country as a whole. The importance of maintaining the efficiency of that network became particularly clear over the past two years, when an unprecedented level of growth in world trade created a number of serious logistical challenges in Canada's transportation system.

We have five specific recommendations to present to the committee in this respect.

The first has to do with finding alternative methods and sources for funding Canada's transportation infrastructure needs. Why is this important? Studies indicate that the various modes of transportation are under stress, and many may be reaching the limits of their physical capacity. It's expected that current trade volumes will double by the year 2020, placing ever greater pressure on the transport network. It's also unrealistic to assume that all of the necessary funding can come from the government alone.

Thus we believe it's important that the government explore alternative methods and sources for funding the country's transportation infrastructure needs through such means as encouraging investment from the private sector, maximizing the impact of federal investment through contributions from other levels of government, and offering tools such as loans, guarantees, exemptions, and other fiscal incentives.

Our second recommendation has to do with making the best possible choices with the limited investment dollars we have. We recommend that long-term investments in hard infrastructure be combined with shorter-term soft investments designed to increase the efficiency of the transportation system in its present state. These soft investments should have a particular focus on developing processes to manage traffic flows in a proactive and efficient manner, with an overall view to improving the turnaround time of ships, trains, and trucks; avoiding bottlenecks and congestion; and developing contingency measures to deal with unexpected surges in traffic.

Although we aren't in a position to provide the committee with specific costs, we only have to look at the experiences of the past few years—the truck strike at the Port of Montreal in 2000, the container backlog at the Brampton intermodal terminal in December 2003, and bottlenecks that have plagued the Port of Vancouver over the past 18 months—to see the huge domino effect that a problem in one part of the system can have on all the other parts if adequate monitoring and contingency planning have not taken place.

Our last few recommendations bring us back to the issue of public financing of transportation infrastructure, particularly as it relates to the marine mode. First there is a need to ensure that the marine mode is equitably treated in public infrastructure programs, which is not presently the case. For example, the $4-billion Canadian strategic infrastructure fund does not include the marine mode in its eligibility criteria.

Similarly, marine transportation has not been included in any of the 3,000-plus projects funded by the $2-billion Infrastructure Canada program. Given the key role the marine mode plays in physically moving Canada's international trade to and from markets overseas, we believe it must be given greater consideration in current and future infrastructure programs.

Secondly, our industry is following with great interest the new Pacific gateway strategy that allocates $125 million to upgrading transportation infrastructure in the Pacific corridor. Although we view this as a much-needed initiative, we urge the government to develop comparable gateway strategies for Canada's other major regions in transportation corridors, particularly the St. Lawrence, the Great Lakes, and the Atlantic.

Finally, we would direct your attention to the ongoing funding requirements of the 60 or so non-divested public ports that continue to be owned and operated by Transport Canada. Given that the infrastructure at some of these ports has deteriorated to such a degree that some may pose a risk to safety, we urge the government to provide the funding necessary to ensure that these ports are properly maintained.

The overall objective should be to guarantee the safety of navigation in the short term, while ensuring that the infrastructures themselves remain valuable assets in the long term.

● (1550)

[*Translation*]

That completes our presentation. Thank you for your attention. I'll be pleased to answer your questions.

[*English*]

I hope I made it under the seven- or eight-minute deadline.

The Chair: Yes, you made it in just under eight minutes. Thank you. We appreciate it.

[*Translation*]

The next witness is Mr. Sirois from the University of Montreal.

Mr. Jean Sirois (Dean, Faculty of Veterinary Medicine, University of Montréal): Mr. Chairman, committee members, first I want to thank you for this opportunity to outline the situation of our faculty to the committee.

I'd also like to introduce the person who is here with me today. He is Dr. Pierre Lamothe, who is responsible for infrastructure planning and development at the Faculty of Veterinary Medicine.

My presentation is entitled Toward Full Accreditation for the Faculty of Veterinary Medicine of the University of Montreal.

By way of background, I'd like to start by discussing the role of the veterinarian in society. As you know, veterinarians are professionals who are responsible for the diagnosis, treatment and prevention of animal diseases.

As a result, they are responsible for maintaining the health status of Canadian herds and are involved in the quality and safety of the meat we eat. They are obviously key players in monitoring emerging animal diseases which, in some cases, may potentially be transmitted to humans. Veterinarians are obviously involved in research and development of knowledge, new technologies and drugs.

In Canada, we have four faculties of veterinary medicine. We have the only French-language faculty in Canada. In fact, it is the only French-language faculty in America.

Our mission is threefold: education, research and public service.

Our program is spread over five years. We have more than 400 students at the undergraduate level and more than 200 studying at the postgraduate level: masters, doctorate, internships and residencies.

Faculty staff includes a teaching body consisting of more than 120 professors and clinicians. We also have 300 non-teaching staff members. These are our support staff: secretarial employees, animal technicians and professionals.

The focal point of the Faculty of Veterinary Medicine is a university veterinary hospital centre called CHUV. CHUV has three hospitals that handle more than 10,000 cases a year. They consist of one food animal hospital, one equine hospital and one companion animal hospital.

The centre also has an ambulatory clinic that conducts more than 4,000 visits a year to the region's farms. Its specialized services are offered to the public and to referring veterinarians. Its expertise is available for Quebec and Canadian government agencies.

Lastly, the faculty also offers specialized analytic and diagnostic services including, for example, a pathology service to detect the causes of animal deaths, as well as a range of special services. We in fact conduct more than 350,000 analyses a year.

Lastly, research, as I mentioned, is also an important mission for the faculty within the university. This activity includes outlays of more than $7.5 million a year. Research activities are divided into various areas: Canadian research chairs, industrial research chairs, which are subsidized by the animal industry, Canadian research networks, the focal point of which is in Saint-Hyacinthe, and a number of research centres and groups.

That rounds out the background and leads us to the main reason for our visit here today, which in fact dates backs to 1999, when our Faculty of Veterinary Medicine lost its full accreditation by the organization that evaluates us, the AVMA.

In 1999, we were downgraded to limited accreditation status for a number of reasons, including various deficiencies that had been assessed by the organization. They included, for example, inadequate operating budgets and a lack of professors on the faculty. Clinical resources were also deemed insufficient, and physical facilities and equipment did not meet today's standards.

● (1555)

Based on those findings, in 1999-2000, a major redeployment and recovery plan was put in place for the next five years. It was a multi-phase recovery plan.

Phase 1 is now completed, and we received support from the Government of Quebec for that purpose. This has enabled us to increase our operating budget, hire new professors and technical staff and build certain infrastructures.

We are now in Phase 2 of our plan. With partial support from the federal government, this phase includes, among other things, construction of a modern large animal hospital.

We're also working on planning for Phase 3, a modern veterinary medicine pathology, diagnostic and research centre.

After five years of intense work, the American organization that evaluates us visited the faculty with a committee of experts in February 2005. We received the committee's decision last week, on October 27. The verdict is disappointing for the committee. In fact, it's a disappointing verdict for Quebec and for Canada. The committee decided to maintain the partial accreditation for another two years. This is a disappointing decision, considering the amount of work that has been done over the past five years.

However, the encouraging remarks in the report concerned the 11 standards the committee considers in evaluating faculties of veterinary medicine. We now meet 10 of those 11 standards. We are not in compliance with one standard, concerning physical facilities and equipment. That will obviously be the focus of our efforts in the next few years.

It is in this context that we're appearing before the committee today to seek the federal government's assistance and support to enable the Faculty of Veterinary Medicine, the only French-language faculty in Canada, to be restored to full accreditation status.

As I mentioned, we are in Phase 2 of our recovery plan. Construction of the large animal hospital began in June of this year, and is scheduled to be complete in the summer of 2007. However, there are other aspects to this phase. Since we're building a large hospital, we'll also have to equip it. High-tech equipment will have to be purchased, and a budget for that purpose is estimated at $14 million. We will also have to fit up and upgrade research laboratories and lab animal facilities. Based on our estimate from last year, our budget is short $24 million. We'll continue to work with our partners from the Government of Quebec and Agriculture and Agri-Food Canada to develop a pathology, diagnostic and research complex to meet current needs. The preliminary estimate for this project is $70 million.

In summary, I'll close by emphasizing the four important points of my presentation. First, we are the only Canadian veterinary faculty with limited accreditation status. The other three faculties, which are located in Guelph, Saskatoon and Prince Edward Island, have full accreditation by the Department of Mathematics and Applications. The only French-language faculty in the country is still on limited accreditation status, and has been since 1999.

Second, we have done a colossal amount of work over the past five years, and we still have much to do. With the federal government's support, we must be ready for full accreditation at the time of the visit in 2007. We are in non-compliance with only one standard at this point, physical facilities and equipment. To complete Phase 2, we'll need $24 million.

Third, I'd obviously like to emphasize how important it is for Quebec and Canada to obtain full accreditation status. It is essential not only for animal health and welfare, but also for national recognition of our faculty, as well as for international recognition of Canada with respect to the countries with which we interact.

Lastly, considering the important role of veterinarians in the agri-food sector and with our exporting countries, the issue, obviously, is also one of economic prosperity.

Thank you.

● (1600)

The Chair: Thank you, Mr. Sirois. I have a brief question to ask you. To which department are you directing your request for $24 million?

Mr. Jean Sirois: To the Department of Agriculture and Agri-Food. However, we'd be pleased to receive that amount from any department.

The Chair: I ask you the question because we want to make the recommendation you advise us to make. We're not the ones who should make it up.

Mr. Jean Sirois: In fact, the grant we had in previous years, at the start of Phase 2, came from the Department of Agriculture and Agri-Food.

The Chair: All right. Thank you.

Mr. McManus, from the Laurentian Bank of Canada.

[*English*]

Mr. Raymond McManus (President and Chief Executive Officer, Laurentian Bank of Canada): Good afternoon, Mr. Chairman and members of the standing committee. My name is Raymond McManus, and I am the president and CEO of the Laurentian Bank of Canada. I'm here today with the bank's chief financial officer, Robert Cardinal.

[*Translation*]

My presentation will be in English, but I'll be pleased to answer your questions in English or in French.

[*English*]

Before we begin, we have previously arranged to distribute a one-pager, in point form, that will assist you in following my presentation.

Our objective today is to bring to the committee's attention the unfairness in the application of part VI tax and to recommend an easy and simple solution. We are convinced this solution will contribute to improved competition, productivity, and prosperity in Quebec and throughout Canada by removing an unfair tax burden on small financial institutions, thus fostering a more competitive environment.

Founded in Montreal in 1846—almost 160 years ago—Laurentian Bank employs 3,250 employees, of which over 2,000 are unionized. Our main market is Quebec, where we rank third in terms of number of branches, but we are also very active across Canada in niche markets, with approximately 35% of our assets outside Quebec.

Our proposed amendment to part VI tax would provide a more level playing field and allow smaller financial institutions to better compete, while also offering Canadian consumers more alternatives in a market dominated by a limited number of larger financial institutions.

Part VI tax is a form of minimum tax imposed on the capital of a bank or a life insurance company, and it takes effect when its taxable income and resulting income tax payable are too low.

Part VI tax was first introduced in 1986 by the federal government as a temporary measure to address the deficit of close to $40 billion. It was based on the perception that banks were not paying their fair share of taxes. The part VI tax rate and capital deductions have not been adjusted since then. In truth, the part VI tax was not even adjusted for inflation or the fact that the part I tax rate was reduced.

Furthermore, Canada's financial service regulator encourages banks to maintain a higher capital ratio than is required under regulation, in order to ensure their financial strength and stability. On the other hand, the federal government, as well as provincial governments, tax this excess capital. Therefore, Laurentian Bank and other financial institutions are further penalized for being conservative.

This situation is unique to Laurentian Bank. Since its introduction, part VI taxes contributed to boosting Laurentian Bank's tax assets to $114 million, or a level of 16.8% of its capital, more than three time higher than the average of the big six banks, at 4.7% of their capital.

A review of all the banks' annual reports demonstrate that Laurentian Bank is the only bank with minimum taxes carried forward. In other words, all other banks make sufficient profits and pay sufficient part I tax to absorb part VI tax. Furthermore, this form of tax prepaid to the federal government deteriorates the overall profitability of Laurentian Bank, as it represents a non-productive asset that has to be funded.

● (1605)

We are recommending increasing the part VI tax capital deduction from the $220 million established in 1988 to $1.5 billion for financial institutions with consolidated accounting income of less than $150 million before taxes. We believe our suggestion meets the concerns of all parties, namely the banks, life insurance companies, regulators, and government.

Our suggestion would respect the government's original intention of part VI tax while removing its unfair application. In addition, our recommendation has the added advantage of being simple and easy to implement.

Since the introduction of the part VI tax, the government deficit situation has been resolved and banks are now paying their fair share of taxes. The banks actually paying part VI tax today, such as Laurentian Bank, were not the original ones targeted when this measure was implemented. The part VI tax, in its current application, is a form of capital tax that impairs the capacity of smaller financial institutions to compete.

With our proposed change, the impact on federal revenues would be minimal. Only small banks such as Laurentian Bank and Canadian Western Bank would benefit from the increase in the part VI tax capital deduction.

As for life insurance companies, the proposed amendment would not have any impact, since none of the large insurers had a consolidated income lower than $150 million before taxes. As for the small insurers, they all had a capital base smaller than the current $220 million deduction.

We are not requesting a subsidy or a retroactive adjustment. We are only asked to be treated fairly. The last Bank Act reform was designed to bring increased competition and help new and smaller institutions. Our proposed adjustments to the part VI tax would go a long way toward reaching that goal, and thus toward improving Canada's productivity and prosperity.

Mr. Chair, we therefore respectfully urge the committee members to take the time to carefully read again our submission, which fully explains in detail the points we have raised here today.

Thank you for your attention.

● (1610)

The Chair: Thank you, Mr. McManus.

Are you really the only bank affected by this?

Mr. Raymond McManus: That pays it? Yes, at this time.

The Chair: Thank you.

[*Translation*]

Ms. Hudon, you have seven or eight minutes. Is that fine with you?

Ms. Isabelle Hudon (President and Chief Operating Officer, Board of Trade of Metropolitan Montreal): That's quite enough, but I could talk to you about Montreal for hours.

My name is Isabelle Hudon, President and Chief Operating Officer of the Board of Trade of Metropolitan Montreal. My colleague Sylvain Bouffard, Director of Policy at the Board of Trade of Metropolitan Montreal, is here with me.

I want to take a minute or two to tell you about the Board. It represents the interests of the business committee, both on Montreal Island and on the north and south shores. We have some 7,000 members in the greater metropolitan area. When I say greater metropolitan area, that's comparable to the area of the Montreal metropolitan community, so greater Montreal.

We have a two-part mission. We represent the interests of the business community, but we also offer services to support, more particularly, the PMEs based in Montreal and elsewhere in Quebec as well.

As we do every year, the Board of Trade of Metropolitan Montreal will officially file a brief with your committee and with the Minister of Finance Canada, and with the Quebec minister. We're about to put the final touches to that document. You'll be receiving the complete brief with appendices in two or three weeks. I nevertheless thought it was a good idea to come meet with you to give you the main points that guided our analysis over the summer, both the members of our finance and taxation committee and following a consultation with large and small businesses.

Like probably all the organizations told us, we have two major expectations. We would like the budget to be balanced and commensurate with the needs of Canadian taxpayers. We would also like the budget to take aim at competitiveness and wealth creation. We need that across the country.

Allow me, however, to argue for the need to create wealth in Montreal, Quebec's leading city and one of Canada's top 5 cities, whose population is becoming increasingly concentrated and dense. When you look at the statistics, you see that more than 50 percent of the population of Canada lives in those five major cities. That provides food for thought about the future and the tools the cities have to support that growth.

You'll find our recommendations in our pre-budget submission. They are set out in three major chapters. The first is the economic competitiveness of Canada and its metropolitan areas. The second will be funding for major urban infrastructure, because we also recognize that infrastructure investment is also done at the provincial level. In the third chapter—because, in Ottawa, you had a good look at the future of cities—we re-emphasize how important it is to improve the financial situation of cities in a manner consistent with established jurisdictions.

In the chapter on the economic competitiveness of Canada and its metropolitan regions, you'll find our first request, which is for major investment at the Lacolle border crossing. As you know, Windsor is a very important border crossing, indeed the most important one for Canada. However, the Lacolle crossing is of critical importance to Montreal and Quebec, since the United States is our number one economic partner. We generate more than 70 percent of Quebec's exports in Montreal. When you use the rule of three, the vast majority of our exports go to the United States. It is therefore urgent, indeed critical, to invest in the Lacolle border crossing, particularly considering the massive and significant investments the U.S. government has announced on the American side of the Lacolle crossing. Just to make you realize how important this border crossing is, I would say more than 1,000 trucks and 3,000 cars cross the border at Lacolle every day.

The second point in this chapter on competitiveness is the capital tax. The Canadian government has announced that it will be completely abolished by 2008. We propose that you abolish it before 2008. The federal government can afford to do it. Not all governments have that opportunity. We sincerely believe that the capital tax is a real brake on investment and innovation. We strongly suggest, even propose, that you accelerate its abolition and set your objective for 2006 instead of 2008.

● (1615)

The third point concerns a study we've just completed after more than 10 months of work on direct foreign investment. I'm not talking about prospective direct investment outside Canada, but direct investment in foreign countries by our businesses. For example, some of our Canadian, Quebec and Montreal businesses are deciding, as they expand, not to move their facilities, but rather to invest in and set up partnerships outside the country. We've realized that Canada is the only G7 country that does not have a specific fund for supporting direct foreign investment. We sincerely believe this measure would be beneficial for the federal government and for the provincial government. However, I am speaking to you today. It should be seriously considered, particularly for SMEs. Large businesses have the necessary capital to invest outside Canada. However, we realize that the SMEs, which are responsible for 99 percent of our economy, have neither the tools nor the capital to do so.

One single statistic made us stop and think at the start of our study. According to the OECD, one dollar in direct foreign investment results in two additional dollars in exports for companies that decide to invest outside the country.

I'd like to address a fourth point. I believe that my colleagues from Culture Montréal appeared before me and talked to you about this, but I'd like to join with them in supporting the request that the budget of the Canada Council for the Arts be doubled. That budget currently corresponds to less than $5 per capita. We support the request by Culture Montréal and the other cultural institutions that this budget be doubled. Culture is increasingly promoted as a development engine for cities, governments and urban areas. I wholeheartedly support this request, particularly when we compare ourselves to the United Kingdom; it's always a good idea to compare ourselves. The budget it allocates to its arts council provides more than $20 per capita.

With regard to Chapter 2, funding and infrastructure, I have only one argument to submit to you today: that it is important to make the partnership into which the federal government entered with the Old Port of Montreal Corporation last. You're one of the critically important partners in the revitalization of an area that greatly needs it. We are a stone's throw from that area, which we call the Old Port area. This is a need. We can see with our own eyes that this area really needs to be revitalized, starting with the Bonaventure Autoroute, which has collapsed. A segment of that autoroute belongs to the federal government.

The primary objective of the Old Port Corporation's work is to restore citizen and tourist access to the banks of the St. Lawrence. Currently, the banks are mostly occupied by a highway and are covered with asphalt. We want to restore access to the banks to Montrealers, tourists who visit Montreal and any other person passing through the city. The Corporation's first action is to rethink and redo the Bonaventure Autoroute. The Corporation conducted a study that shows that the three levels of government would recover their investment in less than five years. The return on investment would be more than $2 billion, whereas expenditures would be less.

In the introduction, I referred to the third point, improving the financial situation of the cities, but I think it's necessary to talk about it again. There is increasing urban activity in Canada and in Montreal. In Quebec, Montreal represents 50 percent of GDP. Similarly, 50 percent of the province's population lives there.

● (1620)

It is therefore urgently necessary to provide the major cities, such as Montreal, with new, increased and recurring sources of revenue.

The only point I would emphasize on this subject is that, last year, you announced the very good news that, through the provinces, you would be sharing a portion of the gasoline tax with the cities. You're spreading it over five years. As I did for the capital tax, I propose that you accelerate that sharing. The figure will be $600 million in the first year and $600 million in the second year. I therefore propose that you accelerate this sharing.

Mr. Chairman, I'll conclude by thanking you for inviting me and welcoming me.

I would like to tell you that, unlike that of the federal government, Montreal's financial position is unfortunately not very positive. I challenge you to help us create wealth and to support us in our aspiration to grow.

The Chair: Thank you, Ms. Hudon.

For the benefit of the witnesses, I'd like to say that committee members have six minutes each at their disposal for questions and answers. Consequently, if you can be very brief in your answers, that will enable committee members to ask a number of questions.

Mr. Prentice, you have six minutes.

Mr. Jim Prentice (Calgary Centre-North, CPC): I'd like to welcome our witnesses. Thank you for your time.

I have a question, first of all, for the Shipping Federation of Canada.

We heard today that Canadians have a cultural deficit and a transportation infrastructure deficit. So I asked why, since the Government of Canada and the provincial governments have collected approximately $14.5 billion in taxes.

Why do we have an infrastructure deficit?

[*English*]

Mr. Michael Broad: Briefly, it's the tremendous growth in world trade over the past several years—double-digit growth—and we just can't handle it smoothly. It's getting a bit better now, but there are funds required in ports, the soft forecasting and management processes within the ports, and in rail and truck access. We represent the ships that come in from overseas and carry the cargo. We can drop it off at the ports, but it's got to get inland. A lot of that is container cargo; it has difficulty getting from Vancouver, let's say, to Montreal or Toronto. People are waiting weeks for it.

Mr. Jim Prentice: If, as you indicate in your brief, international commerce should double in the next 15 years, to what extent are these obligations governmental obligations, and to what extent are they private investment decisions?

Mr. Michael Broad: The federal government has a responsibility for the ports. As I said, the Pacific initiative is a good start. In terms of percentage, it's difficult to say. Certainly there have to be some infrastructure improvements on the rail side, definitely. CN Rail and CP Rail have a pretty good business going; they need to make some big investments, but I think they're a bit afraid to. They want to see how far this increase in world trade is going, and whether it's going to stay.

● (1625)

Mr. Jim Prentice: Are there things the Government of Canada should be doing to improve the investment regime or depreciation structures to make it easier for people to make—

Mr. Michael Broad: I'm sure the people involved in the inland infrastructure could guide you accordingly. It's not for us to say, really. I couldn't tell you.

Mr. Jim Prentice: Second, I have a question on the Laurentian Bank. I was interested as to whether there's a tax that specifically applies to the Laurentian Bank only, or whether it's a situation you find yourself in because you have a more conservative investment strategy than the other—

Mr. Raymond McManus: It's because of our profitability. In order to absorb it, I would say we would have to make approximately 9% to 10% return on equity, while the other banks are absorbing through their part I. The other banks are not paying any part VI taxes; we're the only bank that is paying part VI taxes.

Mr. Jim Prentice: So perhaps you could answer this. Why is your position so different from theirs in terms of return on investment?

Mr. Raymond McManus: Again, I think we are in a position—let's call a spade a spade—of being in a turnaround, or a *redressement*, and we have a strategy, but for the next few years before get over into the double digits, it's going to take us a few years.

One thing, being very practical also, is that although I think the smaller banks can earn a reasonable return on equity we can never reach the efficiencies of the big banks. There are not the economies of scale. So I think we can lower our risk profile by not having such an international exposure, and so on. However, realistically we will always—even if we're humming on all cylinders, let's say—earn 2% or 3% less than the big banks, I think.

Mr. Jim Prentice: So is the Canadian Bankers Association also pushing to have the part VI tax eliminated entirely?

Mr. Raymond McManus: Yes, that's my understanding from talking to the Canadian Bankers Association. But their motivation is different from, let's say, the Laurentian Bank of Canada's, because you can appreciate getting the support of the big banks. The fact that they're not paying part VI tax is not a major issue for them, but it is a major issue for a bank of our size because we are building up tax assets, which, as I said before, are non-productive assets. And right now we are the ones being targeted, which was not the original purpose of part VI tax when it was implemented in 1986.

[*Translation*]

Mr. Jim Prentice: Thank you.

The Chair: Thank you, Mr. Prentice.

Mr. Loubier.

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

Thank you for your presentations. My first question is for the Dean of the Faculty of Veterinary Medicine, Mr. Sirois. For the benefit of my colleagues, could you explain to us the consequences that maintaining this limited accreditation could have for the future? When the AVMA comes back to see you in 2007, what will you have to have done? Will you have to have completed the work you've long been promising? Will you have to have a guarantee that the federal government will shoulder its responsibilities with regard to the Faculty of Veterinary Medicine, the only faculty with a limited accreditation, as you mentioned?

Mr. Jean Sirois: With regard to the 2007 visit, three accreditation scenarios are possible. We can have full or limited accreditation or we can have terminal status. Terminal status is the worst of the scenarios. That would mean losing accreditation. That would obviously have tragic consequences for the institution with regard to its graduates, but it would also have consequences for Canada because people who meet the standards would not be internationally recognized. We can't contemplate that scenario. As Dean of the Faculty, I can't allow that to happen.

When it visits in 2007, the AVAM will want to ensure that the changes we announced—construction and equipping of the new hospital—have been made and that the amounts are clearly identified. That still gives us two years. As I said a little earlier, construction has begun, and the work is scheduled to be completed in 2007, but the equipment will have to be installed and will have to have met those requests.

What was the first part of your question?

● (1630)

Mr. Yvan Loubier: What do you have to produce for 2007, and what will be the consequences of not doing so? I see you could wind up with buildings for the Faculty of Veterinary Medicine of the University of Montreal, but empty buildings.

Mr. Jean Sirois: That's correct. Obviously, if we build a new hospital and nothing is going on inside it, that wouldn't have a lot of value for them. We need an investment budget for equipment, and we're still short of money. We therefore have to convince our partners to get funding for that equipment.

Mr. Yvan Loubier: Ms. Hudon, you said a little earlier that elimination of the capital tax should be accelerated. You said that, in that way, businesses in Montreal and elsewhere in Quebec and Canada could accelerate their investments in order to face the economy emerging from this new competition.

However, in the past five years or so, all the tax cuts, whether at the provincial or federal level, have been transformed more into dividends for shareholders. As a result, the relative advantage that we had—the comparative productivity advantage of businesses—is declining. A gap is also opening up relative to our U.S. neighbours and even more so relative to countries such as China and India. That's true for a number of sectors, not only in what's commonly called soft sectors.

How then can we be assured that a measure accelerating the elimination of the capital tax would encourage businesses not only to maintain but also to increase their productivity in order to cope with the new world situation?

Ms. Isabelle Hudon: I could argue that, by eliminating the capital tax, you force businesses, on the other hand, to invest in innovation. We see clearly that innovation has a direct impact on productivity. However, I wouldn't want to increase the burden on one program by relieving that on another.

However, as a first step, let's eliminate this tax, or this federal tax called the capital tax. At the same time, I entirely agree with you that we must consider putting concrete measures in place to encourage, even force, businesses to invest in innovation because, with globalization, it's obvious they won't be able to make the grade. If our businesses don't renew their technologies, among other things, they won't be able to make the grade. I don't think you can link the two things, but I nevertheless agree on the need to invest in innovation.

I hope you understand the view I'm defending on the capital tax. I think it's a real brake.

Entrepreneurs will have to be taken by the hand and made to understand that it's time to invest in innovation, through the cash that will be freed up by putting an end to the capital tax.

Mr. Yvan Loubier: Perfect.

Mr. Chairman, you were wondering this morning because you've often heard your colleagues make comments such as “Culture doesn't generate economic profits.” Now you've heard proof to the contrary, because the President of the Board of Trade of Metropolitan Montreal defends the Canada Council for the Arts. That's marvellous. You have proof that there ultimately is economic activity.

The Chair: That's why I invited her. Thank you.

Mr. Yvan Loubier: I have one final question to ask, this time, of Mr. McManus.

The Chair: Thank you, Mr. Loubier.

Mr. Holland.

[*English*]

Mr. Mark Holland (Ajax—Pickering, Lib.): Thank you very much.

I can tell you that a great number of our colleagues do believe that culture is a major generator of innovation and vitality within cities, and I can tell you, from my own personal experience in municipal politics, that when you're trying to drive things like sustainability, culture plays a major role.

If you get people, for example, instead of commuting great distances to see cultural events, attending them in their own communities, that of course spawns many different types of businesses. That plays a very important role. That's one of the reasons why Minister Frulla, beyond just the value of arts, is supporting that particular initiative, and so do I. I support the doubling of funds to the Canada Council. It's more than just because it provides great cultural outcomes, but also because it provides great economic and sustainability outcomes as well.

That's just a statement on the top.

One of the comments, Ms. Hudon, that you made in your presentation was on the need to diversify or at least augment the ability of municipalities to raise revenues, which I think is an important point. We've attempted to do that on a federal level, even stepping outside of our normal bounds of jurisdiction to help with the new deal and to continue to push the infrastructure programs that we do, but is there any role for the federal government in that statement, or are you looking mainly at the provincial government changing its relationship with the provinces to give them the ability to raise more funds? What role specifically do you see for the federal government in that statement?

● (1635)

Ms. Isabelle Hudon: Always in respect of the jurisdiction between the federal and provincial governments,

[*Translation*]

I believe that sharing the gas tax is really a perfect example—at least a good example—showing that you, the federal government, are able to share your wealth with the municipalities, through the provinces, if only in the area of public transit.

We'll have to find other methods, again in a manner consistent with the jurisdictions of each, and to examine ways of sharing wealth at the provincial level. I won't touch on education, but you referred to culture. If we want to achieve all our major ambitions, we absolutely must attract, train and retain talent in the major cities and in the regions. So there must be serious discussions in order to find a way for the provinces to invest in education, but with federal assistance. If we don't invest in training and retaining talent in Montreal, Quebec and Canada, we'll never do that; we'll never meet the challenges of our ambitions.

[*English*]

Mr. Mark Holland: Thank you for that.

I just want to make the point, because when we're talking about municipalities, there is also the other side of it that we have to be cognizant of. I think we're doing a lot of good things. We have to sustain them, but as you know, there's a separate issue and debate that needs to be taken up with the provinces in terms of allowing municipalities to become their own levels of government in their own right. Any time it's referenced—and I agree with it—we should be cognizant; I know you are.

Given the amount of time, I know you're anxious to share a response, but I have a very short amount of time and I do have a couple of other questions.

With regard to the University of Montreal and the faculty of veterinary medicine, I have a very quick question. I thought that in your response to a question posed by the chair, you said you had received—maybe I misheard you—support previously from the federal government, through Agriculture Canada. Can you confirm that for me? What form did that support take?

[*Translation*]

Mr. Jean Sirois: That's correct.

[*English*]

Mr. Mark Holland: What form did that support take?

[*Translation*]

Mr. Jean Sirois: In fact, as indicated in my presentation, that dates back to the early 2000s. A recovery plan was established at the time, and we received $35.5 million from the federal government. I want to explain the circumstances to you.

In the context of that recovery plan, we made requests to the federal and provincial government. The amount received from the provincial government, the total amount of grants to increase our university operating budget for faculty and infrastructure, was $41 million. The overall plan was in fact $100 million, and we estimated at the time, given the way this is usually calculated at the federal and provincial level, that it would be shared on a 60/40 basis. With a provincial impact of $41 million, we anticipated that the federal government would provide us with support of up to $60 million.

In actual fact, we received $35 or $36 million. The difference of $24 million is what we're still seeking in order to complete the work and purchase the infrastructure that we had planned at the time. We're still short that amount, which is in fact the amount that had been calculated for upgrading the infrastructure. We're still looking for that $24 million to reach our goal.

We've had unstable and limited status for six years now. We still have two years to go. As dean, I'd like to make the grade the next time. In those years, we've done a lot of work, which represents a certain amount of catching up at the French-language Faculty of Veterinary Medicine. And while our English-language university colleagues are engaged in development, we're spending a lot of energy catching up to them and trying to maintain the same standard as them. We hope that, with the government's support, we can achieve that standard and work for our own development as well.

● (1640)

[*English*]

Mr. Mark Holland: I have one more question, if I could; it is to Mr. Broad.

We hear of an infrastructure deficit—I think you referenced it today—and the need for additional investment. We have deficits that you've mentioned—in rail, in our roads, in our ports, in our intermodal systems. If we were to make investments, where are we going to see the greatest return in terms of greater mobility of goods and services?

It's a difficult question, I know—

Mr. Michael Broad: Very difficult. It depends on whom you ask.

Mr. Mark Holland: Well, I'm asking you in this instance.

Mr. Michael Broad: From our point of view, at the beginning we saw a great deficit in the rail infrastructure, but we can understand that it was just the surge in volume of cargo coming in from the Far East, basically. The amount of manufacturing that's gone over to China is tremendous, and that blew out the numbers on the imports. I can see that they had a problem to handle the business at first.

Certainly there had to be a lot of changes in the way people did business. Rather than working 9 a.m. to 5 p.m., people had to pick up their cargo off-hours as a result of management processes put in to improve the capacity of the rail system. That has worked to a certain extent. That was our feeling, that the biggest investment was needed there. But there's also investment in access to ports, in the ports' infrastructure itself. The Port of Vancouver, for instance, says it's going to double its capacity within five years. They're putting more U.S. cargo through the Port of Vancouver. Right now, 10% of the business is U.S. cargo. The Port of Montreal, for instance, is 50% U.S. cargo, so if Vancouver wants to get to that range, it's going to have to expand pretty rapidly.

I don't know if that answers your question. I think one of the things the Pacific initiative is doing is trying to get the stakeholders together to find out exactly where the infrastructure has to be improved.

The Chair: Thank you, Mr. Holland.

Mr. Solberg is next, and then Mr. Bouchard.

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

Thanks to all of you for your presentations. It's a very interesting set of challenges that you present for the committee.

I want to say to Mr. McManus—for whatever it's worth—how sympathetic I am and a number of us are to your position. I think it's wrong to have capital taxes at all, for all the obvious reasons. When the government mandates that reserves of a particular size be kept and then you are punished through the tax system for keeping them there, it doesn't make a lot of sense. Of course, because of your particular situation it makes it all the worse.

I want you to know that certainly those of us in the Conservative Party who are aware of this issue are very sympathetic, and we'll do what we can to try to argue your point for you.

But I have to ask, when you talked to Finance officials, what did they say? How can they justify keeping this in place, given what you've explained?

Mr. Raymond McManus: All I can say is we made representation to OSFI and explained our situation. They understand it and they say they support us, but again that's not their role. They're sympathetic. They said this tax was not originally intended for Laurentian Bank.

We made representation to Bob Hamilton, and he says they're studying the situation and everything else. We're doing all we can. Part of the reason we're here today is that we've been working on this now for over a year. As you can appreciate, as I said earlier, we have this, and if it were eliminated we would be in line with the other banks, based on our plan, in three or four years. This is like carrying goodwill, if you want to put it that way.

Anyway, we've done all we can. That's why we're here today to ask for you assistance. Thank you for your comments. I appreciate them.

● (1645)

Mr. Monte Solberg: Mr. Broad, you've presented a pretty long wish list of things you'd like. I know it's near Christmas, but we do have to sort of pare these down. Mr. Holland started to allude to some of this. There are a number of initiatives on here that would be extraordinarily costly. I admit they're an investment, but in the meantime you have to come up with the funds to pay for them.

What do you place at the very top of the list? What do you want to see done? What are your top three projects?

Mr. Michael Broad: I guess the first one is getting the stakeholders together and identifying the areas and the infrastructure that need improvement. The ports, railways, and trucks work as a system. If one small area such as trucking—I mentioned the problems with the truckers in Vancouver just recently—breaks down, it upsets the whole system. So I think you need the input of all the stakeholders.

I guess as far as we're concerned our ships bring in the cargo and we sort of drop it at the ports. We see that there are problems in getting that cargo to the destination and back out.

It's a big wish list, I know. It's not very focused. But it just points out some of the areas that we see. I don't think it's up to us to determine which ones are the most important. But I think getting the stakeholders together is very important.

Mr. Monte Solberg: But if the government goes ahead and makes changes and you don't approve, you won't be very happy.

Mr. Michael Broad: No. That's why I say that getting the stakeholders together is probably the most important thing.

Mr. Monte Solberg: Thank you.

Ms. Hudon, I appreciate you raising the issue of capital gains, but I have to admit I'm a little confused. I think we started to talk about capital taxes and then we were into capital gains. I wanted to make sure everyone was on the same page. But it's interesting that you're talking about capital gains. It's not something that's come up much. Capital gains taxes are extraordinarily damaging—

Ms. Isabelle Hudon: Capital tax.

Mr. Monte Solberg: Okay, then that straightens everything out.

The Chair: To save you a bit of advice—

Mr. Monte Solberg: To re-till old ground, it is very important and very damaging. In particular, you have a very good example in Montreal of the Laurentian Bank, which has been very damaged by it. It's not that bank alone, though.

On the issue of border crossings, I travelled to Vermont last spring. I don't know if it was through the border crossing you're talking about. Actually, I came back through a different one and I'm not sure which is which. You mentioned Lacolle? Where is it?

Ms. Isabelle Hudon: It's about 15 minutes from here. I don't know which one you crossed at.

Mr. Monte Solberg: All I know is that the infrastructure to Vermont through St. Alban's was very poor. The road was unbelievably bad. I've no idea how major an artery that is for shipping into the United States, but it couldn't be a very major one because the road was so poor.

I simply offer this as some sympathy for your position, if that's the general state of things. But it was quite poor and it was shocking, actually.

Ms. Isabelle Hudon: If you had that experience and that reaction, you crossed at Lacolle, because when you are on the U.S. side it's very modern. They've announced a $300-million U.S. investment. On our side it's two lanes, and it's not at all up to that level.

We'll have a trip to Lacolle.

Mr. Monte Solberg: I'll drive.

The Chair: We have two major border crossings just out of Montreal. Whether you want to go to Vermont or New York, they're both in sorry states.

Mr. Monte Solberg: I went through Vermont and came back through New York. I drove across Lake Champlain to get back. At any rate, it was surprising, given how important Montreal obviously is to the economy.

● (1650)

The Chair: Thank you, Mr. Solberg.

[*Translation*]

Mr. Bouchard.

Mr. Robert Bouchard (Chicoutimi—Le Fjord, BQ): Thank you, Mr. Chairman.

Thanks to all of you as well.

My first question is for the representatives of the Shipping Federation of Canada. You said that the Canadian Strategic Infrastructure Fund included shipping infrastructure projects. Do you know of any promising projects that were not accepted? If so, do you believe they would have been accepted if there had been a change in the program?

Mr. Michael Broad: No.

Mr. Robert Bouchard: There is one in my riding.

Mr. Michael Broad: What is it?

Mr. Robert Bouchard: It's an oil terminal at the Grande-Anse terminal at Port Saguenay in La Baie. I inquired with the federal government to see whether there was a program to assist or subsidize that kind of project. There was no program. In fact, we're short one-quarter of the funding. The funding was found by the partners, including the Government of Quebec.

My second question is for Ms. Hudon, of the Board of Trade of Metropolitan Montreal.

You said that, as a member of the G7, Canada did not have direct foreign investment measures. You also said that SMEs did not have foreign investment tools.

Do you have any idea how those kinds of measures can be organized to promote foreign investment?

Ms. Isabelle Hudon: In my presentation, I said that Canada is the only G7 country that does not have a fund to support direct foreign investment. These funds can take various forms. One of the promising forms is found in Sweden and France. This involves an initial investment by the government, which deposits $10 or $20 million to a fund for a period of 10 years. A group manages that fund with the private business and offers high-risk, but low-interest-rate financial instruments, particularly to SMEs, to enable them to get a little more involved in international markets. The banks are often partners.

So last year, when we did the study on direct foreign investment dynamics, we realized that the banks were offering programs to help businesses get established in international markets. However, the interest rates are very high, a fact that entails too many risks, mainly for the SMEs.

So Canada is the only G7 country that doesn't have a direct foreign investment support fund.

Mr. Robert Bouchard: I missed part of your speech, but I nevertheless noted that you were seeking fairer treatment for the Laurentian Bank. For how many years have you been demanding that?

Mr. Raymond McManus: Since 2000.

Mr. Robert Bouchard: This is the fifth request you've made in this regard.

Mr. Raymond McManus: According to our files, our first submission dates back to 2000. We argued that that treatment wasn't fair. I can tell you that we stepped up our submissions in the subsequent years, particularly in the past two years. Our situation had deteriorated further.

Mr. Yvan Loubier: Was your request well received by the Department of Finance? I imagine things improve every year.

Mr. Raymond McManus: I have to weigh my words before I answer. Let's say they're as sympathetic as people from that department can be.

Mr. Yvan Loubier: Don't give up your efforts, Mr. McManus. One day I'm sure they'll produce results.

● (1655)

Mr. Raymond McManus: We won't give up.

The Chair: Thank you, Mr. Bouchard.

Mr. McManus, I don't know what kind of recommendation we could make. I believe the Bank Act will be revised next year. Could we make a recommendation at that time?

Mr. Raymond McManus: I believe this recommendation could be part of the budget or else take the form of a special intervention. As I mentioned, that amount hasn't been adjusted since 1988, even for inflation.

The purpose of our recommendation is really to protect the government with regard to costs. If the Laurentian Bank became much more profitable, it wouldn't be a problem, even for us. We checked with the [*Inaudible - Editor*]. As we said in our file, the insurance companies wouldn't be affected. We tried to find a solution. When we met with representatives of the Department of Finance, we were asked what we proposed. We tried to propose a solution that we thought would be easy to implement.

The Chair: Was it an amendment to an act currently in effect? In fact, I think it's more complicated.

Mr. Raymond McManus: From what I understand—but I'm not an expert in the field—that could be similar to the reduction of Part I Tax. That could be included in the budget.

Mr. Loubier might perhaps be able to help me a little.

The Chair: Mr. Loubier isn't a tax expert; he's an economist.

Mr. Yvan Loubier: In fact, Mr. Chairman, an economist is much more than that.

Mr. Raymond McManus: According to the latest comments we've had, that could be part of the budget.

The Chair: We're going to consider the matter. Thank you, Mr. McManus.

Before thanking all participants, I'd like to ask Ms. Hudon a question.

How are things going internationally for the members of the Board of Trade of Metropolitan Montreal? You referred to the intense pressures and competition resulting from globalization. I know that the aeronautics, textile and clothing industries occupy an important position in Montreal.

Ms. Isabelle Hudon: There's no problem in that regard.

The Chair: What's their greatest fear?

Ms. Isabelle Hudon: From what I've heard, textile companies are the first to fear the effects of globalization. Here I draw a distinction between this industry and the clothing industry. So it's first and foremost the manufacturing industry, as a result of the entry of China and India into the industry. These are the businesses that tell us about the largest number of problems and barriers. Aeronautics has a completely different dynamic. It's a much more modern industry, which is adapting better to the situation.

The Chair: Are our small businesses less competitive because of the rise of the U.S. dollar?

Ms. Isabelle Hudon: The rise in our dollar has obviously changed the situation, but we're adjusting to that. It's the manufacturing sector, the textile industry, that is finding itself in a much more critical situation with India and China in the picture.

The Chair: Are we losing companies in Montreal? Are they setting up elsewhere in Quebec or in Canada, or even in China? Is there any notable movement?

Ms. Isabelle Hudon: If there is a movement, it's not necessarily toward the regions or elsewhere in Canada, but outside Canada. The reason why we've taken an interest in a direct foreign investment fund is that we see a growing interest, particularly on the part of SMEs, in setting up outside Canada without moving their operations. SMEs feel a sense of urgency about going to see what's being done elsewhere in the world. They want to set up elsewhere, but they don't want to leave Montreal. We don't see any movement, either toward the regions or elsewhere in Canada, but we see a very strong trend toward setting up elsewhere in the world, particularly in China, Brazil and India.

● (1700)

The Chair: This fund would give SMEs money to set up outside...

Ms. Isabelle Hudon: It would provide funding to set up outside the country or to invest in projects in partnership with other countries. Over the past 10 years, a distinct trend has become apparent: when an exporting business sets up outside Canada, its exports increase sharply. Figures also show that there is no job migration from Canada, Quebec or Montreal to those countries, but that this instead generates capital and new jobs. However, labour and the entire manufacturing fund are lower-cost, for example, in China and India. That's undeniable.

It's impossible to fight that. However, it is possible to manufacture some of your products there and retain high-calibre jobs here. Direct foreign investment could support that expansion.

The Chair: Will the new document entitled *Pour un Québec lucide* have an impact on the members of the Board of Trade? Has it caused any reaction?

Ms. Isabelle Hudon: The document was received by the members of the Board of Trade of Metropolitan Montreal in the same way it's been received by the Quebec and Canadian public. I'm going to tell you about the Quebec reaction; you can tell me about the Canadian reaction. That document was well received for one good reason: it states things simply and frankly. What's appreciated is that it has started a society-wide debate and offers a model that can be implemented or reimplemented.

The Chair: Thank you, Ms. Hudon.

Thanks to all the witnesses. It was very interesting.

[*English*]

As they say, we always save the best for last.

[*Translation*]

Thanks to all those who helped make all this work.

Our next meeting will be held in Toronto.

The meeting is adjourned.

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